

# **Investing in the transformation of the Netherlands**

**NL Next Level**



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From an economic and social point of view, the Netherlands plays in the Champions League. It ranks among the global top 5 when it comes to economic performance and entrepreneurship. Its standing is reflected in social factors such as happiness, child well-being and sustainable entrepreneurship, in which the Netherlands is also leading on world indices.

The Netherlands knows from footballing experience that you can lose touch with the international top teams and that regaining your position is difficult. And, as is the case with other western countries, the Netherlands is also aware that a high level of prosperity can be accompanied by social disorientation and a fear of achievements being lost as a result of disruptive technological developments and globalisation. In many countries, conservatism and anxieties about the international context are important counterforces against autonomous internationalisation and economic trends, even though they have resulted in so much prosperity.

Entrepreneurs believe that given such a situation, it is vital that the Netherlands is offered a new prospect of a successful future and the ambition to benefit from that future. A future in which the economic strength of our country is at the service of leadership when it comes to a combination of prosperity, sustainability and inclusiveness. When we say inclusiveness, we mean that everyone must, in principle, be able to participate in society and share in the prosperity. That is the essence of our vision for the future of the Netherlands, with the title NL Next Level.

The term Next Level acknowledges that previous generations of entrepreneurs, employers and politicians have created a solid basis for the Netherlands. The rankings referred to above are proof of this, as are our savings surplus and the huge tax claim on our pension assets, which mean that the Netherlands has in fact no national debt.

We should therefore use this solid basis as a springboard to new levels, because major earners for the Netherlands are coming to the end of their lifecycle. Fossil-based energy is being replaced by sustainable energy, analogue information is being succeeded by digitisation, regional focus is making way for globalisation, the economy based on disposable raw materials is evolving into a circular economy, cities are being given new functions, but they may not deteriorate, etc. The Netherlands must face up to these challenges, which also offer huge opportunities for entrepreneurship, growth and employment. Not only as a result of the investments at home, but also because of our unique ability to export our achievements. We demonstrate this in such areas as healthy nutrition, logistics, water-related projects and absolute high tech. The Netherlands as a sustainable urban delta is in all its facets an export product that the rest of the world is only too happy to acquire and copy and which allows us to extend our prosperity. Investing in the Netherlands is investing in our commercial strength and therefore in prosperity for new generations.

Consequently, the Netherlands finds itself in a very good position to move to Next Levels, but that requires the right policy and a long-term investment programme that must be properly laid down in the new government coalition agreement. The long-term investment

programme is increasing on an annual basis to EUR 7.5 billion in public investments. That is a new development, as is the proposal for a Next Level Investment Fund (NLIF) to finance private transition investments of approximately EUR 100 billion for the coming 8 years. Both sources of financing are intended to fund approximately ten Next Level investment programmes relating to energy transition, infrastructure, innovation, security, digitisation, circular economy, urban vitality and nature. Based on the growth expected until 2021 by the Netherlands Bureau for Economic Policy Analysis (CPB), the amounts required will fall within the agreed EU/Maastricht frameworks. However, this means that the new coalition agreement must clearly stipulate that the extra budget available will be used for the earning power of the Netherlands and not – as so often – in the context of distribution or redistribution.

NL Next Level is an extra programme on top of a basis of policy continuity, including good governance, a strong rule of law and solid security, a robust social system and a fiscal policy that complies with modern and international standards of transparency that are appropriate for the Dutch economy.

The employers' programme means that an entrepreneurial dimension is being added to the budgetary-oriented economic tradition of the Netherlands. 'A new approach is being taken', as many economists are arguing for countries such as the Netherlands and Germany. But above all, it is vital in order to create new, attractive and ambitious prospects for all Dutch citizens. A programme that results in new entrepreneurial zeal, new investments, sustainable growth and jobs for all.

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## **New prospects for the Netherlands with a Next Level Programme**

### ***The Netherlands is a global player***

The Netherlands is one of the world's most prosperous countries. With a population size ranked 66<sup>th</sup> in the world, on a territory ranked 133<sup>rd</sup>, the Netherlands is one of the top 20 global economies, it is the 5<sup>th</sup> most competitive economy, its incomes per capita are just outside the world's top 10 and it has a huge variety of businesses, with leading positions in the Dow Jones Sustainability Index. This is reflected in social factors such as a high level of contentment, child well-being and small differences in incomes and assets by international standards. The Netherlands has a medium-sized economy (certainly not small) and is also a rich country. It is one of the European countries with a long-term very high savings surplus of more than 10% of the gross domestic product (EUR 70 billion per year!) and its huge accrued pension capital is unique. That pension capital is subject to a tax claim similar to the size of the national debt. When viewed in this light, the Netherlands has no national debt whatsoever.

### ***Even so: disorientation***

The Dutch economy emerged sluggishly from the crisis. Recovery is fragile, there are major international uncertainties, prompted in part by geopolitical tensions, the refugee crisis and terrorism. The belief in a permanent return to a time of ever increasing prosperity and security, with the crises behind us, seems to be fading rapidly. Just as in many other western countries, there is a risk of social disorientation and a fear that achievements will be lost. Disruptive technological developments are being embraced on the one hand and causing anxiety on the other. In many countries, conservatism and fear of globalisation are important counterforces against autonomous internationalisation, technological developments and economic trends, even though they have resulted in so much prosperity.

### ***A new prospect: NL Next Level***

In this situation, it is vital that a new prospect of a successful future is offered, as well as the ambition to benefit from that future. Thanks to a solid basis, the Netherlands has excellent possibilities for upsizing to a new level of broad social prosperity. What's more, the Netherlands can acquire global leadership based on its economic strength. But that will not happen by itself. Previous generations of entrepreneurs, employees and politicians made every effort to create a solid basis, while always taking account of social, technological, environmental and economic changes that demanded a response. That is now the case again, on the understanding that the 'environmental changes' are now rather fundamental and require an approach other than that offered by traditional policy. This document is a proposal for that alternative approach, entitled NL Next Level.

### ***A country in transition; many earning factors are at the end of the lifecycle***

The major changes currently taking place cannot be simply be designated as incremental without exceptional consequences. The digital revolution is just the start of many new breakthroughs. We will be confronted by a surge of new technological developments and innovations, driven by digitisation, such as nanotechnology, photonics, quantum technology, life science developments, health and agri & food. Climate change and the depletion of raw materials are demanding a revolution in the energy, heating supply and mobility sectors and a transition to a circular economy. Worldwide population growth, the development of mega

cities and the prevention of massive economic migration from poor to richer countries require new solutions in the food supply and more prosperous and liveable sustainable urban areas worldwide.

In many areas, the end of the lifecycle has been reached: the fossil energy supply is being superseded by sustainable energy, analogue information is being permanently replaced by digitisation, the linear raw materials economy is becoming the circular economy, the linear innovation model is making way for golden triangles of research, government and business, the European Union can no longer exist as a free internal movement and trading area without effective external borders, urban and rural areas are being assigned other functions, but may not deteriorate, the increasing entrepreneurial and job dynamics are demanding new personal arrangements for employability and capital accumulation in the labour market, training and pension system, and external corporate financing can no longer remain predominantly loan-based in view of major disruptions and continuing high volatility, etcetera.

All these developments demonstrate that the current period is not so much an era of change, but rather a change of era.<sup>1</sup> We live in a time not only of a digital and an energy revolution, but in a time of a clash of civilizations, as well as economic and political systems, with new security issues. We are about to embark on a new period of history.

### ***Anaemic macro-economic growth policy seems to be disregarding transitions***

The current macro-economic growth policy has little to offer and is characterised by confusion. The European Central Bank has been pursuing a very liberal monetary policy for some time now. Simultaneously, loans to and debt financing by the private sector have been curbed, the government is bound from a budgetary point of view to the Maastricht Treaty and the bubble created by inflated asset markets have been burst by the global economic recession and falls in commodity prices. The effectiveness of the current economic policy mix is limited. The liberal monetary policy has clear disadvantages for the pension and insurance sector and the function of banks as a transmission channel between savings and investments. The tight budgetary policy is undermining scope for investments and innovation.

On balance, *this policy of acceleration and braking at the same time* does little to boost growth. Some economists suggest that this macro-economic policy is pushing us into a 'Japanese' scenario of secular stagnation.<sup>2</sup>

For increased prosperity, the monetary authorities therefore refer to the need for structural reforms, such as a more flexible labour market, a better performing housing market, less circulation of public funds and privatisation of semi-collective sectors. If they reduce investment risks, these type of 'reforms' can certainly contribute to prosperity. For instance, employers' risks are linked to Dutch labour law and there are social security reasons for not investing in long-term contract relationships with employees. That hinders the expansion of businesses. Reforms are necessary if only to maintain *existing* growth.

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<sup>1</sup> Jan Rotmans, *Verandering van tijdperk*, Aeneas, 2014.

<sup>2</sup> See: Teulings & Baldwin eds. (2015), *Secular Stagnation: facts, causes and cures*, VoxEU e-book.

### ***How can we achieve an economic growth policy in the Netherlands?***

If we wish to upsize prosperity to really higher levels, the current macro-trio of monetary and budgetary policy and structural reforms, is no longer adequate.<sup>3</sup> At its best, monetary and budgetary policy is suitable for achieving macro-economic stability. The policy of structural reforms is basically aimed at reinforcing production factors on the supply side of the economy. The ability of businesses and entrepreneurs to create added value, earning opportunities and employment with all the supply available is assumed to depend on external factors: entrepreneurs are not part of the equation in that macro-economic policy approach. The supply automatically creates its own demand. That may be the case under stable conditions, but the current transitions in digital technology, energy and ecology, globalisation, worldwide demography and migration are trend reversals. They demand solutions that standard policy prescriptions cannot supply.

Creating new earning opportunities under radically changing circumstances therefore requires a coordinated approach on the *earning side of the economy* too. An entrepreneurial dimension must be added to the budgetary-based economic tradition of the Netherlands. That will require a public-private approach. Entrepreneurship is one of the causes of the transitions (digitisation is a good example) and an entrepreneurial policy compass is indispensable for successful implementation (energy transition, for instance). Entrepreneurs need the government for organisational capacity, basic public investments, facilitating funding arrangements and reregulation and deregulation to avoid outdated legislation becoming an obstacle for investments for the new era.

That will require long-term commitment: genuine transformations need time, but they subsequently constitute the basis for a future-proof society. Solid institutions will be required to confine the short-term volatility of political actions and financial markets. This demonstrates the need for transition agreements that enjoy broad public support and funding provisions for strategic investments, for which reason National Promotional Banks<sup>4</sup> have been set up in many countries and the European Investment Bank in Europe.

Since mid-2014, we have been arguing for a change of direction in favour of a growth policy geared to the earning side of the economy.<sup>5</sup> It is now high time to concentrate on taking this new approach, as advocated by many economists, the IMF and the OECD for countries such as the Netherlands and Germany.

### ***Next Level triple i programme: investment, innovation and internationalisation***

The major transitions to a Next Level of energy supply, security and digitisation will require in the first place a shift of focus to investment. Every entrepreneur knows that earnings are preceded by investments. Investments in people, knowledge, innovation, new business models, digitisation, logistics, internationalisation, sustainability. They are all required and

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<sup>3</sup> See also Maarten Camps, *Nieuwe Wegen naar Welvaart*, Economisch Statistische Berichten, 6 January 2016.

<sup>4</sup> National Promotional Funds are public financial institutions for supplementary financing for public and private parties in cases where the capital market cannot provide all the funding itself.

<sup>5</sup> Including in the introduction by Hans de Boer (on acceptance of the chair of VNO-NCW) in the publication *Grenzeloos Groeien*, Cees Oudshoorn, The Hague, June 2014 and *Kansrijk, de groeiagenda voor ondernemerschap in het mkb*, MKB-Nederland and VNO-NCW, The Hague, 2015.

we must ensure that we *really* take our responsibilities: government, businesses and workers, i.e. *public and private in concerted action*.

In view of the challenges presented by the energy and digital transition, it is better in the Netherlands to replace the phrase ‘national savings surplus’ by ‘*national investment shortage*’. Using savings surpluses for private transition investments in particular is necessary, but that must take place in conjunction with a substantial increase in public investments. In doing so, it is vital to make clear specific choices. There is little point in investing in outdated systems at the end of their lifecycle. Nevertheless, that has occasionally happened in the case of public investments. In the end, nobody knows what has happened to or what has been achieved by the extra resources. Additional public investments therefore have to be aligned as much as possible with private investments.

*The second i is for innovation.* Investment and innovation should go hand in hand. Innovation in a broad sense: in new products, services and new value chains, but also in an institutional sense, in new paths appropriate to the 21<sup>st</sup> century. In many respects, the Netherlands operates at the innovation frontiers; we have to extend these and ensure that innovations are broadly absorbed in society.

*The third i is the i of internationalisation.* In line with tradition, the Netherlands must conquer the world with innovative products, services and comprehensive solutions. That too will require new efforts, because it will not happen by itself in a world in which economics and politics are closely interwoven.

***Next Level objective: make the Netherlands leading in the combination of prosperity, sustainability and opportunities for all***

Our Next Level programme aims to achieve more than just economic growth. Growth is not an end in itself, but a means of improving society. If you wish to fund the energy transition, use digitisation as a source of new service provision and exploit earning opportunities, if you wish to invest in nature and the environment, if you wish to accommodate an ageing population and if you want people to be able to apply for more vacancies, you must aim for annual growth of 2 to 2.5%. That is 50% higher than the current expectation of 1.5% per year. A more prosperous society also finds it easier to reject sickening intolerance and xenophobia.<sup>6</sup> Prosperity can be shared broadly with opportunities for all, as the Netherlands, in particular, has demonstrated. Furthermore, prosperity must always be sustainable. We believe that the Netherlands must aim for a leading position when it comes to combining prosperity, sustainability and inclusiveness (opportunities for all).

Social challenges, both national and international, offer new earning opportunities to businesses. Businesses are keen to use their economic strength for such purposes. Business *must* therefore be given a significant role in order to arrive at solutions. The United Nations demonstrated its commitment last year by publishing the UN Sustainable Development Goals. This showed a real awareness that governments alone cannot offer solutions to global grand challenges. But also that businesses need vital government interventions in order to

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<sup>6</sup> See also Benjamin Friedman, *The moral consequences of economic growth*, 2005.

fulfil their role.<sup>7</sup> The same awareness was also evident at the climate summit in Paris in December 2015.

Based on its economic strength, the Netherlands can acquire leadership by enabling its businesses to move rapidly to *their* Next Levels, because they can make a vital contribution to challenges facing society. The Netherlands is exceptionally well positioned to do so. We have not only demonstrated that in our own country, we have always had a unique ability to export what we have achieved. We have proved that with many leading businesses, both large and small, in areas such as healthy nutrition, logistics, water-related projects, high-tech systems, etc. The Netherlands as a sustainable urban delta is in all its facets an export product that allows us to extend our prosperity.

### ***Strong financial basis for the transition***

The Netherlands has a sound basis in a financial sense too. This is not only because of the sizeable pension capital (with a hidden tax component of EUR 500 billion). It is also particularly due to the fact that in politically difficult circumstances, the present and former cabinets guided the Netherlands expertly through the crises while demonstrating financial prudence. Partly as a result, the assessment of the CPB points to a budget surplus and a sharply falling debt ratio and the financial scope to make investments to prepare the Netherlands for a bright new future.

Our proposal for implementing an ambitious public-private investment programme must not be accompanied by new tax and social security contribution increases. The prosperity benefits must not be siphoned off by the government with less purchasing power<sup>8</sup> on balance and reduced possibilities for businesses to invest. We are convinced that the budget balance and the national debt can remain within European limits, with the implementation of substantial investments *and*, on balance, level taxes and social security contributions (see also the final paragraph).

### ***Using financial scope for a transition to an economy based on the earning side***

A new government coalition agreement will have to clearly stipulate that the acquired financial scope will be used for the earning power of the Netherlands and not – as so often – in the context of distribution or redistribution. The CPB rightly emphasises the vulnerability of economic prospects due to the major international uncertainties. All the more reason therefore to push for the use of national savings for transition investments in the Netherlands. This will mean far more control over generating growth and jobs. After a long period of prosperity stabilisation, the focus must now be shifted to earning. In 2016, incomes per capita are equal to 2008 levels and unemployment has increased sharply. It is therefore time to quit this stalemate and to head for the next prosperity level.

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<sup>7</sup> The SDGs require investments estimated at USD 2,500 billion, the Paris Climate Summit Agreement, according to the International Energy Agency requires USD 13,500 billion. This can be achieved only by means of blended finance from public and private sources. See The Economist, *Blended Finance*, May 2016.

<sup>8</sup> An increase in labour productivity results in a proportional increase in real wages in the Netherlands. That was the case in the past five years and is expected to remain the case in the next few years too.

### ***NL Next Level on the basis of a solid earning capacity***

Exploiting earning opportunities requires a solid *earning capacity*: satisfactory tax conditions that encourage investment, no double taxation on foreign investments, a strong ability to adapt, better exploitation of talent, new possibilities for continuing to learn, a better functioning labour and housing market, a new pension system, etc.

We will not deal with all these facilitating factors in this memo. We will be making separate proposals at a later stage for the following aspects in particular:

- Retention of sound tax-related conditions linked to modern international standards of transparency, but in line with the scope of the Dutch home market. A strong tax-related business climate is essential to compensate the disadvantages of the small home market and to allow the Netherlands to continue to compete in the top regions of the world economy. Embedding internationally operating businesses is a condition for high productivity growth by attracting best practices in business, management and innovation<sup>9</sup> and the expat talent for those businesses. Satisfactory tax-related conditions for profit from business activities pay for themselves many times over. The Dutch Corporation Tax Act (*Vpb*) is just the tip of the iceberg when it comes to tax revenues in the context of wage and income tax, VAT and other duties.
- Retention of satisfactory social guarantees and employment security with a focus on transitions on the labour market, education and lifelong learning, and wage costs at the lower end of the labour market. In the case of reduced job security, people must be given the opportunity more than ever before for lifelong learning so that they can continue to participate. Proposals for a personal development account, to be activated by a periodic 'MOT' so that employees can determine their own position and opportunities on the labour market, are appropriate. In addition, a dynamic labour market should include the renewal of the pension contract in line with the personal pension capital and risk sharing advisory report as issued by the Social and Economic Council of the Netherlands (SER).

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<sup>9</sup> Internationally operating businesses located in the Netherlands are on average twice as productive as businesses with a purely domestic focus and provide work for two million employees in the Netherlands.

## NL Next Level: 8 major investment programmes and 2 catalysts<sup>10</sup>

NL Next Level does not deal with these basic tax-related and social conditions to reinforce the earning capacity. Adjustments to the basic conditions are, of course, necessary, they are part of the *continuity of policy development*. NL Next Level is the alternative approach that has to be taken. It is innovative because it is geared to generating and exploiting *earning opportunities* by making a targeted choice for strategic investments in the current major transitions and therefore in facing the challenges in society. These are often global challenges. A progressive entrepreneurial approach in the Netherlands means an active and also very international earning potential for Dutch businesses: *Global challenges, Dutch solutions*.

We are proposing eight investment programmes and two catalyst programmes in order to achieve Next Level prosperity. For the majority of these investment programmes the additional public investment is connected with private investments. This will ensure a careful policy regarding the use of public means. And that no public investments are made without a convincing return for society.

### *Eight major investment programmes*

- *NL Veilig in Europa en de Wereld* (NL Secure in Europe and in the World)
- *NL De Energietransitie: de groene motor* (NL The Energy Transition: the green engine)
- *NL Digitale Kwantumsprong met nieuw talent* (NL Digital Quantum Leap with new talent)
- *NL Innovatief Topland* (NL Top Innovative Country)
- *NL De nieuwe Sustainable Urban Delta met een vitale plattelandseconomie* (NL The new Sustainable Urban Delta with a vigorous rural economy)
- *NL Bruisende Binnensteden* (NL Vibrant City Centres)
- *NL Toonaangevend met Internationaal Ondernemen* (NL Leading in International Business)
- *NL Competitieve Mainports Connecting the World* (NL Competitive Mainports Connecting the World)

### *Two catalysts*

- *Next Level Ondernemerschap* (Next Level Entrepreneurship)
- *Next Level Vernieuwend Financieren* (Next Level Innovative Financing)

These programmes must result in a mobilisation of private transition investments totalling approximately EUR 100 billion in the medium term. At the same time, the level of public investments must be increased on an annual basis by approximately one percentage point of GDP (EUR 7.5 billion) in a new government period in office (see the final box). The basic assumption is that government finances will be more or less in balance by 2021, i.e. a deficit margin of no more than 0.5% of GDP - in line with the Brussels frameworks.

In outline, the various ***investment programmes*** deal with the following:

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<sup>10</sup> For each programme, the business organisations will provide a detailed specific plan in close collaboration with all related organisations and enterprises.

## 1. *NL Veilig in Europa en de wereld* (NL Secure in Europe and in the World)

- We remain expressly committed to continued cooperation within the European Union, but the benefits of that cooperation must be better protected. The EU must also be a security zone. Freedom, the European rule of law and democratic values must be better protected. Excessive dependency on others must be avoided. A secure and strong EU is the common platform for intra-European trade and investments, access to markets outside the EU, solving many cross-border global problems and encouraging high standards internationally (sustainability, CSR).
- Recent experience has shown that investments must be made *now* in the protection of our European values and freedom:
  - the European Union needs effective outer borders with smart infrastructure and digital intelligence to resist future migration pressure. These should replace temporary emergency arrangements with neighbouring countries;
  - EU policy and EU development cooperation policy must be geared to investing in the economic development of developing and neighbouring countries;
  - cyber security (including cloud, hybrid war, digital industrial espionage, protection of vital infrastructure) requires a European approach: the digital disruption of society is not restricted by borders;
  - European security efforts require greater coordination; defence budgets must be increased in agreement;
  - the EU will have to invest in its own sustainable energy provision. Not every Member State for itself on the basis of climate obligations, but rather together in a coordinated approach based on the need for European self-sufficiency.
- *The Netherlands lives off Europe* is what we asserted several years ago in a campaign. The Netherlands will have to contribute a proportional amount to new investments in our security. In addition, the economic and social agenda of the current European Commission continues to deserve our support. Strengthening the internal market (including the digital single market), innovation, industry, transport and a circular economy are essential. Rolling out a skills strategy with favourable consequences for labour mobility is also vital. Unacceptably high unemployment, particularly among young people, must be avoided if there are shortages in the workforce elsewhere in the EU.

## 2. *NL De Energietransitie: de groene motor* (NL The Energy Transition: the green engine)

- The task of achieving a *carbon-neutral energy supply* within the next three decades will require hundreds of billions of euros in investments. If the Netherlands wishes to remain self-sufficient as far as possible, the Netherlands will have to replace its limited gas resources in the long term. Gas will, however, remain the transition fuel. The North Sea as a wind energy source could become the new backbone of the Dutch energy supply. But when investing in energy transition, the built environment of

eight million houses and buildings with investment costs of tens of thousands of euros per building should not be forgotten. This offers better opportunities for solar energy in the Netherlands too. Take, for example, agriculture and horticulture, where roofs, biomass and space are available for various types of sustainable energy generation where, as a result of new technology, greenhouse gases can be reduced and where CO<sub>2</sub> storage is possible in greenhouses and in the earth. Examples also include using electricity and hydrogen for mobility and heavier transport. Another example is the innovation agenda currently being prepared for paradigm shifts in the reduction of CO<sub>2</sub> emissions in energy-intensive industry. A final example is the industrial complex near the Port of Rotterdam involving a transfer to a bio-based economy, including a biorefinery and the heating supply for the Province of Zuid-Holland. The residual heat from industry can be exploited elsewhere too. And let's not forget the sequestration or conversion of CO<sub>2</sub> at coal-fired and gas power plants.

- In addition to public funding, this Dutch energy turnaround (*NL The green engine*) needs sound green financing for profitable private long-term investments (see below). This will provide favourable green investment possibilities for interested institutional investors (pension funds and insurers). Innovative climate solutions (built environment, circular economy) can be marketed easily. Green investments do not really take off until they have earning potential. The investments have to pay for themselves, even though the payback time is long. There needs to be a complete focus on boosting and organising such investments, and not on imposing obligations thoughtlessly on Dutch citizens and businesses. If that is not the case, the policy will turn on itself. Satisfactory instruments will, however, be needed, such as a properly functioning ETS, about which consensus was reached in the first Energy Agreement. A renewed Energy Agreement can facilitate long-term public backing.

### 3. *NL Digitale Kwantumsprong met nieuw talent* (NL Digital Quantum Leap with new talent)

- The Netherlands must innovate by making better use of *digitisation as an enabling breakthrough technology*. Our leading global data hub ('third mainport') and well-developed infrastructure are almost entirely the result of *private* investments. We must maintain and extend this leading position. However, when frequencies are sold (for 5G shortly), there is too much focus on maximising return. It is better to use the frequency auction to encourage innovation and investments and to use the return for an improved and accelerated application of digitisation among the public, strongly regulated private sectors and SMEs. That is where the Netherlands is lagging behind. Too often, it is a case of wait and see because of mutual dependencies. The government regulates past risks too much, which impedes the development of digital opportunities for the future. Public-private investments must be made in major breakthrough programmes: in the government itself, in healthcare, in the mobility and energy sector, the agrifood sector, industry and the building sector, the financial sector and the diffusion to SMEs. That must be accompanied by publicly-privately financed pilots, agreements about handling data and regulation updates. In the new digital world, public interests must still be safeguarded, but using up-to-date methods.

- The data-driven economy offers not only huge earning opportunities and productivity improvements, but the splendid digital developments also enhance the welfare and enjoyment of many. Data are the raw materials of the new economy. The government should make its data available to market parties in anonymous form. Due to our growing dependence on data, physical crime is shifting to cybercrime. A coordinated European approach is required to combat this (see above).
- The current and expected shortage of digital talent must be addressed in order to facilitate the above actions. ICT must therefore become a permanent part of primary education, schools must have digital teaching aids and high-speed Internet. There must be a financial incentive for high-end ICT research and education.

#### 4. *NL Innovatief Topland* (NL Top Innovative Country)

- In the *Nederland Innovatief Topland* programme, the government's top economic sectors policy is continued in renewed form, with a focus on market opportunities presented by global social challenges, cross-sector cooperation, harmonisation with the National Research Agenda, and increasing exports. The Netherlands can acquire a worldwide leading position when it comes to the global grand challenges, with businesses at the forefront in water, food, health, sustainability and energy. We must also ensure that we acquire that position: our licence to operate involves the duty to lead where possible. Our top sectors have developed increasingly effective innovation ecosystems in which businesses, the knowledge sector and government collaborate. This is a unique achievement worldwide. The Netherlands must develop the transition from a linear to a circular innovation model. The dynamic roll-out must continue, with knowledge sectors and businesses cooperating closely. The private and public R&D (currently lower than 2% of GDP) must be increased to at least 2.5% of GDP. Public sector funding must be EUR 1 billion, with the private sector contributing EUR 2 billion extra in the long term.

Dutch manufacturing industry constitutes the basis for productivity growth from innovations thanks to the interrelated service provision.<sup>11</sup> Without drastic digitisation and data use, that would be unthinkable. A powerful start has been made with smart industry, but this must be expanded.<sup>12</sup> The Netherlands has robust clusters and there are now several ports, innovation valleys and science parks. For instance, Brainport brings together many manufacturing industries in the south of the country and that role is performed by the Greenports in the agrifood sector.

- A second line in *NL Innovatief Topland* must be exploiting the innovative talent of start-ups and scale-ups. In our country, a great many campuses have been created in a short time at universities or major companies involving start-ups. Entrepreneurship is flourishing as never before, also outside these campuses. However, the number of scale-ups is limited. The major obstacles are the availability of risk-bearing capital and the use of the experience of entrepreneurs. For the first time, solutions must be

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<sup>11</sup> See VNO-NCW and MKB Nederland, *Nederland maakt*, The Hague, 2015. Although industry and services are very closely related, it can be deduced that for each employee in industry, there are 1.25 employees in the service sector.

<sup>12</sup> Under the direction of the chair of the FME, Ineke Dezentje-Hamming, plans have been and are being developed and implemented.

found by combining and streamlining existing government instruments (see also below under financing solutions). Business organisations are making their networks available at national level for acceleration platforms<sup>13</sup> and wish to roll out this formula at regional level too.

- A third line is the knowledge diffusion to innovative SMEs. Knowledge institutes and organisations such as the TNO research organisation must be better equipped for this purpose.

#### 5. *NL De nieuwe Sustainable Urban Delta met een vitale plattelandseconomie* (NL The new Sustainable Urban Delta with a vigorous rural economy)

- Many large urban conurbations would like to become one, but the Netherlands as a whole *is* a Sustainable Urban Delta: a densely populated delta where living, working, mobility, nature and recreation are harmoniously combined without serious environmental pollution or poor air quality. This is an export product, but the Netherlands, too, still has much work to do in this respect. Massive investments need to be made in the accessibility of our cities and mainports, in the public transport network, in the development of attractive *vibrant city centres* (also with a view to international tourism) together with the restructuring of the retail trade, in creating nature by means of showcase projects (such as the Marker Wadden wetland creation project) and a new sustainable energy provision.
- A spatial plan for the future of the Netherlands as a Sustainable Urban Delta is difficult to sketch in detail. With population growth projections approaching possibly 19 million inhabitants, forecast digitisation and energy transition breakthroughs and the stated aim of having the Netherlands become a leading prosperous country, unconventional ideas are required for spatial development. Innovative ideas for using the North Sea as a wind energy generation area, for housing and airport capacity, must be considered. This could assume the character of a major, iconic national project. A scenario for the future may be expected from a new government in collaboration with private parties.
- Rural areas, as the backyard of urban regions, play a crucial role when it comes to prosperity and welfare. People can live, work and pursue leisure activities in a green environment. To combat the depopulation and the associated degradation of rural areas, a comprehensive policy is required, with continuous investments in vital functions such as digital and other infrastructure. In this way, the strength of local economies can be increased by commercial activity with job creation as a result. The remediation of all asbestos roofs before 2024 is presenting a major challenge to rural communities. Investments in public-private partnerships are absolutely vital in order to achieve this.

#### 6. *NL Bruisende binnensteden* (NL Vibrant City Centres)

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<sup>13</sup> Successful experiments have been carried out with these platforms at national level in the past year by VNO-NCW under the director of former minister of Economic Affairs and former AKZO Nobel CEO Hans Wijers.

- Cities have developed from being hubs of physical trade to centres of knowledge and service. Online retail and services are changing the physical face of many cities because of vacant shops and offices. Less traffic in city centres results in degradation and reduces the value of real estate.
  - Cities can become vibrant again when efforts geared to culture, international tourism and new retail concepts recreate more traffic in city centres. That already applies to our capital and the major cities in the west and centre of the country. Many other cities are trapped in a downward spiral. Fortunately, segregation is not a major feature of Dutch cities and they are still 'undivided'. That characteristic must be maintained.
  - Solutions are possible when cities collaborate with regard to their future. Regional cooperation can be encouraged by using national resources to help finance plans for new urban and regional vitality. This will ensure that plans already on the table (e.g. Retail Agenda, plans of NBTC Holland Marketing for attracting international tourism) can be implemented speedily.
7. *NL Toonaangevend met internationaal ondernemen* (NL Leading in International Business)
- As regards internationalisation, we are arguing in the first instance for a Holland branding offensive. In addition, a more streamlined international trade promotion organisation must be created in the form of a public-private partnership in NL Trade & Invest Cooperation (well-organised everywhere, except in the Netherlands). This will involve reinforcing the network of foreign missions. Thirdly, the financing of export and foreign investments must be improved by combining development and export financing (FMO with IPEX (international project & export financing)) as it the case with the KfW development bank in Germany.
8. *NL Competitieve Mainports Connecting the World* (NL Competitive Mainports Connecting the World)
- A second internationalisation theme is removing the unfavourable *competitive position of the mainports*. The Dutch Port and Industrial Complex and the airport cluster Schiphol-KLM are valuable but uncomfortable assets. The Netherlands taxes its mainports more than other countries do. The position of KLM as a bridgehead to all major urban centres in the world is of national importance. Proper consideration of this issue is long overdue. There is no guarantee that the unique position of the mainports can be maintained.

## ***Two catalysts***

### ***9. Next Level Entrepreneurship***

- Entrepreneurs are in the eye of the transition storm and are helping to shape it. They are the ones who generate added value and who can help society progress. They also cause disruption and occasionally shake up existing relationships. That presents new challenges to the structure of public parameters for entrepreneurship, but it must not result in conservatism. A society like the Netherlands can retain its prosperity

position only if it is prepared to innovate continuously with entrepreneurship in pole position.

- A new entrepreneurship agenda is required to improve the basic conditions for entrepreneurship: the ease of doing business in all growth phases of businesses. The parameters for expanding entrepreneurship in the Netherlands could certainly be better. Opportunities for growth from entrepreneurship remain unexploited in the Netherlands as a result of the rules, burdens and risks that have to be borne by entrepreneurs. There needs to be a new approach to red tape, more scope for action in the case of financing schemes for businesses, greater availability of risk-bearing capital and improved diffusion of knowledge and ICT to SMEs. Public authority services to entrepreneurs must be less fragmented (streamlining at central government level, Chamber of Commerce and Netherlands Enterprise Agency) and more accessible.
- Business financing must supplement credit, with more use of risk-bearing capital. Business dynamics have never been greater. For that reason alone, the increased volatility demands more risk-bearing forms of financing. This also constitutes a solid buffer in turbulent times. The transitions referred to above mean that entrepreneurs have to stick their neck out and digitise their business models and make them more sustainable, or occasionally introduce far-reaching innovations. That, too, requires risk-bearing capital.
- It is hardly surprising that at EU level, efforts are being focused not only on a bank union, but also on a capital market union, with external marketable assets for SMEs too. The Netherlands must not wait until these activities have been completed, otherwise we will soon fall ten years behind. Market failures are now 'corrected' by a range of fragmented rules and actions by the Ministry of Economic Affairs (including regional development corporations). All this is small scale and the fragmentation means that the system is not very transparent. A properly accessible organisation of government instruments is required *and* a substantial increase in the budget for risk-bearing business financing. That can be based on the German model, embedded in a national financial institution that combines several forms of financing in cases where the standard capital market fails (see next).

## **10. Next Level Innovative Financing**

### *Responsible innovation*<sup>14</sup>

- The Netherlands has had an excellent financial sector for more than 400 years that must again be rated at its true value and which is devoted entirely to the service of the real economy. Without dedicated financial services geared to the various financing and insurance needs, a successful transition of the economy and society would be very difficult.
- Digitisation, the increasing diversity of financial service providers and internationalisation are ensuring a broad range of financial services and stiff

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<sup>14</sup> See in more detail the brochure *Verantwoord Vernieuwen*, of the Verbond van Verzekeraars, Dufas, Adfiz, NVP and NVB, May 2016.

competition. FinTech is not the preserve of smaller technology parties. It will lead to a metamorphosis in the *entire* financial sector in the next few years.

- With supervision and regulation increasingly shifting to international institutions, the Netherlands can no longer afford to occupy a deviating position. The Netherlands can, however, occupy a leading position by doing what it is good at: continuing (with new *and* existing players *and* authorities) to work for a strong financial ecosystem – an international top sector – for responsible financial innovation with transparency for customers.

#### *A Next Level Investment Fund for strategic investments*

- In contrast to market-based business financing, which results in financing with increasingly shorter payback periods due to greater business volatility, strategic transition investments are characterised by long payback periods. In this case, the capital market (left to itself) does not deliver as it should. The same applies – as stated above – to risk-bearing business financing (of SMEs and scale-ups) and to international transactions and investments. At EU level, that has already been recognised by the setting up of the European Fund for Strategic Investments (Juncker fund).
- In the Netherlands, government instruments for financing economic development, innovation, internationalisation and energy sustainability are very fragmented. This is the way the system has developed. It is not based on a coherent vision and it is insufficiently effective and flexible to respond to new developments. In the case of the recent initiative by pension funds (the Dutch National Investment Institute), the government did not get involved. That is why the initiative has not really taken off. In contrast to most other EU Member States, the Netherlands does not have a National Promotional Bank with a clear government role for the financing of investments, when the capital market fails. As a result, the Netherlands has not been able to obtain many resources, relatively speaking, from the Juncker funds.
- Our proposal is to activate strategic investments in the Netherlands by assessing whether setting up a Dutch financing institution for strategic investments is feasible. We are calling it the Next Level Investment Fund. The German *Kreditanstalt für Wiederaufbau* (KfW) development bank can serve as an inspiring example.<sup>15</sup> Existing public financing institutions and government regulations can be incorporated in streamlined form. In Germany, the KfW operates on the basis of government capital and can attract a great deal of private financing with a guarantee on the funding. It acts as a *social financial back office* for private financial service providers.

Based on the German model, a Next Level Investment Fund, in addition to long-term sustainability investments, can contain separate groups for risk-bearing business and innovation financing, development and export financing. Setting up a Next Level Investment Fund would also bring the Netherlands more into line with the EFSI (Juncker) fund. A key point in the further detailing is that market failure must be

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<sup>15</sup> See Jeroen Kremers, *Een Nederlandse Financieringsinstelling voor Economische Ontwikkeling: het Duitse KfW als inspiratiebron*, February 2016. At the invitation of VNO-NCW, Oliver Wyman and de Brauw are developing a proposal for a Next Level Investment Fund.

evident. We have no need for a national bank that pushes aside funding via the standard capital market.

- To pay back the long-term investment programmes, part of the EUR 7.5 billion in long-term extra public funds, referred to above, will be made available. In particular, these are long-term availability payments for private investments in infrastructure<sup>16</sup> and for covering operating shortfalls of investments in sustainable energy. The funds for this purpose will be financed from the general resources.

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<sup>16</sup> For road infrastructure, DBFM – Design, Build, Finance, Maintenance – is available as PPS as a standard feature. This can be applied more broadly in all cases where individual payment for the use of infrastructure is not possible or not yet possible.

## ***NL Next Level financial accounting***

We are taking the recently published CPB outlook for 2018-2021 as the starting point. The CPB is assuming average annual growth of 1.8%, with an underlying potential economic growth of 1.6%. Purchasing power will not increase, wages will actually rise but increased burdens will neutralise the benefits. The increase in burdens (EUR 8.4 billion)<sup>17</sup> will result mainly from a rise in health insurance premiums and increased energy charges to subsidise sustainable energy projects for which commitments have already been made. The budget deficit of 1.2% in 2017 will become a surplus of 0.6% in 2021. The national debt will fall from 64% of GDP in 2017 to 54% in 2021. Unemployment will fall slightly to 5.5% (just over 500,000 people).

### ***Burden correction: no burden increase***

In the first instance, this outlook should be backed-up by a healthier economic basis. The assumed burden increase of (gross) 1% of GDP must be compensated in full. This is possible by managing the increase in health insurance premiums and easing burdens (by lowering income tax for citizens and by lowering the tax on profits via the Corporation Tax Act and the income tax profit exemption for SMEs for businesses).

### ***Correction of the imbalance between redistributive public spending and growth-boosting spending***

In the past eight years, redistributive spending has increasingly outweighed growth-boosting spending and spending on security and public administration. Without additional policy, the growth-boosting spending in 2021 will be 7.6% of GDP, as opposed to 8.4% of GDP in 2008. It will then amount to 18% of total public spending, while the share of redistributive spending will increase to 54%.<sup>18</sup> The public investments of the Next Level programme amounting to a long-term sum of EUR 7.5 billion (approximately 1% of GDP) correct the decline of growth-boosting spending.

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<sup>17</sup> The burden increase is EUR 5.7 billion for families and EUR 2.6 billion for businesses (and EUR 0.1 billion for other sectors).

<sup>18</sup> In the period 2008-2021, the share of redistributive spending (if policy remains unchanged) in gross public spending will increase from 48% in 2008 to 54% in 2021. The share of the growth-boosting spending will fall from 19.5% to 18%.

**Box: Next Level public investments increase (long term on an annual basis from 2021 in billions of euros)**

<b>NL Secure in Europe and in the World</b>	<b>1 billion</b>
<b>NL Energy Transition</b>	<b>1½ billion</b>
<b>NL Excel with Digitisation</b>	<b>½ to 1 billion*)</b>
<b>NL Top Innovative Country</b>	<b>1 billion</b>
<b>NL New Sustainable Urban Delta:</b>	
-DBFM infra payments	<b>1 billion</b>
-Nature and rural area development	<b>¼ billion</b>
<b>NL Vibrant City Centres</b>	<b>¼ to ½ billion</b>
<b>NL Leading in International Business</b>	<b>½ billion</b>
<b>NL Competitive Mainports</b>	<b>½ billion</b>
<b>NL Entrepreneurship &amp; Investment Financing</b>	<b>½ billion</b>
<b>Total</b>	<b>7½ billion**)</b>

\*) Excluding government contribution to financing investments for digitisation programmes care/education/mobility/financial sector/industry and building from the revenues of the 5 G auction.

\*\*\*) For the entire period 2018-2021, this adds up to approximately 20 billion.

*Mobilisation of private investments*

On the basis of a scenario study carried out for us by the Economic Institute for Housing and Construction (EIB), cautious conclusions can be drawn regarding the size of the private transition investments. This scenario (*Dynamische Agglomeraties* (Dynamic Conurbations)) is based on a potential annual economic growth of 2 to 2.5%.

In the medium term (2018-2025), the transition investments via the Next Level Investment Fund will total roughly EUR 100 billion. To finance this, we estimate that the fund will require a capital base of just over EUR 5 billion. The extent to which this can be provided by streamlining existing public financing institutions is still being investigated.

The estimate of EUR 100 billion is based on the above EIB study and is required for:

- Energy transition with investments in, for instance, a greater sustainable energy production range, making the built environment more sustainable, innovation agenda energy-intensive industry: 40 to 60 billion
- infrastructure: heating, charging points, smart mobility roads, waterways, railways, electricity: 20 to 30 billion <sup>19</sup>
- Risk-bearing business investments with the support of issued and streamlined instruments of the Ministry of Economic Affairs and export financing: 10 to 20 billion
- Digitisation of major clusters (care/education/etc.): 10 to 20 billion

<sup>19</sup> This estimate is in line with the cutbacks for infrastructure spending in the previous government term totalling EUR 26 billion.

*Profitable economic effects and responsible budgetary frameworks*

In combination with the mobilisation of private investments, the investment programme will result in extra growth and employment, a reduction in unemployment and will yield budgetary returns compared with the CPB outlook. The correction for the burden increase using burden-easing measures will also contribute to achieving this. We are assuming that in 2021, the budget will be more or less balanced (i.e. a shortfall margin of no more than 0.5% of GDP – in line with the Brussels frameworks).

**'Prosperous, sustainable and with opportunities for all: a new prospect for the Netherlands'**

[www.nl-nextlevel.nl](http://www.nl-nextlevel.nl)

VNO-NCW, MKB-Nederland, LTO Nederland, June 2016