

Distr.
RESTRINGIDA

LC/MVD/R.90
LC/R.1217 (Sem.70/7)

Diciembre de 1992

ORIGINAL: INGLES

CEPAL
Oficina de Montevideo

Seminario: "Comparación analítica de los modelos de desarrollo a partir de 1950 de los países de pequeña escala de Europa y América Latina"

Con los auspicios y la cooperación del Gobierno de la República Oriental del Uruguay,
el Banco Interamericano de Desarrollo
y el Programa de las Naciones Unidas para el Desarrollo - Bureau para América Latina

**FROM RECONSTRUCTION TO RESTRAINED RECOVERY:
socioeconomic development in The Netherlands,
1945-1992**

**FROM RECONSTRUCTION TO RESTRAINED RECOVERY:
socioeconomic development in The Netherlands, 1945-1992**

Robert A. de Klerk

**University of Amsterdam
Department of Macroeconomics
Amsterdam, The Netherlands**

"The Netherlands" Chapter in the ECLAC-IDB sponsored project: "A Comparative Analysis of the Development Models of Small European and Latin American Countries since 1950".

november 1992

Some key information on the country and the economy:

Name:	"Koninkrijk der Nederlanden" (Kingdom of the Netherlands). In short: The Netherlands. Also used: Holland. Present Head of State: Queen Beatrix.
Political System:	Democracy with a two Chambers parliament. Over 10 political parties represented in parliament.
Language:	Dutch
Size:	about 30,000 square kilometers
Capital:	Amsterdam (800,000 inhabitants) Second town: Rotterdam, the largest seaport in the world
Number of citizens:	15 million
National Income:	450 billion guilders (about 260 billion US dollars) min 1992
International:	EC member since the foundation in 1958
Big International Enterprises (Dutch or partly Dutch):	Shell, Philips, Unilever, Heineken, Hoogovens.

1. INTRODUCTION

The post World War II development of the Dutch economy has a clear pattern of five stages. Differences in economic characteristics between these stages correspond largely to differences in social and labor relations on the one hand and in political and policy configurations on the other. A general impression of the the differences is given by the unemployment statistics in figure 1. After a rather rapid recovery from rather high unemployment in the forties (due to an absolute shortage of capital) unemployment reaches an average level in the fifties. In the sixties it is extremely low with figures even below the estimate of frictional unemployment. In the seventies and the beginning of the eighties unemployment is high and rising (especially after 1979), while in the latter half of the eighties and the first half of the nineties it is declining (but remains rather high).

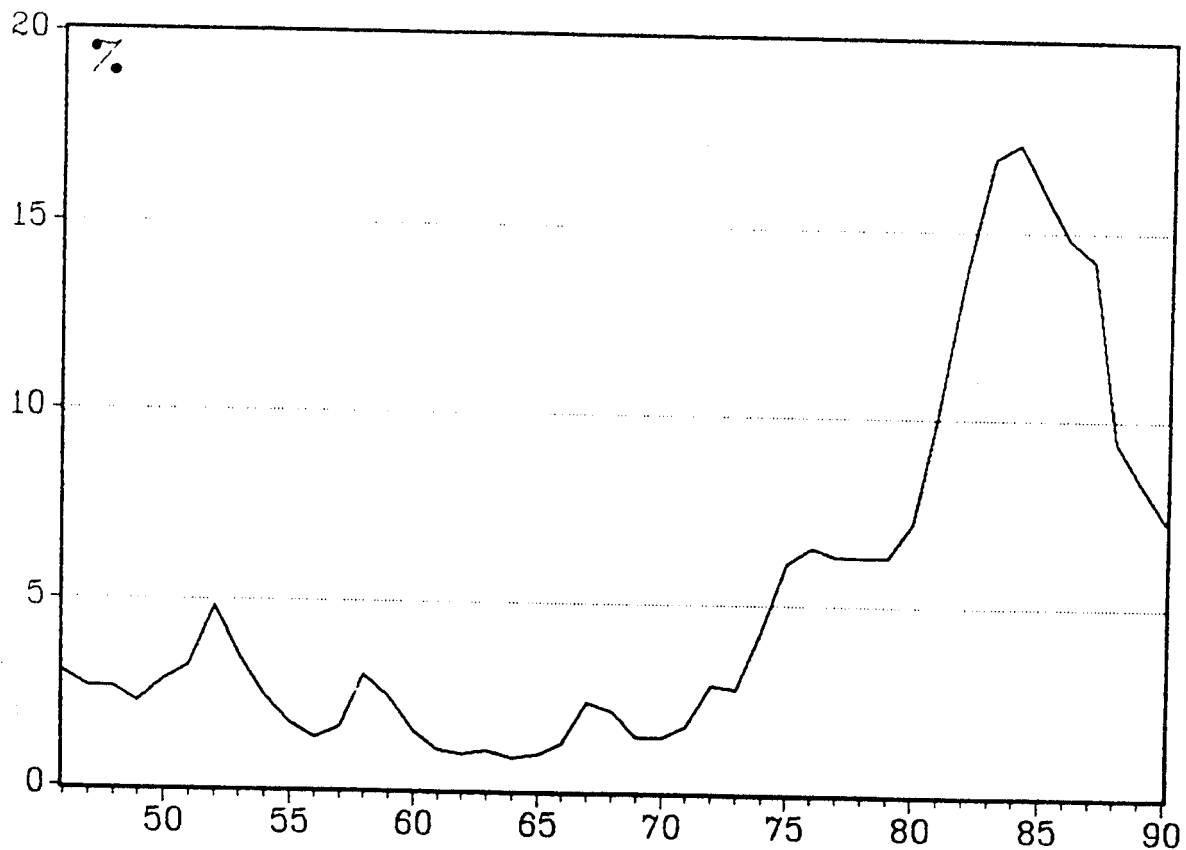


Figure 1. Unemployment and Inflation, 1945-1990

Underlying this development of unemployment are different dynamics between the stages. Evidently the stage of *reconstruction* (roughly from 1945 till the first years of the fifties) implied the building up of production capacity and the creation of social and economic institutions expected to be well-adapted to guiding the economy towards and through a process of stable economic growth. Socially, harmony between the economic classes reflected the common will to do away with the remnants of the war.

The stage of *capital widening growth* during the fifties reinforced the accomplished reconstruction of the Dutch social and economic system within a context of moderate and stable growth. A regulated wage policy kept the increase of private disposable incomes down without (yet) leading to social unrest as a result of conflicting income claims.

During the sixties the character of economic growth altered: the path of *capital deepening growth* was characterized by accelerated growth of production and labor productivity. The (also internationally) extremely moderate rise of wages led to social unrest and consequently to a "wage explosion" and inflation in the second half of the decade.

Growth, rising incomes, increasing employment, in short great economic success came to an abrupt end after the first half of the seventies. Along with the international economic decline the Dutch economy entered a stage of *stagnation and crises*. Unemployment met prewar records and inflation was only halted with a considerable delay and through a further rise in unemployment. The discipline of mass unemployment restored, if not social harmony, then in any case social rest.

Not only the depth but also the length of the period of stagnation reminded of the Great Depression of the thirties. *Economic recovery* only set in a few years after the beginning of the eighties. Moreover it turned out to be a restricted path of recovery with some problems (notably the problem of unemployment) only partially being affected and new problems (environmental decay) not yet seriously dealt with.

As stressed by many (and, as far as the present author is concerned, a few times too often) the high degree of openness¹ of the Dutch economy makes it very sensitive to international economic developments. The passive reflection of international events, however, is definitively not the whole story: the Dutch socioeconomic history has its own dynamics. The intrinsic elements relate to the characteristics in the structure of the Dutch economy, especially influencing the development process through the structure of production, and to the social and political system, with influences through wage formation and economic policy configurations.

This paper describes the postwar economic development against the background of these "structural and institutional determinants". The latter are dealt with in section 2. The development

¹ The share of exports in GNP is roughly 50 %.

process itself is sketched in section 3. Section 4 endeavors an estimation of future economic development possibilities and a prudent evaluation of the Dutch socioeconomic system.

2. THE CAUSES OF ECONOMIC DEVELOPMENT: INGREDIENTS FOR THE ANALYSIS OF THE DUTCH ECONOMY

2.1 Economic systems

An economic system must be analyzed in terms of its three constituting properties:

The *economic structure* concerns the stock magnitudes of an economy and refers to the situation of the economy at a particular moment in time. Important structural elements are the geographic properties of a country, the climate, the presence (or absence) of raw materials, the degree of openness, the quality and quantity of the labor force and stock of capital, the infrastructure, the degree of technological progressiveness, etc., etc. They reflect themselves in the production structure and the consumption structure of the economy.

The *economic order* refers to the organization of economic life: the delegation of decisionmaking, the coordination of individual decisions (the character of state intervention and the degree of Trade Union centralization, for instance), and the institutional structure erected to smoothen the execution of these activities.

The *economic process* refers to the use of the economic structure within a specific period for the production, division and spending of income and also entails concomitant phenomena like inflation, unemployment, balance of payments imbalances, etc.

Summarizing: the economic structure determines the economic potential, while the actual realization (the economic process) is (apart from exogenous influences) dependent on the efficiency of the structure of decisionmaking (the economic order).

The above mentioned aspects of economic systems each have a counterpart in economic policy. In the Tinbergen-terminology *quantitative means* or *instruments* are used to influence the economic process, *qualitative means* are directed at altering the economic structure and *reforms* refer to modifications of the economic order. As will be indicated more than once, Dutch economic policy is mainly the application of instruments.

The remainder of this section contains a brief representation of the structure and order in the Dutch economy. The economic process in the Netherlands after 1945 is more extensively dealt with in the third section.

2.2 Elements of the structure of the Dutch Economy

The economic structure determines in the first place the economic potential of a society.

The characterizing stock magnitudes determine and limit the structure of production; its absolute size and sectoral division.

Some elements of economic structure hardly change at all in the passing of time. One of these constant factors that has been of considerable influence on Dutch economic development through the ages is the geography and location of The Netherlands. With large seaports and superb waterways and roads into the European mainland, The Netherlands has traditionally been a center of commerce ("A nation of sailors and merchants"). Especially after the boost to World Trade through the discovery of seaways to India and America (and the isolation by the Dutch of the competing Belgian port Antwerp from the sea) commercial capitalism² flourished³. Economically, socially and culturally the seventeenth century was considered "*The Golden Age*".

In contrast to its success in commercial capitalism, is the relatively late (only after 1870) start of industrial capitalism in the Netherlands.⁴ Even today (international) commercial activities still form qualitatively and quantitatively important transactions for the Dutch economy.

Other structural elements do change, some through exogenous developments (the labor force through demographic changes for instance), others through the development of the economic process itself (the stock of capital through investment).

The stock of capital exhibits a huge rise after 1945⁵. Various factors lie at the heart of this development. In the forties and fifties a catch-up effect was effective to make up for lacking investment during the war and the preceding depression. In the sixties the large increase in the quantity of capital is linked up with a quality aspect of capital formation. In this period investment was the transmission mechanism of technological changes in the process of production. As a corollary the capital intensity of production (equipment) rose sharply from approximately five thousand guilders per worker in 1947 to approximately thirty five thousand guilders per worker in 1980. According to some the capital stock in the sixties and seventies was not only rejuvenated through large new investments, but also through an accelerated scrapping of old machinery (see section 2.3 and footnote 34).

Together with the stock of capital, it is the amount, composition and skill of the labor force that directly determines the production possibilities of an economy. Table 1 shows the composition of total population from an economic perspective. It illustrates a major problem in

² The distinction between commercial capitalism and industrial capitalism is dealt with in Maddison (1980).

³ Especially after the sixteenth century new legal forms for Enterprises were introduced. World famous was the *Verenigde Oostindische Compagnie* (VOC, the United Eastindian Company), commonly considered the first Limited Liability Corporation.

⁴ The predominantly commercial spirit of the Dutch may have been one of the causes.

⁵ Figures for the size of the capital stock are, of course, only estimates. For 1982 the stock of capital was estimated at 600 billion dollars. Half of the amount concerned infrastructure and buildings, the other half concerned equipment.

Table 1. The Dutch population in 1970, 1980 and 1990

	1970 x1000	1980 x1000	1990 x1000
Total Population	13,039	14,091	15,060
Under 15 or over 64	<u>4,859-</u>	<u>4,800-</u>	<u>5,760</u>
working age population	8,180	9,291	10,300
non-actives	<u>3,431-</u>	<u>4,217-</u>	<u>4,625-</u>
labor force	4,749	5,074	5,675
unemployment	<u>56-</u>	<u>263-</u>	<u>345-</u>
employed labor force	4,693	4,811	5,330

Source: CPB, CEP various years, and CBS, Statistical Yearbook, various years

the economics of labor in The Netherlands, namely the low participation rate: "non-activity" is very high. The trend in the participation rate⁶ reflects the combined effect of a declining rate among men and a rising rate (though starting from a internationally very low level) among women. This low participation rate also explains the strange combination of a very high international ranking on the score of labor productivity with a rather average ranking on the score of income per head. In 1990 the level of labor productivity was 75,660; income per head was 30,0043. The sectoral distribution of employment⁷ in table 2 reveals the sectoral pattern of production of the Dutch economy. The development of relative shares demonstrates more or less the common picture of developed industrial countries. Specific for The Netherlands (and only a few other

Table 2. Sectoral composition of the labor force, shares in %.

	1949	1930	1965	1990
Agriculture	44.1	20.6	8.6	1.0
Industry*)	24.1	36.4	41.9	19.0
Service**)	31.8	43.0	49.5	80.0

*) including building industry and public utilities

**) including government employment

Source: WRR 1980 and CPB, CEP 1992.

countries like Denmark and the United Kingdom) but not to be deduced from the table is the *absolute* decline in industrial employment after 1965.

A last characteristic of the labor supply refers to the average level of education of the labor force, as demonstrated in table 3. In the course of time there has been a clear rise

⁶ Structural factors determining the upward trend of non-activity are longer participation in education, a rise in sick leave and drastically rising numbers of incapability for work.

⁷ Another way to divide total unemployment is in the categories of employment in enterprises, government employment and self-employed. Here shares are rather stable. In 1990 the numbers of labor years in the respective categories were 3.633.000, 746.100 and 612.000.

Table 3. Labor force and education, % shares.

educational level	men		women	
	1960	1989	1960	1989
primary	56.5	11.6	54	10.5
extended primary	32.5	22.7	36.5	24.0
intermediate	5.5	3.5	5	4.3
intermediate and higher vocational	3.5	36.8	4	34.5
higher/university	2	20.5	0.5	20.5

Source: CPB 1980 and 1992

in the average degree of skill with the categories of workers with only lower education drastically declining.

Apart from the stock of capital and the quality and quantity of the labor force, there are more characteristics that influence the production structure, be it in a much more indirect way. Amongst others, they are:

- * the export intensity of Dutch industry, which, as shall be seen later is also the effect of deliberate policy;
- * the rather poor stocks of raw materials, except natural gas;
- * the extremely high population density of over 350 people per square kilometer;
- * a rather strong vulnerability in terms of environmental decay as a consequence of the combination of the high density of population mentioned above, heavy industry and intensive use of soil.

The economic structure not only concerns the structure of production, but also the structure of consumption. Table 4 demonstrates the declining share of food and the rise in the

Table 4. Shares of categories of consumption in total family expenditure

	1959	1975	1987
food	38.8	28.0	17.4
housing	24.1	25.3	31
clothing and footwear	10.5	9.8	7.8
medical care	5.7	14.5	15
education, recreation, transport, etc.	14.7	21.0	27
insurance	6.2	1.4	1.8

Source: CBS, Statistical Yearbook, various years

shares of medical care and above all in "leisure time spending", and later in housing. These trends more or less illustrate the birth of a "post industrial state" in the sphere of consumption.

2.3 Elements of social relations and institutions.

In general terms the Dutch economy is the typical European "mixed economy", with the market mechanism corrected by predominantly indirect and general means of policy. On the other hand there are of course social relations and institutions specific for The Netherlands and therefore important for understanding its economy and economic policy.

In terms of social relations there is one element so specifically Dutch that the concept used to describe it, can hardly be translated: *verzuiling* (compartmentalisation) a concept that refers to the tendency that in the formation of socioeconomic interest groups⁸, philosophy on life and world view is a determining factor. Thus, in the process of institutionalization of these groups -as in politics- the well known pattern developed of non confessional (socialist and general) and confessional (divided between roman-catholic and protestant christian) organizations coexisting. Especially the last few decades there has been growing cooperation between the various organizations. The two largest trade unions (the socialist NVV and the Roman Catholic NKV) even merged in 1982 (the new "FNV" then had over a million members). Dutch labor relations can be said to be in the middle in a scale indicating the degree of corporatism. Apart from a few specific periods, the number of labor disputes and strikes seem to be average.

Dutch trade unions -also the socialist- have always been rather harmonious. This was especially the case in the immediate postwar years. The common interest as it was felt between employers and employees got an institutional translation in the corporatist framework developed for the control of the economy. This *Publiekrechtelijke Bedrijfs Organisatie* (Statutory Industrial Organization) entailed a tripartite (employers, employees, government) committee as the controlling agency on the sectoral level). As an umbrella organization on the macroeconomic level the *Sociaal Economische Raad* (Social Economic Council) was introduced. The PBO never worked out. The executive elements of the organization were drained by the second postwar government in office. Apart from agriculture tripartite agencies did not function on the sectoral level. The demise of the PBO did not mean that consultation is not an important factor in Dutch labor relations. Though the above mentioned SER did not function as the umbrella organization of sectoral agencies it did play a very important part as the main tripartite advisory body on economic policy questions.

Compartmentalisation of course also influenced politics. There are more than ten political parties represented in Dutch parliament. None of these ever achieved majority, so Dutch governments are coalition governments. The three largest political parties are the 'left-wing' Social-democrat PvdA, the "right-wing" VVD and the Christian-democrat CDA⁹. The latter -as the typical center party- has taken part in all coalition governments since 1945. The other two

⁸ Not only in the formation of socioeconomic interest groups. All social activities -from sports to broadcasting corporations- were executed within the "own" group with the same life or world view.

⁹ The CDA is an association of former Roman-catholic and protestant parties.

were substituted for one and other from coalition to coalition. Still, the political system demonstrates a larger degree of stability than might at first sight be expected. Due to very long (sometimes 3 or 4 month) of heavy and detailed negotiation before reaching agreement on a government program, governments are generally rather stable once they are formed.

All (three) governments in the eighties have had a Christian-democrat prime minister; the first two were center/right-wing coalitions (CDA/VVD), the present government is a center/left-wing coalition.

The character of the ruling coalition determines policy in general, but of course the character of economic policy in the first place. Especially the view on the ideal size of the collective sector, the assumed need for government control of the economy, and the policy towards the large group of people incapable for work differs from coalition to coalition. In the last decade the differences in this respect seem to have diminished, however. Also among Social-democrats the changes in Eastern Europe seem to have enlarged the alleged blessings of free markets and the evils of too much government or too large a collective sector. As a matter of fact, the present Social-democrat Minister of Finance is the first one, since the beginning of the seventies, to really attain goals set for the budgetary deficit.

In a sketch of typically Dutch institutional arrangements, attention must be given to the role in the preparation of economic policy by the *Centraal Plan Bureau* (Central Planning bureau). The task and position of the bureau was arranged by law in 1946¹⁰. Hierarchically, it resorts under The Minister of Economic Affairs. The task of the bureau is (legally) forecasting the economic development. These forecastings, the "filtered" results of large econometric models, are published in the periodic publications of the CPB. The most important one is the *Centraal Economisch Plan* (CEP), published in May each year (and forecasting the year of publication). Together with The CEP the *Economisch Beeld* (A sketch of the economy) is published which gives a forecast over a longer period of time. The *Macro Economische Verkenning* (Macroeconomic Inquiry) can be described as a preliminaray CEP and is published together with the presentation of the government budget in september each year. Further the bureau has published longterm scenarios , exploring the long run economic development.

In the course of time the influence of the Bureau has grown considerably compared to the first years of its activities.¹¹ The bureau acquired the factual monopoly¹² of the scientific

¹⁰ The plan for a "Central Conjunctural Bureau" as it was called then is much older. It was first suggested in the "Plan van de Arbeid" (Plan for labor), the Social-democrat answer to the crisis of the thirties, written by J. Tinbergen and H. Vos. According to this plan the authority of the bureau went far beyond forecasting. It was an instrument of determining the magnitude and direction of investment.

¹¹ The first director of the bureau, J. Tinbergen, remembered that in the first years he was never asked a question in the meetings of the four "economic" ministers that he attended in his position of director of the CPB.

preparation of economic policy. It not only performed its duties in forecasting economic developments. In accordance with the interpretation of its function, always integrating forecasting research with analytical work, it also delivers comparisons of different policy options. Political parties in parliament (also the oppositional) and also trade unions feel obliged to consult the bureau and request them to compute the quantified consequences of the various alternative economic programs suggested by them.

The history of political influence is not the only interesting thing about the CPB. Interesting too is the history of the econometric models it has used. The character of these models correlate to the development of economic thought on the one hand and of economic development on the other. The first model was actually a version of the first econometric model ever developed for a country; the model constructed by Jan Tinbergen in 1936 (sketched on the back of a matchbox according to the myth). This model is typically Keynesian with production determined by demand and supply not independently modelled. In different versions the model was used until the middle of the seventies. Then, after 1973, supplyside factors crowded out demand factors as a fashionable mode of explanation in economics. The bureau¹² reacted in the by developing a model in which endogenous laborsaving technical progress and assumed entrepreneurial behavior in which the scrapping of old vintages is dependent on the rise of wage cost were the main determining factors behind an inverse relationship between unemployment and wages. The model that was heavily criticized by economists was used until the beginning of the eighties. The subsequent major change in CPB model building was the extension of the model with a monetary submodel, again reflecting a major development in theory and policy. The latest development in CPB activities is the exploration of the further distant future that will be discussed in the last section.

3. THE PROCESS OF ECONOMIC DEVELOPMENT

The following description gives a medium term perspective on economic developments. The described "decades" are periods with a more or less common character of medium term economic development. This implies that the business cycle (which is very present in spite of claims of its obsolescence) is neglected. Now and again developments are mentioned that make clear in which phase of the cycle the economy finds itself. Nevertheless a time table of the business cycle may be useful. The following years were respectively troughs and tops of the business cycle:

¹² The various university departments offering competing econometric models and results have never been able to really challenge the CPB's position.

¹³ In addition to the year to year business cycle model, the CPB had introduced a medium term model in which production capacity was introduced independently from demand.

(1949:II and 1951:I), (1952:IV and 1956:III), (1958:III and 1960:IV), (1963:IV and 1965:I) < (1967:II and 1970:II), 1972:II and 1974:I), (1975:II and 1976:IV), (1978:I and 1979:IV), (1983:II and 1985:I), (1987:II and 1990:I), (1991:III-?).

3.1 The stage of reconstruction from 1945 till 1950

Immediately after World War II a coalition of the Social-democrat (PvdA) and the Roman Catholic political party (Kvp) came to office. The social-democrat Vos became the Minister of Economic Affairs. In 1946 he and the first director of the Central Planning Bureau (Tinbergen) published the *Nationaal Welvaartsplan* ("National Welfare Plan") which contained their views on the desired organizational structure of economic life: a directly regulating central agency was taken to be essential in avoiding the crisis phenomena of the thirties. According to them, a central role was to be played in this respect by the corporatist control of the enterprise sector; the PBO as described in the previous section.

This never worked out, however. After a governmental crisis, the Roman-catholic politician *Van den Brink* became the new Minister and transformed the PBO into an instrument of consultation, removing all elements of planning. According to the underlying conviction the function of government was restricted to creating the framework¹⁴ in which private initiative can flourish (with the providing of infrastructure as a key example of admissible government activity). This "classical" core of government activity was to be supplemented, however, by direct control over wages and (to a lesser degree) prices.

Economic policy in the first few years after the war can be characterized as restrictive. This applies especially to budgetary policy (an exception was made for military expenditure). Further there was strict control of nominal wage rises, and with price rises outrunning nominal wage rises, real wages declined. This did not trouble labor relations. There was a deeply felt harmony between the classes, based on the common will to rebuild the economy. Also in this period a start was made with the construction of a system of social security¹⁵

In evaluating the economic results in this period, one must keep in mind the deplorable social and economic situation at the start, resulting from the damage by war and the preceding depression. More specifically, the Dutch economy was characterized by a relatively low level of income per head, a high tax burden, a low level of imports and exports with a deficit on the balance of payments on current account and an insufficient supply of foreign currency. Certainly against this background the economic development, some key figures of which are given in table 5, turns out rather favorable.

¹⁴ Government ought to have a general character and not a character of direct regulation. This conflicted of course with the planning activities of the PBO as envisaged by Vos and Tinbergen. In the first view, however, general investment subsidies are admissible.

¹⁵ Temporary arrangements were introduced to guarantee an existence minimum in case of illness or unemployment.

Table 5. Economic indicators 1946 - 1950.

	industrial production ^{*)}	labor produc- tivity industry ^{*)}	real wage ^{*)}	unemployment ^{**)}	current account surplus ^{***)}
1946	100	100	100	2.6	-1312
1947	126	112	101	1.3	-1667
1948	150	119	100	1.1	-1447
1949	169	128	88	1.6	-312
1950	191	138	97	2.0	-1131

*) indexnumber (1946 = 100)

**) percentage of labor force

***) in millions of guilders

Source: Fortuyn 1983, 15, 23, 33, 36.

Especially in industry, investment boomed. Industrial production rose rapidly. For the economy as a whole unemployment fell in spite of an increase in the size of the labor force and a rather sharp decrease in the number of agricultural jobs.

Together with the rise in investment, it was the increase in exports that stimulated economic growth from the demand side of the economy. The Dutch economy fully benefitted¹⁶ from the increase in world trade. The deficit in the current account of the balance of payments fell steadily until it rose again in 1950 because of the sharply enhanced military expenditures.

3.2 Capital-widening growth in the fifties

The economic policy philosophy in the fifties can be summarized as "industrialization through internationalization". The first element, expansion of industrial production capacity, should cope with the expected shortage of the number of jobs: the stock of capital was too small to employ the whole labor force and in view of the rising supply of labor *structural unemployment* was feared to rise. The second element, increasing the export share in total production, was to take care of the deficit on the current account of the balance of payments. Both elements were expected to be realized through one and the same instrument of policy: the controlled wage policy through which government determined the compulsory or maximum allowed rise of wages. Lower wages were expected to exert their benevolent influence through higher profits and thus higher investment on the one hand and through an improvement of foreign competitiveness through lower prices on the other.

Wage policy went through three different forms in the course of time. Till 1954 wage rises were granted to maintain the level of real wages¹⁷. From 1954 till 1959 there were general *welfare rounds*, wage rises that maintained a constant wage share in national income. From 1959 till 1963 a system of differential wage rises was introduced in order to grant wage rises in accordance with

¹⁶ From 1946 to 1950, exports rose from 816 billion to 5253 billion guilders. In the same period imports rose from fl.2146 billion to fl.7212 billion guilders.

¹⁷ In 1951 wage rises were deliberately held behind price rises in the framework of budgetary restriction.

productivity increases in different sections. To evaluate the success of wage policy in terms of the desired distribution of income the *arbeidsinkomensquote* (gross labor share¹⁸) was used. After 1956, and in disagreement with policy plans, the AIQ increased. This uncovered that employers granted higher wage rises than were legally allowed.

Wages policy in the fifties was supplemented by a very specific budgetary policy. In 1951 and in 1956/1957 a policy of *bestedingsbeperking* (expenditure restriction) was effectuated: both times a decrease of domestic expenditure was enforced to combat deficits on the current account of the balance of payments.

Though economic policy has been general and almost only directed at influencing the economic process, there was in this period some attention for structural policy. In the first *Industrialisatienota*, the government report on industrialization¹⁹, specific policy was claimed to be necessary: the stimulation of the basic metal sector and chemistry. The proposed means of policy remained general and indirect (tax facilities and general subsidies) however. In line with the policy philosophy of indirect general guidance, the emphasis on specific policies totally disappeared in later reports²⁰.

The development process in the fifties is characterized by a high rate of economic growth through a large increase in production capacity. Investment was predominantly capital-widening investment, so the capital/labor ratio only increased slowly²¹.

Table 6 shows that the Dutch economic achievement related relatively well to the average Western European countries: the third fastest rate of growth behind Germany and Italy

Table 6. Growth rates of real GNP
(average yearly % change, 1950-1960)

Western Germany	7.6
Italy	5.9
The Netherlands	4.9
France	4.4
United States	3.3
Belgium	2.9
United Kingdom	2.6

Source: Achtste nota inzake industrialisatie van Nederland

¹⁸ The AIQ reflects the relationship between total labor income (including taxes) and net value added in enterprises and is meant as representing the claim of labor on national income. There are three versions of this measure. The standard one includes public utilities, gasproduction and housing, but excludes bank profits. Apart from the standard one there are measures for the AIQ including bank profits on the one and excluding public utilities, gasproduction and housing on the other. The quantitative relation between the three is shown in the following table.

year	AIQ1*	AIQ2**	AIQ3***
1960	86.3	69.6	71.5
1970	77.0	79.3	83.4
1980	75.0	78.6	90.5
1985	65.5	69.2	85.4
1990	66.25	69.75	79.25

¹⁹ There were seven more of these reports to follow till 1963.

²⁰ This policy philosophy made it possible that no special attention was given to the textile sector, in spite of the fact that employment in this sector continually declined after 1957.

From the demand side, growth was generated predominantly by exports and investment. The development of demand as described in table 7 demonstrates clearly the effect of policies directed at curtailing the rise of wages²² and (indirectly) domestic demand.

Table 7. Production and demand 1960. Index numbers (1950 = 100)

Net national product	157	
Industrial production	174	
Private consumption	142	
Government consumption	138	
Private investment		172
Government investment	172	
Export industries	261	

Source: Fortuyn 1983, 49.

One of the goals of policy was clearly realized: export demand boomed²³. That did not imply the absence of balance of payments problems as imports rose at a fast rate as well. On the whole there was a deficit in the international trade of goods. As a result of surpluses on the balance for services, the current account as a whole was in surplus, except for 1950/1951 and 1956/1957.

Table 8. Current account of the balance of payments and unemployment 1960 - 1963.

year	surplus on current account ^{*)}	unemployment ^{**)}	year	surplus on current account ^{*)}	unemployment ^{**)}
1950	-1131	-	1957	-594	1.0
1951	269	-	1958	1533	2.2
1952	1755	3.8	1959	1783	1.5
1953	1359	2.7	1960	1244	0.9
1954	239	1.7	1961	633	0.6
1955	781	1.1	1962	497	0.6
1956	-750	0.8	1963	362	0.7

^{*)} transaction basis, in million guilders

^{**)} percentage of labor force

Source: Negentig jaar statistiek in tijdreeksen, 79.

Large increases in production capacity generated a large rise in employment. In spite of a fast increase in the labor force, unemployment went down from 5% in 1950 to 1% in 1960. Table 8 shows the development of unemployment. The increases in 1952 and 1958 directly indicate the consequences of the restrictive budgetary policy mentioned above.

At the end of this period there was a reduction in labor time from 48 to 45 hours per week. Table 9 illustrates that the number of jobs did not only increase in industry, but also (and after 1957 even more) in the sector of commercial services.

²² The low wages policy did not only have demand effects. Only in later decades could be established that low wages prohibited technological dynamism in the fifties leading to some sectors that were old fashioned in the sense that the old labor intensive methods of production remained profitable. Shipbuilding and textiles are mentioned as examples of sectors that suffered from this developments in later decades.

²³ Originally the most important trade partners were Belgium and Luxembourg. Gradually however they were replaced by Germany that delivered 24% of Dutch import and bought 26% of exports in 1963.

Table 9. Employment and working population
(total increase in 10³ labor years within each subperiod), 1948 - 1962.

	1948/52	1952/1957	1957/62
Industry	102	208	127
Commercial Services	99	159	157
Agriculture	-26	-46	-51
Government	<u>13</u>	<u>49</u>	<u>24</u>
Total	188	370	257
Working population	220	312	238

Source: Achtste nota inzake industrialisatie van Nederland 22

With unemployment brought down to historical records and growth of production and employment clearly being transformed into an ongoing process, the stage of building up a mature industrial economy seemed to be completed at the end of the fifties.

3.3 Growth and rationalization in the sixties.

In the realm of economic policy, the sixties witness a government further retreating from economic intervention. The economic developments made a continuation of controlled wages obsolete. The combination of an overheated economy and artificially low wage levels led to strikes and social unrest and wage policy was officially abandoned in 1963²⁴. As for budgetary policy, a conjunctural policy was abandoned for a *structural budgetary policy*. The government budget was adjusted to the *longterm* relationship between saving and investment in the market sector and no longer to neutralize *year by year* fluctuations in private expenditure.²⁵ The most clear sign of the withdrawal from control by government was the abandonment of industrial policy. In the last report on industrialization in 1963 it is remarked that the shift in policy towards growth in general makes policies specifically directed at industry superfluous.²⁶

There were also expanding fields of government activity. The social security system, for instance, was adapted to the higher level of welfare and expended with arrangements for welfare and incapability for work. Further, the number of government employees rose from 495,000 in 1960 to 576,000 in 1970.

The economic growth rate in the sixties was slightly higher than in the preceding decade. On the whole there was a balanced rise in production and the various components of demand (see table 10). Though now supported by the rise in domestic demand, export remained an

²⁴ Control of wages was abandoned as a standard instrument of policy. Also after 1963 the government intervened in wage formation several times on an ad hoc basis, sometimes on a macro level, sometimes in wage agreements between employers and employees in specific sectors. As before fear for deterioration of the external position was the usual reason for intervention.

²⁵ Already in 1966 the new budgetary norm was left for the old one when a sudden current account deficit was counteracted by restriction of government outlays and a tax raise.

²⁶ However understandable in the framework of ongoing growth, it is distressing that in this same report some features of the Dutch industrial structure are mentioned, that were in a later period - around 1980 - analyzed as the most important aspects of Dutch industrial problems.

Table 10. Economic indicators 1961 - 1970, average yearly % change.

	1961/1965	1965/1970
labor productivity enterprises	3.6	5.3
wagesum per worker, enterprise	9.6	10.9
wage cost per unit	5.9	2.5
real disposable income model worker	4.9	4.2
volume private consumption	6.6	6.0
volume production enterprises	3.9	4.4
enterprises	5.4	6.0
volume gross investment enterprises	6.6	7.6
volume material expenditure government	8.2	4.7
price level private consumption	3.9	4.3

Source: CEP 1973.

important impetus to growth. The most important trade partners were the member countries of the *European Economic Community* (founded in 1958)²⁷. The rather stable development of the current account of the balance of payments, oscillating between small deficits and small surpluses²⁸ suggests that competitiveness in the Dutch economy did not change very much. This was the result of two counteracting tendencies. In the first place, there was a catch up with abroad in wage development (starting from an internationally extreme low level in the fifties). Secondly there was a catch up in the development of labor productivity, expressing the acceleration in the introduction of new laborsaving technology.

More important than the slight rise in the rate of growth, was the change in character of economic growth. The dynamics of growth were drastically changed in comparison with the fifties. Firstly (but not yet really serious in the sixties), growth is accompanied by an increase in inflationary pressure. Inflation rates, starting from under 3% in the fifties increase in the course of the sixties. More important are the changes in the real aspects of growth: enterprise investment was capital deepening in character, directed at introducing high-grade laborsaving technology in the process of production. Capital deepening investment implies a rise in the capital/labor ratio²⁹ together with a rise in labor productivity. Thus growth in the sixties was "growth and rationalization". At the same time it was "growth and restructuring", as also the structure of enterprise was adapted to the new dynamics of growth. Capital intensive production inhibits small scale production and the need for new structures was realized through different channels. Concentration increased through a great number of mergers (see table 11). Laborintensive production moved to low-wage countries. Also there were quite some enterprises that had to shut

²⁷ The EC-share in Dutch exports rose from 65% in 1963 to 71% in 1971 (the share of imports from the EC countries is likewise large: 60% in 1963, 62% in 1970). Within the EC, Germany was the most important trade partner. Its share in Dutch exports rose from 25% in 1963 to 35% in 1970.

²⁸ The balance of the trade of goods was continually negative, so the development of the balance of invisible trade was decisive for surplus or deficit.

²⁹ Capital per worker rose from 12,500 guilders in 1960 to 22,500 guilders in 1970.

down.

Table 11. Mergers and concentration.

year	Number of mergers	Number of mergers in industry	Number of enterprises	Number enterprises after merger
1966	95	60	185	84
1967	126	72	237	107
1968	220	126	389	158
1969	246	137	426	173
1970	321	184	619	305
1971	299	150	526	233
1972	338	172	618	323
1973	379	209	692	366

Source: CBS Statistisch zakboek 1970, 1972, 1973.

The process of rationalization and restructuring is related to the situation of the labor market in the middle of the decade. In this period, registered unemployment was below friction unemployment, indicating an extreme excess demand on the labor market. Thus there was a direct reason for introducing laborsaving devices.

There was also an indirect reason. The situation of labor scarcity undermined the restrictive governmental control of wages. On the one hand employers in industry were only too happy to pay higher wages than allowed in order to attract the desired extra labor. In fact actual wage rises exceeded what government had proclaimed. On the other hand, employees wanted to share in the rising welfare and labor unrest increased. The result was the abandonment of wage policy in 1963 and a wage explosion in 1964³⁰. Table 12 shows the development of real wages and the gross labor share (AIQ). It shows that real wage rises continued after 1964, be it not explosively.

Table 12. Wage indicators.

	Real wage (index numbers)	AIQ
1963	100	75.3
1964	110.1	74.9
1965	112.9	75.6
1966	117.2	78.5
1967	121.5	77.7
1968	121.5	71.1
1969	124.4	77.4
1970	131.5	79.3

Source: Fortuyn 1983, 157.

³⁰ There was a rise in real wages of 10%. In the sector of metal production it was 13.5%

A short conclusive digression on the role of wage policy in Dutch policy and development.

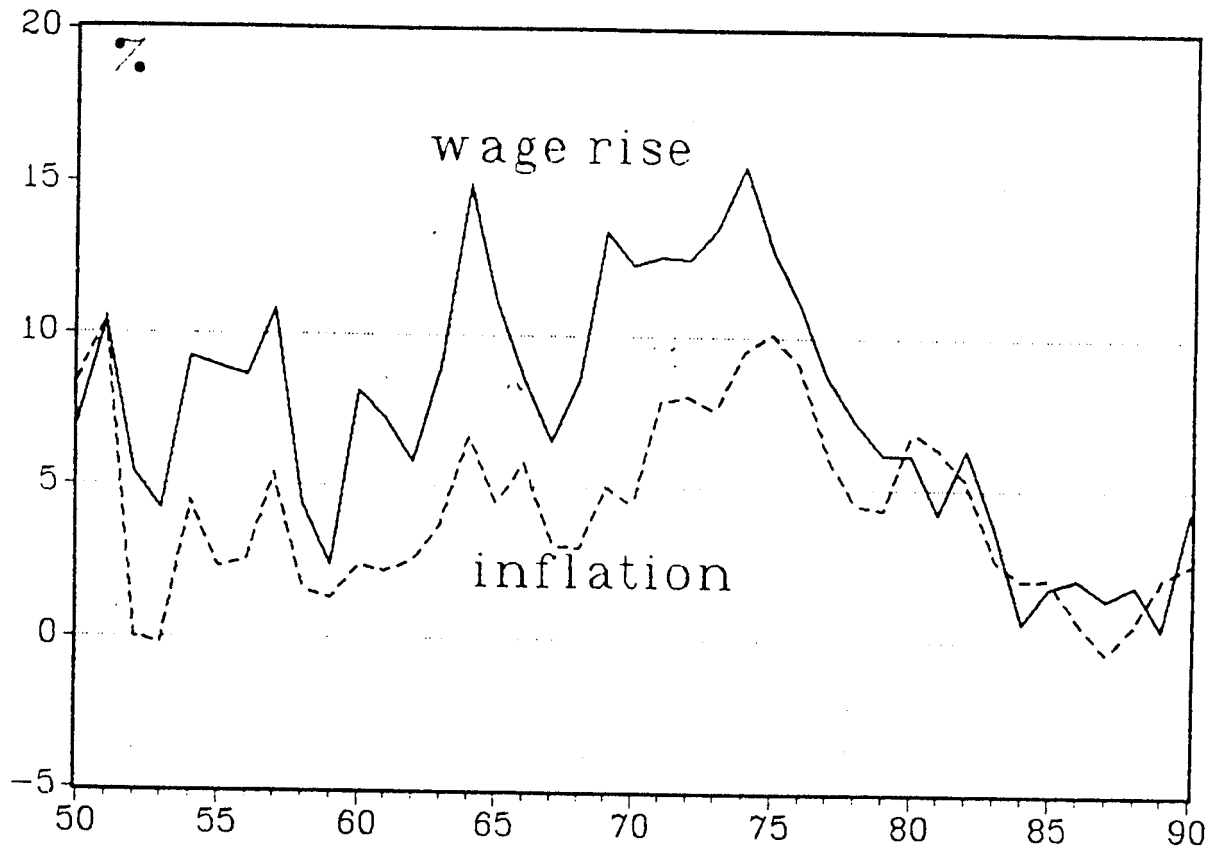


Figure 2. Inflation and the rise of the wagesum per worker

During the whole postwar period, wage policy played a crucial role in Dutch economic policy. After 1964 wage policies were pursued in a rather ad hoc way and on the basis of various legal arrangements. Before 1964 wage policy was executed in a systematic way, be it with criteria for wage rises that developed through the years. Probably, the effects of wage policy were were farreaching, influencing the structure of production (creating a more and more export oriented economy), as well as the structure of demand (with domestic demand offering no impetus to growth. Though positive in times of booming international conditions, the effects of guided wages was negative in at least two ways:

- *on a general level wage policy turned the Dutch economy into a a rather vulnerable economy and unnecessarily dependent on international developments;*
- *In the fifties, wage policy created "lazy" entrepreneurs that, in view of extremely low wages, omitted to introduce competitive innovative techniques. The negative results became*

visible in later years: sectors like shipbuilding and textiles lost contact with international competitors and almost disappeared from the Dutch enterprise landscape.

Moreover, in period of non-systematic wage control, the mitigating effects on wages is only temporary. More than average rises in wages appear to follow periods in which wages are kept low through wage policy.

While very low wages withheld the introduction of laborsaving technologies in the fifties, the sharply rising level in the sixties probably fastened it. Rapidly rising wages accelerated economic obsolescence and the scrapping of old laborintensive capital (with the associated jobs)

In spite of the wage development the AIQ remained more or less constant till 1966 and thus its counterpart, the share of non-wage income as well as profitability remained high. On several occasions -if collective wage agreements between employers and employees were taken to imply too high a wage rise- government intervened on an ad hoc basis³¹.

In 1964 a minimum wage law was proclaimed for male workers over 25 years of age. The *Loonwet* (Wage Law) from 1970 established the principle of free wage formation, but offered the possibility of government intervention in specific circumstances (a possibility used in the same year to curtail the rise of wages in 1971).

Of course rationalization and restructuring had a negative influence on the development of employment. Unemployment in this period was prevented, however, by the fast growth of production, together with the rise in government employment (a rise of 100,000 in 10 years). As a matter of fact the unemployment rate remained extremely low during the whole decade. (see table 13).

Table 13. Unemployment 1963 - 1970*)

1963	1.0
1964	0.7
1965	1.0
1966	1.2
1967	2.4
1968	2.2
1969	1.8
1970	1.4

*)percentage of dependent (excluding self-employed) labor force.

A balanced macroeconomic development concealed imbalances at the sector level. Table 14 shows the sectoral pattern of employment development. Fast growing sectors appear to maintain their growth of production after 1963, though with a lower rate of growth of employment. In the labor intensive sector of production like textiles and clothing there was a decline in production and employment. The problematic effect of these sectoral imbalances were to be fully realized.

³¹ In 1967 a wage ceiling was proclaimed. In 1968 there was a "wage pause". In 1969 government intervened in collective agreements for a number of sectors.

however, after the manifestation of stagnationary tendencies on the macroeconomic level in the seventies.

Table 14. Investment, production and employment in various sectors

	capital intensity ^{*)}	share of investment ^{**)}	Production ^{***)}			Employment ^{****)}		
			53/63	63/73	73/80	53/63	63/73	73/80
Fast growing sectors								
Public Utilities	149	53	8.8	12.3	5.0	1.4	1.2	0
Chemistry	259	25.2	9.6	13.5	2.5	4.0	1.5	-0.5
Metallurgic	133	27.4	10.2	9.3	-0.5	4.3	0.3	-1.0
Electrotechnics	108	8.2	14.0	7.9	3.0	5.4	0.7	-2.0
Transport	131	12.9	6.2	7.6	4.0	0.3	-1.3	-2.5
Average growing sector								
Metal. products	106	9.0	6.6	5.5	4.5	2.4	0.3	-2.0
Paper	126	14.0	8.6	5.7	2.5	3.7	-0.6	-1.5
Slow growing sectors								
Textiles	80	10.8	3.3	0.8		-1.0	-5.8	
					-5.5			-9
Clothing/Shoes	66	4.2	3.1	-3.4		0.3	-5.6	

*) average total enterprises = 100

**) share of gross investment in value added average level in % 1963/1972, excluding buildings

***) average yearly % changes

Source: De Klerk/Lutz 1982, 17.

2.4 Crisis and stagnation from 1973 till 1982

Growth and welfare seemed to have no limits during the sixties. The seventies demonstrated that new slogans like "the business cycle is obsolete" had overestimated the possibilities for market economies to avoid imbalances at a macroeconomic level. The economic problems did present themselves in a new and more complicated form, stagflation, that presented serious dilemma's for theory and policy.

Government in the first years of the decade ranked inflation as the number one topic on the policy agenda and met it by restrictive budgetary policy and wage constraint. By realizing wage rises below the increase in productivity the latter means of policy was also expected to serve the goal of unemployment reduction. In the period 1974-1976 (with a Social-democrat/Christian-democrat coalition) the policy of wage constraint (now also including self employed professionals) was combined with more expansionary budgetary policy. The latter was expected to compensate for the decrease in private expenditure caused by the first oil crisis and to restrict the rise of unemployment.

In one respect there was a process of rethinking the philosophy underlying policy. In a government report of 1976 there appears to be attention for more qualitative aspects of economic growth by adding *selective* growth as sixth goal of economic policy: in guiding the *direction* of growth (and thus the economic structure) the government ought to pay attention to the interests of environmental protection, prudent management of raw materials and energy, town and country planning and the interests of developing countries. In

accordance with the old basic philosophy, however, direct means of policy were ruled out. The most important instrument was the *W.I.R.*, a system of investment subsidies with rather general criteria.

The desired indirect and general character of growth policy was emphasized in a subsequent report of 1979: structural policy ought to be the initiative of the enterprise sector and not of government. The report *Plaats en toekomst van de Nederlandse industrie* (Position and Future of Dutch Industry) published by the WRR (Council for Scientific Policy Advice) implied some breach in the basic philosophy of growth policy. The industrial structure in The Netherlands was considered extremely deficient, lacking international competitiveness and in need of direct and specific policies.

The period of breach in philosophy appeared to be very short. The subsequent report *Een nieuw Industrieel Elan* (A New Industrial Spirit) by an advice council to work out the basic ideas of the 1979 report, already contains a plea for less government influence. Eventually the *Maatschappij voor Industriële Projecten* (Corporation for Industrial Projects) was installed. Composed of experts from government and enterprise it had to select and stimulate promising projects in the framework of industrial revitalization. The Trade Unions were not involved in the project and the criteria used for the selection of projects were very vague especially in terms of numbers of jobs. The corporation has not been very successful.

In the above mentioned government report "Nota selectieve groei" a second point was stressed that was going to dominate policy in the decade and a half to come: the need to reduce the amount of public expenditure. In the government program of the center/right-wing coalition that arrived in 1977 a reduction of 10 billion³² guilders on the government budget was deemed necessary to improve profitability in enterprises. Further, a reduction of social security payments and civil servants salaries was enforced to reduce the burden of social security premiums in enterprises and thus to raise profits. Rising profits was believed to be the key to economic success. Underlying this conviction was the profit=work ideology: rising profits means rising investment and rising investment means rising employment.³³ True or not true the expected decline of unemployment was not realized (registered unemployment rose from 271,000 in 1977 to 690,000 in 1982). Moreover, the resulting rise in unemployment benefits annihilated the expected decline of government spending.

³² Especially government investment suffered: a reduction of 6.6% per year on average.

³³ An ideology heavily discussed among economists.

Restrictive budgetary policy remained accompanied by wage policy³⁴. In 1971 real wages were frozen in an attempt to curb inflation and unemployment. The wage stop in 1972 was recalled after Trade Union protest. In 1973 all incomes were regulated. As the maximum allowed wage rise was expressed in guilders, the effect of policy was a levelling out of income differences.

After 1981 the policy of decreasing the public sector is intensified, but is now framed in terms of the budgetary deficit, the reduction of which is given top priority. The desired reduction to 7.4% of net national income in 1986 was said to necessitate a reduction of government spending of 28 billion guilders. To this end the number of civil servants, civil servants salaries and social security benefits are reduced. As the number of people on social security continues to rise, total spending on social security appear difficult to control.

The developments in growth and in budgetary policy stress the basic tendency in the development of policy philosophy. Key concepts here are *deregulation* (the reduction of government influence on society and the economy), and *privatization* (the transfer of government activities to the private sector).³⁵

The decline in economic activity is not yet unambiguously clear during the first years of the seventies. Table 15 shows that initially the growth rate of national income is not much below the average for the preceding decade, but the development of private expenditure foretells the coming events. The absolute slump was to be reached in the period 1980 - 1982. Table 15 also illustrates the problem of inflation³⁶. The inflation rate went up quickly. Even before the first oil crisis it was twice the average for the sixties. Profitability was depressed because of rising cost of production. The austerity policy directed at curbing inflation only worsened the score on growth of income.

In accordance with world trade Dutch exports only rose very slowly during the whole period. The balance on current account was almost continually in surplus³⁷. This illustrates domestic demand shortage: in line with a slower rate of growth, imports rose less than exports. Moreover the determinants of exports, the development of wage cost per unit

³⁴ A policy of wage restriction was given a new theoretical basis in 1974 when the Central Planning Bureau laid the foundations for a new economic model for forecasting and policy analysis. The essence of the new approach was a vintage model in which labor productivity (and thus labor requirements) differs between vintages of equipment according to their date of installation, reflecting endogenous laborsaving technical progress. The increase in wage rise during the sixties is, within this framework, the cause of an acceleration in the scrapping of old vintages and the associated jobs. A reduction in the rise of employment is the first and after stagnation of growth a rise in unemployment the second result. Reasoning the other way round, restriction of wages leads to the preservation of jobs and the avoidance of unemployment. The model and the implied view were heavily criticized and discussed among Dutch economists (See: De Klerk et. al., 1978).

³⁵ There is a connection of course with the ideology of *Thatcherism* and *Reaganomics*.

³⁶ Still on the score of inflation The Netherlands relate favorably to most EC-countries.

³⁷ Only in 1978 till 1980 the current account was in deficit. After 1980 there is very fast rise in the surplus.

of product³⁶ and the price level relative to foreign competitors, were very favorable since 1977. Still the overall economic achievement related unfavorably to international ones. Table 15 demonstrates poor results, especially in the period 1979/1982 in terms of

Table 15. GNP and unemployment, in The Netherlands and the EC.

	GDP [*]		unemployment ^{**}	
	Netherlands	EC	Netherlands	EC
1971/73	4.4	4.7	2.2	2.6
1974/78	2.7	2.3	5.9	5.6
1979/82	0.5	1.3	9.5	9.5
1983/90	2.5	2.7	10.9	10.3

^{*}average yearly growth rates

^{**}percentage of labor force

Source: EB 1991

growth and unemployment relative to the EC average. The improvement at the end of the period is partly cosmetic in view of the EC-enlistment of Portugal and Spain.

Figure 2 and table 16 appropriately represents the gravity of problem number 1 in economic development in this period. The stagnation of economic growth immediately translated itself in the problem of unemployment. While in the sixties growth was the

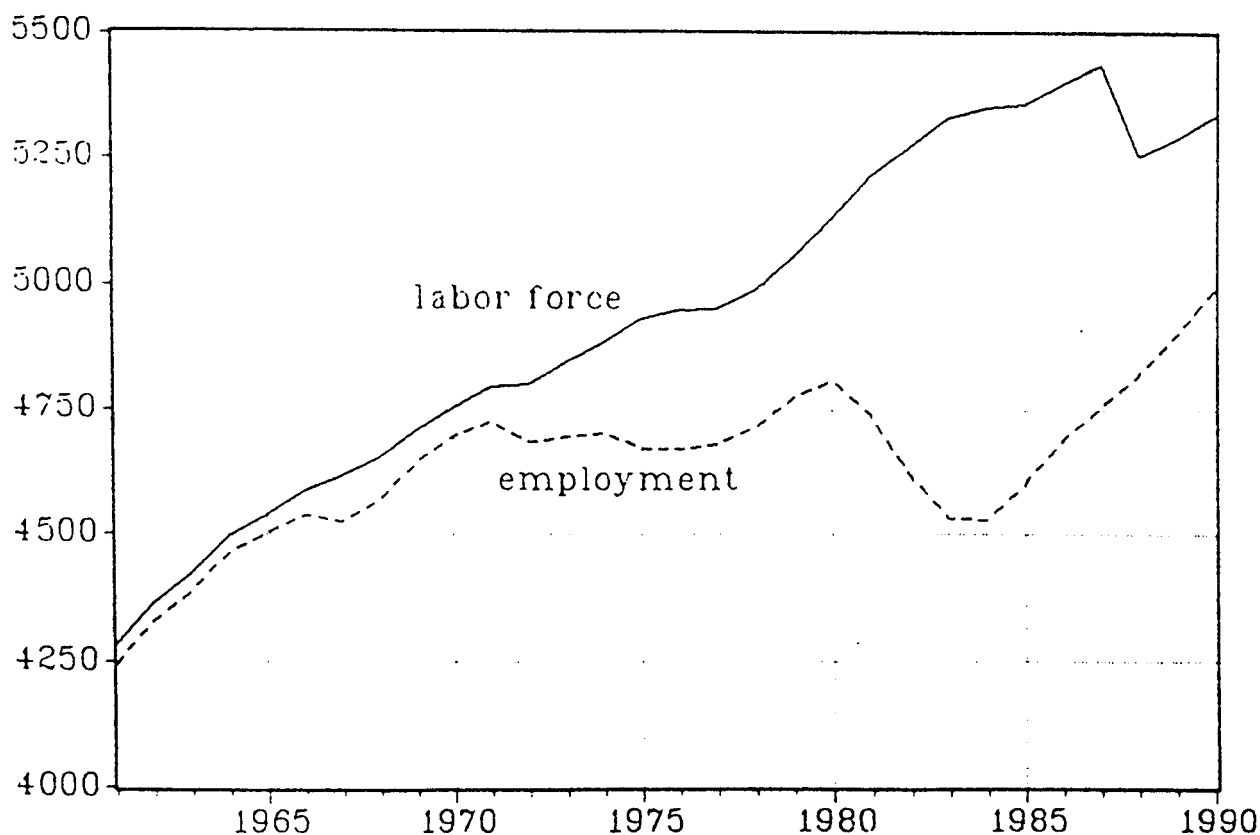


Figure 3. Employment and Labor force (x1000), 1960-1990

³⁶ The difference between the rise in unit labor cost between The Netherlands and foreign competitors was still -1.5 %points on average during 1973-1977. From 1978-1982 the rise in labor cost in The Netherlands remained behind the rise

compensation for scrapping of jobs as a result of rationalization, this outlet disappeared in the seventies. Rising unemployment was the result. As figure 1 demonstrates, labor supply almost came to a standstill and unemployment is to be explained completely in terms of lacking demand for labor. As Table 16 makes clear an explanation of rising

Table 16. Income, employment, productivity. Average yearly growth rate.

	1960-1970	1970-1980	1980-1985	1985-1990
National income	5.4	2.3	2.5	2.6
Labor productivity	4.2	2.1	3.6	1.4
Employment	1.2	0.2	-1.1	1.2
Labor supply	1.2	0.7	0.9	-0.3

	1960	1970	1980	1985	1990
Unemployment %	1.5	7.4	7.2	16.7	7.3

Source: EB 1991

unemployment in terms of a process of accelerated rationalization is contradicted by the facts. Not only did production and income growth come down, but so did the rise in labor productivity³⁹.

Unemployment reached a postwar record in 1984 with 17.3% of the labor force unemployed. The actual unemployment figures continually exceeded the predictions. The government program of 1978 aimed at reducing the number to 270,000 in 1982, the actual outcome was 690,000.

Two points concerning unemployment need to be mentioned that are not expressed in the macroeconomic figures.

As to the composition of unemployment, it is important to notice that unemployment figures are expressed in labor years, that is to say they measure the *duration* of unemployment as well as the number of people employed. In the course of the seventies the rise of unemployment was caused primarily by an increase in the duration of unemployment.

As to the sectoral composition of employment, it is important to mention the process of *deindustrialisation* that was present in only a few countries besides The Netherlands. The concept of deindustrialisation is used to describe a process of *absolute* decline of industrial employment that was present in the Dutch economy since the late sixties. Initially this development was not taken to be troublesome as jobs could be created in the sector of commercial services. From about 1980 it became clear that the capacity to create jobs here was overestimated and that special attention for industry was necessary. As we saw before, this view did not lead to direct and specific government policy.

³⁹ This productivity slowdown is an international phenomenon that still is to be explained.

After 1982, however, things changed for the good, without a stimulating government, namely through exogenous causes. On the waves of international recovery, growth (be it at a moderate rate) was regained within the Dutch economy. The long process of recovery that followed in the next decade, however, did not solve all economic problems. Some old ones remained and some "new" ones posed new dilemmas for government policy.

2.5 Restrained recovery in the eighties.

A very important external development for the Dutch economy was the recovery of world trade (See table 17), especially in the second half of the decade, boosted by the

Table 17. World Trade and Dutch exports of goods and services, growth rates.

Year	World Trade*	Dutch exports
1955-59	6.3	6.7
1960-64	9.4	7.9
1965-69	9.5	9.4
1970-74	10.0	9.5
1975-79	7.3	3.1
1980-85	3.2	3.2
1986-90	5.7	5.3

*adjusted for the Dutch trade pattern in terms of the importance of competition and sectors for the Dutch economy
Source: CEP 1974, EB 1991.

expansive budgetary policy in the United States. Dutch exports more or less followed the rise in world trade which meant a boost for the Dutch economy. There was a surplus on current account from 1982 onwards. Though welcomed by policy authorities⁴⁰, it is open for discussion whether or not this surplus is compatible with external equilibrium: as a matter of fact the surplus rose to 4.2% of national income in 1990, rather far above the official goal of a 1% of NNI surplus.

Favorable as the international development might be in terms of world trade, the international situation was not completely without problems and risks. The twin deficit in the United States caused, besides recovery of demand, world wide increases in interest rates and an enhanced risk of international economic relations because of the undermining of the dollar as an international currency. This caused a further rise in interest rates that in its turn caused an international debt crisis.

In terms of domestic economic policy, the budgetary deficit -that had risen considerably in the seventies- ranked on top of the agenda. Especially future problems with financing the deficit were feared. As the already high collective burden is taken to be prohibitive for tax raises, growing sums of money would have to be borrowed through the

⁴⁰ Authorities do not seem impressed by the stress of international organizations like World Bank and IMF that (large) surpluses in developed countries imply problems, notably for developing countries.

the capital market. The disadvantage of this development was taken to be twofold. The crowding out of private expenditure, especially investment, was taken to mean reduction of growth. Moreover ever rising interest payments would claim a growing share of the government budget. A working committee installed by government ordained a reduction of the deficit to 5.25% of Net National Income. The various governments after 1982 formulated a set of targets in which a desired reduction of the deficit and a freeze of the collective share in national income were combined with the recovery of unemployment. The means of policy were reductions in government expenditure and an enhance budgetary discipline.

Table 18. Current Budgetary deficit government *

1955-59	0.6
1960-64	0.9
1965-69	2.5
1970-74	0.6
1975-80	3.9
1981	6.6
1982	8.0
1983	8.9
1984	8.5
1985	6.1
1986	1.9
1987	4.0
1988	5.5
1989	5.4

*) In % of Net National Income

Nevertheless the deficit increased till 1983. The public debt (34.2 % of NNP in 1970, 32.8 % in 1980) increased to 74.8% in 1990. The ensuing reduction of the deficit led to goal attainment of 5.25% of NNI in 1989. The complete transformation of the view on government in a mixed economy (from Keynesian Control to Monetarist abdication) had now also become manifest in key economic indicators. The dynamics of recovery in the eighties copied the dynamics of the fifties: growth through foreign demand and domestic restriction, amongst other things implying a growing surplus on the current account.

The eighties witness a return to stable growth (see table 16) though at a rate incomparable to the one realized in the sixties. As a matter of fact, the eighties witness the second longest boom since the war. Still some problems remain.

In the first place, investments recovered hesitantly and with delay (see table 19). Various factors contributed tot this fact: the lack of confidence caused by the 1980/1982 recession; high real rates of interest and the relatively low utilization of capacity. In the early eighties also low profit shares can have contributed (see table 19). This problem, however, was overcome in the course of the decade.

Table 19. Investment^{*}, rate of real interest^{**}, non-wage income share.

	investment	rate of real interest	non-wage income share
1955-59	6.0	2.8	29.04
1960-64	7.4	2.6	24.78
1970-79	2.0	0.0	20.87
1980	-1.6	3.2	8.2
1981	-11.5	4.3	8.0
1982	-3.5	6.2	9.7
1983	3.3	6.8	10.6
1984	5.0	6.7	15.7
1985	8.7	6.3	14.6
1986	9.0	6.4	16.1
1987	1.2	6.1	16.4
1988	10.5	4.6	19.2
1989	5.0	4.7	21.0
1990	2.0	6.2	21.0

*% change **%

Source: CPB, EB 1991; CEP 1974.

More serious is the continuing high level of unemployment, in spite of the growth of employment due to economic growth (see table 16). Though some factors contributing to this fact can be mentioned (the rising participation rate of women, the effects of the postwar baby-boom, overestimates in certain measurements of unemployment, etc.) this fact has not yet been unambiguously explained (see the final section).

The structural problem of persistent unemployment is reinforced by the conjunctural downturn that manifests itself from the end of the eighties onwards. Table 20 illustrates the end of the long boom period for the Netherlands. In terms of the consequences for labor the impact is restricted in 1991 and (according to the forecasts) 1992 to a slowdown in the growth of employment. In 1993 the recession is expected to manifest itself in a rise of unemployment.

Again causes are partially international⁴¹. In comparison to other countries, however, the Dutch economy performs relatively well as far as exports are concerned. But again, a serious reason for performing below potential, is a lack of domestic expenditures. The growth of domestic expenditure is lower than any other European countries. Due to the policy of wage and benefit restriction, disposable income and private consumption develops unfavorably. Stagnating growth and gloomy perspectives lead to a decrease in investment in 1993. In the light of the strong policy orientation on the budgetary deficit, the fact that the contribution to growth of government expenditure is almost zero, is no surprise. The medium term economic development thus is far from successful. This is the more serious in view of the recent rise of pessimism with

⁴¹ World trade rose with 6.4% in 1990, 4.6% in 1991 and is expected to grow with 3.5% in 1992. There is little simultaneity in the international downturn. The present recession started in the USA the trough was reached in the middle of 1991. Due to the spending effects of the German unification, the European economies reacted with a lag. A specific development characterizes the UK where a deep recession is present since 1990.

respect to the recovery of the international economy.

Economic indicators, 1990-1993

	1990	1991	1992*	1993*
Volume exports**	5.6	4.9	3.5	5.5
Volume private consumption**	3.9	3.3	1.5	2
Volume gross investment enterprises**	8.7	2.7	-.75	1
Volume material expenditure government	0.9	2.8	.5	0
Real National Income**	4.6	2.0	1	2
Growth of employment***	104	64	20	19
Registered Unemployment***	346	319	300	305
Number of people on unemployment benefit****	575	562	577	584
Private consumption deflator **	2.5	3.3	3.75	3.75

* forecasts

** % change

*** in labor years x 1000

**** persons x 1000

Source: CPB, MEV 1993.

The disturbance in the "classical" core of the economic process is not the only troublesome aspect of Dutch development. The environmental quality and development of The Netherlands is very worrisome. In term of numerous criteria⁴² The Netherlands demonstrate a very negative score, amongst others as a result of a very soil- and energy-intensive structure of production and a high density of population. The last few years there has been a small improvement in the relative position compared to other European countries. The improvement is disappointing, however, in view of the financial efforts: The Netherlands has the highest environmental expenditure as a percentage of GNP. The ecological limiting condition for The Netherlands have been formulated in the government report "*Zorgen voor morgen*" (Caring for Tomorrow), a translation of sustainable development to the Dutch situation. These conditions are impossible to be met within the near future. There are, however, a number of plans that, if realized, approach sustainable development. These plans imply relatively restricted macroeconomic consequences, while the consequences for some specific sectors may be rather large. For the time being this is unfortunately hardly a problem to worry about, because present policies in no way steers the economic process in the direction of ecologically desirable paths of development.

4. The Dutch development model: future possibilities.

Two associated fundamental choices lie at the heart of the "selected" development model of the Dutch economy:

⁴² For instance in terms of car density, use of energy and water, use of artificial, the amount of household refuse, the emission of NOx.

1. the principal choice for a very open economy;
2. the choice for wage control as a major instrument of policy and the choice to abstain from other forms of policy that directly determine economic behavior.

This specific choice was facilitated by the peaceful character of labor relations (social relations in general): the common will to rebuild the economy was dominant.

The economy structured along this combination of choices appeared to be able to do away fairly quickly with the remnants of the war and the preceding crisis. At the end of the fifties the phase of building up a modern economy can be said to be completed. The sixties witnessed an intensification of growth through rapid technical change and capital deepening in the sixties. The system appeared, however, not to be proof against the classical failures of market economies. The seventies witnessed a period of crisis and stagnation. With the USA-economy as the locomotive growth was recovered from the middle of the eighties onwards. Economic problems, however, did not disappear completely.

The dominant problems in this period are partially new: persistent high unemployment and environmental decay. It remains to be seen whether the implied development model in The Netherlands is also suitable to tackle these problems of the nineties. The development model now implied in the present structure of policy differs in the degree of government control which is less (and still diminishing) compared with the forties and fifties.

In the beginning of 1992 the *Central Planning Bureau* published a study in which an analysis was given of possible development patterns of the Dutch economy in the period 1990-2015 (CPB 1992). In a theoretical introduction three fundamental forces behind economic development are distinguished:

- * forces that relate to the coordinating capacity of the economy ("keynesian" forces);
- * forces that relate to the rejuvenating capacity of markets ("creative destruction", "Schumpeterian" forces);
- * forces that relate to the equilibrating capacity of markets ("neoclassical" forces).

Differences between the scenario's result amongst other things from alternative assumption about the presence or absence of these forces.

The evaluation of the starting position is moderately optimistic. In terms of economic structure, positive aspects relate to the educational level of the labor force (though the position of lower vocational training and the connection between education and the labor market are considered negative points), the level of material and immaterial investment and the physical infrastructure, and the level of R&D expenditure. Negative aspects are present as well. The work ethic, for instance, is called deficient. The emission of pollution is very high. A more general shortcoming of the Dutch economy relates according to the CPB to the functioning of markets and the adaptive capacity of the economy. The regulation of the goods market has realized relatively large protected parts. According to the Planning Bureau, however, the regulation of the Dutch labor market is

much more serious: labor market policies focus too much on support of incomes and too little on active measures. The remuneration of work is too low when compared to income levels for non working persons. The enormous number of persons entitled to benefits for incapability for work is taken as a sign of lacking market functioning.

In term of economic order, strong points are taken to be the broad social basis for consultation and the liberal attitude towards divergent views. Negative elements are taken to be the slowness of action and the avoidance of clear choices.

Starting from this point of departure the CPB envisages three scenarios with difference that relate chiefly to different assumptions about the political economic functioning on a world level.

In the *Global Shift Scenario* the main force behind development is assumed to be free markets on a world scale with technological progress as the motor of international development (the Schumpeterian perspective), while Europe is unable to take measures to improve competitiveness and to deregulate labor markets. Eastern Asia, Japan and the USA become the locus of economic activity, while Europe is digressing to a marginal place in the world economy with decreasing growth and rising unemployment. With a closed Western European market, problems mount for Eastern Europe. After a sharp economic downturn, strong measures are taken to fight rigidities: production rises but only through an extreme austerity of the welfare state. For the Dutch economy this "scenario of missed chances" is catastrophic. It leads to stagnation of production and employment, to a rise of unemployed and people incapable for work of over 2 million, and to a rise in the collective burden of 10 percent points. Real GNP rise at a rate of less than 2% and employment at a rate of .3%. The results of this scenario are also disappointing in terms of energy and environment.

A much more beautiful world is pictured in the *Balance Growth Scenario*. All different forces mentioned above are assumed to codetermine economic development which results in a strong, multipolar process of growth that also drives at ecological sustainable development. Technological dynamism and competing market structures enable cooperation on a global level. The process of European economic integration is successful, being not forced from above, but a spontaneous market-led development.

For The Netherlands this scenario implies redefining government duties. Apart from classical duties like education the government is active in stimulating markets. There is drastic decrease of military expenditure. Further there is a revision of the structure of taxes (to reduce allocative disturbances) and there is large reduction in the welfare state with the provision social security brought back to a minimum. In production there is a restructuring in the direction of more knowledge-intensive branches. Real GNP rises at a rate of over 3% and unemployment at a rate of 1%. Unemployment falls to 2.5% of the labor force.

The "*European Renaissance scenario*" does not imply the efficient functioning of markets of the Balanced Growth scenario. Still European economic development can be made favorable through an adequate coordination of governments. Progress is also made in

the field of environmental policy. The European integration advances policies to improve the functioning of (labor- and goods-)markets. Social benefits relevant for the functioning of the labor market are reduced and there is an intensification of active labor market policy. Labor productivity difference with the US-economy disappear and there is a strong growth of production in Eastern European countries that are integrated within the EC.

For the Dutch Economy tendencies towards centralization (to the EC level) coexist with tendencies towards (regional decentralization). The importance of the national level is reduced. At this level there is growing attention for supplyside policies (education). The social security system is rearranged according to European standards. According to this scenario there is a growth of real GNP of less than 3%. The growth rate of employment is .7%. Unemployment is reduced to 4% of the labor force.

However interesting the broad scenario sketch of alternatives in the development of the economy, there is a wide gap between the abstract world on paper and the policy reality of every day. Because the most important question to be answered is (through what policy mix) can we enter the scenario; how can the present policy to combat present problems be linked up with the most desirable long run growth path. A prudent answer to this question is suggested in the last paragraph.

5. The Dutch development model: a prudent evaluation

Two main elements determined the structure of the Dutch development model:

1. the central role of wage policy, not only in the official years of government wage control, but also in the decades beyond. Wage policy determined amongst, other things, the sectoral pattern of the Dutch economy and its extreme openness.
2. the rejection of all forms of direct government intervention in the economic process.

The resulting model of development led to economic success in the fifties and sixties. Flourishing international economic events are, however, a precondition to success. In view of the pursued strategy. With the self acclaimed narrowing down of approved government instruments, nothing much can be done in times of international slump.

This specific aspect is illustrated by the present situation of the Dutch economy, with year(s) of (international) slump ahead. In view of the desired long run development model as sketched in the CPB scenario's and the medium term targets to be met, one can have doubts about the present adequacy of the above mentioned fundamental aspects of the present development model. Problems manifested themselves especially since the middle of the sixties. These problems of course were mainly the problems The Netherlands shared with Western economies in general, inflation, and, at a later stage, unemployment. But also,

the characteristic high degree of openness of the Dutch economy now demonstrated its negative sides through an extreme vulnerability for recessive international tendencies, for instance through the oil crises of 1973 and 1979.

In terms of policy the economic stagnation induced Dutch policy to substitute financial criteria that were formerly regarded as instrumental, like the size of the budget deficit, for the real goals of policy like employment and growth. The task government set for itself was rather simple: the realization of income redistribution in favor of profits and on the assumption that profits meant investment and jobs. It was not investment, however, (nor government stimulation of course) that lifted the economy out of the slump, but the international economic revival that boosted exports.

One can doubt whether this redistribution of income did not overshoot its targets. Especially at the end of the eighties a further rise of the investment/income ratio (about 17 % in 1987) seemed possible nor necessary in view of rate of growth. Financial surpluses by enterprises find their way to foreign capital markets and do not form an impulse for domestic growth. The extremely high surplus on the current account seem to indicate the counterpart of this development; domestic demand shortage. There is clearly a lack of domestic expenditure in the beginning of the nineties. Moreover the priority in policy for absolute targets for the budgetary deficit works out very procyclical⁴³

Thus, doubts about the adequacy of the development model pertains in the first place to budgetary policy to control the economic process in the classical sense. With stagnationary tendencies in the short- and medium-term development, the feasibility of optimistic long run scenarios become doubtful.

Further doubts have been expressed about the adequacy of indirect, general means of policy to steer a process of ecologically acceptable "sustainable growth". In this respect the results of environmental policy so far are not very satisfactorily. Also in this field there seems to be a rather firm division with present reality and goals for the future. Though superficially successful in the last decade, the foundation of Dutch policy still needs to be analyzed in term of the adequacy for a stable economic and ecological long run path of development.

⁴³ In a cyclical downturn taxes decline and the deficit rises. With a fixed target for the deficit, the government is obliged to cut expenditure thus reinforcing the decline of demand and income.

References

Achtste Nota inzake de industrialisatie van Nederland (Eighth Report on Dutch Industrialization), Dutch Parliament 1962-1963, The Hague 1962.

Adviescommissie inzake het industriebeleid (Advisory Committee on Industrial Policy), *Een nieuw industrieel elan* (A New Industrial Spirit), The Hague 1981.

Centraal Bureau voor de Statistiek (National Statistical Bureau), *Tachtig jaren statistiek in tijdreeksen* (Eighty Years of Statistics in Time Series), The Hague 1980

Centraal Bureau voor de Statistiek (National Statistical Bureau), *Statistical Yearbook*, The Hague 1991.

Centraal Plan Bureau, *Centraal Economisch Plan* (Central Economic Plan), The Hague, various years.

Centraal Plan Bureau, *Economisch Beeld* (A Sketch of the Economy), The Hague 1992.

Centraal Plan Bureau, *Macro Economische Verkenning 1993* (Macroeconomic Inquiry 1993), The Hague 1992.

Centraal Plan Bureau, *Nederland in drievoud. Een scenariostudie van de Nederlandse economie, 1990-2015* (The Netherlands in triplo. A Scenario Study of the Dutch Economy, 1990-2015), The Hague 1992.

Fortuyn, W.S.P, *Kerncijfers 1945-1983* (Key indicators 1945-1983), Deventer 1983

Klerk, R.A. de, and C.L. Lutz, Industrial Development and Sectoral Policy in The Netherlands Economy, *Planning and Development*, 1981-2

Klerk, R.A. de, H. van der Laan and B. Thio, 'Unemployment in The Netherlands: A Criticism of the Den Hartog and Tjan Vintage Model', *Cambridge Journal of Economics*,

Maddison, A., *Phases of Capitalist Development*, Oxford 1982

Mol, T an B. Scholtens, *Naar een duurzame economie. Duurzame ontwikkeling als economische strategie voor Nederland*. (Towards an Sustainable Economy: Sustainable Development as Economic Strategy for The Netherlands), Amsterdam 1991.

Nationaal Welvaartsplan (National Welfare Plan), Utrecht 1946.

Wetenschappelijke Raad voor het Regeringsbeleid (Scientific Council for Government Policy), *Plaats en toekomst van de Nederlandse industrie* (Position and future of Dutch Industry), The Hague 1980.