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The Impact of the 2008 Financial Crisis on the Netherlands

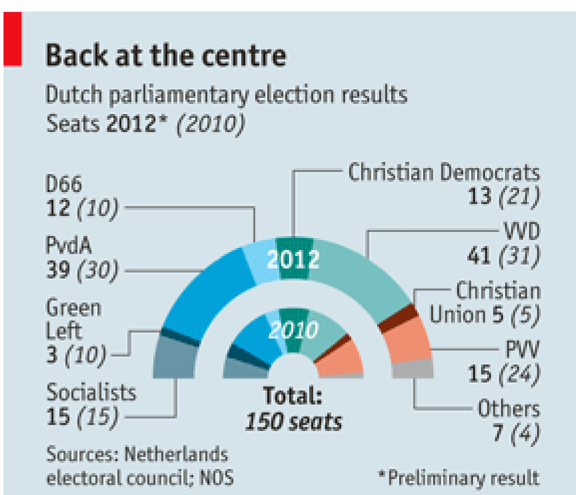
The Netherlands has long been one of the most important economic centers in the world. Their capital, Amsterdam, has been a focal point of financial activity since the 17th century and is home to the oldest stock exchange in the world. Furthermore, the city of Rotterdam is the largest port in Europe, and, until 2004, the busiest in the entire world (by cargo tonnage). The Netherlands is one of the founding members of both the OECD and the European Union. In fact, the Treaty on European Union, which created the European Union and the Euro, was signed in the Dutch city of Maastricht. Considering their substantial integration with the rest of the European and world economies it is no surprise that the Dutch were swept up in the recent worldwide financial crisis.

Even before the crisis struck the new millennium had been hard for the Dutch economy. From roughly 2001 through 2006 the Netherlands experienced a stagnant economy with very slow growth. The OECD's 2006 economic survey suggests that this extended period of weak growth occurred because wages were slow to adjust from a downturn, leading to a loss in international competitiveness. Starting in 2006 this trend reversed, a cyclical boom and improved labor utilization caused rapid economic growth and low unemployment. During these years the Dutch government enacted policies designed to reduce employment protection and encourage increased productivity growth. Growth was slightly held back by labor shortages caused by remaining labor utilization issues, such as the high incidence of part-time work and the early retirement age. Overall, however, these were good years for the Dutch.

Unfortunately, the 2008 financial crisis struck in mid 2008 and sent the Netherlands back into recession. When the shocks from the U.S. housing bubble swept across the world the substantial Dutch financial sector was hit hard, leaving many banks in need of government assistance. Additionally, because the Netherlands is home to the largest port in Europe, Rotterdam, the downturn in international trade had a particularly acute impact. According to the 2010 OECD economic survey the impact on employment was somewhat lessened through the labor hoarding behavior of firms, which was partially inspired by the labor shortage of the preceding years. The impact of the recession was also somewhat mitigated through a substantial fiscal stimulus program that reduced taxes and sustained employment. The government also enacted a massive bank bailout program that injected a huge amount of liquidity into the system. Additional liquidity alone was not enough to protect the system and the government was also forced to nationalize a significant number of banks in order to avoid a large number of failures.

The Dutch economy has continued to struggle for the past few years. Even though their unemployment stayed relatively low during the crisis it has risen since then and is currently at about 5.4% according to Eurostat. In addition to this, before 2008 many Dutch people had much of their wealth tied up in their homes, which lost a significant amount of their value. This sudden loss of wealth, combined with high unemployment and a general unease about the economy, has caused consumer spending to remain low. Because of this the OECD expects recovery to be very slow and, when it does arrive, it will be primarily driven by foreign trade and not by domestic consumption. In addition to this, the Dutch government and many Dutch banks have loaned money to Greece and Ireland. The government has already committed over 13 billion Euros and has promised to provide up to 69 billion if necessary. On top of this Dutch banks have about 8 billion Euros of exposure to troubled sovereign debt. To further compound problems, the government was forced to borrow a significant amount of money to pay for the stimulus and bailout packages, which had a total cost equal to about 15% of Dutch GDP. Although a sizeable amount of this money has been repaid by the banks it was loaned to, the government has still failed to meet the deficit limitations imposed by the Stability and Growth Pact. Over the next few years the Netherlands will have to work to both rebuild their economy and restore the fiscal discipline they are known for.

Recent elections in the Netherlands centered power among two pro-European parties, the VVD (liberal) party and the Labour party. The election has been seen as an “affirmation of the Netherlands’ pro-European character,” (Economist) and the nationalistic parties lost seats in the Dutch parliament. Geert Wilders, who has called for the Netherlands to leave the Eurozone and is seen as a leader of the anti-European movement has said that they “have lost badly” (BBC). This suggests that political pressures within the Netherlands will not be a significant detriment to finding solutions to the Euro debt crisis, and that the political institutions within the country are well suited to face the crisis.



(Source: The Economist)

While nationalistic parties have gained popularity in areas hit hard by the crisis such as Greece, this does not appear to be true in the Netherlands given the result of the recent election. Furthermore, the populace seems ready to accept reasonable austerity measures in order to ensure their nation's debt does not grow out of hand. Leaders of the two largest parties both seem determined to bring their deficit under the 3% limit imposed by the Stability and Growth Pact, and measures such as a rise in the value-added tax are being taken. As University of Amsterdam economist Sweder van Wijnbergen puts it, "the difference is about how quickly you get to the 3% limit, not about whether to do so" (Escritt and Kreijger) This implies that collaboration between the two most popular parties is both likely and expected. Despite growing talks of the necessity of austerity measures, Dutch citizens have not taken to the streets in protest as they have in Spain and Greece, and instead seem to be facing the austerity prospects "with characteristically grim determination" (Alderman).

With centrist, pro-European parties in power and citizens that understand the need for some austerity measures, it does not seem that political pressures within the Netherlands will be a significant obstacle to reaching solutions for the Euro crisis. Nevertheless, the Netherlands believes that Greece should not receive another bailout, and that countries such as Greece and Spain should use economic reforms to bring their debt control. Dutch leaders are wary of any sort of bailout by the taxpayers in their country, and any measure that points in that direction will be met with resistance.

The creation of the Eurozone has allowed Netherlands to trade its many exports, such as natural gas and petroleum, throughout Europe without limits to trade. Dutch interests have been greatly served by the EU, and we consider the long-term health of the Eurozone to be of the utmost importance. The Netherlands is committed to working with other members of the EU to finding solutions to the current debt crisis.

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