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THE NETHERLANDS SCIENTIFIC COUNCIL FOR GOVERNMENT POLICY

Synopsis of
WRR report

96

Finance and Society: Restoring the Balance

SYNOPSIS

Finance and Society: Restoring the Balance

The Netherlands Scientific Council for Government Policy (WRR) was established on a provisional basis in 1972. The Council was given a formal legal basis under the Act of Establishment of 30 June 1976. The current term of office runs until 31 December 2017.

According to the Act of Establishment, it is the Council's task to supply, on behalf of government policy, scientifically sound information on developments which may affect society in the long term. In doing this, the Council is expected to draw timely attention to likely anomalies and obstacles, to define challenges relating to the major policy issues and to indicate policy alternatives.

In accordance with the Act of Establishment, the WRR sets its own working programme after consulting the prime minister, who seeks the advice of the Council of Ministers in this regard.

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Finance and Society: Restoring the Balance

SYNOPSIS OF WRR REPORT 96

Netherlands Scientific Council for Government Policy

Accountability

This publication is a synopsis of WRR report 96 *Finance and Society: Restoring the Balance.* The conclusions and recommendations presented here are based on in-depth analyses of the policy and academic literature that can be found in the full report.

The report *Samenleving en financiële sector in evenwicht* (ISBN 978 94 9018 634 0) (Finance and Society: Restoring the Balance) was presented by the Council to the government on 12 October 2016. The report can be purchased in bookshops. The report can also be downloaded free of charge in PDF format from www.wrr.nl.

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SUMMARY

The financial crisis of 2008 has demonstrated that the financial sector cannot be seen as an economic island, but instead forms a fundamental and intrinsic part of the economy. Over recent decades the influence of this sector on the economy and on society in a broader sense has increased sharply. As a result, the role that is played by financial products and instruments has grown in importance for citizens, companies, government and quasi-governmental bodies.

As yet, little attention has been paid to the fact that society has become as closely dependent on the financial sector. In consequence, starting points are needed for the formulation of relevant policies. This may prompt a revision of existing policy, particularly where facilitating tax measures have given an additional boost to the use of financial products (as has been the case with mortgages and corporate loans) and have abetted the unbridled growth of the financial sector. Due to its greater dependence on the financial sector, Dutch society has become vulnerable to financial disruptions. Conversely, dependencies and interconnectedness mean that macroeconomic developments increasingly affect the financial sector. The emphasis in this report is on ways in which a better relationship can be established between society and the financial sector. How can society become more resilient to imbalances in the financial sphere, and how can it help to improve the financial sector? Improving society's financial resilience is to a large extent within the remit of national policy. This report makes a number of recommendations to this purpose.

Parallel to these inferences, the WRR notes that current policy towards the financial sector has trouble in dealing with the complexity and technological and monetary uncertainties that the sector is exposed to. Concentrating more strongly on robustness is also likely to create space for the sector to address these uncertainties. In addition to formulating a policy that addresses society, the WRR therefore also considers it desirable to create a more effective policy for the financial sector itself. Despite the openness of the Dutch economy, the provisions of legislation and the existence of international agreements, there is room for a national policy in relation to the financial sector, even if government has significantly less discretion here than it has in the case of policy aimed at society. This is mainly concerned with socioeconomic policy, which is at the heart of national policy autonomy.

A further point concerns political involvement. The broader policy perspective outlined by the WRR implies that it is essential to recognise the *political dimension* of the issue of financial dependency and robustness. Financial stability and financial services themselves are of fundamental importance to the functioning of society, and this requires periodic – and less incident-driven – involvement by politicians. The problem of the financial sector can therefore not be separated from

socioeconomic policy, as there are political considerations and choices to be made. The WRR makes proposals for doing greater justice to the political dimension of the problem.

A more direct involvement of politicians and parliament is all the more important because, as stated, there is considerable room for the conception of a national policy. This is particularly true for those areas related to socioeconomic issues (from pensions to the corporatisation of public institutions and the financial risks involved), which would increasingly become the focus of public policy if the perspective that is advocated in the present report is followed. The legislation surrounding Dutch mandatory pension funds, for example, is fully within the remit of national policy.

THE DOMINANCE OF FINANCIAL RELATIONSHIPS

Dutch economy and society have become much more dependent on the financial sector and on movements in financial markets. Household assets and mortgaged debt have increased explosively, causing even limited movements in interest rates and stock market prices to have a significant impact. Large companies and pension funds allow their business strategies and operational management to be influenced by short-term developments on financial markets. SMEs have become very dependent on banks, and semi-public institutions have ventured into the treacherous terrain of modern finance.

... CAUSES PROBLEMS IN SOCIETY

These changes in the relationship between the financial sector, the economy and society have led to a number of problems. The first key problem is the *inherent instability* of the financial sector. Financial crises are costly. This results from the costs to government of rescuing banks, from the losses suffered by people and companies, and from the negative consequences for economic growth. Moreover, the relationship that has emerged also carries costs in non-crisis situations. One example is when the financial sector operates in a strongly procyclical manner, so that in a growing economy too much credit is available, while during a recession credit this is excessively squeezed.

Secondly, the financial sector has a very *dominant* position in economy and society. Households, firms and semi-governmental organisations are exposed to a multitude of financial products while at the same time being burdened by large debts and in possession of equally large assets (predominantly inaccessible pension-savings). In this situation, they are particularly sensitive to developments in the financial sector. As a result, the financial system has gained a leading role instead of a facilitating one.

Thirdly, the financial sector reinforces *short-sightedness* in economy and society. This results in the fact that short-term financial incentives carry a greater weight than long-term considerations. The hyperactive behaviour of the financial sector reduces the long-term focus in the real economy, even though such a longer outlook is essential when investing in human and physical capital.

CHALLENGES FOR THE NETHERLANDS

The relationship between the financial sector and society has come under stress, with the result that the sector is failing to deliver on its contribution to the economy and to society as a whole. This presents Dutch society and politics with a difficult task. On the one hand, it is necessary to create a more robust financial system that supports economic development. On the other, it is necessary to make society more resilient and less dependent on the financial sector, as the exposure to the dynamics of the financial sector is currently too large. A broadly focused policy is essential in achieving these aims.

The WRR feels that broadening the outlook to include society can contribute towards a more fruitful dialogue between the sector and society, acknowledging that the financial sector is a part of this same society.

The key recommendations are first summarised very briefly. We will then elaborate on each of these, making a distinction between those aimed at the financial sector and those pertaining to the political sphere.

Towards a broader policy orientation: society *and* sector

- The central task is to strive for a less dominant and more supportive role for financial services. To achieve this, changes will have to be made in society and in the financial sector.
- Society has come to be extremely dependent on the financial sector. In consequence, it also has become very sensitive to imbalances in the financial world. Reducing this dependency will make society more resistant to financial crises and the procyclical impulses emanating from the financial sector.
- Financial instability continues to be a key concern. Greater efforts are required to make the sector more robust, particularly in view of the many uncertainties to which the financial sector is subject and the room for manoeuvre which it needs in the light of fintech developments.
- The political dimension of financial sector policies has to be acknowledged. This requires the national political system to be involved in a more structural fashion. Government and parliament should recognise that there is scope for national policy planning. Rules and supervision need to be built on knowledge of complex systems, not on risk-optimization and control.

RECOMMENDATIONS

The WRR makes the following recommendations for a financially resilient society:

REDUCE EXPOSURE TO THE DYNAMICS OF THE FINANCIAL SECTOR

The exposure of society to the dynamics of the financial sector needs to be limited. This involves three specific issues: 1. wind down policies that facilitate indebtedness through fiscal provisions; 2. concentrate effort on those policies that encourage a more productive use of equity capital; and 3. reduce the effect of short-term financial dynamics on economy and society.

The tax system is currently biased in favour of debt, particularly through tax relief on mortgages and corporate loans. This stimulus should be reduced. As a complement, work could be done to encourage a more productive use of private capital. Easing the transfer of wealth between generations in a responsible manner can be helpful in this respect. This provides the younger generation with 'equity capital' and therefore reduces the necessity to borrow money to purchase a house. For the same reason, an enhanced flexibility in savings early in life can be desirable. To help first-time buyers save money in purchasing a property, one could for example introduce a 'building loan and savings facility' with some (temporary) relief for pension contributions.

The government should also show much greater restraint in translating market signals into mandatory financial claims through legislation and regulation. An important example of this concerns the coverage ratio for pension funds and the actuarial interest that forms the basis for its specific requirements. These make the investments of pension funds more dependent on market dynamics. This problem arises from the structure of the pensions system which, due to the distribution problem (the contributions of generations are lumped) and the defined benefit character of its liabilities (even though these have been made conditional) must be assessed on the basis of solvency criteria. This introduces a short-term bias that hinders more productive long-term investment. Future pensions ultimately depend on earning capacity. Pension assets must therefore be invested with a long-term view, so that they contribute to sustainable economic growth. At present, the Dutch economy has the features of a system that lives of its investments, due to the considerable assets accrued by the older generation and the substantial sum of collective savings. It would be worthwhile looking into ways of using assets more productively.

SHOW CAUTION IN CREATING FINANCIAL DEPENDENCIES

It has been insufficiently recognised that shifting responsibility to individuals or to civil society more broadly can lead to unjustifiable risks. The same applies when semi-public institutions providing public services are corporatized, causing these to maintain autonomous budgets and to follow an independent financial planning. Financial institutions move into the gap for financial services thus created, with incentives that are not necessarily in line with the public interest and which impose greater financial risks. Moreover, since the funding opportunities offered are attractive the lure of this involvement is large. Thus the lending capacity of housing corporations offered these the opportunity to indulge in megalomaniac projects. By the same token, individuals were susceptible to the suggestion of wealth that could be obtained through investment-based mortgages.

strengthen customers' negotiating position

The negotiating position of buyers of financial services vis-a-vis that of parties selling such services needs to be strengthened. The steps taken to improve the provision of independent information and advice are to be welcomed, but they have an only limited effectiveness. In line with the recommendations of the Wijffels Committee on the structure of Dutch banks, the WRR thinks it important that there is a requirement to offer transparent standard versions of complex financial products. Such a default standardisation creates transparency in risk and price, thereby serving the interest of the consumer. In addition, countervailing power on the demand side needs to be further strengthened. This could involve helping consumers to join forces, for example by encouraging group buying (see the role of consumer organisations in the procurement of energy). Customers are also helped by 'watchdogs' – social organisations that defend their interests.

strengthen the resilience of semi-public institutions

The professionalism in public services that is made possible by corporatisation can be very positive, but it does require that basic conditions are met and the playing field is thoroughly delimited. In the absence of either it can hardly surprise that organizations occasionally derail. The government's reflex in such cases is to clamp down on governance (both external supervision and internal supervision by the Supervisory Board). Yet however desirable this may be, without the right conditions and a definition of the playing field, supervision will not suffice. Experiences in the housing corporations sector have now led to steps in this direction. This does not detract from the fact that a strengthening of internal governance is desirable and that there should be a greater focus on risk assessment, combined with long-term budgets and the exploration of risk in scenario studies. This future-oriented way of operating requires particular attention.

A major shortcoming continues to be that for instance corporatized organisations in higher education and nursing are expected to undertake occasional large investments (mainly related to real estate). The incidental nature of such decisions, combined with their complexity, will inevitably cause problems. The institution is at the mercy of financial parties and project developers, and as such lacks expertise and countervailing power. Management and the Supervisory Council naturally focus on core business, such as providing good education. This structural focus is, however, not compatible with property-related or other investment projects. In addition, when things threaten to go wrong, the principal public task threatens to be crowded-out. This may be for financial reasons, but it may also simply be due to the fact that management is too much taken up with emerging liabilities. In the last instance, when the future of the institution is at risk, government and public money will have to intervene to save it.

The WRR advises that safeguards against the financial risks of occasional large investments by semi-governmental institutions be strengthened. One could consider organizing a mandatory external assessment of plans and contracts. It would also be desirable to demarcate the room for manoeuvre still more precisely. This could also make internal supervision more effective and more manageable.

The WRR makes the following recommendations for a more robust financial sector:

RECOGNISE THE COMPLEXITY OF THE FINANCIAL SECTOR

Government needs to recognise that there are aspects of the financial sector which makes it fundamentally unpredictable in a number of respects. Together with the close intertwinedness of the financial sector and society, this makes for a complex situation. Acknowledging this complexity has to be an important starting point for any policy. Only from this wider perspective can government hope to anticipate uncertainties and dampen its effects. Against this background, the current confidence in a large number of detailed rules in market access and compliance is misplaced. A central aim must therefore be to concentrate more strongly on the sector's robustness.

A CHANGE IN ATTITUDE WITHIN THE FINANCIAL SECTOR

Banks and insurers will have to be more explicit about the importance of buffers. They will also need to be prepared to help work out how activities that are of importance to society ('essential functions') can be safeguarded. If this can be regulated effectively, greater freedom may be allowed for in other activities. Without such room for manoeuvre, banks in particular will be condemned to operate inside a market that is comprehensively dominated by risk aversion and by competition that is biased by size and systemic risk. In an industry that is subject to major technological changes and the presence of new competitors this would be a most undesirable outcome.

COUNTERING SYSTEMIC RISKS

Systemic risks in financial institutions arise from a combination of excessive credit growth, interdependence within the financial system, a large influence of financial contracts on society and herd behaviour. An important source of systemic risk is that many institutions react identically to stimuli and follow the same strategy. As a result, financial shocks tend to be self-reinforcing. Current bank regulation contributes to these effects, for instance by imposing a greater uniformity in approaches to risk management, and thus in behaviour. A fixation on supposedly efficient markets also elicits knee-jerk reactions and herd behaviour from financial players. The way in which credit rating agencies look at risks for instance often guides the policy of financial institutions.

The consequence, as Hyman Minsky and Charles Kindleberger emphasized long ago, is that the financial sector is procyclical. When times are good, risks are accumulated, sometimes irresponsibly, among other things through excessive lending. What is called macroprudential policy can help, for example with countercyclical capital buffers. The size of these buffers depends on the creation of extra buffers in prosperous times. These buffers are determined through risk assessments that are often too optimistic, especially in those favourable times. It is hard to be very optimistic about the effectiveness of this policy; safety margins are needed and these are hard to reconcile with the risk-weighted fine-tuning of capital buffers that has been adopted as the method of choice.

Restrictions on the size of loans (maximum loan to value (LTV) and loan to income (LTI) ratios) are another important macroprudential instrument for countering financial bubbles. Dutch LTV ratios continue to be extremely high in a comparative sense (FSB 2014). Considerable political sensitivities arising from financial interests in the consistency of fiscal policy, fears of implicit tax hikes and the interdependency with other policy areas (such as housing policies) need to be recognised in this regard.

A GREATER RELIANCE ON EQUITY IS UNAVOIDABLE

The primary instrument for enhancing robustness is shareholders' equity. Financial players should have higher buffers to be able to cushion against shocks. This requires an increase in banks' unweighted shareholders' equity. This is not only necessary for withstanding knocks, but also in order to be less dependent on highly detailed regulation. The WRR considers higher shareholders' equity than the current (unweighted) 4% ratio to be necessary and desirable. This would strengthen Dutch banks. Worries about the international competitive position of Dutch banks must in no way be allowed to serve as a counter argument. Better capitalisation gives strength to the banking sector and is in the interests of society.

In addition, we need to look at buffers in a completely different way. These must not be seen as a cost item, but as a form of venture capital, which – just as in other industries – makes it possible to respond to the needs of society, and also to the many uncertainties (including fintech) that financial institutions are subject to. The legislator can contribute to this by doing away with the disadvantageous treatment of shareholder's equity with regard to tax (compared with loan capital).

CONSIDER FIRE LANES AND RING FENCES IN THE FINANCIAL SYSTEM

Since the crisis, various proposals have been put forward aiming to introduce ring fencing in financial institutions. The idea here is to separate different parts of a financial conglomerate in such a way that problems within a particular business unit do not spread – or at least not directly – to other units. The underlying aim is to make activities that are of a higher public interest (such as lending to SMEs and payments) safer. This is achieved by uncoupling these as much as possible from the most dynamic aspects of international financial markets. One might also consider 'fire corridors' between financial players to limit the cascade effects that are typical of complex systems. Indeed, it is precisely the simplicity of rules that should make it possible to reduce complexity. This would provide policymakers with greater possibilities to manage the way in which the system works. The WRR deems it important to look at these issues more closely.

The separation or decoupling described could make it clear to financial institutions which of their activities belong in the more regulated domain that is of greater public interest and where they are given a greater freedom of movement. Here too, it could be in the interests of financial institutions to arrive at some kind of segmentation. The way in which matters are currently regulated means that all banking activities are restricted by rigid regulation and supervision which is encompassing in nature and written with the systemic risk imposed by the largest institutions in mind.

STIMULATE DIVERSITY

By the same token, diversity in the banking landscape is of great importance. It needs to be recognised that the top-heavy structure of the Dutch financial sector and the great dependence on a small number of banks— the market of the four biggest institutions currently exceeds 80 percent— increase systemic risk. Politicians need to work harder to promote diversity in form and function in the financial sector. This explicitly is not the same as a greater diversity *within* financial institutions. The aim, instead, is to enlarge differences *between* financial institutions and their sources of funding. As argued, this applies with special force to the strongly uniform and top-heavy Dutch banking industry.

Entry barriers for new players in the Dutch market are also high. Established systemic banks have competitive advantages due to implicit government guarantees. The fact that both small and large banks are subject to roughly the same rules also forms a disadvantage for entrants. Regulations and supervision methods that contribute to uniformity must be looked at critically and where possible revised.

However, the problem of diversity is not limited to entry barriers. Precisely because banks in the Dutch sector play such a dominant role, alternative funding channels need to be promoted. Institutional investors can play a much more important role, and direct market-based funding should also be allowed to play a greater part.

On the subject of political involvement the WRR makes the following recommendations:

STRIVE FOR A COMPREHENSIVE APPROACH TO POLICY

A policy strategy aimed at restoring the equilibrium between society and the financial sector calls for a different perspective on socio-economic policy. Moreover, efforts should be made to ensure the coherence of the policies thus pursued. One example is macroprudential policy that sets loan-to-value criteria for mortgage loans in order to mitigate imbalances in the financial system. This not only directly affects the market for residential real estate, but also necessitates coordination with policies related to the rental market (if it is harder to buy property, more rented accommodation is needed), the pension system (which implies the mandatory allocation of a very large part of private savings), and the tax system (mortgage interest tax relief encourages indebtedness).

Consistency in policy over time must also be pursued. Research shows that policy itself is by nature strongly pro-cyclical: rules are often relaxed in periods of euphoria (which may lead to the creation of financial bubbles), precisely at those times when policy ought to be tightened. To some extent, this problem can be overcome by incorporating automatic countercyclical mechanisms in the policy process. It would be helpful for the stability of the financial sector to more clearly identify the public interest of its actions, to allow for longer periods as the basis for empirical evaluations of policy, and to accommodate a periodic consultation of parliament to ensure that political involvement is more regular and placed on a better informed and less opportunistic footing.

ORGANIZE PERIODIC POLITICAL INVOLVEMENT

Even in the case of measures that will have broadly positive effects in the long term, issues of short-term redistribution should be considered as essential to the political process. This requires political deliberation and careful consideration, but in the end calls for difficult choices. To support this process, professionals, decisionmakers and members of the public with a specific expertise could be involved through periodic hearings. In this context, organizing forms of policy intelligence focused on the interaction between different areas of policymaking would be an important step.

National knowledge institutions such as the Netherlands Bureau for Economic Policy Analysis (CPB) and Statistics Netherlands (CBS) should be accommodated to organize a structured provision of information.

To ensure lasting political attention for financial issues, a final possibility is to organize an annual debate in parliament on the state of the financial system and financial resilience in society. This would be a good way of ensuring political involvement at times when financial questions may seem less urgent.

USE THE ROOM AVAILABLE FOR A NATIONAL COURSE OF ACTION
Since the essential economic contribution of the financial sector is based on its support of the functioning of economy and society, the public interest should be central to financial policy. However, much of this policy is drawn up at a supranational level, which complicates the task. Given the differences between countries with regard to the role and size of the financial sector, this implies that in implementing international rules the context in which these are to be applied have to be taken into consideration. There thus is room for a certain national discretion. Secondly, it must be a central tenet of policy that an explicit consideration of public interests rather than sectoral preferences should determine its direction. In this respect, a technocratic delegation of decision-making cannot be allowed to function as a substitute for broader ideas and political judgement.

There must also be an active role for the Netherlands in relation to the international agenda of policymakers. Major uncertainties regarding the international financial system make it important for the Netherlands to keep a close eye on developments. Particular attention must be paid to the openness and diversity of international policy forums. Particularly at the European level, policy is strongly compartmentalised. It is developed in myriad of different forums, so that except for those players with the most resources, it is virtually impossible to have an influence on the overall direction of policy.

The WRR warns against the temptation to conclude that after seven years of financial reforms, we have solved the most important problems and can therefore return to business as usual. Not only is financial instability a perennial problem, the financial sector still has a dominant position in society that is accompanied by a myopic outlook. The financial sector and society currently find themselves in a dysfunctional relationship. To counter this, an ambitious policy is needed that focuses on both. Once steps are taken in this direction, the financial sector will again be able to play a more productive role.

OVERVIEW OF POLICY OPTIONS

TOWARDS A BROADER POLICY ORIENTATION: SOCIETY *AND* SECTOR

- The central task is to strive towards a less dominant and more supportive role for financial services in society. To achieve this, changes will have to be made both in society and in the financial sector.
- Society has come to be very dependent on the financial sector. In consequence, it has also become sensitive to imbalances in the financial world. Reducing this dependency will make society more resistant to financial crises and pro-cyclical impulses that emanate from the financial sector.
- Financial instability continues to be a key concern. Greater efforts are required to make the sector more robust, particularly in view of the many uncertainties to which the financial sector is exposed and the room for manoeuvre it requires.
- The essential political dimension of financial sector policy has to be acknowledged. This calls for the national political system to be involved in a more structural and regular fashion. Government and parliament should recognise that there is a scope for national policies.

ECONOMY AND SOCIETY: LESS DEPENDENCE, GREATER RESILIENCE

<u>Reduce exposure to the dynamism of the financial sector</u>
- Stop the tax system from favouring debt over equity capital. Recognise that this discourages the investment of venture (equity) capital and makes society vulnerable to financial instability.
- Encourage a more productive use of capital. This could be achieved by adopting a life-course perspective on saving for property and pension accrual, with the possible fine-tuning of fiscal allowances for intergenerational gifts and the inheritance tax.
- Promote changes in the pension system that make it possible to focus on the longer term instead of on imaginary short-term solvability that abstracts from the income generating capacity of the future economy.

<u>Strengthen the negotiating power of citizens and firms</u>
- Encourage a role for societal watchdogs that are proactive in creating order.
- Promote initiatives for consumers to join forces.
- Promote and where necessary impose the availability of standard products.

Strengthen the resilience of semi-public institutions

- Strengthen the normal governance (internal supervision) of semi-public institutions, specifically with regard to risk assessments based on long-term budgets that are driven by various scenarios.
- Support semi-public institutions with external financial expertise for occasional large investments. A compulsory external assessment of investments and contracts by third parties might be considered.

SUGGESTIONS FOR A MORE ROBUST FINANCIAL SECTOR

A new way of looking at the financial sector is required

- Recognise the systemic complexity and uncertainties characteristic of the modern financial system, and thus the shortcomings of an approach to rulemaking and delegated supervision that is based on risk-optimization and micromanagement.
- At the same time, recognise the need for the financial sector to have sufficient room for manoeuvre in order to regain a proactive role.

Make the financial sector more robust

- Strive to further strengthen the balance sheets of insurers and banks by means of higher and unweighted capital buffers.
- Ensure a more balanced treatment of equity capital and corporate loans as regards taxation.
- Investigate whether ring fences (fire corridors or enclosures) can be set up within financial institutions – specifically banks. This could safeguard activities that are of greater public interest, while also giving banks more freedom to carry out activities outside the more strictly regulated domains.

Strive for greater diversity in the banking landscape and finance more generally

- Facilitate access to the market for new financial players.
- Encourage funding channels *outside* the banking industry.

Prevent counterproductive effects of supervision

- Promote proportionate supervision of smaller and more specialised players without systemic risk in order to stimulate diversity in the financial sector.
- Prevent herd behaviour as a result of supervision that stimulates financial players to adopt uniform risk-strategies. This may be the unintended result of the assessment of risk models by the supervisor.
- Critically examine the use of market signals in supervision that may encourage herd behaviour and pro-cyclicality. This problem is most evident in credit ratings and actuarial interest rates.

THE ORGANIZATION OF POLITICS AND POLICY

Strive for a comprehensive approach to policy

- Try to achieve better coordination between policy areas that influence and are influenced by financial services, both in a direct and an indirect manner.
- Develop or reform policies in a countercyclical way, especially where there is strong interaction with the financial sector.

Organize periodic political involvement

- Organize a structural and periodic political involvement in questions that concern the functioning and regulation of the financial sector. One form could be to organize an annual debate on the 'State of the Financial System'. This would aim to ensure political attention independent of specific incidents and discuss questions connected to other policy areas.
- Organize intelligence with regard to the interaction between policies aimed at the financial sector and those in other areas. This might involve periodic hearings in parliament.

Use the available room for a national course of action

- Dare to use the room for national policies that is allowed for by international financial regulations, specifically where this is required to further the public interest over that of the sector.
- Put the broad perspective on financial sector policies onto the international agenda.
- Support national and international NGOs able to take up the role of watchdogs.

Adapt to policy and politics to complexity and dynamics

- Recognise the complexity of the sector and the inherent limitations of policy and supervision.
- Exercise restraint when it comes to micromanagement; systemic complexity calls for simple rules, not the illusion of risk-optimization.
- Arrange for supervisors to be vigilant and proactive: strive for supervisors to play a more reflective role.

Finance and Society: Restoring the Balance

In this report, the WRR proposes strategies for achieving a more productive equilibrium between society and the financial sector. Due to a vastly enhanced dependency on the financial sector, Dutch economy and society have become particularly vulnerable to the dynamics of financial markets.

In response to the 2008 financial crisis, the efforts of policymakers and politicians have focused primarily on changes within the financial sector. By doing so, too little attention has been paid to ways in which society and the economy can be made more resilient to financial imbalances, even though such measures to a large degree fall within the remit of national policy.

In 'Finance and Society: Restoring the Balance' the WRR advocates structural changes in socioeconomic policy that will strengthen society and make it less dependent on the dynamics of the financial sector. To complement this, the WRR calls for measures to achieve a more robust financial system that actively supports economic development and the resilience of society.

The Netherlands Scientific Council for Government Policy (WRR) is an independent advisory body for government policy. The task of the WRR is to advise the Dutch government and Parliament on strategic issues that are likely to have important political and societal consequences. The Council provides future-oriented science-based advice, which opens up new perspectives and directions, changes problem definitions, sets new policy goals, investigates new resources for problem-solving, and/or supports social cooperation and cohesion.

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