

Speech by the former prime minister, Dr Jan Peter Balkenende, at the OECD session on 'Fiscal consolidation and structural reforms – getting it right', 26 November 2010, Paris

Ladies and gentlemen,

It is a great pleasure to be here with you today. I would like to thank Deputy Secretary-General Aart Jan de Geus for inviting me. Aart Jan and I have known each other for a long time. From 2002 to 2007 he served as Minister of Social Affairs and Employment under my leadership. In those years we implemented structural reforms which made the Netherlands stronger and more future-proof. Aart Jan played an important part in that process. So, in a way, my story today is also his story.

At the heart of that story is the firm conviction that a welfare state has to be adjusted constantly. Change and reform are unavoidable, because society is changing all the time. People are living longer, the world population is growing, technological progress is more rapid than ever. And issues like food security, sustainable energy and globalisation are far more pressing than thirty years ago. Doing nothing is not an option. Not in the economy and not in the welfare state.

The need for reforms is now greater than ever, given our current situation. We all know what has happened: what started as a banking crisis with the fall of Lehman Brothers in 2008 became a global economic recession. Governments, businesses and ordinary individuals are facing high levels of debt, uncertainty and worry.

But there is also good news. Governments have acted to tackle the crisis. Lessons have been learned from mistakes in the past, and from the Great Depression of the 1930s, which need not have been so devastating. Thanks to targeted support measures and automatic stabilisers, a deep and lasting global recession has been prevented. What's more, we are now better at dealing with the threat of unemployment, particularly youth unemployment. Putting young people on the sidelines not only creates deep wounds that take years to heal, it also leaves society with scars. We must never again have a lost generation. That is why in the Netherlands we have taken temporary labour-market measures to keep as many people working as possible. Education has been spared the large-scale budget cuts currently under way. So that we can keep young people in the game. So we can give them a chance. The current unemployment rate in the Netherlands is five per cent.

Last year, around nine per cent of Dutch 20 to 25-year-olds were without jobs. A high figure, but still relatively low compared with other countries. Fortunately, Dutch young people realise that education is a sensible place to take refuge in difficult economic times. Enrolment rates at Dutch universities and institutions of higher professional education have risen by five to six per cent.

The challenge facing governments is very complex. How can we reduce the burden of debt while carving out a path of sustainable economic growth? How, with fewer resources, can we maintain essential services, attract highly-trained school teachers and still find enough people to care for the sick and vulnerable in society?

In my view, the answer lies in structural reforms. In measures that limit government interference and regulation. Measures that get people out to work and encourage innovation in business.

Let me briefly describe the steps we took in the Netherlands in the eight years that I was prime minister. Not because I think the Dutch way will be the most popular or most successful approach everywhere. Each country is different, of course. But we do share certain dynamics. Those who bear political responsibility have to take account of the electorate. They have to deal with the demands and persistence of employers and trade unions. And they have to face demographic challenges.

In the Netherlands we implemented essential reforms in a range of areas. The social security system is now more incentive-based. The lower limit for entitlement to invalidity insurance is now higher. And the results are clear: in 2002 almost 800,000 Dutch people were receiving invalidity benefits. By 2009, that figure had dropped to 540,000. And thanks to targeted reintegration efforts, the number of people who qualify for benefits is also far lower. The length of entitlement to unemployment benefit has been cut. Taking early retirement is now discouraged more than ever. In 2001, only 33 per cent of 55 to 65-year-olds were working. By 2009, that figure had risen to more than 50%. We introduced these reforms because we need all the labour capacity we can get. And this is also why we laid the groundwork for raising the retirement age, which the new Dutch government will now implement.

The changes have not been limited to social security and the labour market. The healthcare system has also been drastically reformed. The cost of care in the Netherlands is rising fast – I'm sure things are no different in your country. And it tends to put pressure on all other

government expenditure. And in the world of business, we encouraged innovation by introducing favourable tax measures and scrapping bureaucracy that cost billions.

Looking back, I am proud of the results. We achieved reforms that have improved the Netherlands' position considerably. In relative terms, my country is better off than other European countries. In my eight years as prime minister I learned five key lessons for reforms, which I would like to share with you now.

First, formulate a clear reform agenda. And even more important: stick to it. Staying the course is essential. Our agenda was to build a strong labour market in which everyone who is capable participates. Moving from 'welfare state' to 'participation society'.

Second: build a strong narrative. People have to understand why sacrifices are being asked of them. They need to understand why you are appealing for flexibility and hard work. In the Netherlands, we based our argument on the need to safeguard public services for future generations. Time after time we emphasised the threat of demographic ageing. We stressed that staying on the same path would slowly erode our public services. That we needed to do things differently. In the interests of our children and our children's children. The public has to feel a sense of urgency. Or there's no point even trying.

The third lesson: be persistent. As a politician, you don't make yourself popular with reforms – at least not in the short term. You implement reforms because of your convictions. Your moral compass. Your drive to leave society better off than when you started. I had plenty of set-backs: stalemate with the social partners (Aart Jan will remember that better than anyone), media attacks against me, resistance from the opposition. But I'm glad I didn't give up. Before the crisis hit, we were nicely on course. Unemployment was low and public finances were healthy. The financial crisis knocked everything off track. But fortunately, the Dutch economy has proved highly resilient.

Fourth: be patient. You don't achieve reforms overnight. Reforms are about falling down and getting up again. Proposals must be prepared carefully. Sometimes, reforms must be tried several times before they finally work. That can be frustrating in the short term but prove essential in the long term. When Tony Blair left 10 Downing Street, his strategist Geoff Mulgan said, 'Governments overestimate what they can change in the short term and underestimate what they can change in the long term'. I think he might be right about that.

The fifth and final lesson: focus on results. In the end, politics is about showing that your policy has worked. That it has brought clear benefits for people and businesses in your country. So measuring results is important. What reduction in welfare benefits have you achieved? What reduction in civil servants? How much money have you saved? And it's even more important that you tell people. Politics is all about communication. And you will convince people only if you can offer proof.

So that was the Dutch perspective. I believe that every country needs to take responsibility for the future. To reform. To make themselves stronger. But we also have a common responsibility. We live in a global village. So intensive international cooperation is also essential to a bright future. That is why I invested so much time and energy during my term in office in developing international contacts. At EU and G20 level, for example, and in the United Nations. Reforms and structural adjustments are high on the agenda in all of those forums.

Ladies and gentlemen,

'Making reform happen' should be high on the 'to-do list' of every politician, administrator and policymaker. And it should remain there. To anyone starting out on this road, I would offer one final piece of guidance. The words are not my own, but those of Paul Kennedy, from his 1993 book, *Preparing for the Twenty-First Century*:

'It nonetheless seems fair to assume that most peoples of the world, if they so choose, can respond positively to the challenge of change. But the very phrase "if they so choose" implies an adoption of those features that explain Holland's success in the seventeenth century [and Japan's success in the late twentieth]: the existence of a market economy, the absence of rigid, doctrinal orthodoxy; the freedom to inquire, to dispute, to experiment; [and] a belief in the possibilities of improvement.'

Thank you.