1991/1992

OECD ECONOMIC SURVEYS

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NETHERLANDS

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Publié également en français.

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BASIC STATISTICS OF THE NETHERLANDS

THE LAND

Area.1990 (1000 sq. km)	41.6	Major cities, 1st January 1990 (thousand inhabitants):	
Agricultural area (as a percentage of total)	64.2	Amsterdam	695
Forest (as a percentage of total)	8.0	Rotterdam	579
		The Hague	442

THE PEOPLE

Population, 1990 (thousands)	15 010	Employment, 1990 (thousand man-years):	
Number of inhabitants per sq. km	439	Total	5 005
Net natural increase, 1989 (thousands)	60	Agriculture, fishing	265
		Industry	1 333
		Other activities	3 407

PRODUCTION

Gross domestic product, 1990		Origin of net domestic product at factor cost, 1990	
(billion guilders)	508.4	(per cent):	
GDP per head (US $), 1990	18 635	Agriculture	4.4
Gross fixed investment:		Industry	24.9
Per cent of GDP, 1990	21.5	Construction	7.1
Per head (US $), 1990	4 010	Other	63.6

THE PUBLIC SECTOR

Public consumption, 1990 (% of GDP)	14.8	Composition of Parliament (No. of seats):	
Current receipts, 1990		Christian-democrats	54
(% of GDP)	48.2	Social-democrats	49
Current disbursement, 1990		Liberals (right)	22
(% of GDP)	50.3	Liberals (left)	12
		Green (left)	6
		Other	7
		Total	150
		Last general election: September 1989	

FOREIGN TRADE

Exports of goods and services, 1990		Imports of goods and services,1990	
(% of GDP)	57.9	(% GDP)	53.9
Main exports, 1990		Main imports, 1990	
(% of total merchandise exports):		(% of total merchandise imports):	
Food	17.1	Food, beverages and tobacco	10.9
Energy	9.6	Energy	9.5
Chemicals	17.0	Manufactured goods except metal	9.5
Metals	6.6	Machinery and electrical equipment	22.2
Machinery and transport equipment	23.5	Transport equipment	8.7

THE CURRENCY

Monetary unit: Guilder	Currency units per US $, average of daily figures:	
	Year 1990	1.82
	October 1991	1.91

Note: An international comparison of certain basic statistics is given in an annex table.

This Survey is based on the Secretariat's study prepared for the annual review of the Netherlands by the Economic and Development Review Committee on 14th October 1991.

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After revisions in the light of discussions during the review, final approval of the Survey for publication was given by the Committee on 8th November 1991.

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The previous Survey of the Netherlands was issued in September 1990.

Introduction

After several years of very good economic performance, the Dutch economy seems to have entered a period of slower growth and higher inflation. Compared with other OECD countries, the slowdown was delayed by a reduction in personal income taxes at the beginning of 1990, and the above-average impact on the Dutch economy of German unification. While net exports will increasingly buoy the economy, a pronounced deceleration in total domestic demand may reduce economic growth to around 2 per cent in 1991-92, compared with over 3½ per cent in 1988-90. Perhaps more worrying than the slowdown in economic activity itself is the acceleration in inflation, and the fact that, after a number of years of rapid and partly investment-led growth the economy remains confronted with underemployment (covering both unemployed people and a rising number of sick and disabled), and with public finances which are still not sufficiently sound – problems which can be expected to get worse in a downswing. At the same time, the Netherlands has remained a country with a large and seemingly structural current-account surplus and a growing stock of net foreign assets.

Economic policy has little room for manœuvre to react to the slowdown in activity. Given the firm exchange-rate link with the Deutschemark, it seems unlikely that Dutch interest rates could be lowered significantly in the near future. In any case, with accelerating inflation and the risk of a price-wage spiral, a relaxation of monetary policy would be inappropriate. As for fiscal policy, progress achieved so far would appear too limited and fragile to allow any deviations from the ongoing process of budgetary consolidation. On the contrary, the Dutch authorities have announced their determination to respect the medium-term targets – which call for a reduction of the budget deficit to 4¾ per cent of Net National Income in 1991 and to 4¼ per cent in 1992 – and to take additional measures to this end if necessary. Sustained progress towards fiscal consolidation would seem to require a major overhaul of subsidies and transfer payments, especially the disability scheme. Owing to their generosity and a lack of effective controls combined with a perverse incentive structure, these welfare items not only weigh heavily on the government budget, but also create rigidities and distortions in labour and products markets. The authorities have announced their intention to rein in expenditure on these items and have presented a number of concrete measures to Parliament for approval.

Part I of this Survey presents recent trends and the outlook for the Dutch economy. It also considers, in a longer-term perspective, the current-account surplus, net capital outflows, and counterparts in terms of sectoral saving-investment balances. Part II discusses economic policies, with the emphasis on fiscal policy and medium-term fiscal consolidation, and reviews recent structural policy measures. Part III analyses the growing problem of disability and subsidies and looks in some detail at measures to enhance productivity in the public sector. Finally, policy conclusions are presented in Part IV.

I. The macroeconomic situation: A slowing economy

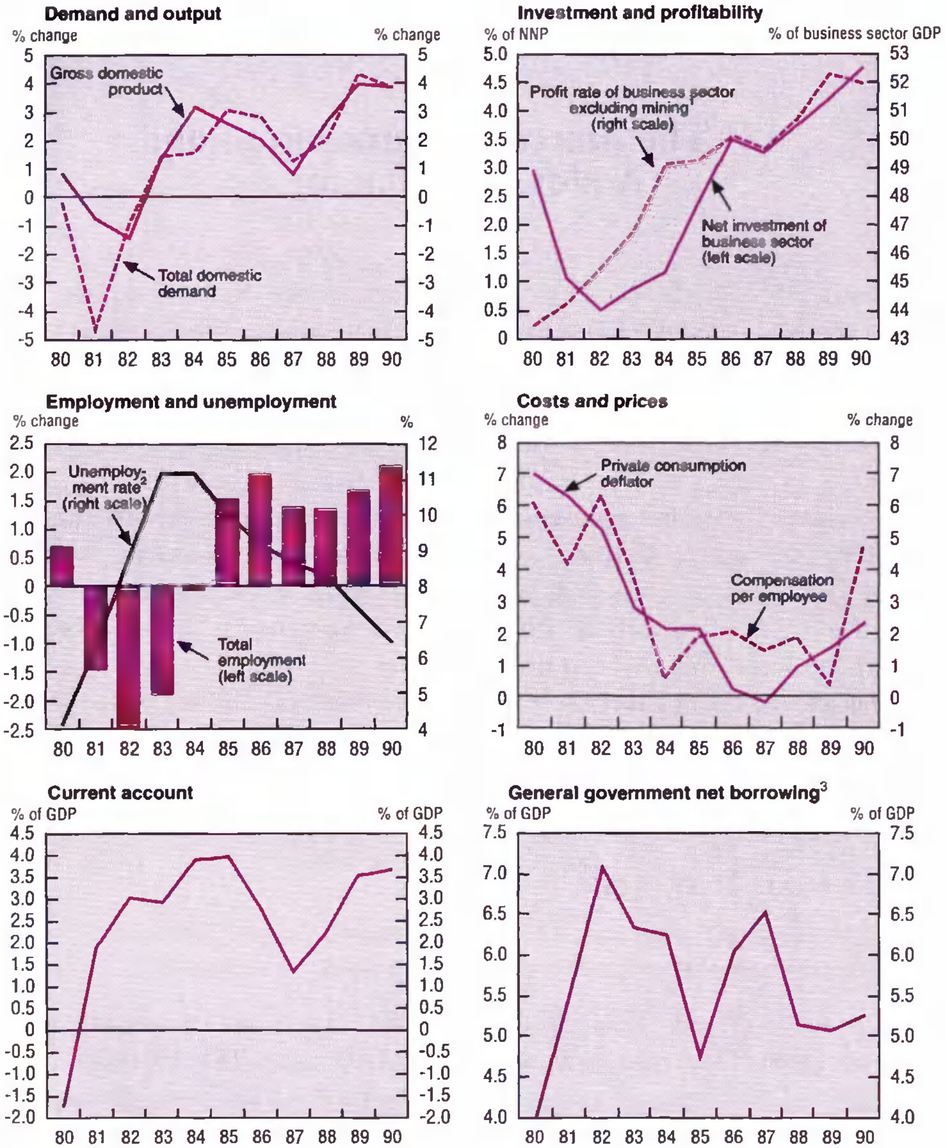
Until recently, the economic performance of the Netherlands has been among the best in the OECD area. But after three years of rapid growth combined with very low inflation, the Dutch economy seems to have entered a period of more modest growth with a less favourable price performance (Diagram 1). The present slowdown reflects sluggish domestic demand after the buoyant conditions prevailing in the years 1988-90. However, up to mid-1991, the impact on economic activity has been cushioned by vigorous export growth driven by expanding demand in Germany after unification. Nonetheless, the sustained decline in unemployment which had been observed in the second half of the 1980s lost momentum early in 1991, and the long-term rise in business-sector profitability seems to have been reversed. What is worrying about current developments and the outlook is not so much the slowdown in economic activity itself, which follows a period of strong growth; but rather the recent acceleration in wage and price inflation.

Developments in 1990 and 1991

Demand and output

Economic growth remained strong in 1990 (Table 1). The growth rate of GDP decelerated only slightly to nearly 4 per cent. The levelling off of stockbuilding after its rapid progression in 1989 was offset by the buoyancy of private consumption. Provisional figures indicate that the rate of growth of GDP declined to 2½ per cent in the first half of 1991 on a year-on-year basis. Compared with other OECD countries, the deceleration of the economy seems to have been delayed by the effects of the tax package of early 1990, and by the fact

Diagram 1. **MACROECONOMIC PERFORMANCE INDICATORS**



1. Value added of the business sector excluding mining less employees' compensation as a ratio of value added in the same sector.
2. Ratio of registered unemployed to the sum of registered unemployed and employment in person-years.
3. National-accounts basis.

Sources: CBS, *Nationale Rekeningen*; CPB Submission and OECD Secretariat estimates.

Table 1. **Demand and income**

Per cent change

	Current prices billion guilders 1987	1980 prices				
		1986	1987	1988	1989	1990
Private consumption	263.9	3.1	3.2	0.9	2.9	3.9
Government consumption	70.6	2.3	2.0	0.4	0.3	0.1
Gross fixed investment	87.1	7.8	0.8	8.3	4.5	5.1
of which:						
Private non-residential	54.9	11.8	1.4	7.4	6.7	8.7
Final domestic demand	421.6	4.0	2.5	2.4	2.8	3.5
Stockbuilding[1]	–4.8	–1.1	–1.2	–0.4	1.4	0.3
Total domestic demand	416.8	2.8	1.3	2.0	4.3	3.9
Exports of goods and services	226.6	3.3	3.1	8.0	6.3	4.7
Imports of goods and services	213.3	3.3	5.8	7.1	5.8	5.4
Foreign balance[1]	13.3	0.1	–1.4	0.7	0.5	–0.3
Gross Domestic Product	430.2	2.0	0.8	2.7	4.0	3.9
Memorandum items:						
Real national income		1.1	0.3	2.2	4.4	3.5
Household real disposable income		4.1	2.4	1.4	4.5	6.8

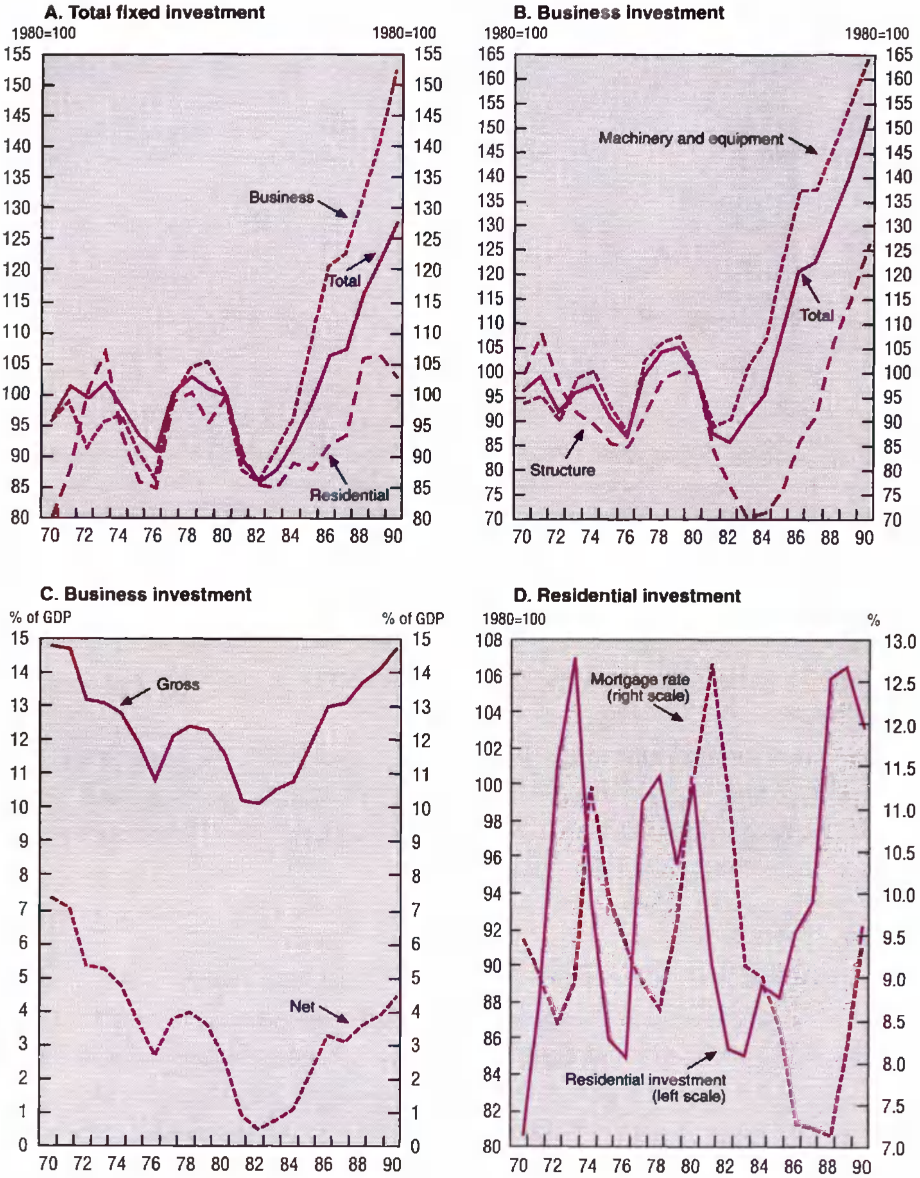
1. As a per cent of GDP in previous period.

Sources: CBS, *Nationale Rekeningen 1990* and CPB, *Macro Economische Verkenning 1992.*

that exports to Germany as a proportion of GDP, at some 15 per cent, are the highest of any OECD country.

Private consumption grew by 3.9 per cent in 1990, the highest rate since 1978, reflecting a surge in real disposable household income after personal income tax relief measures (representing nearly 2 per cent of disposable personal income) and strong growth in employment. As is usual when private consumption accelerates, the demand for durable goods increased the most and, with the exception of automobiles, even accelerated during the year. Reflecting high profitability and strong output growth, **private fixed non-residential investment** continued to expand substantially for the eighth consecutive year (Diagram 2). Investment in machinery and equipment grew by 8 per cent and in structures by 9 per cent. At 14 per cent, the share of gross private non-residential investment in GDP was higher than in most OECD countries, with the notable exception of Japan, and above the EC average. After remaining flat in 1989, **housing investment** actually declined somewhat in 1990. Housing starts have been on a declining trend since the first half of 1990, reflecting new cuts in social dwelling

Diagram 2. **PRIVATE FIXED INVESTMENT**
At 1980 prices



Sources: CBS, *Nationale Rekeningen*; CPB submission and OECD, *Financial Statistics Monthly.*

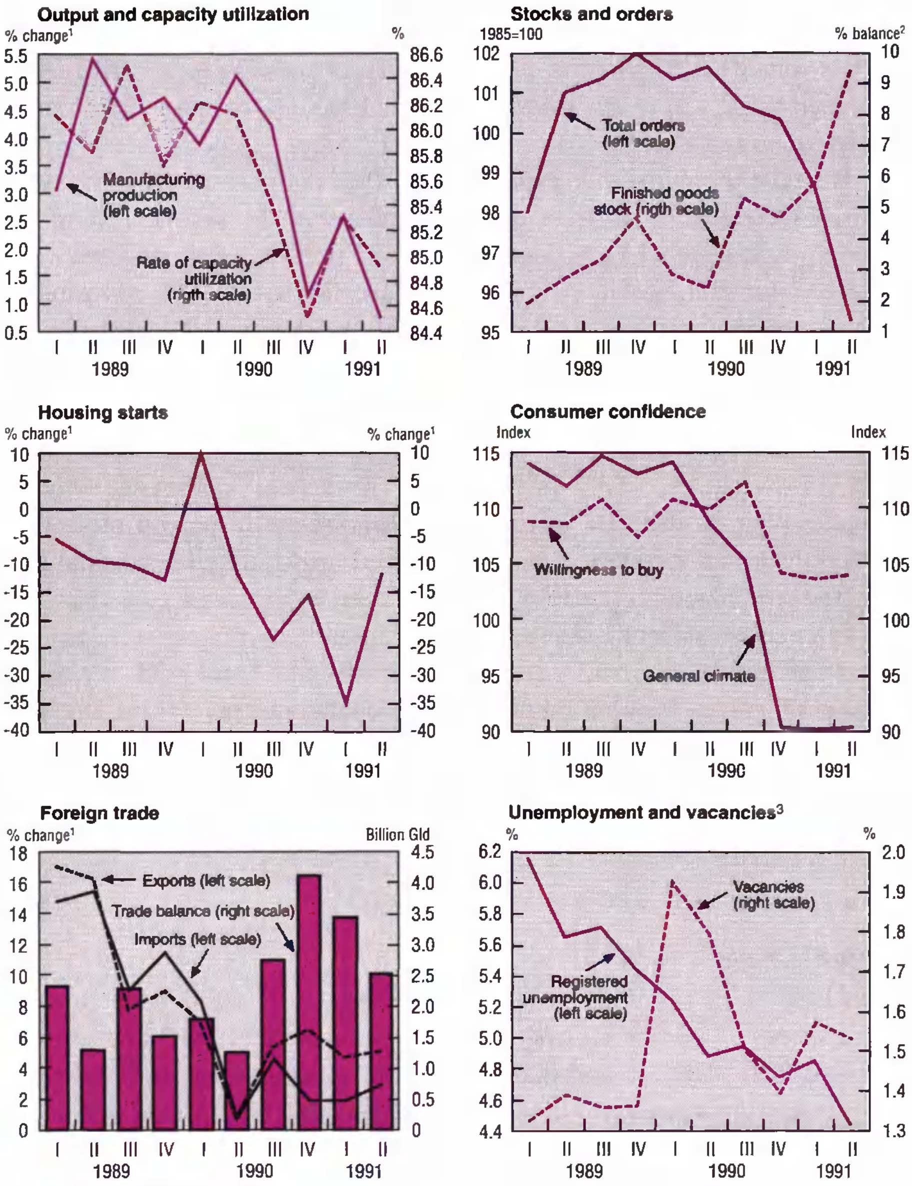
programmes and less construction of subsidised houses for owner-occupation. It also reflected, with the usual lag, the rise in mortgage rates in 1989 to around the current high levels. The progression of **final domestic demand,** at 3.5 per cent, was thus somewhat higher than in 1989 but **stockbuilding,** which had strongly contributed to growth in 1989, levelled off in 1990 and the progression of **total domestic demand** decelerated to 3.4 per cent, from 4.3 per cent the previous year. The contribution of **net exports** to GDP growth continued to be positive and even increased, as a result of developments in the second half of 1990. Exports to Germany, which account for over 25 per cent of total Dutch exports, grew by 17 per cent in nominal terms in the second half of 1990 compared with the same period a year earlier. Imports of crude oil declined, especially in the fourth quarter, following the Gulf Crisis and the increase in oil prices.

Available data and short term indicators point to a slowdown in economic activity in the first half of 1991 (Diagram 3). Gross fixed investment has been particularly weak, especially private sector residential investment which has declined further. A decrease in capacity utilisation since the end of 1990 may have foreshadowed an interruption in the growth of fixed non-residential investment. The major note of strength has again been exports, but consumption has also shown some resiliency. As the growth of household income exceeded that of expenditure by a significant amount in 1990, the household saving ratio increased. This may have raised expectations concerning permanent income and buoyed consumption early in 1991, despite some increase in taxation, and a pick-up in inflation. Indeed, household surveys have shown continued willingness to buy, despite a sustained drop in consumer confidence since the Gulf Crisis.

Output, productivity and the labour market

Business sector output growth decelerated from 4½ per cent in 1989 to 4 per cent in 1990 (Table 2). Buoyant household consumption and dynamic trade with Germany boosted service industry output in the course of 1990 and in the first months of 1991. The catering industry and the transportation sector (except the airline industry) expanded considerably, despite the Gulf Crisis and taxation policies aimed at reducing standard tax deductions for travelling, business lunches, etc. In addition, business output at the end of 1990 and at the start of 1991 was supported by extra demand for natural gas due to the relatively severe winter and the oil price hike. The latter created a temporary price differential in

Diagram 3. **CONJONCTURAL INDICATORS**



1. Year-on-year percentage change.
2. A positive value indicates that stocks owned by the producers were larger than normal.
3. As a percentage of total labour force.

Sources: OECD, *Main Economic Indicators* and CBS, *Statistisch Bulletin.*

Table 2. **Output, productivity and the labour market**

Per cent change

	Level in 1987	1986	1987	1988	1989	1990
	Billion guilders, 1980 prices					
Output						
Business sector, market prices	315.8	2.2	0.8	3.1	4.7	4.5
Business sector excluding gas, market prices	298.5	2.7	0.7	3.9	4.6	4.8
of which:						
Manufacturing[1]	65.1	2.3	0.2	4.7	4.5	4.0
Total economy, market prices	364.1	2.0	0.8	2.7	4.1	3.9
	Guilders, 1980 prices					
Productivity[1]						
Business sector	70 083	0.0	–0.8	1.4	2.5	1.9
Business sector excluding gas,	65 768	0.6	–0.9	2.3	2.4	2.1
of which:						
Manufacturing	71 193	0.4	–0.6	3.9	2.8	2.0
Total economy	69 262	0.0	–0.6	1.3	2.3	1.7
	Thousands					
Employment						
Business sector (person-years)	4 009	2.2	1.6	1.7	2.1	2.6
Government (person-years)	746	0.8	0.5	–0.4	–0.7	–0.5
Total (person-years)	4 755	2.0	1.4	1.4	1.7	2.1
Total (number of persons)	5 876	2.3	1.9	1.8	2.0	2.9
Unemployment[2]	451	–7.7	–4.9	–3.6	–10.3	–11.3
Unemployment (rate)[2]	..	9.2	8.7	8.3	7.4	6.5
Labour force (person-years)	5 206	1.0	0.8	0.9	0.7	1.1

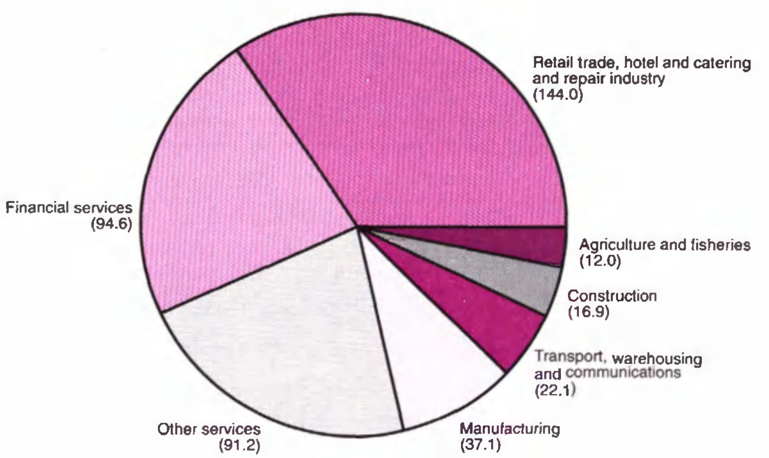
1. At factor costs.
2. See OECD Economic Outlook (Technical Annex) for definition.

Sources: CBS, *Nationale Rekeningen;* CPB submission and OECD Secretariat estimates.

favour of natural gas; and industrial users, notably power plants, switched massively from oil to gas. Industrial output growth (excluding gas) dropped at the end of 1990 – partly due to technical factors including stoppages in an oil refinery after a technical breakdown. It recovered in the first quarter of 1991, recording a 1½ per cent year-on-year growth rate, compared to a 3.5 per cent increase in 1990 as a whole. In May 1991 order books in industry dropped to their lowest level since January 1989, and levelled off in the following three months.

For the sixth successive year employment growth in 1990 was vigorous and it showed little sign of deceleration in the first months of 1991. In terms of full-time equivalents employment grew by 104 000 or just over 2 per cent in 1990 – the largest increase in the last two decades. Growth in terms of the number of persons doubled to 201 000 (of which 172 000 wage earners and 29 000 self-employed) or 3¼ per cent, pointing to a further shift towards part-time employment[1]. This reflected the fact that labour intensive services industries continued to grow relatively fast, in line with consumption (Diagram 4). Moreover, the progressive decline in output growth was accompanied by a slowdown in productivity gains typical of this phase of the business cycle. After a trend increase for several years, the number of vacancies surged in the first quarter of 1990, but has been declining ever since. However, in some branches of industry – such as the metal industry, medical services and retail and wholesale trade – vacancies and especially the share of vacancies that are difficult to fill remain high. In particular there are problems in filling vacancies for persons with low educational qualifications. A major cause seems to be the high level of net social benefits in relation to

Diagram 4. **SECTORAL DISPERSION OF EMPLOYMENT GROWTH, 1987-1990**[1]
In thousand persons



1. Fourth quarter 1990 relative to fourth quarter 1987.
Source: CBS, *Statistisch Bulletin.*

the net minimum wage, notably for one-earner couples. The Government has expressed concern about the incentive structure at the lower end of the labour market and has recently announced a package of fiscal measures which increase the differential between net wages and net social benefits through a reduction in the tax burden on lower incomes.

Unemployment, which had reached a peak of 12 per cent in 1983, declined further in 1990. At 7½ per cent, the standardised rate of unemployment in 1990 was not especially high, even allowing for the phase of the business cycle, in relation to rates of 6 per cent for the OECD average and 8¼ per cent for the EC average. Indeed, it seems to have been significantly lower than the NAIRU[2]. The high rate of natural unemployment points to persisting, important rigidities and mismatches in the labour market – an impression supported by the vacancies situation. The share of long-term unemployment (more than one year) in total unemployment has scarcely diminished over the last two years (from 55 per cent in the first quarter of 1989 to 54 per cent in the first quarter of 1991). However, the share of youth unemployment (younger than 25 years) has declined (from 27.5 per cent to 22.5 per cent over the same period).

The share of active labour market participants in the total population of working age (between 15 and 64) – traditionally rather low by international standards – has continued its trend increase, reaching 66 per cent on average in 1990 (or 49 per cent in terms of full-time equivalents). This has been mainly the result of the steep rise in female part-time employment. While participation rates for both males and females are now broadly in line with the EC average, and only somewhat below the OECD average, when expressed in full-time equivalents the picture is considerably less favourable for the Netherlands. This may reflect both employees' and employers' preferences, but also the lack of sufficient child-care facilities (Part II).

Costs, prices and factor shares

In contrast with the trend of the past few years, the share of profits in national income stopped increasing in 1990, and seems to have actually declined in the first months of 1991 as wage growth accelerated (Table 3). Already in the course of 1990, growth in compensation per employee in the private sector had gathered momentum, and wage costs per unit of production had risen. Increases in contractual wages in the business sector doubled from 1½ per cent in 1989 to

Table 3. **Costs, prices and profitability**

Per cent change

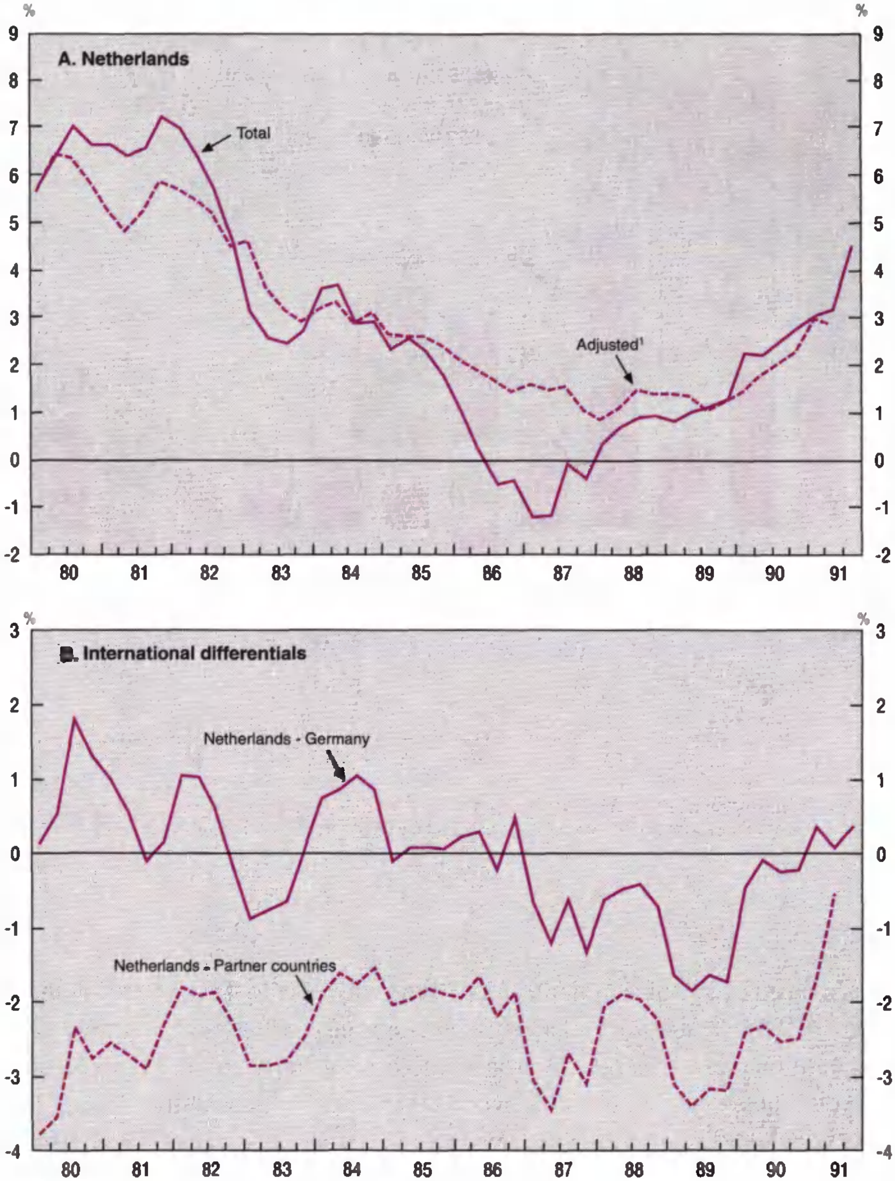
	1986	1987	1988	1989	1990
Costs (business sector)					
Weekly contractual wage rates[1]	1.3	0.6	0.8	1.5	2.9
Earnings[2, 3]	3.0	1.6	1.5	1.9	4.1
Compensation per employee[3]	2.2	1.6	1.9	0.2	4.1
Unit labour costs[3]	1.8	2.2	0.4	–1.7	2.2
Import prices of goods[3]	–17.6	–5.0	–0.7	6.3	–2.4
Real labour costs[4]	1.6	1.9	0.0	–1.1	1.7
Prices					
Producer prices	–5.4	–1.9	1.7	3.5	–0.6
Consumer price index					
Total	0.1	–0.7	0.7	1.1	2.5
Modified[5]	0.1	–1.6	0.7	2.2	2.3
Private consumption deflator	0.3	–0.2	1.0	1.6	2.3
GDP deflator	0.4	–0.4	1.8	1.6	2.9
			Value added share		
Profits					
Manufacturing	25.7	22.9	27.6	28.9	31.0
Total entreprises	29.3	26.7	27.9	30.1	30.3
Total entreprises excluding mining, public utilities and real estate	16.9	16.0	18.5	20.7	20.7

1. Adult full-time employees.
2. Wages and salaries excluding social-security contributions.
3. National accounts basis.
4. Compensation per employee divided by GDP deflator.
5. Excluding medical costs and the effect of indirect taxes and subsidies.

Sources: CBS, *Statistisch Bulletin;* CPB, *Economisch Beeld 1992;* OECD, *Main Economic Indicators* and OECD Secretariat estimates.

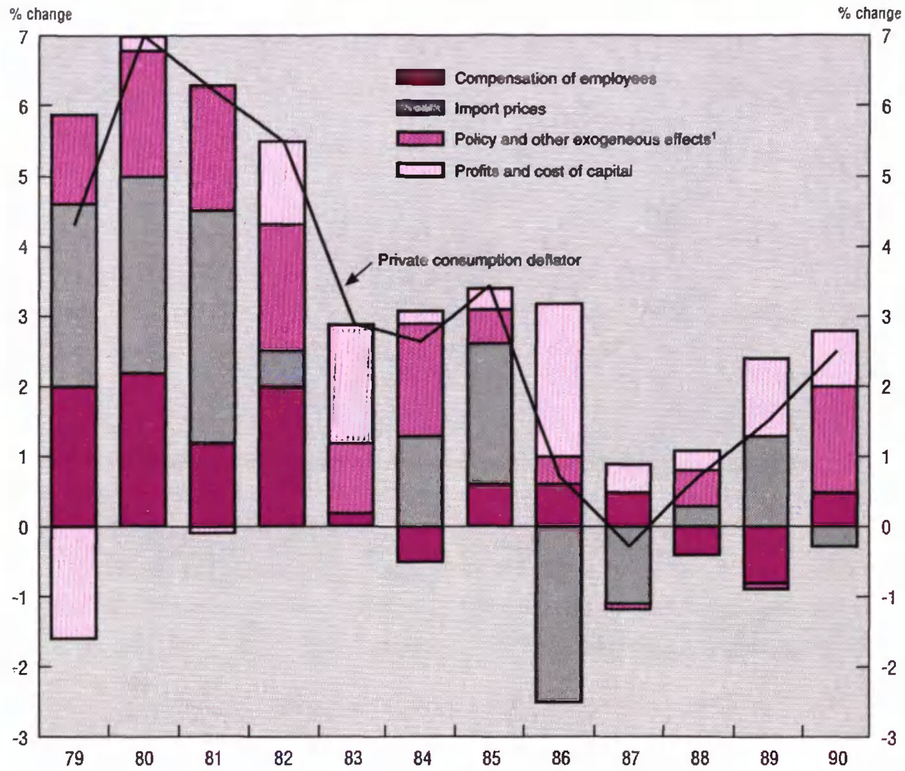
3 per cent in 1990 and 3¼ per cent (annual rates) in the first half of 1991. In addition, wage drift was important in 1990 (1.2 per cent) and, unlike in 1989, there were no offsetting factors such as the abolition of the employers' contribution for children's allowances. Total wage costs per worker in the business sector, which had increased by only 0.4 per cent in 1989, rose by 3.6 per cent in 1990. Since productivity growth decelerated in line with the business cycle, unit wage costs increased by 2.7 per cent in 1990, after a decline of 1.6 per cent in 1989. Real labour costs followed a similar evolution. Inflation, virtually absent in recent years, increased from around 2½ per cent in mid-1990 before the Gulf

Diagram 5. **CONSUMER PRICE DEVELOPMENTS**
Change over same quarter of previous year



1. Excluding food and energy.
Sources: OECD, *Main Economic Indicators*, and OECD Secretariat estimates.

Diagram 6. **CONTRIBUTIONS TO THE PRIVATE CONSUMPTION DEFLATOR**
Percentage change



1. Gas, indirect taxes, rents and non-market services.
Sources: CPB, *Macro Economische Verkenning, 1992* and OECD Secretariat estimates.

Crisis (measured by the 12-month increase in the CPI) to 4.5 per cent in the third quarter of 1991 (Diagram 5), largely reflecting once-off factors: nominal costs of health care increased sharply at around the turn of the year, and both legal rents and excise taxes on motor fuels were raised markedly in July[3]. Also, several factors which had played a dampening role in the last few years – such as cuts in VAT rates, appreciation of the currency, wage restraint and productivity gains – stopped or reversed (Diagram 6). For 1991 as a whole, inflation is expected to have increased to 3¾ per cent.

International competitiveness, foreign trade and the balance of payments

On balance, the international competitive position of the Dutch economy seems to have deteriorated in 1990. Cost competitiveness in terms of unit labour costs in a common currency, which had improved over the previous two years, deteriorated somewhat as a result of the appreciation of the guilder in effective terms (Diagram 7, panel A). Export prices, expressed in a common currency, also rose relative to those of the main trading partners, while import prices declined – albeit only slightly – relative to domestic prices (Diagram 7, Panel B). Given the usual lags, however, trade performance reflected primarily the favourable evolution of competitiveness in 1988-89. Merchandise exports increased broadly in parallel with market growth in importing countries, and import penetration decreased somewhat (Diagram 7, Panel C). But the main factor affecting the trade balance and the current account in 1990 was German unification and the surge in merchandise exports to that country in the second half of the year – an

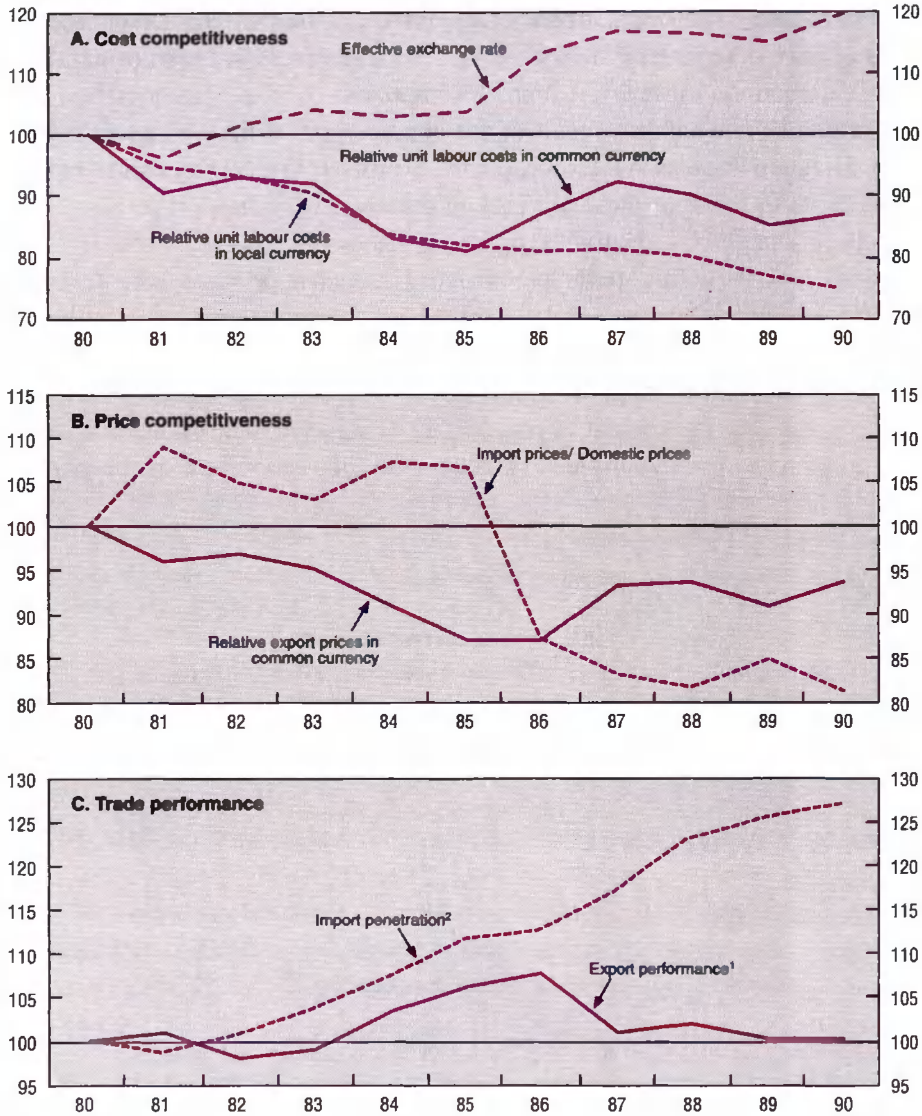
Table 4. **The current account**

Transactions basis

	1986	1987	1988	1989	1990
			Growth rates		
Exports of goods	–13.3	–3.6	9.1	12.0	3.9
Volume	4.3	2.6	8.4	5.9	4.9
Price	–16.9	–6.0	0.6	5.7	–0.9
Imports of goods	–14.5	0.0	6.6	13.1	2.5
Volume	3.8	5.3	7.4	6.4	5.1
Price	–17.6	–5.0	–0.7	6.3	–2.4
			Billion guilders		
Balances					
Trade	11.3	4.2	9.2	8.2	11.5
Non-factor services	8.2	9.1	10.3	12.1	14.3
Factor income	–1.0	–0.7	–2.4	0.7	0.7
Transfers	–6.7	–6.8	–7.0	–4.1	–7.7
Current account	11.8	5.8	10.1	16.9	18.8
As per cent of GDP	2.8	1.4	2.2	3.6	3.7

Source: Centraal Planbureau.

Diagram 7. **COMPETITIVENESS AND TRADE**
Index 1980 = 100



1. Ratio of volume of Dutch manufacturing exports to export market.
2. Ratio of total imports to total domestic demand.

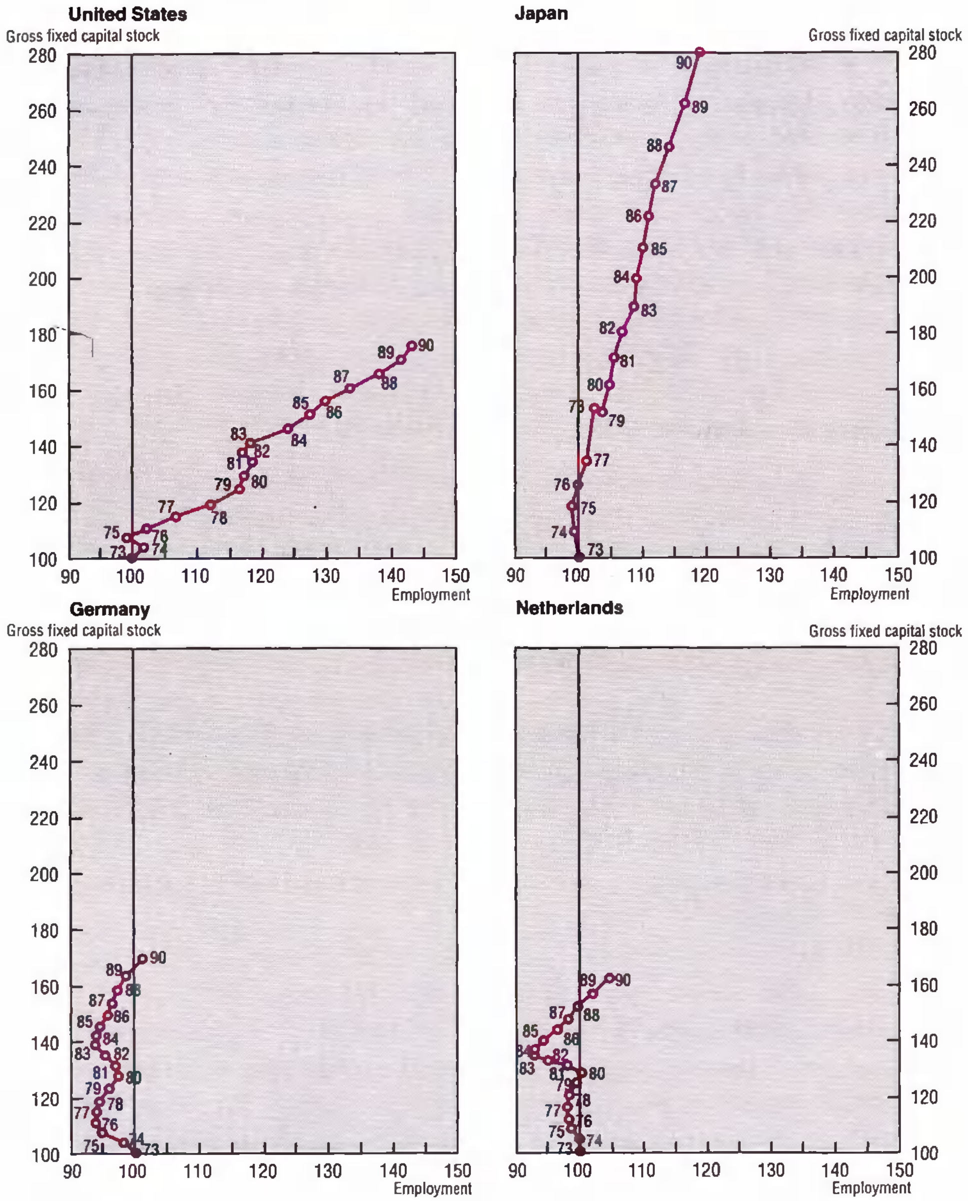
Sources: CPB submission and OECD Secretariat estimates.

increase of 17 per cent, in nominal terms, over the same period a year earlier. Since exports to Germany represent broadly 25 per cent of total Dutch exports, this more than compensated for a decline in exports to other countries. On the other hand, the trade balance was little affected by the Gulf crisis and the increase in international oil prices, as exports and imports of energy are broadly in balance. Despite an increase in net transfer payments, the current account surplus widened further in absolute terms and remained at about 3¾ per cent of GDP, broadly unchanged in relative terms (Table 4). As in previous years, large "autonomous" capital outflows matched this surplus, with little pressure on interest rates and the exchange rate (see next section). Net official reserves increased by less than $0.4 billion (excluding valuation adjustments).

Persisting imbalances

Despite the very good performance of the economy over the past few years, important macroeconomic imbalances persist. One example of these imbalances is an insufficiently large capital stock in relation to labour market requirements and the need for employment-enhancing investment, a point which was discussed in the 1989/1990 Economic Survey. Diagram 8 shows that in this respect the situation has already improved markedly, perhaps as a result of structural policies and a stabilisation of the relative price of labour. While from 1973 until 1984 the increase in the capital stock was accompanied by an actual decline in employment, in the more recent period employment has grown in tandem with the capital stock, suggesting that investment which was essentially capital deepening may have become capital widening. But even in this more favourable context, a better utilisation of human resources – including the reintegration into the active labour force of workers currently in the disability scheme (see Part III) – is likely to require a further substantial increase in the capital stock and hence a correspondingly high level of investment. How investment may evolve in 1992 is discussed in the next section on the short-term projections. To assess its longer-term outlook it might be useful here to briefly consider its current level and medium-term evolution in the light of sectoral saving-investment balances and the current-account position.

Diagram 8. **GROSS FIXED CAPITAL STOCK AND EMPLOYMENT**
1973-90, business sector, volume indices, 1973 = 100



Source: OECD Secretariat estimates.

Sectoral saving-investment balances

The Netherlands has experienced an investment boom over the last decade or so. As a proportion of GDP, non-residential business investment in 1990 was considerably higher than in 1980 and close to the peak level of the early 1970s (Diagram 9). At around 14 per cent of GDP, such investment was significantly above the EC average and higher than in many OECD countries (Table 5). This rebound of investment was preceded by a sharp trend increase in the rate of return in the business sector (Diagram 1), and was accompanied by a similarly pronounced trend decrease in labour income share in this sector. Wage moderation was the main factor behind the boost in business profits. In the first half of the 1980s relatively low labour costs strengthened the ex-ante international competitive position which enabled Dutch firms both to regain market shares and restore profit margins. Since an unusually high proportion of profits has been retained, business saving has rebounded sharply from the lows recorded in the late 1970s. Despite the investment upswing, the small excess of business investment typical of the 1970s has turned into an excess saving of nearly 4 per cent of GDP (Diagram 10) – an extremely high level both by past Dutch standards and compared to other European and OECD countries (Table 5).

Saving in the personal (household) sector and housing investment have moved in a more cyclical pattern, with no strong trends. The household savings ratio has remained fairly constant over the past decades, while many other OECD countries have witnessed a decline. This may have partly reflected the high level of contractual saving which is a salient feature in the Netherlands[4]. Finally, the general government budget deficit has been on a declining path since 1982, but it is still larger than it was in 1980 and during the 1970s. Hence, the rise in national saving over the last decade and especially the swing in the national saving-investment balance from a small surplus of investment in the late 1970s to a sizeable saving surplus now, has primarily reflected the emergence of a substantial saving surplus in the business sector. Despite the large public sector deficit, the Netherlands has remained a country with a seemingly structural current-account surplus and net capital exports. In the light of the global shortage of savings, a current-account surplus in a highly developed country such as the Netherlands is very welcome. Still, in an ex-post accounting sense, the Netherlands could increase domestic investment (as a proportion of GDP) with-

Table 5. **Saving, investment and saving surplus**

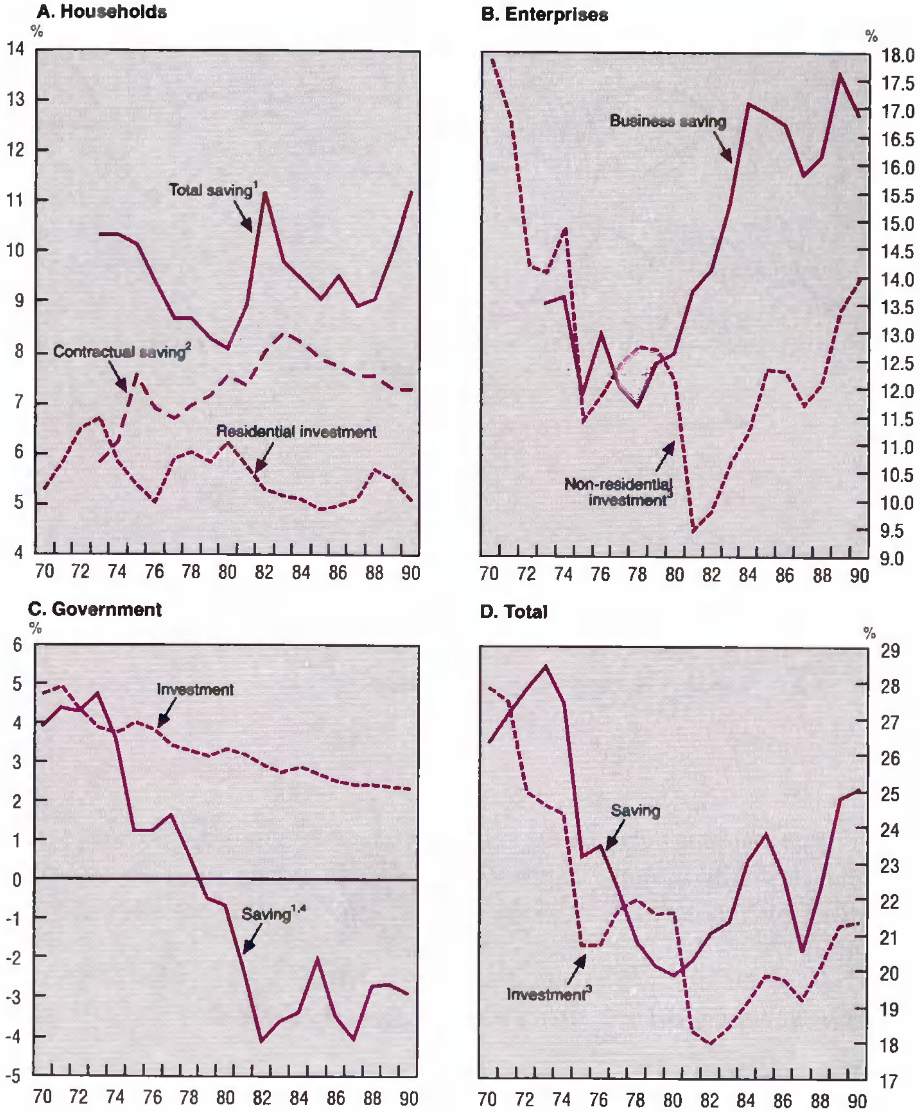
As a percentage of GDP

	1975-1979 average			1980-1989 average			1990		
	Netherlands	EC average[1]	OECD average[2]	Netherlands	EC average[1]	OECD average[2]	Netherlands	EC average[1]	OECD average[2]
Households									
Saving	9.0	11.1	9.5	9.4	9.5	7.9	11.1[5]	9.7	7.9
Residential investment	5.6	6.3	6.3	5.4	5.0	5.2	5.1	4.7	5.2
Saving surplus	3.4	4.9	3.3	4.0	4.6	2.7	6.0[5]	5.0	2.6
Enterprises									
Saving	12.1	11.0	12.4	15.6	12.5	13.9	17.2	13.9	13.9
Business investment[3]	12.2	13.1	13.9	12.0	12.0	13.1	14.3	13.5	14.4
Saving surplus	–0.1	–2.1	–1.5	4.1	0.5	0.8	2.9	0.3	–0.4
Government									
Saving[4]	0.8	0.1	1.1	–3.0	–2.8	–1.1	–3.0[5]	–2.9	–0.3
Investment	3.5	3.3	3.6	2.7	2.8	3.0	2.3	2.7	2.9
Saving surplus	–2.7	–3.3	–2.5	–5.6	–5.6	–4.1	–5.3[5]	–5.7	–3.2
Total									
Saving	21.9	22.2	23.0	22.0	19.2	20.7	25.4	20.6	21.5
Investment[3]	21.3	23.1	24.2	19.6	19.9	21.6	21.7	21.0	22.7
Saving surplus	0.6	–0.9	–1.1	2.4	–0.7	–0.9	3.6	–0.4	–1.2
Memorandum items:									
Private sector									
Saving	21.1	22.2	21.9	24.9	22.0	21.8	28.4[5]	23.6	21.8
Investment[3]	17.8	19.4	20.1	16.9	16.9	18.3	19.5	18.2	19.6
Saving surplus	3.4	2.8	1.8	8.1	5.1	3.5	8.9[5]	5.4	2.2

1. Unweighted average of Germany, France, United Kingdom, Italy, Belgium, Denmark, Greece, Netherlands and Spain.
2. Unweighted average of Germany, France, United Kingdom, Italy, Belgium, Denmark, Greece, Netherlands, Spain, Austria, Australia, Canada, Finland, Japan and Sweden.
3. Including stockbuilding.
4. Including consumption of fixed capital and net capital transfers and transactions.
5. See footnote 7, Table 6.

Note: Sums may not add up due to rounding.
Source: OECD Secretariat estimates.

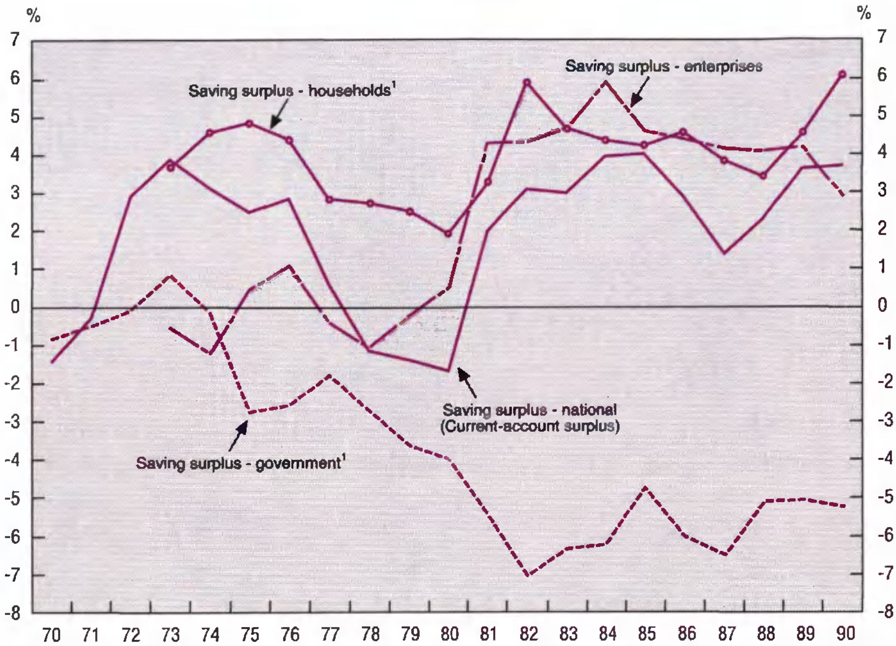
Diagram 9. **SAVING AND INVESTMENT**
Per cent of GDP



1. See footnote 7, Table 6.
2. Mandatory saving with Pension Funds.
3. Including stockbuilding.
4. Net of capital transfers.

Sources: Centraal Planbureau and OECD Secretariat estimates.

Diagram 10. **SECTORAL SAVING SURPLUS**
Per cent of GDP



1. See footnote 7, Table 6.
Sources: Centraal Planbureau and OECD Secretariat estimates.

out a corresponding decrease in consumption and increase in national saving. Whether this will actually happen will depend, among other factors, on the evolution of the capital account, that is on how the current account is "financed".

The current-account surplus and net capital outflows

The current-account surplus typically has been broadly matched by private capital outflows and, on balance, official financing has been small, with a modest trend increase in net external reserves. Both capital inflows and outflows have increased considerably over the last few years and their variability has also grown markedly, in part reflecting shocks such as the introduction and abolition of a withholding tax on interest earnings on German securities, and in part reflecting underlying trends such as financial liberalisation and innovation. Increased variability in specific capital flows may be inherent in the growing economic and financial integration of the Dutch economy, and its relevance should not be overstated, especially since so far these variations have been largely offsetting. The flows of direct investment – usually among the major items of the capital account – reached new peaks in 1989 and remained at around these exceptionally high levels in 1990. In the case of both inward and outward investment, this has reflected increased transactions with other EC countries in anticipation of the forthcoming single market. At nearly Gld 22 billion, outward investment in 1990 represented 4½ per cent of GDP, the highest proportion among OECD countries and broadly the same as the excess saving of the business sector. Over 60 per cent of outward investment in 1990 was accounted for by the services sector – mainly banks and insurance companies, but to a growing extent real estate companies. Owing to this widespread interest in acquiring foreign companies and real estate, the traditionally large proportion of foreign direct investment accounted for by the multinationals based in the Netherlands has steadily declined. On a net basis, outflows on account of direct investment amounted to Gld 7½ billion in 1990[5].

As a result of this string of current-account surpluses and net capital exports, the Netherlands is an important net foreign investor – with a net creditor position of the order of 26 per cent of GDP in 1989, half of which accounted for by the net stock of foreign direct investment. If the economy remains competitive, this trend is likely not only to continue, but to feed on itself through the interaction of the stock of net external assets and the flow of investment income.

A large and growing current-account surplus normally could be expected to bring about corrective forces, such as downward pressure on interest rates and upward pressure on the exchange rate, leading to a reallocation of resources. In the case of the Netherlands, however, it is doubtful whether these forces will be of any consequence. The exchange rate is firmly linked to the Deutschemark and interest rates are largely determined by international financial conditions, and in particular interest rates in Germany – a situation akin to the textbook case of a small country in a world of fixed exchange rates and perfectly interest-elastic capital movements. Moreover, world-wide the financing of external imbalances seems to take place more smoothly and arouses less concern than it used to only a few years ago. While it remains to be seen whether the international economy has really entered a new era with respect to the sustainability of external imbalances, the forthcoming single European market and progress towards European Monetary Union should further facilitate the financing of Dutch external surpluses, even making the current-account position – a surplus as well as a deficit – more like a regional imbalance within a single country.

This being said, at least two factors that could affect future capital flows should be mentioned. First, to the extent that the recent surge in direct investment abroad has been related to the desire of firms to position themselves for the single market, this would have been essentially a once-off development, likely to be followed by a sizeable reduction in capital outflows after 1992. Second, to a significant extent the outflow of portfolio capital over most of the last ten years may have represented stock-adjustment transactions – rather than flow transactions – as portfolio holders, and notably pension funds and other institutional investors, have sought to diversify their holdings in line with the growing liberalisation and integration of financial markets. Once the share of foreign securities in Dutch portfolios has reached the desired levels – or legal and prudential ceilings – this outflow could abate[6,7].

Nonetheless, the conclusion remains that for the foreseeable future automatic corrective forces can hardly be expected to reduce substantially the national saving surplus by reallocating resources from the external sector to domestic investment[8]. Since financial markets are relatively free and well functioning, the current allocation of the saving surplus, by and large, must represent the most profitable pattern of investment, as perceived by private investors. But given the insufficient utilisation of human resources in the economy and the need for additional capital stock to increase it, the welfare of the population would presumably be increased if part of the national saving surplus was invested at home. The Dutch authorities basically acknowledge that higher levels of investment are desirable and feel that the appropriate way to encourage businesses to invest more in the Netherlands is to pursue policies that improve the functioning of the labour market, promote wage moderation, and maintain a climate of general economic stability – conditions which generally also tend to make investment more labour intensive.

Short-term prospects

The outlook for the economy is less favourable than developments in recent years. Both monetary and fiscal policy, which are discussed in Part II, are expected to remain restrictive. The deceleration in domestic demand is likely to intensify in 1992, although the impact on economic activity should continue to be cushioned by a further sizeable improvement in the real foreign balance owing to reduced demand pressure, as well as to the appreciation of the dollar in the first half of 1991 and depreciation of the guilder in effective terms. Real GDP growth, which may have fallen to a little over 2 per cent in 1991, is thus projected to decline further in 1992 (Table 6). With employment growth tapering off, the unemployment rate may edge up again. As real disposable household income remains broadly constant, household consumption is projected to slacken appreciably. Due to budgetary constraints, government consumption is likely to remain particularly weak, but public investment may be supported by new construction in the areas of infrastructure and the environment. Owing to a further decrease in the number of subsidised dwellings to be built, high interest rates and stagnating real income growth, a decline in residential construction is expected to continue throughout the projection period. High financing costs, narrowing profit margins and a less favourable overall outlook could cause the progression of private non-residential investment actually to turn negative in 1992, after an already sizeable deceleration in 1991. Inflation (as measured by the yearly average increase in the CPI) is likely to decelerate somewhat; at around 3½ per cent it would again be below the OECD average. Import prices may accelerate, but natural gas prices will be lowered early in 1992, and growth in unit labour costs is projected to decelerate as a result of higher productivity gains and lower pension premiums.

Despite faster inflation, competitiveness in terms of both relative unit labour costs and relative export prices of manufactures in a common currency should have improved in 1991 and is projected to stabilise in 1992. Hence, after a decline over some years, the Netherlands should regain export market shares in 1992, with the progression of exports of manufactured goods (in volume) rebounding to 6 to 6½ per cent. On the other hand, the progression of imports (in volume) could slacken to 4 per cent. The trade surplus is estimated to have widened to $11 billion in 1991 and could reach $13 billion in 1992. Rapidly expanding outflows on account of official transfers – mainly reflecting payments

Table 6. **Short-term prospects**

A. **Demand and output**

	Current prices billion guilders 1987	Weight in real GDP 1987	Per cent change, 1980 prices			
			1989	1990	1991	1992
Private consumption	263.9	60.3	2.9	3.9	3.1	1.6
Public consumption	70.6	18.0	0.3	0.1	–1.0	–1.1
Gross fixed investment	87.1	20.9	4.5	5.1	0.8	–1.4
Residential	21.9	5.4	0.6	–3.1	–5.0	–3.7
Other private	54.9	13.1	6.7	8.7	2.7	–1.3
Public	10.2	2.5	1.7	3.1	1.8	2.1
Final domestic demand	421.6	99.2	2.8	3.5	1.9	0.5
Stockbuilding[1]	–4.8	–1.2[2]	1.4	0.3	–0.0	0.1
Total domestic demand	416.8	98.0	4.3	3.9	1.9	0.6
Exports of goods and services	226.6	61.3	6.3	4.7	4.1	4.9
Imports of goods and services	213.3	59.3	5.8	5.4	3.6	3.3
Foreign balance[1]	13.3	2.0	0.5	–0.3	0.4	1.2
GDP	430.2	100.0	4.1	3.9	2.2	1.8

B. **Other items**

	1989	1990	1991	1992
	Per cent change			
Private consumption deflator	1.6	2.4	3.4	3.5
Export markets, manufactures	9.2	6.6	4.9	5.9
Total employment[3]	1.7	2.1	0.9	0.1
	Per cent			
Household savings ratio[4]	4.2	6.8[7]	3.4	2.5
Unemployment rate[5]	7.4	6.5	6.1	6.4
Net lending general government (per cent of GDP)	–5.1	–5.3[7]	–3.5	–3.4
Current balance (Gld billion)[6]	16.9	18.8	19.8	24.3
Current balance (per cent of GDP)	3.6	3.7	3.7	4.3

1. Change measured as a percentage of previous period GDP.
2. Including statistical discrepancy.
3. Person-years.
4. Excluding savings via life insurance companies and pension funds.
5. Per cent of total labour force.
6. Level.
7. Reflecting a shift from social security tax (recorded on a transactions basis) to income tax (recorded on a cash basis), in 1990 there was a once-off drop in government revenues and net lending of around 3/4 percentage points of GDP, and a corresponding increase in the household savings ratio.

Sources: CBS, *Nationale Rekeningen,* 1990; CPB, *Macro Economische Verkenning, 1992* and OECD Secretariat estimates.

to the European Community – should, as in 1991, limit the progression of the current-account surplus, which at some $13 billion in 1992 could nonetheless represent 4½ per cent of GDP, compared to 3¾ per cent in 1991.

In conclusion, while economic activity in 1991 may have remained considerably stronger in the Netherlands than on average in the rest of Europe and the OECD area, in 1992 activity could be somewhat weaker than elsewhere, with the progression of total domestic demand decelerating further and dropping to one of the lowest rates of OECD countries. The fact that real GDP growth may still approach 2 per cent in 1992 is thus entirely predicated on developments abroad. With exports representing about 60 per cent of GDP, there is a distinct risk that, if the economic recovery in the OECD area is weaker or later than projected, the Dutch economy could slacken markedly. On the domestic side, the most significant risk is that the increase in consumer prices may start interacting with wages and lead to a period of wage pressure after years of restraint. However, recent collective agreements and current wage claims seem to justify confidence in continued moderation.

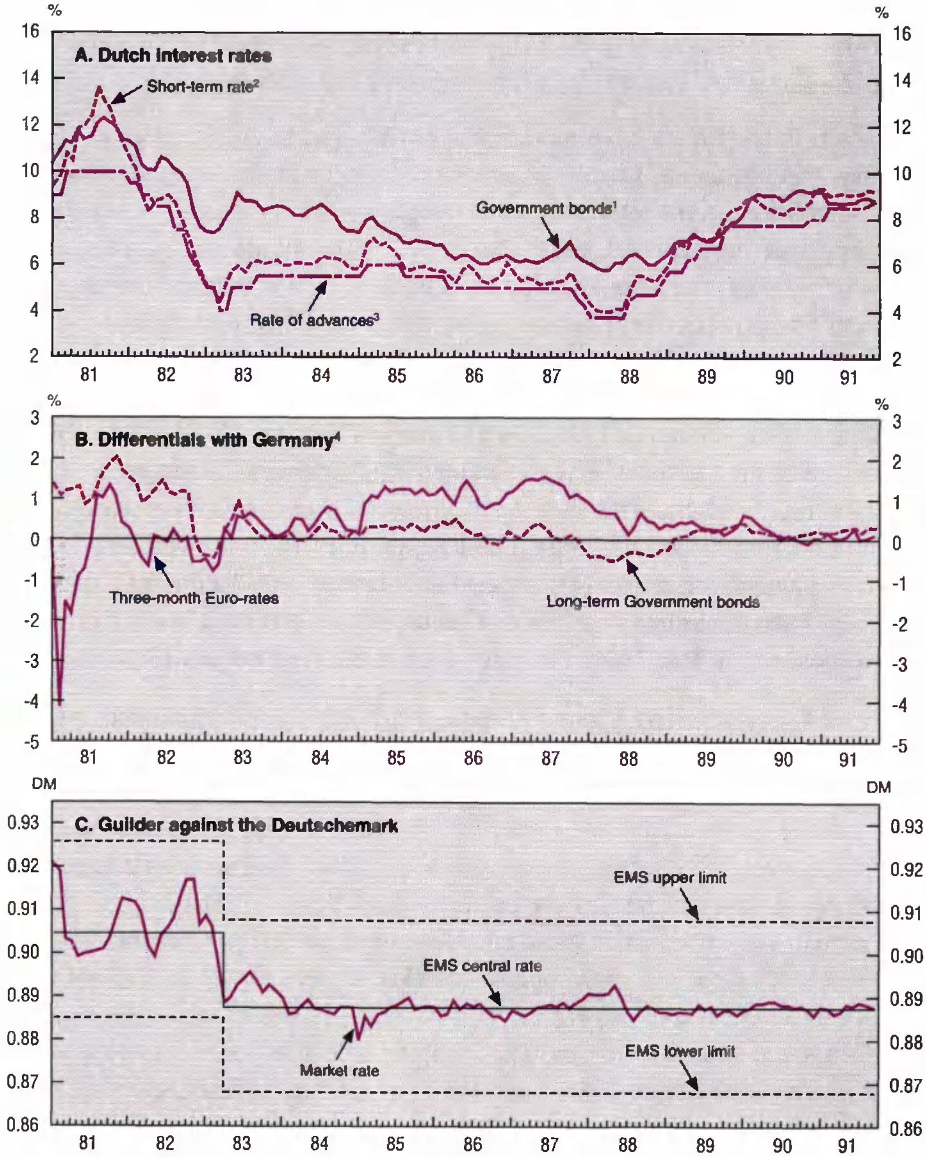
II. Economic policies in a more demanding environment

Economic policy in the Netherlands is characterised by a strong medium-term orientation. Monetary policy is tied to the commitment of a firm exchange-rate link with the Deutschemark which provides a credible anti-inflation anchor and enhances confidence in the currency. Budgetary policy continues to aim at fiscal consolidation in line with the targets set by the Government for the period up to 1994: the budget deficit is to be reduced progressively to 3¼ per cent of Net National Income (NNI)[9]; the "collective burden" (the share of taxes, social security contributions and part of the gas revenues in NNI)[10] is not to exceed the 1990 level; and the debt to GDP ratio is to be stabilised by the end of the period. The pursuit of such firm economic policies may prove more demanding in the current environment of slow economic growth at home and abroad, accelerating domestic inflation, and persistently high interest rates. Nonetheless, the Dutch authorities have reiterated the need to respect these commitments, especially in view of progress towards European economic and monetary union.

Monetary policy

Given the commitment of the Dutch authorities to a stable exchange rate *vis-à-vis* the Deutschemark and the use of interest rate policy to maintain this link, monetary policy, monetary conditions and exchange rate developments over the past couple of years have all been heavily influenced by German unification. The strong and shifting reactions of German financial markets to unification have therefore been largely transmitted to the Netherlands. Throughout this rather turbulent period, the guilder has in fact remained very close to its EMS central rate against the Deutschemark (Diagram 11, Panel C), but this has entailed following the Deutschemark in its gyrations within the EMS band, appreciating

Diagram 11. **INTEREST RATES AND EXCHANGE RATES**



1. 5-8 years.
2. 3-month loans to local authorities.
3. Main official rate of Central bank.
4. Dutch rates minus German rates.

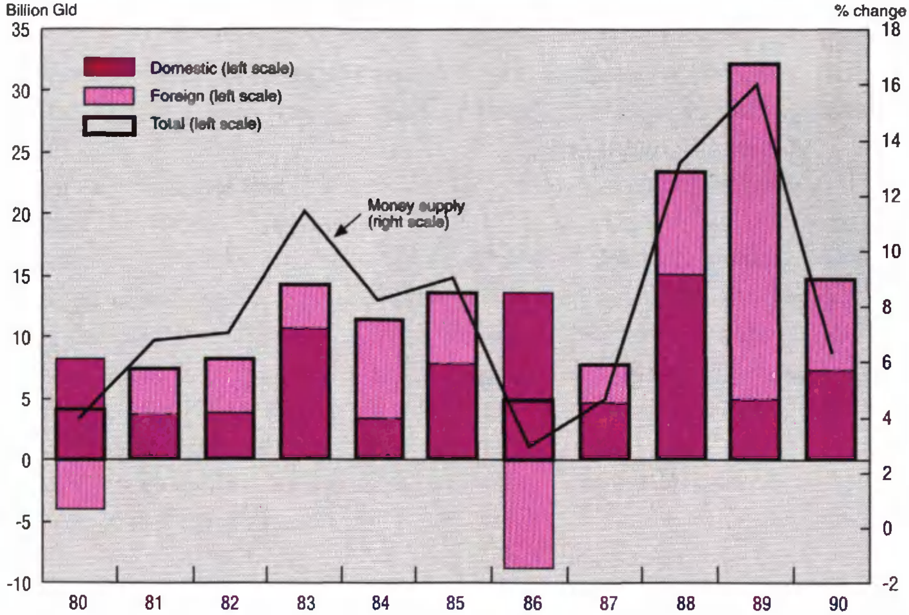
Sources: OECD, *Financial Statistics Monthly* and *Main Economic Indicators.*

and depreciating against other member currencies. More recently, however, the Deutschemark and the guilder seem to have stabilised in the upper half of the band (official interest rates in Germany and the Netherlands were increased again in mid-August 1991, but this had little impact on market rates).

Dutch interest rates have remained relatively stable with respect to German rates, but this has meant broadly matching their steep rise over this period. As a result, Dutch long-term interest rates hovered around 9 per cent in late 1990, a level they had not reached since the early 1980s. While they have declined somewhat in 1991, they remain high both by historical standards and in relation to current and prospective inflation. Short-term rates have remained at the 9 per cent level, so that the Netherlands has had an inverted yield curve since early in 1991, a very unusual situation by the standards of the last decade which reflects the tightening of monetary policy in Germany (Diagram 11, Panel A). Interest differentials with Germany have remained quite narrow in the recent period (Diagram 11, Panel B). The short-term differential has been fluctuating practically around zero since mid-1990. The long-term differential, which had exceptionally been negative in 1988 because of the planned introduction of a withholding tax on interest earnings on German securities, moved back into a fairly large positive position in late 1989, but since then it has trended down again.

After two years of very rapid growth, the money supply expanded at a more modest 6.4 per cent in 1990 (Diagram 12), practically matching the rate of growth of nominal GDP. The sharp deceleration with respect to 1989 was entirely the result of a different pattern of international capital movements. While the liquidity-creating effect of the current-account surplus had been compounded in 1989 by an unusual net **inflow** on account of non-monetary capital transactions, actual and expected interest rate developments in 1990 meant that these transactions resulted in a more normal **outflow** which, however, did not match the current-account surplus. Hence, the balance on non-monetary transactions (the current account plus non-monetary capital) recorded only a modest surplus – after a very large one in 1989 – and the non-banking private sector acquired a correspondingly smaller amount of liquidity through its international transactions. Liquidity creation by domestic sources, which in 1989 had played a minor role, increased slightly in 1990, accounting for half of total liquidity creation, although creation by commercial banks was kept in check by the inverted yield curve. Due to the broadly satisfactory liquidity conditions of the economy, the

Diagram 12. **CHANGES IN THE MONEY SUPPLY AND ITS COUNTERPARTS**



Source: De Nederlandsche Bank, *Annual Report.*

monetary cash reserve arrangement that the Dutch authorities use to curb excessive monetary creation by the banks has not been in force since early 1990.

Monetary policy is expected to remain restrictive over the projection period. Given the firm exchange-rate link with the Deutschemark, Dutch interest rates are projected broadly to stabilise in 1992 in line with German rates. The Dutch Central Bank does not have rigid monetary targets, as, given the openness of the economy and the importance of external factors in the liquidity-creating process, it has little control over the growth of the money supply. Nonetheless, the monetary authorities are confident that through the monetary cash reserve arrangement they can keep domestic money creation in line with the trend growth in money demand, thereby preventing excessive liquidity outflows and subsequent pressures on the exchange rate.

Fiscal policy

Budgetary policy continues to be set with a view to medium term fiscal consolidation (see next section). The Coalition Agreement of 1989 set the target for the 1990 central government budget deficit at 5¼ per cent of NNI. Furthermore, it committed the Government to reducing the deficit steadily from its 1990 target level to 3¼ per cent of NNI by 1994, and to at least stabilising the "collective burden" at its 1990 level which, at the time of the Coalition Agreement, was estimated at 53.6 per cent of Net National Income. The target for the 1990 budget deficit was met, although with some difficulty. Tax shortfalls, discussed at length below, depressed government revenues considerably. Including social security contributions but excluding property income, government revenues grew by some 5 per cent compared to 6¾ per cent for nominal GDP. As a result, the "collective burden" turned out to be one percentage point below the level originally projected in the Coalition Accord. Total government expenditure, excluding interest on the public debt, grew by 7½ per cent in 1990, reflecting overruns in the area of sickness and disability benefits and higher wage costs. Interest payments also grew vigorously (6½ per cent) due to the rise in long-term interest rates. As a result, the share of general government net borrowing in GDP increased by some 0.4 percentage points. Nonetheless, the central government deficit on a cash base declined by ½ per cent of NNI in line with the Coalition Accord, mainly because of the partial cancellation of a planned advance payment from the central government to the children's allowance fund to relieve cash demands in 1991. However, developments in late 1990 suggested that the deficit for the 1991-94 period might be larger than targeted. In February 1991, the Government presented a Midterm Review[11] confirming that, on unchanged policies, the budget deficit was likely to exceed its target by a considerable margin as a result of a number of unforeseen developments.

According to the Midterm Review, the shortfall of revenues over expenditures could amount to some Gld 17 billion or over 3 per cent of NNI in 1994. Approximately one-quarter of this shortfall is due to the unforeseen rise in interest rates since the present Government came into office in 1989. This translates into higher interest payments on public debt, higher subsidies on public housing and higher tax expenditures related to tax-deductible interest payments in the private sector. Another quarter results from higher-than-expected wage increases in the private sector (social benefits are "conditionally linked" to private sector wages – the conditionality referring to the fact that the Government can decide to uncouple social security benefits from private sector wages if the dependency ratio should exceed its 1989 level). A further quarter of the shortfall stems from lower-than-expected tax revenues in 1990 which prompted the Authorities to revise downwards the projected tax yield. The final quarter of the shortfall reflects various factors, including higher-than-expected transfers to the EC.

The **tax shortfall** is especially disquieting, given the good overall performance of the economy in 1989 and 1990. The shortfall was concentrated in corporate tax, personal income tax and dividend tax, which have tended to yield less than was expected in the so-called "Fiscal Blueprint" (*Startbrief*) prepared by the Government when it came into office in 1989 (Table 7). The main reason for the shortfall seems to have been an overestimation of the tax base. In the case of the corporate tax this has been related to the way depreciation is calculated and interest payments are handled[12], while in the case of the dividend tax it may have reflected a fall in dividend payments as a proportion of profits. The seriousness of the drop in corporate tax yield is illustrated by the decline in overall "income" elasticity (calculated as the rate of growth of tax revenue divided by the rate of growth of nominal GDP) from 2.1 in the 1980s to 1.2 at present (Table 8). The shortfall in personal income tax may have been caused by two main factors. First, profits in small enterprises (which are liable to personal income tax rather than corporate tax) seem to have grown less than average profits and, as with the corporation tax, the relevant tax base may have been overestimated. Second, there has been a gradual shift from the yearly collection of income tax to PAYE, which has decreased income tax revenues, but correspondingly increased PAYE tax revenues (in the Netherlands personal income tax, which is collected on a yearly basis, is only a subset of personal income tax as it is defined in practically all other OECD countries).

Since the Government is firmly committed to the target of reducing the budget deficit to 3¼ per cent of Net National Income by 1994, the Midterm Review contained a package of new savings and some increases in taxes amounting to around Gld 17½ billion in 1994 (or some 3 per cent of NNI) which would broadly offset the shortfalls and overruns discussed above. These included:

Table 7. **Analysis of tax shortfalls**

	1989	1990	1991	1992
	Billions of guilders			
Corporation Tax:				
Expected[1]	18.0	21.3	21.5	23.9
Outcome/Revised projection[2]	15.7	17.4	19.3	19.2
Discrepancy	–2.3	–3.9	–2.2	–4.7
As a percentage[3]	–12.8	–18.3	–10.2	–19.7
Personal Income Tax[4]:				
Expected [1]	7.1	7.7	7.9	8.2
Outcome/Revised projection[2]	5.6	5.4	5.7	6.5
Discrepancy	–1.5	–2.3	–2.2	–1.7
As a percentage[3]	–21.1	–29.9	–27.8	–20.7
Dividend Tax:				
Expected[1]	2.4	2.7	2.9	3.1
Outcome/Revised projection[2]	2.0	2.3	2.3	2.9
Discrepancy	–0.4	–0.4	–0.5	–0.2
As a percentage[3]	–16.7	–14.8	–17.2	–6.5
Total of above:				
Expected[1]	27.5	31.7	32.3	35.2
Outcome/Revised projection[2]	23.3	25.1	27.4	28.6
Discrepancy	–4.2	–6.6	–4.9	–6.6
As a percentage[3]	–15.3	–20.8	–15.2	–18.8

1. Estimates in Budget 1990 for 1989, 'Startbrief' for all subsequent years.
2. Actual data for 1989 and 1990, projections in Midterm Review for subsequent years.
3. Percentage of expected revenue.
4. Excluding PAYE tax, see main text.

Source: Tweede Kamer der Staten Generaal, *Tussenbalans* (Midterm Review), Brief van de Minister President, 19 February 1991, and OECD Secretariat estimates.

- A cut of around 10 per cent (about Gld 3 billion) in existing **subsidies.** Subsidies for public housing would be reduced through annual rent increases higher than in recent years. To avoid an impact on the relative cost of living in rented and owner-occupied dwellings, the taxable annual imputed rent for house owners would be raised. Subsidies to public transportation would be reduced, leading to higher fares; petrol excises and road tax would also be raised.
- A commitment to reduce the number of persons in the disability and sickness schemes. The number of disabled would be reduced by 1994 to the 1989 level, and the sick-leave rate[13] reduced by 1.5-2 percentage

Table 8. **Income elasticities of tax revenues**[1]

	1980/88	1988/89	1989/90	1990/94
	Actual			Projected[2]
Corporation Tax	2.1	0.0	0.4	1.2
Personal Income Tax	0.5	–3.4	–1.5	0.6
Dividend Tax	2.7	–0.7	2.2	1.3

1. Non-discretionary growth of tax revenues divided by growth of nominal GDP.
2. Midterm Review.
Source: See Table 7.

points. Related social security expenditures would be cut by Gld 3.75 billion in 1994. Over the summer, the Government announced a number of measures to achieve these targets (see Part III and Annex II).

- Additional policies to enhance efficiency in the public sector and associated savings. Notably the so-called **"large efficiency operation"** (Part III) is required to yield a reduction in expenditure of Gld 1.1 billion in 1994;
- Other savings including cuts in defence expenditure, government wages, development aid, assistance to refugees, health care and spending by Local Authorities, amounting to Gld 3.8 billion in 1994;
- Cancellation of a planned reduction in VAT rates, yielding Gld 2.5 billion in 1994.

In addition, as the dependency ratio has risen above its 1989 level of 86 per cent, the conditional link between social benefits and private sector wages will be suspended in 1992 and the increase in social benefits for that year has been set at 3 per cent. For subsequent years, the application of the link will again depend on movements in the dependency ratio. According to the Dutch authorities, all these measures (the Midterm Review package and the recently announced additional measures, including the decision on the link) will be sufficient to reach the stated goals of fiscal policy. However, since it is uncertain to what extent the additional measures will be approved by Parliament, it is difficult to estimate their ultimate impact on the budget and the economy. In view of this and other factors, it seems that the fiscal situation remains problematic. In addition to the structural problems discussed in the next section, the budget is adversely affected by the conjunctural slow-down – although this was largely foreseen by the Authorities at the time of the Coalition Agreement – and high interest rates. However, with a public debt which is both high and rising as a share of GDP and as the Authorities did not use the conjunctural upswing to achieve greater budget savings, it is now essential that they reduce the budget deficit in line with the medium-term targets and keep to the Coalition Agreement's commitment to at least stabilise the "collective burden". Failure to meet these announced objectives, even if attributable to temporary demand weaknesses, would undermine the credibility of the medium-term strategy. Therefore, depending on how the economy evolves, further discretionary measures may be required in 1992 to contain a cyclical worsening of the budget compared with the targets.

Fiscal consolidation in a longer-term perspective

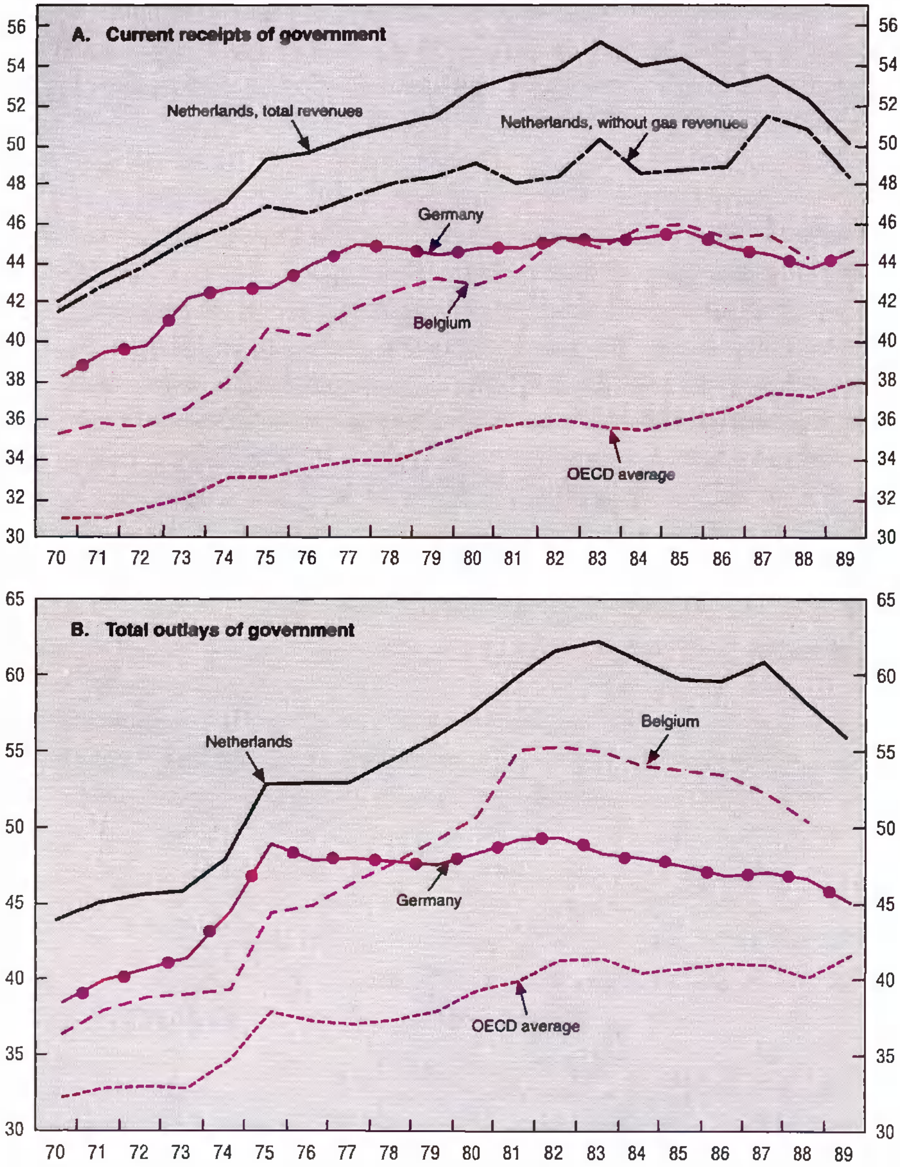
There are reasons for thinking that fiscal consolidation may be at a critical juncture and that from now on further progress may be more difficult. It may thus be appropriate to take stock, briefly review what has been accomplished over the past decade, and assess the sustainability of the current fiscal position.

The record so far

Policies of fiscal consolidation have been pursued since late 1982. At that time, financial conditions in the public sector were widely perceived as being unsustainable. The share of the public sector in GDP had risen steadily through much of the post-War period, moving above 60 per cent at the beginning of the 1980s – the highest level, after Sweden, among OECD countries[14]. The growth of spending had been accompanied both by an increase in the tax burden and a widening budget deficit – the latter was expected to exceed 12 per cent of NNI in 1982. The Government that took office in November 1982 had as principal objectives a reduction in the government deficit and at least a stabilisation of the "collective burden" at the 1982 level (53.2 per cent of NNI). Both objectives have been broadly met. With respect to the budget deficit, two specific targets were successively set: the first one, requiring a reduction of the general government deficit to 7.4 per cent of NNI by 1986 was only partially respected; the second one, requiring a reduction of the central government deficit to 5¼ per cent by 1990, as noted above, was fully respected. As for the "collective burden", at 52.8 per cent of NNI in 1990, it was marginally **below** the 1982 level. At the same time, total general government expenditure as a proportion of GDP – which is one of many possible indicators of the potential impact of the public sector on the economy – after reaching a peak of 63 per cent in 1983, has trended down, falling to 56 per cent in 1989 – still well above the OECD average of 42 per cent (Diagram 13).

The way these goals have been achieved raises some questions. First, the spending cuts have fallen primarily on the government wage bill, transfers (social security and social welfare expenditure) and public sector investment. Since the number of employees in the public sector has continued to increase, albeit at a much slower pace than before 1982, the decrease in the wage bill as a proportion of GDP has entirely reflected a fall in real wages – some 5 per cent from 1982 to 1990, compared with an increase of 5 per cent in real wages in the private sector. In nominal terms, the wage bill has grown by less than 10 per cent over this period, and as a proportion of total government expenditure it has declined from over 21 per cent to less than 19 per cent. While this relative compression of the wage bill has allowed sizeable direct savings, lagging wage growth and increased work loads have often been mentioned as reasons why the public sector, and particularly the education and health care departments, have increasingly contributed to the flow of newly disabled persons (see Part III). The fall in transfer payments as a proportion of GDP has also reflected a reduction in real transfers per recipient which has more than offset an increase in the number of these recipients. Hence, with respect to these two expenditure items, so far reforms have succeeded more in cutting the cost of provision than in reducing public sector commitments. This carries the risk that expenditure might soon also pick up for wages since, after years of restraint, wage increases in the private sector are accelerating and this may extend to the public sector. As for public investment, it has been steadily reduced and as a share of GDP it has fallen to historically low levels (Diagram 9). This may have reflected the political reality that public investment has proved easier to cut than public consumption. Initially, it may also have been the result of the completion of major infrastructural projects. More recently, however, this situation has caused a growing awareness that the capital stock in infrastructure should keep pace with the requirements of

Diagram 13. **CURRENT RECEIPTS AND TOTAL OUTLAYS OF GOVERNMENT**
Per cent of GDP



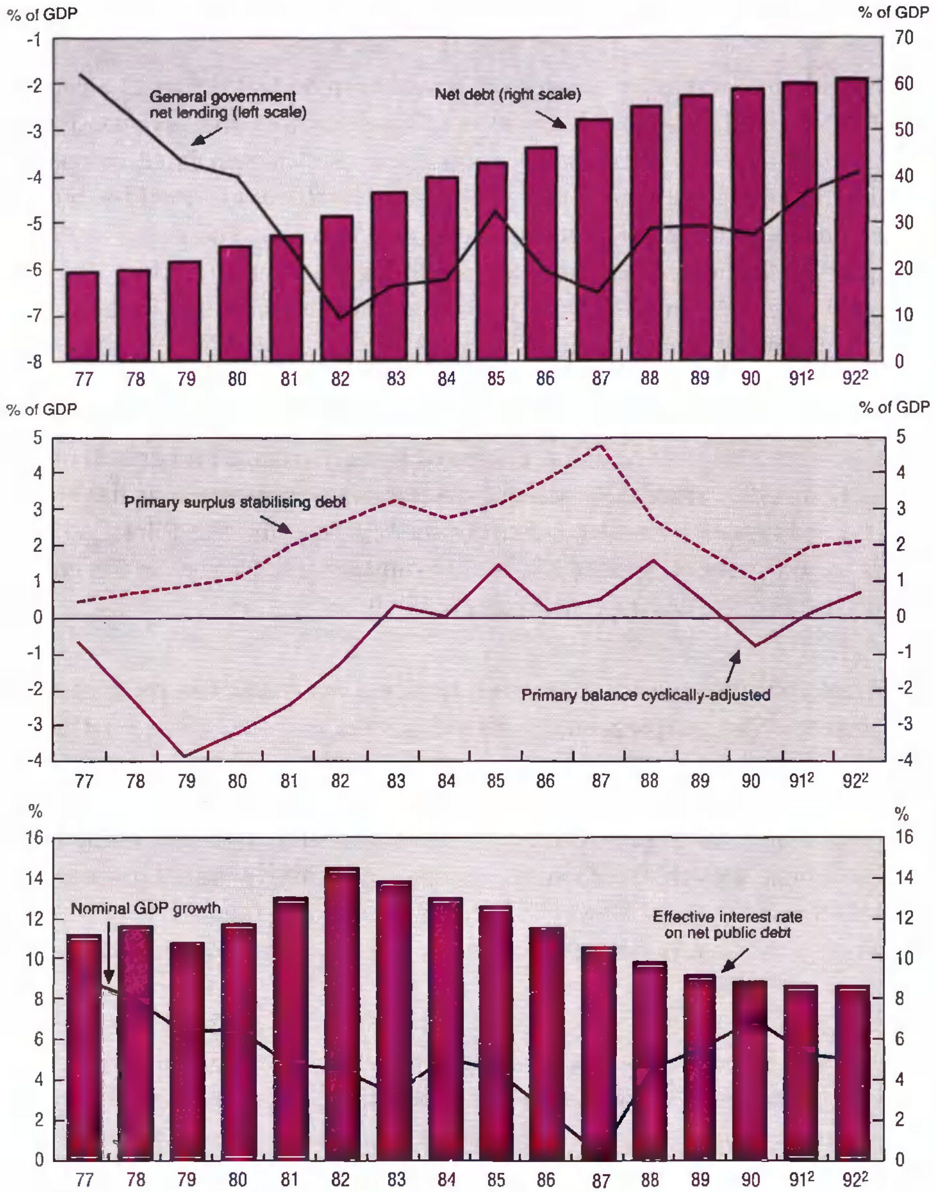
Source: OECD, *National Accounts.*

a growing economy, especially in the area of transport, in order not to hinder productivity gains and the international competitive position of the country.

Second, the decrease in the general government budget deficit as a percentage of NNI could not have been accomplished without the revenue from a succession of once-off sales by the government of shares in large companies, including the formerly State-owned Postbank, and without the abolition in 1988 of State credits to the public housing sector (see Part III). The swing in the net acquisition of financial assets from a positive 2.2 per cent of NNI in 1982 to a negative 0.2 per cent in 1990 largely accounted for the reduction in the general government budget deficit from 9.2 to 5.4 per cent of NNI over the same period[15]. Hence, net lending of the general government – the difference between general government's **current** revenues and expenditure, including fixed investment – as a percentage of NNI, has decreased by only around 1 ½ per cent of NNI from 1982 to 1990. Since the stock of marketable government assets has already dwindled and privatisation of government services, e.g. the Sea-Pilot Company, appears to be rather costly (Part III), further substantial reductions in the government deficit through this approach seem unlikely.

Fiscal consolidation has been both hindered and enhanced by unexpected developments. The sharp decline in natural gas prices in the second half of the 1980s significantly reduced public sector receipts (from over 6½ per cent of NNI in 1982 to a little over 3¼ per cent in 1990), as the government is a co-owner of a large part of the natural gas industry. On the other hand, towards the end of the 1980s economic growth exceeded expectations, providing windfall revenues and extra spending reductions. However, because of cost over-runs and new spending programmes, the Government has not fully made use of the favourable economic conditions of the last few years. Over the period 1986-90, tax revenues were Gld 18 billion higher than expected, but more than half of this fiscal "bonus" was used to compensate for net spending over-runs (Gld 10 billion) which were especially important in social security expenditure, investment subsidies and expenditure on education[16]. Practically all the remainder was used to lower taxes, so that very little was left to reduce the budget deficit. According to OECD Secretariat estimates, while the majority of OECD countries used the "bonus" primarily to finance expenditure over-runs and to reduce taxes, the Netherlands seems to have gone further in this direction than the OECD average.

Diagram 14. **PUBLIC SECTOR DEFICIT, NET DEBT AND PRIMARY BUDGET BALANCE**[1]



1. Of general government.
2. Projections.

Source: OECD Secretariat estimates.

While the "collective burden" has been broadly stabilised this has been largely due to the just mentioned decrease in gas revenues, and despite the tax reform which became effective in January 1990 (Oort-reform), marginal tax rates, the progressivity of the tax schedule, and the average "tax wedge" – i.e. the difference between labour costs and take-home pay – all remain high compared with other countries (see next Section). Another problem which largely remains to be tackled is that of the public debt. As a result of the string of large budget deficits, the net public debt as a percentage of GDP practically doubled from 1982 to 1990 (Diagram 14, top panel). At nearly 60 per cent, this ratio is currently among the highest in the OECD area (see however note 14). The primary budget – i.e. excluding net interest payments – has, however, been relatively close to balance since 1985 (Diagram 14, central panel). In other words, the recent growth of the debt has been due primarily to interest payments which, in turn, have essentially reflected high interest rates. Despite the strong economic upswing, the effective interest rate on the public debt has continued to exceed the growth of GDP by a significant margin (Diagram 14, bottom panel). Interest payments on the public debt have thus risen from 9.5 per cent of total government expenditure in 1982 to 11.5 per cent in 1990. To stop this process of debt dynamics – or "snowball effect" – the Government intends to stabilise the public debt/GDP ratio by 1994. Current national projections indicate that this goal will be met as soon as 1992.

The challenge ahead

On balance, the record on fiscal consolidation seems to be mixed – a view already expressed in previous Economic Surveys. Given that over recent years the economic environment has been more favourable overall than expected, it is somewhat disappointing that it has not been possible to go beyond the targets set – notably with respect to the budget deficit. The conjunctural climate has changed for the worse, but interest rates remain stubbornly high. Progress in fiscal consolidation is likely to be considerably more difficult from now on: yet, it is needed, lest the public debt continue to increase and, through growing interest costs, feed on itself in an unsustainable process. Real interest rates are expected to remain well above actual and potential output growth in coming years. In this situation, according to OECD Secretariat estimates, a fairly large surplus of the primary government budget – of over 2 per cent of GDP, not cyclically adjusted – is required to stabilise the public debt in relation to GDP at its current high level (Diagram 14). A year ago, the primary surplus required to stabilise the debt/GDP ratio in 1991 had been estimated at less than 1½ per cent of GDP. On the basis of the fiscal package stemming from the Midterm Review, the authorities are confident that the public debt/GDP ratio will start falling in 1993. However, this will depend not only on all the new measures being actually voted into law and being strictly implemented, but also on economic conditions – both at home and abroad – not deteriorating further.

Apart from the conjunctural situation, a number of other factors complicate the task of fiscal consolidation, especially over the longer term. On the revenue side, as noted, tax collection has been disappointingly low over the last year or so. Owing to several recent changes in the tax structure, it is difficult to be certain about future projections in this area and further tax shortfalls could arise. On the expenditure side, after almost a decade of fiscal restraint, a certain "battle fatigue" may be appearing in the country at large. The public sector may face renewed spending pressures both for new and existing programmes. The prolonged period of wage restraint may be coming to an end, giving way to a catching up process which, even if the "linkage" with social security benefits remains contingent upon the evolution of the dependency ratio, could have serious repercussions on the government budget. A significant increase in public investment has already been decided upon for the coming years, but further efforts will be needed to stop the relative deterioration of the infrastructure, to alleviate congestion particularly in the area of transport and, more generally, to keep the stock of public capital in line with the requirements of a growing economy. Financing formulae which bring in private funds – such as user charges, franchising and further privatisation – could be used to limit the impact on public finances.

Environmental concerns are likely to remain high on the Dutch Government's agenda in the 1990s and can be expected to result in further spending pressures. Education and child care are also two areas likely to absorb growing amounts of public funds. In response to calls for greater relevance to labour market needs there has already been an expansion of vocational training and technical education – a trend which in view of the pressing problem of youth unemployment and disability (see Part III) will have to be strengthened. Moreover, since the authorities would like to see a higher participation rate of women, a major investment effort in child-care institutions, which are low by European standards (see next section), may be necessary. In the Coalition Agreement, extra funds have already been set aside for child care. Finally, longer-term demographic changes point to potentially large increases in social spending even if, compared with other OECD countries, the impact may be modest in this decade[17].

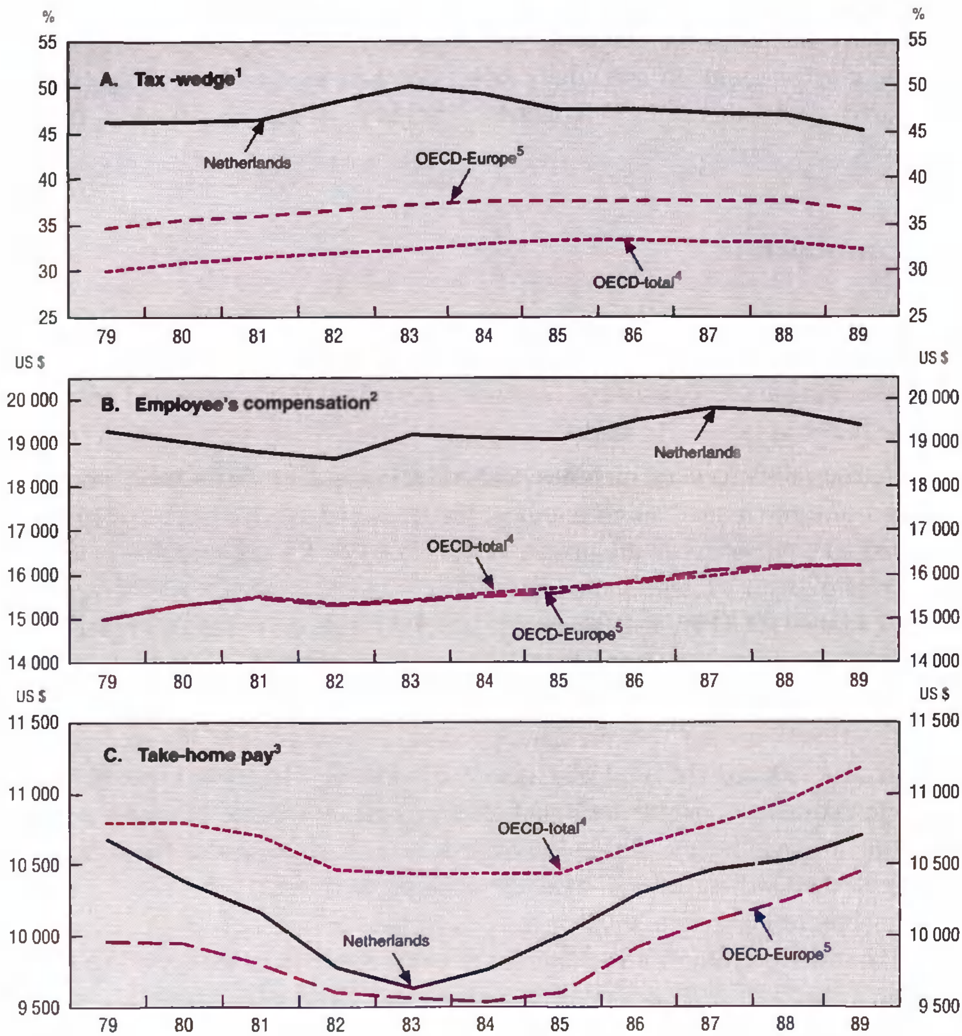
Structural policies

Structural policies are an important aspect of overall Dutch economic policy. Several new measures have been taken over the past year, often with a view to accelerating the process of convergence with other EC countries and preparing for the forthcoming single market.

Recent initiatives in **incomes and taxation policy** have been primarily directed towards reductions in marginal tax rates and the wedge between wage cost and take-home pay in the private sector. In 1989, the tax wedge – at around 45 per cent of an average industrial worker's compensation – was among the highest in the OECD area (Diagram 15, panel A). Not only was this reflected in relatively high wage costs per employee, but also in relatively low take-home pay rates (Diagram 15, panels B and C). The Oort tax reform which became effective in early 1990 (see the two previous Economic Surveys) has lowered the tax burden and reduced the wedge. Combined with the effect of the curbing of possible tax deductions, the tax relief affected mainly income brackets of up to twice the average income (Table 9). While it is too early to assess the permanent impact of the Oort tax reform, available data suggest that the tax relief for high income brackets may be smaller than expected. In subsequent years, as the impact of the Oort reform wanes, net incomes are likely to move more in tandem.

Reducing structural, long-term unemployment is the focus of current **labour market policy.** One of the spearheads of this policy is a recent effort to improve the functioning of labour exchange offices through large-scale decentralisation. As from 1st January 1991, 28 regional Tripartite Boards administer the labour exchange offices and are authorised to establish their own policies largely independently of the newly established Central Tripartite Board. In this way the Government hopes to improve the effectiveness of employment-finding and to reduce mismatches in local labour markets. Training is the main labour market

Diagram 15. **TAX WEDGE, EMPLOYEE'S COMPENSATION AND TAKE-HOME PAY OF AN AVERAGE PRODUCTION WORKER**



1. Tax wedge is defined as the ratio of tax plus employee's and employer's contributions over total employee's compensation.
2. Deflated by GDP price index (1985 = 1) and converted to US$ using 1985 purchasing power parities.
3. Deflated by private consumption price index (1985 = 1) and converted to US$ using 1985 purchasing power parities.
4. Excluding USA, Portugal, Greece, Iceland, Italy, Luxembourg, Turkey.
5. Excluding Portugal, Greece, Iceland, Italy, Luxembourg, Turkey.

Sources: OECD, *The Tax Benefit Position of Production Workers, 1979-1989,* and OECD Secretariat estimates.

Table 9. **Real disposable income of one-earner couples**

	1987/89	1990	1991[1]
	Annual average growth rates		
Legal social minimum	0.5	1.5	–½
Minimum wage earner	0.4	1.2	–½
Modal wage earner	1.5	2.5	0
Earner of twice the modal wage	1.1	2.9	–¼

1. Projection.
Sources: Ministry of Social Affairs and Employment, *Notitie Inkomensbeleid 1992* and Centraal Planbureau, *Macro Economische Verkenning 1992*, The Hague 1991.

instrument actually applied. The number of participants in different training programmes (excluding the apprenticeship system) increased from 50 000 in 1986 to 103 000 in 1990. In addition, a number of existing programmes aimed at improving the labour market position of the long-term unemployed through wage subsidies, with 18 700 participants in 1990 are being continued[18]. Moreover, new subsidy schemes have been set up. From 1st July 1990 every employer hiring employees at the minimum wage is eligible to a reduction of around 10 per cent of the labour costs (the WLOM scheme, with some 20 000 participants in 1990). In addition, the Youth Work Guarantee Plan, which is planned to be operational as of 1st January 1992, offers youngsters six month labour contracts in municipalities which are subsidised by the central government. A similar programme focusing on the long-term unemployed with little chance of finding a job was started last year, the so-called "Labourpools". As noted in Part I, the Government has recently taken measures to redress the incentive structure at the lower end of the labour market by increasing the differential between net wages and net social benefits through a reduction in the tax burden on lower wages.

The need for fostering active labour market participation – still relatively low (Table 10) – is presently a main issue of discussion in the context of labour market policy in the Netherlands[19]. Although low active labour market participation is in part the mirror image of the large number of social security beneficiaries, especially in the disability scheme (Part III), it also reflects the low participation of women. This may to some degree be a socio-cultural phenomenon and broadly in line with preferences. But, in part it may also be a form of hidden unemployment caused by women being discouraged from seeking

Table 10. **Active labour market participation rates in EC countries**[1]

	Persons (1989)			Full-time equivalents (1988)		
	Total	Male	Female	Total	Male	Female
Portugal	68	82	55	63	83	50
Luxembourg	70	90	49	62	86	40
Denmark	77	83	70	62	74	49
Germany	64	77	50	60	78	41
United Kingdom	71	80	63	56	74	37
Belgium	56	68	45	53	70	36
Greece	55	72	38	53	73	33
France	60	70	49	53	68	38
Italy	54	72	36	50	71	30
Ireland	51	68	33	49	70	27
Netherlands	**60**	**75**	**45**	**47**	**65**	**26**
Spain	49	68	30	44	63	24
EC average	60	74	47	53	72	35

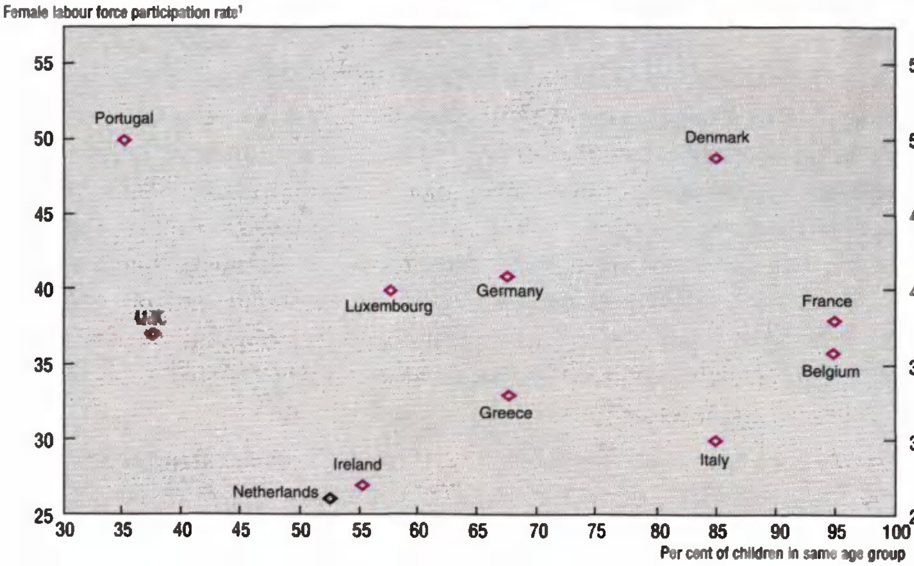
1. Employment as a percentage of population of working age.
Sources: OECD, *Employment Outlook*, Paris, 1991 and OECD, *Historical Statistics 1960-1988*, Paris, 1990; EUROSTAT, *Labour Force Survey*, Luxembourg 1989 quoted in WRR, *Een werkend Perspectief: Arbeidsparticipatie in de Jaren '90*, Rapporten aan de Regering No. 38, The Hague, December 1990, Table 2.5.

employment owing to an apparent lack of day-care facilities for children (Diagram 16). Policies under discussion include measures to improve day-care facilities, a right to leave when children are sick, changes in the tax system, increases in children's allowances and part-time early retirement. The Dutch Authorities feel that the possible participation-enhancing effects of these types of policies should be weighed against their budgetary and distributional effects.

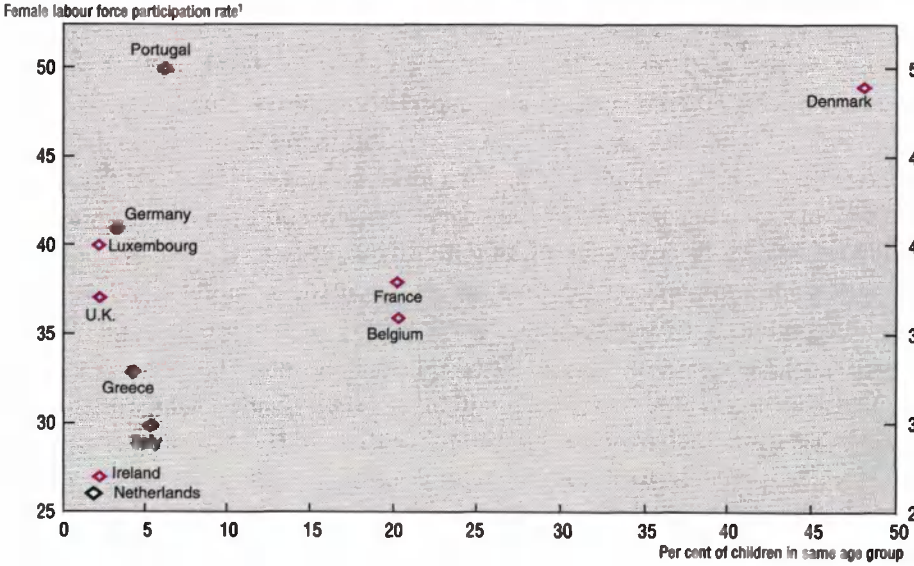
Two recent initiatives in the area of **competition policy** are worth mentioning. Early this year the Government decided to admit private suppliers of satellite services and mobile communication systems (car telephones and radiophones) to the telecom market (when Telecom was privatised in 1988, its monopoly in the area of telecommunication infrastructure, including satellite services and mobile communication systems, was maintained, while the supply of peripheral equipment was liberalised). Second, in May 1991 the Government announced a ban on so-called horizontal price arrangements between companies in the same trade, except for price arrangements in franchising[20]. This measure implies, at least in part, a break with the Dutch tradition of tolerating cartels – including price arrangements, market share arrangements and barriers to market entry – which in

Diagram 16. CHILD-CARE INSTITUTIONS AND FEMALE LABOUR PARTICIPATION

A. Children aged 3 years or older in child-care institutions



B. Children aged less than 3 years in child-care institutions



1. Net rate in terms of person-years, 1987.

Sources: SAF-tidningen, 18-24 May 1991 and Science Council of Government Policy (WRR).

the post-War period have been predominant in sheltered industries, especially construction, free professions and power generation[21]. The overall Dutch record in this respect compares rather unfavourably with other members of the EC, as illustrated by the fact that, in the period 1970-1990, of all Article 85 judicials by the EC rejecting nation-wide cartels, around 40 per cent concerned the Netherlands[22]. This new initiative by the Government goes some way to overcoming these problems, but may prove not to be very effective unless, as is currently being considered by the Government, a ban on market-share arrangements and measures regarding a lowering of entry-barrier arrangements are introduced. On the international side, the process of European integration is likely to enhance competition between companies at home and elsewhere in Europe. Hence, the recent wave of mergers in the Netherlands, although reducing the number of Dutch suppliers does not, according to the EC Commission, necessarily lead to an intolerable degree of concentration[23].

Environmental policy is now in a stage of implementation under the National Environmental Policy Plan (NEPP) and its subsequent revision (NEPP Plus), which were extensively discussed in last year's Economic Survey of the Netherlands. Waste management leads the list of priorities to be tackled. In this context an agreement (covenant) between the government and industry was signed in April. This agreement imposes reduced use of packaging materials and mandatory recycling of 60 per cent of those materials by the year 2000. A more extensive use of economic instruments, especially deposit-refund systems, is in the pipeline. Also important in this context is the increase in excise duties on petrol, discussed above, which was facilitated by a similar increase in Germany. An energy tax creating incentives for energy conservation may be levied from 1993, depending on the outcome of an extensive study of the effects and effectiveness of such a tax and on the final EC proposal for a similar tax. Excessive use of nitrogenous fertilisers and the excess supply of manure in agriculture is still one of the main problem areas. The European Commission has allowed the Government to subsidise the establishment of an experimental manure processing unit which converts manure into dry natural fertilisers. But it is not clear if the Commission is prepared to allow the setting-up of a whole manure processing industry financed by collective means.

III. The public sector: Selected issues

Among OECD countries, the Netherlands is one of those which have gone furthest in their sustained efforts to promote a tolerant, caring and supportive society through the action of government – a commitment which in its broad formulation is undoubtedly shared by the overwhelming majority of the Dutch people. Over the years, this social choice has translated into a comprehensive welfare system, with a complex web of social insurance and assistance programmes – including a very large number of subsidy schemes – which affect practically all segments of Dutch society and all sectors of the economy. Hence, the amount the Netherlands spends on transfer payments and subsidies is relatively high by international standards (30 per cent of GDP in 1990, compared with an average of around 20 per cent for the other OECD countries – Table 11), while relatively little is spent on government consumption and on investment (17 per cent of GDP in 1990, compared with an average of a little over 20 per cent for the other OECD countries). Another striking feature of the Dutch economy is the high proportion in relation to GDP of spending on both social insurance and social assistance programmes: in other countries, high spending on social insurance tends to be accompanied by relatively low spending on social assistance (Belgium and France), or vice-versa (the United Kingdom and Canada).

However commendable on social grounds, the Dutch welfare system has been the source of a number of problems, often of a mutually reinforcing nature. With overall costs outrunning revenue, the welfare system has been one of the major causes of the persistently precarious state of public finances, and while some of its programmes – such as the disability scheme – have avoided being in deficit this has been at the cost of steep increases in contributions. High taxes and social security contributions have caused rigidities and distortions and have been detrimental to economic growth. A case in point is the labour market where the

Table 11. **Structure of public sector receipts and outlays**

As a percentage of GDP

	1980	1982	1988	1989	1990	*Memorandum item:* OECD average[1] 1989
Government consumption expenditure	17.9	17.6	15.8	15.2	14.8	18.1
of which: Wages and salaries	13.0	12.6	10.7	10.2	9.9	12.2
Debt interest payments	3.7	5.1	6.0	5.9	5.8	5.6
Transfer expenditure	26.2	29.0	26.8	26.1	27.2	17.3
Subsidies	2.5	2.5	3.7	3.0	2.5	2.4
Government investment	3.3	2.9	2.4	2.3	2.3	2.7
Capital transfers (net)	2.3	2.5	2.2	1.8	1.6	0.6
Other transfers and capital consumption	-0.7	-0.7	-0.7	-0.8	-0.7	-0.7
Total outlays	**55.0**	**59.0**	**56.1**	**53.6**	**53.4**	**46.0**
Total direct taxes	15.9	14.7	14.3	13.9	15.5	16.1
of which: Households	12.9	11.6	10.8	10.6	12.0	13.2
Business	3.0	3.1	3.5	3.3	3.4	2.9
Social security contributions	18.2	19.6	20.6	18.9	17.0	11.7
Indirect taxes	12.0	11.4	13.0	12.5	12.4	13.8
Property and entrepreneurial income	5.0	6.2	3.0	3.2	3.3	2.9
Total receipts	**51.0**	**51.9**	**50.9**	**48.5**	**48.1**	**44.5**
Net lending	**-4.0**	**-7.1**	**-5.1**	**-5.1**	**-5.3**	**-1.4**

1. Excluding United States, Greece, Iceland, Luxembourg, Norway, Portugal, Switzerland, Turkey and New Zealand.
Note: Sums may not add up due to rounding.
Source: OECD Secretariat estimates.

low participation rate and high structural unemployment are generally regarded as reflecting, among other factors, over-generous social benefits. Finally, the welfare system has been prey to abuses and it has arguably led to unforeseen human costs and hardship, such as those associated with the so-called "poverty trap".

This chapter will discuss two of the major components of the Dutch welfare system – the disability pension scheme and subsidies – where the scope for reform and cost savings appears especially important. It will also consider the issue of efficiency in the public sector.

The disability problem

The number of recipients of disability benefits has grown rapidly in the Netherlands, despite repeated attempts to curb it. Currently, one person in seven is out of work as a result of disability. The number of disabled persons is also very high by international standards, a situation which cannot be satisfactorily explained by conventional social, demographic and health factors. It points to underlying imbalances in the labour market, to basic flaws in the specification and implementation of the disability programme itself and, more fundamentally, to the permissive socio-cultural climate.

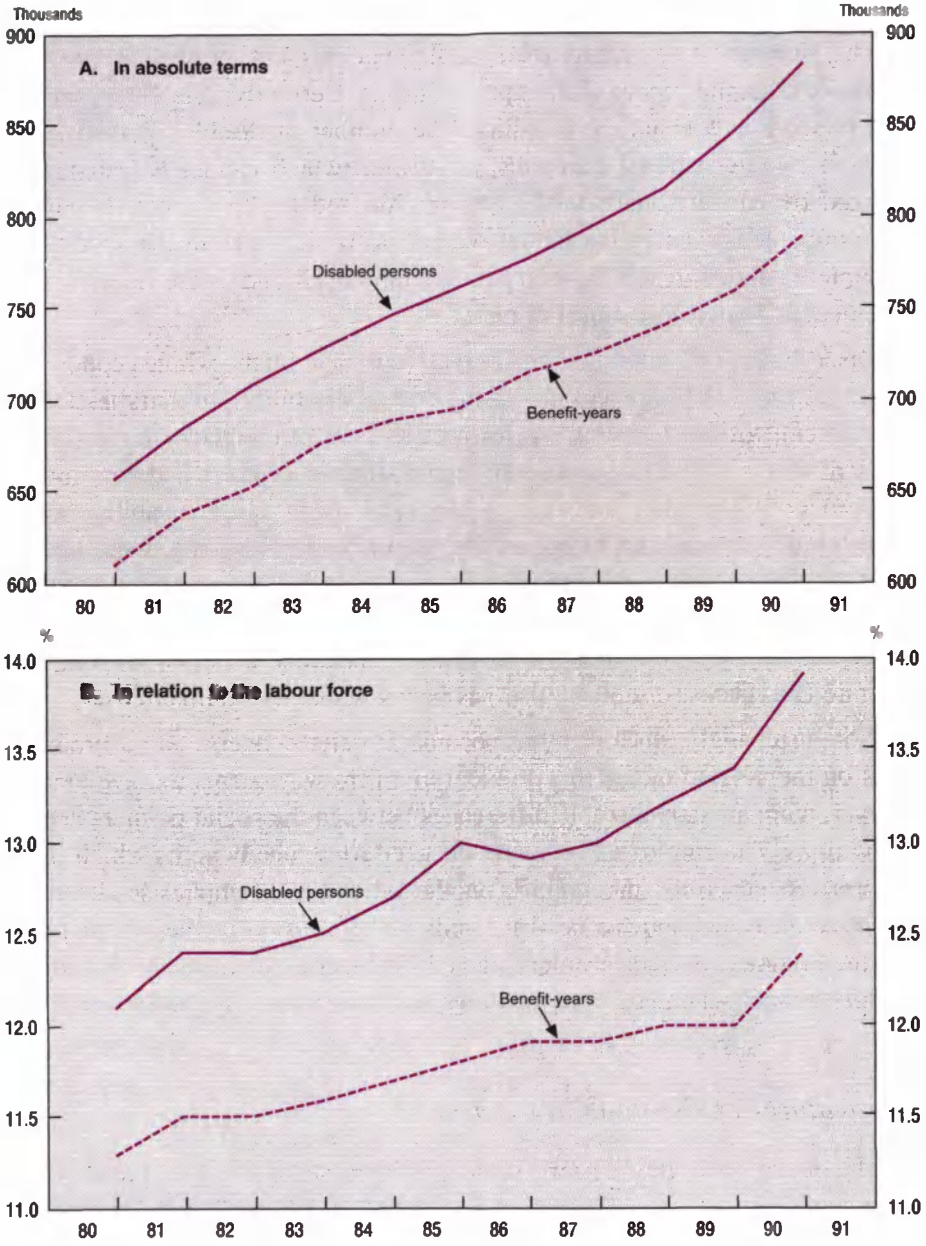
Disability has an important and pervasive impact on the whole economy in a number of ways. The high and increasing cost of disability programmes makes it more difficult for the Government to meet its current budgetary targets and, to the extent that this cost is financed through distortionary taxes and contributions, it leads to a misallocation of resources. More specifically, high disability rates are likely to have a pernicious effect on the labour market, causing a sub-optimum use of the labour force: the labour supply is reduced because of the growing number of disabled persons, while the cost of labour is increased as a result of high social security contributions to finance disability benefits. Beyond these economic drawbacks, disability also has heavy social and human costs.

Not surprisingly, disability has become a major concern, and a broad consensus on the need to tackle this problem in a firm way seems to have emerged. However, there are considerable differences between the social partners concerning solutions. The employers focus on the need to reduce benefits which in their view are too generous: the unions, on the other hand, emphasise the role of preventive measures and the need to facilitate reinsertion in the labour market. Over the summer, the Government agreed on a series of measures to curb the disability benefit scheme. These measures will be debated by Parliament later in 1991.

Main features of the disability system

The Dutch disability system is unique because of the low thresholds for entitlement, the lack of a distinction between "social risk" and "professional risk" [24], and its generosity in terms of level and duration of benefits[25]. Practically all residents of the Netherlands (including the self-employed) are covered against

Diagram 17. **VOLUME OF DISABILITY**



Source: Social Security Council.

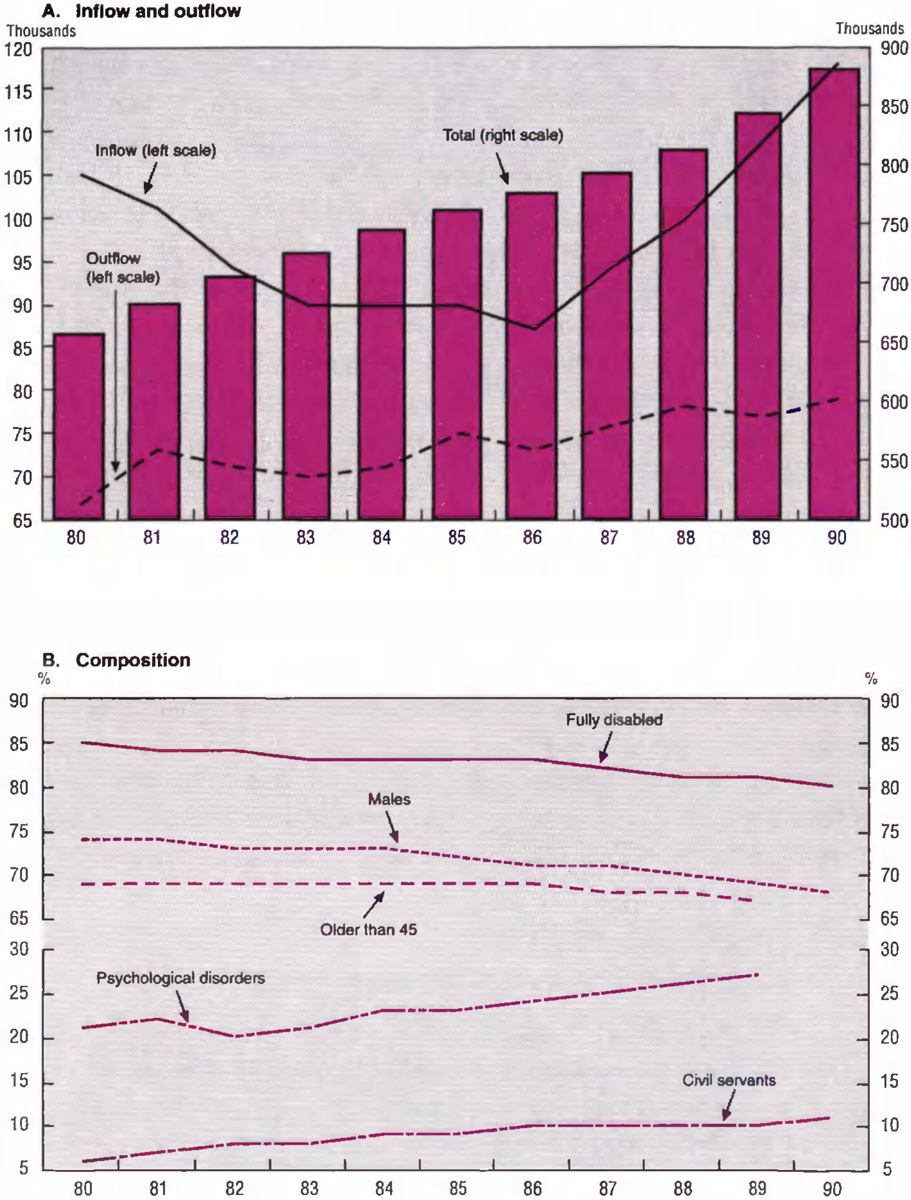
disability (see Annex II). Entitlement to a disability benefit starts after one year of sickness (covered by the sickness scheme)[26] and can continue until the age of 65 – after which disabled persons move into the state pension system. The threshold for entitlement can be as low as 15 per cent of loss of earning capacity. The criterion for entitlement is not the disability as such but the loss of earning capacity resulting from that disability ("degree of disability"). There are seven degrees of disability, ranging from 15 per cent to 100 per cent. Benefits are calibrated according to the degree of disability, and in the case of total disability reach 70 per cent of last earned gross wage (with a minimum of 70 per cent of the legal minimum wage). A key feature of the system is that the rate and duration of disability benefits are fixed *ex ante* (rather than being related to the magnitude or duration of premium contributions) and, as noted, are applied to the last earned gross wage (rather than to the average wage over the worker's career).

At the end of 1990, an estimated 882 000 persons were receiving disability benefits, an increase of 34 per cent since 1980, and corresponding to 14 per cent of the labour force – compared with 12 per cent in 1980[27] (Diagram 17). Currently, some 80 per cent of recipients of disability benefits are totally disabled. In 1980 the "typical" disabled person was male, over 45 and could be suffering from a variety of handicaps. During the 1980s, the disabled population changed significantly: in 1990, almost one-third of the disabled were female, 27 per cent had psychological handicaps, about one-third suffered from motor handicaps (mainly back disorders), and one-third were under 45 (Diagram 18). With respect to claimant categories, the proportion of civil servants has risen markedly (from 6 per cent in 1980 to 10 per cent in 1990) while the proportion of private-sector employees has fallen and that of self-employed and early disabled[28] has edged up.

Causes of the problem

The Social and Cultural Planning Bureau – a government body in charge of monitoring social and cultural developments – estimates that nearly 45 per cent of the increase in the number of disabled people over the 1970-88 period can be "explained" by **demographic factors,** defined as the increase in the number of insured working people, and the ageing of the labour force. On the other hand, the role of **health factors** is less evident, and according to generally accepted indicators – like life expectancy – health standards have improved rather than

Diagram 18. **DISABILITY: INFLOW, OUTFLOW AND COMPOSITION**



Source: Social Security Council.

deteriorated. Another important explanation, according to the Social and Cultural Planning Bureau, is to be found in the **specifications** of the relevant programmes and the way existing legislation is **implemented.** The threshold for entitlement is low, and the concept of disability is vague and hardly operational in a medical sense. According to a report published in 1987[29], medical counselling (by the Joint Medical Service, see Annex II) plays an excessively passive and permissive role, in that employees are allowed to leave the active labour force and enter the disability programmes without having to search actively for appropriate alternative work. Moreover, through a combination of disincentives and lack of incentives, the system discourages disabled people from taking any initiative to improve their situation[30]. Hence, the Social Security Council – which co-ordinates the implementation of social security programmes – considers that the system is structurally flawed in that once a person has been declared disabled this tends to become a permanent condition.

The disability system is also **very generous** and more attractive than unemployment or other social security programmes. Disability benefits continue until 65 years of age; the allowance level remains the same and the person receiving disability benefits is much less obliged to make efforts to find a new job or undergo training than a person receiving unemployment benefits. As a result, disability sometimes becomes a form of premature retirement. Disability benefits are also more attractive than other forms of welfare benefits; being related to last earned gross wage they can be considerably higher than social assistance. The position of the Netherlands in this respect is exceptional: Dutch disability replacement rates are not only considerably higher than those in virtually all other OECD countries (except Sweden), but they also exceed other public pensions, such as old-age and survivors, by a much wider margin than in other countries – in some of which, like Germany, disability replacement rates are in fact lower than other replacement rates[31].

For unskilled workers conditions in the Dutch **labour market** have been slack for several years, and the disability scheme may have been used by both employers and employees as an alternative to unemployment. For individual employers it is a cheaper and less contentious way to dispose of superfluous labour; for employees, as noted, disability offers better conditions than unemployment. Estimates of this ''hidden unemployment'' component in the number of disabled persons vary greatly: the Social Security Council puts it at 12 per cent, while the above-mentioned report published in 1987 suggested it was possibly as high as 50 per cent. Slack labour market conditions may also be one reason for the modest success of various rehabilitation schemes.

Some of the increase in cases of disability may have been linked to a discrepancy between tasks to be performed by employees and their skills (related to **educational levels**). Some 40 per cent of newly disabled persons had not completed secondary education (as compared to 13 per cent for the labour force and 32 per cent for the unemployed). Another factor may have been **working conditions** and the quality of working life. Almost half of newly disabled persons had been confronted with physically heavy work, as compared to 28 per cent for all employed persons. However, some of the root causes of the problem may have to be found in the permissive **socio-cultural climate** which has developed in the Netherlands[32] and which may also help explain why disability is a much more acute problem in the Netherlands than in other OECD countries.

The economic dimension of the problem

As was mentioned earlier, the number of disabled people currently represents 14 per cent of the labour force. When the high degree of absenteeism due to illness (some 6 per cent of the labour force), unemployment, old age and other forms of social assistance are included, this means that one employed person supports 0.86 recipients of social benefits (dependency ratio). Spending on disability amounts to some Gld 24 billion a year, or nearly 5 per cent of GDP; combined with spending on sick leave it reaches some Gld 34 billion, or nearly 7 per cent of GDP. The annual gross cost of disability benefits increased by over 40 per cent in the 1980s. Cuts in the rate of benefits from 80 to 70 per cent of the last earned wage, the freeze on nominal benefits from 1984 to 1990 and other changes in the disability scheme interrupted the upward trend in the middle of the decade, but it resumed in 1987 and accelerated in 1990 (Diagram 19). As a proportion of total social insurance expenditure, the cost of disability has also increased considerably – from 12 per cent in 1975 to nearly 21 per cent in 1989 (Table 12). As a proportion of GDP, the cost of disability has been on a downward trend since 1983, and in 1990 was somewhat lower than in 1980 (Diagram 19). However, as a result of the decline in the average age of disabled persons, the actuarial cost situation of the disability insurance system has deteriorated over this period. Since, under the present disability system, benefits are not

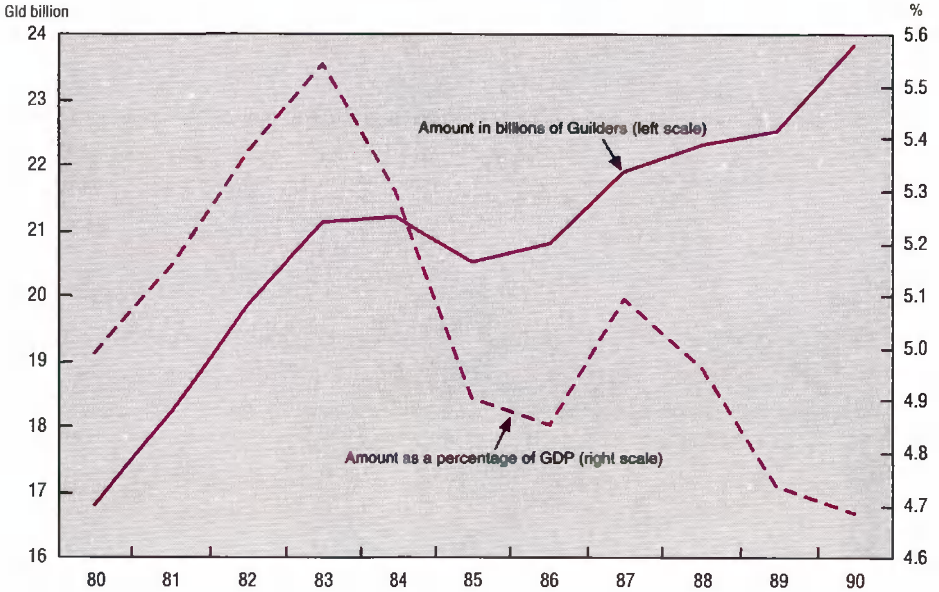
Table 12. **Spending on disability and sick leave in the Netherlands**

Per cent of total social insurance spending

	1975	1980	1985	1986	1987	1988	1989
Disability	11.8	19.9	20.0	20.0	20.0	19.8	20.6
Sick leave	10.1	9.9	8.0	8.5	8.5	8.9	9.6
Disability and sick leave	21.9	29.8	28.0	28.5	28.5	28.7	30.2
Total social insurance	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Ministry of Social Affairs and Employment, *Nota sociale zekerheid 1991*, (Report on Social Security 1991), Annex, Table V.2.

Diagram 19. **COST OF DISABILITY**[1]



1. Figures for 1990 are estimated.
Sources: CPB and Social Security Council.

related to the size and duration of contributions, young disabled people, in spite of their relatively low wages, can be expected to be more costly than older ones both because of a higher number of likely benefit-years and the lower amounts contributed to the system[33].

Spending on disability is very high compared to other European countries. According to a study by Eurostat, the Netherlands has by far the highest expenditure on disability and sick leave of all EC countries: 6 per cent of GDP in 1988, compared with 2.7 per cent for the EC average. The same year, combined expenditure on disability, sick leave and health care in the Netherlands exceeded 13 per cent of GDP, compared with an EC average of less than 9 per cent (Table 13)[34]. To finance the rapid growth in expenditure, disability contributions have increased sharply over the last decade, pushing total contributions to social security schemes (from employers and employees) from 26 per cent of compensation to employees in 1980 to 32 per cent in 1989 – the second highest rate in the OECD area (Table 14). Total contributions to the disability scheme and the sick leave scheme currently represent over 20 per cent of compensation of employees.

Table 13. **Social security expenditures on disability and health care in EC countries[1], 1989**

Per cent of GDP

	EC average	Netherlands	Germany	Belgium	UK	Italy	France
Disability	2.7	6.0	3.1	4.2	2.2	2.2	2.3
Health care	6.1	7.5	7.3	8.0	4.7	5.3	7.0
Total	8.8	13.5	10.4	12.2	6.9	7.5	9.3

1. 1988 for U.K. and EC average.

Source: Eurostat, *Social Protection Expenditures and Receipts 1985-89*, 1991, as reproduced in Ministry of Social Affairs and Employment: *Nota sociale zekerheid 1992* (Report on Social Security, 1992).

The scope for correction and its economic implications

For the Government, the proximate reason for tackling the disability issue may be budgetary, given the incompatibility of rising expenditures in this area

Table 14. **Social security contributions in selected OECD countries**

Relative to compensation of employees, total economy

Per cent

	Employees' contributions to social security schemes				Employers' contributions to social security schemes				Total contributions to social security schemes			
	1970	1980	1985	1989	1970	1980	1985	1989	1970	1980	1985	1989
Austria	8.6	9.6	10.7	11.0	9.0	11.5	12.9	12.8	17.6	21.1	23.5	23.9
Belgium	6.4	6.4	9.2	9.0	14.0	14.3	16.3	17.8	20.5	20.7	25.5	26.8
Canada	2.4	2.2	2.9	2.9	3.1	3.9	5.4	5.6	5.4	6.1	8.3	8.4
Denmark	2.2	0.8	1.8	2.0	0.7	0.6	1.7	0.2	3.0	1.4	3.5	2.2
France	4.9	8.3	9.6	11.0	18.9	21.1	22.8	23.1	23.8	29.4	32.3	34.1
Germany	8.4	9.9	10.7	10.9	9.9	12.0	12.8	12.9	18.3	21.9	23.5	23.8
Ireland	2.2	2.7	3.7	4.1[1]	2.7	5.3	6.7	6.7[1]	4.9	8.0	10.4	10.8[1]
Italy	4.0[2]	4.4	5.1	5.5	16.6[2]	18.0	18.5	20.4	20.6[2]	22.4	23.6	25.8
Japan	4.0	4.9	5.6	5.8	5.4	7.1	8.0	8.3	9.3	12.0	13.5	14.2
Netherlands	**10.5**	**12.3**	**17.1**	**17.0**	**11.3**	**13.9**	**15.4**	**14.7**	**21.8**	**26.2**	**32.5**	**31.6**
Norway	4.7[2]	4.7	5.5	6.3[1]	14.2[2]	14.0	14.2	14.9[1]	18.9[2]	18.6	19.7	21.2[1]
Portugal	4.5	6.3	6.8	7.4	7.3	9.9	10.0	12.4	11.8	16.2	16.9	19.8
Spain	2.8	5.1	4.6	4.3	11.2	17.7	19.5	20.3	14.0	22.8	24.1	24.6
Switzerland	3.3	5.3	5.3	5.5	3.5	5.3	5.3	5.4	6.8	10.6	10.6	10.9
Turkey	3.1[3]	4.4	4.7	5.8	5.2[3]	7.1	8.3	9.1	8.3[3]	11.5	12.9	14.9
United Kingdom	3.9	4.0	5.6	4.9	4.4	5.6	6.2	6.3	8.3	9.6	11.8	11.2
United States	3.8	4.7	5.3	5.7	4.9	7.3	8.3	8.1	8.7	12.1	13.6	13.8

1. 1988.
2. 1973.
3. 1972.

Sources: OECD, *Revenue Statistics of OECD Member Countries* and *National Accounts.*

with the budgetary targets, the pledge to stabilise the collective tax burden and the link between wages and social benefits. More fundamentally, however, a correction of the situation is urgently needed to reduce Dutch social security contributions and labour costs, which are very high by international standards and, more generally, to increase flexibility in the economy. Also, a better harmonisation with other EC countries on this matter and on social programmes in general, may be necessary in view of the introduction of the single market after 1992. However, when devising a corrective strategy, care should be taken to avoid merely shifting people from the disability scheme to other social security programmes without improving their labour-market situation.

Most of the corrective measures which have been under discussion in the Netherlands fall into five broad categories. First, **financial incentives/disincentives** could be strengthened to affect the behaviour of employers as well as employees and discourage the use of the disability scheme while encouraging the re-insertion of disabled persons. Second, **eligibility requirements** for entry into the disability scheme could be tightened through administrative measures and especially an effective medical "filtering system". In practice, however, the implementation of such a filter may be problematic, not only because of social and political factors, but also because of the difficulty of giving an operational definition to the concept of disability. Third, the distinction between **"social risk" and "professional risk"**, which was abolished in 1967, could be re-introduced. In the majority of other OECD countries such a distinction does exists, and for "social risk" cases benefit rates and duration depend upon the number of years of insurance[35]. One of the drawbacks of this option is that the determination of the nature of disability ("social" or "professional") is often contentious. More important, given the current rather permissive socio-cultural environment in the Netherlands and the fact that a growing proportion of new disability cases are due to psychological disorders which can be linked to occupational hazards (i.e. "professional risk"), the net result of reintroducing the distinction between these two categories could be less than hoped for. Fourth, the **quota system** could be maintained or even strengthened (see Annex II). The current system, which is contentious, is not legally binding, but firms are urged to employ a number of disabled people (the target is 5 per cent of all employees and the current level is 2 per cent). A legally binding quota system would include rewards and penalties for firms going beyond their quotas or failing to respect them. Finally, efforts to ensure reintegration of disabled people into the active labour force through **professional assistance in finding employment and retraining** could be reinforced.

Over the summer of 1991, the Government announced a series of measures to tackle the disability problem. These have been submitted to Parliament for approval. The measures can be summarised as follows:

- Financial incentives to **discourage** the use of the sick leave scheme by both employers and employees, combined with a bonus/malus system to discourage employers from laying off disabled workers and to **encourage** them to hire partially disabled workers;
- The introduction or expansion of company health-care programmes coupled with a strengthening of the co-ordination between administrative and medical services (Industrial Insurance Boards and the Joint Medical Service responsible for the medical examination of potentially disabled persons) to **prevent or reduce sick leave and access to the disability scheme;** and additional obligations on employers to redefine jobs for disabled employees who are no longer able to perform their previous duties. A medical filtering system will be implemented to **reduce abuses** and limit eligibility to genuine cases of disability;
- Measures favouring the **reintegration** of disabled persons: a wage cost subsidy for firms hiring a partly disabled worker through the mediation of the Joint Medical Service; an increased budget for the Joint Medical Service for re-education of disabled persons; the Joint Medical Service is to play an active role at an early stage of a person's evolution from sickness to disability to improve his chances of returning to work, and is to set up, in co-operation with the Industrial Insurance Boards (responsible for the counselling of workers on sick leave) a "return-to-work plan" and "re-integration talks" with persons who have entered the disability scheme;
- Measures aiming at **reducing the generosity** of the system. Disability payments at the level of 70 per cent of last annual earnings are to be limited to a fixed number of years (varying from one to five according to the age of the claimant), rather than continuing until the retirement age of 65, as is presently the case. After this fixed period, benefits are to be reduced to only 70 per cent of the legal minimum wage plus an addi-

tional allowance, again directly related to the age of the claimant when entering the scheme (see Annex II). Moreover, the concept of disability is to be sharpened by defining it as a loss of earning capacity relative to any job which the disabled person could perform, rather than being related solely to the person's previous or comparable employment, as under the present system (Annex II). In the area of sickness, benefits above the level of 70 per cent of the last annual earnings can no longer be re-insured at preferential rates with the social insurance system.

Through these measures, which are expected to become effective from 1st July 1992, the Authorities aim to reduce by half the anticipated increase in the number of disabled persons between 1989 and 1994. Without any measures the number of disabled was projected to increase from 845 000 in 1989 to 1 029 000 in 1994; with the measures it is projected to increase to 977 000[36]. At the same time, sick leave in terms of benefit years is projected to be 295 000 in 1994, instead of 358 000 as would have been the case without measures. The combined saving for the disability and sick-leave schemes is expected to be of the order of Gld 4 billion in 1994. Achieving these targets requires not only that Parliament enacts the proposed measures in their current form, but also sustained efforts from the administration, the social partners and the medical service to ensure a successful implementation.

Over the longer term, given the seemingly exceptional magnitude of expenditure on disability, the scope for savings would appear considerable, perhaps well beyond that implied by the 1994 target. But it is not easy to estimate it. If expenditure on this account, as a proportion of GDP, were somehow reduced to the EC average, this would have represented a direct savings of over Gld 13 billion in 1990, cutting the actual cost of disability by nearly 55 per cent. Of course, such a mechanical calculation is particularly arbitrary. Gauging the scope for correction on estimates of the hidden unemployment component in disability – which vary from 10 to 50 per cent – gives widely different quantifications of potential savings, ranging from Gld 2½ billion to Gld 12 billion. According to the Authorities, savings from the proposed measures will grow over time to some Gld 7.5 billion a year. Although the reduction in the number of disabled is sought primarily through a reduction in the inflow rather than an increase in the outflow, the proposed changes will be accompanied, at least for some time, by appropriate but expensive flanking measures to ensure the retraining and reinsertion of the disabled.

Direct cost savings for the government budget, however, might not be the most important benefit of tackling the disability problem. A reduction in disability expenditure which translates into a significant cut in the onerous level of social security contributions can be expected to reinvigorate the labour market – both on the demand and the supply side – and increase the potential non-inflationary rate of growth of the economy. Higher, non-inflationary growth would, in turn, greatly benefit the whole economy, including public finances. This, perhaps more than direct budgetary cost savings, could be the way a correction of the disability situation would contribute to fiscal consolidation. GDP per capita and economic welfare would also increase as a result of a reduction in the number of persons in the disability scheme, although the absorption of some of these people into the active labour force would probably entail the creation of low-productivity jobs, somewhat in contrast with the high level of productivity of the Dutch economy as a whole. This favourable productivity situation may have both enhanced the growth in the number of disabled and have been enhanced by it – because of the absorption in the disability scheme of the least productive workers. In addition to the flanking measures mentioned above, the reinsertion of low-productivity workers in the labour market would be facilitated by greater flexibility in the labour market in general and especially with respect to wage differentials.

Subsidies

In the Netherlands, as in many other OECD countries, the Government employs a plethora of subsidy programmes – some 750 in 1989 – supporting specific activities in the pursuit of a variety of goals, such as protecting the environment, securing the supply and/or purchase of goods and services that are deemed to be essential – prominent examples of the latter being housing, public transport and education – encouraging new industries and fostering technology[37]. Despite repeated attempts to curb them, subsidies remain an important expenditure item on the government budget: at some Gld 35 billion (excluding EC subsidies) they represent 15 per cent of current government expenditure or 7 per cent of GDP. Government expenditure on the 25 main subsidy schemes – covering around 80 per cent of total expenditure on subsidies – has doubled as a share of GDP from 3 per cent in 1975 to 6 per cent in 1990 (Table 15 and Diagram 20). To some extent, the ballooning of subsidies has reflected a change in attitudes after the wave of social renewal in the 1960s, which advocated equal "rights" for all levels of society to basic needs, such as housing of good quality, education, employment and social care. Growth in government expenditure on subsidies was particularly vigorous in the second half of the 1970s when many subsidy schemes were created or extended with a view to broadening access to these facilities at affordable prices.

The shortcomings of subsidy schemes have become increasingly evident. First, the institutional and legal framework behind the programmes has often

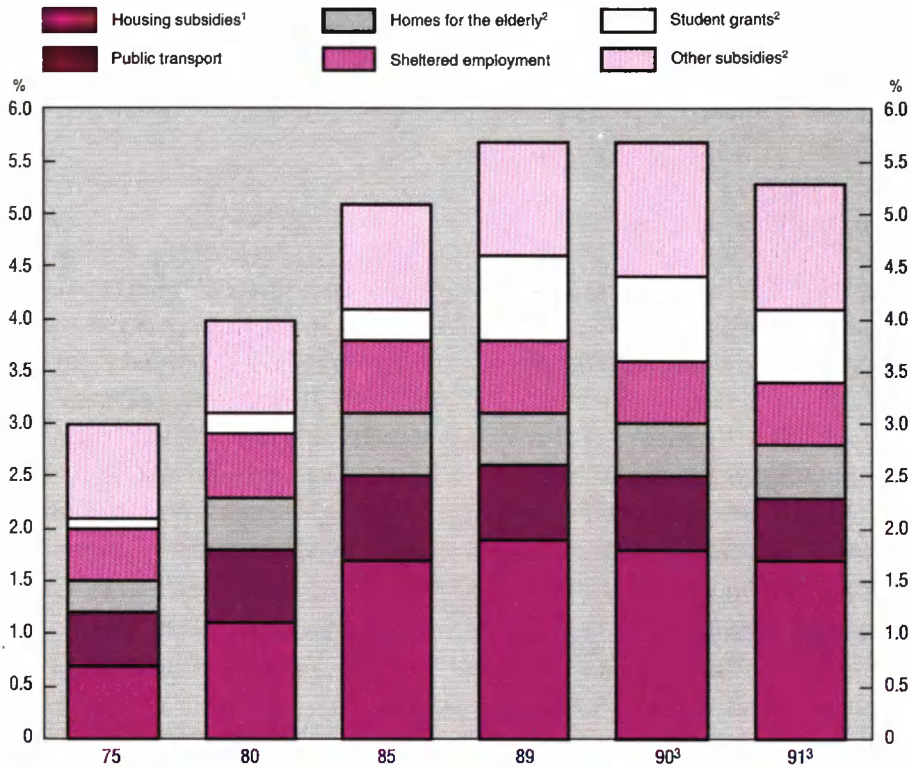
Table 15. **Government expenditure on the main subsidy schemes**

	1975/80	1980/85	1985/89	1990[5]	1991[5]	*Memorandum item* 1989
	Annual average growth rates					Billions of guilders
Housing subsidies[1]	18.3	13.9	6.0	0.8	–0.1	9.1
of which: "Object subsidies"	15.0	15.6	6.2	1.1	–2.0	7.3
"Subject subsidies"	32.2	8.4	5.3	–0.6	8.2	1.8
Public transport	18.4	8.0	–0.2	–2.0	–5.7	3.4
Homes for the elderly[2]	26.5	4.5	1.4	6.6	1.8	2.6
Sheltered employment	15.1	7.2	1.3	4.2	0.0	3.1
Student grants[3]	20.4	10.1	33.4	4.9	–13.5	3.9
Other subsidies[4]	8.7	8.3	5.8	19.2	–1.7	5.4
Total	16.3	9.4	6.2	5.6	–2.9	27.5
	1975	1980	1985	1989	1990[5]	1991[5]
Total as per cent of GDP	2.9	4.1	5.2	5.8	5.7	5.3

1. Excluding urban renewal, included in "Other subsidies".
2. 1973/80 and 1981/85 instead of 1975/80 and 1980/85.
3. Excluding children allowances for 1975/80 and 1980/85.
4. 1975/80, 1980/85 and 1985/89 OECD Secretariat estimates. Including programmes concerning urban renewal, industry support, cultural activities, research and development, regional development, refugees, welfare and energy saving.
5. Preliminary figures.

Sources: CBS, *Nationale Rekeningen;* Ministry of Housing, Physical Planning & Environment, *Volkshuisvesting in Cijfers 1990,* Zoetermeer, 1991; Ministry of Finance, *Subsidies: een analyse van de actualiteit, effectiviteit en doelmatigheid,* The Hague, 1991; OECD Secretariat estimates.

Diagram 20. **THE MAIN SUBSIDY SCHEMES**
Expenditure as a percentage of GDP



1. Excluding urban renewal.
2. See Table 15.
3. Preliminary figures.

Sources: CBS, *Nationale Rekeningen*; Ministry of Housing, Physical Planning and Environment; Ministry of Finance and OECD Secretariat estimates.

contributed to difficulties in keeping the number of beneficiaries and the associated money flows in check. In many cases, subsidies were created in the absence of reliable estimates of the potential number of users, while, moreover, the sums to be paid were made dependent upon factors which could not always be controlled by the authorities[38]. Second, most of them tend to produce rigidities, especially in the labour market, and third, some subsidies fail to achieve their goals. The authorities acknowledge that there is considerable scope for reducing the number and size of subsidy programmes, but a consensus as to how and where these reductions should take place is still lacking. The following paragraphs consider the most important schemes in some detail. Since industrial subsidies in the Netherlands are relatively unimportant (around 3 per cent of total subsidies[39]) and quite small by international standards, the discussion will focus on subsidies primarily accruing to households.

Housing subsidies

In the 1970s and 1980s, the growth of subsidies was particularly strong in the area of housing. But while the emphasis in the 1970s was on income-related "subject" subsidies – e.g. subsidies accruing to households with below average income paying relatively high rents – in the 1980s growth was concentrated on supply-related or "object" subsidies – e.g. subsidies accruing to bodies responsible for the supply of social dwellings. As indicated below, subject subsidies have proved to be more efficient than object subsidies in reaching their aim of affordable housing for lower income groups, but they seem to create more distortions in the form of high effective marginal tax rates (the "poverty trap")[40].

Subject subsidies were introduced and later extended to the entire rental sector in the 1970s. They grew further in the 1980s mainly because the increase in normative rents (the maximum appropriate rents related to household income and set by the Authorities) lagged average actual rent increases. Object subsidies were extended in the 1980s to dwelling improvement and were raised to match the increase in interest rates. Moreover, the construction of subsidised dwellings under the Building Programme was gradually stepped up. In addition to these planned increases, expenditure on housing subsidies was also boosted by developments which have appeared hard to control, including the following:

- **Legal rent increases,** which play a central role in overall incomes policy and hence are a sensitive issue, **have been too low** to cover the surge in capital cost resulting from the persistent high level of interest rates since the end of the 1970s. As a result, object subsidies – which repay to Housing Associations and other social investors the difference between actual costs and revenue from rents – have risen accordingly. Recently the Government decided to raise the annual rent increase from around 3 to 5½ per cent, in order to speed up the gradual phasing out of object subsidies, which began in 1989 (see Annex III)[41]. Furthermore, since subsidies for non-fundamental dwelling improvements have been abolished, future object subsidies have been cut considerably (by an estimated Gld 1.5 billion in 1995).

- The Housing Authorities' expectations of future legal rent increases turned out to be too optimistic. As a result, **redemptions** of mortgages used to finance the construction of social dwellings in the second half of the 1970s **were initially too low.** A speeding-up of redemptions has been initiated by the Authorities, leading to a greater need for object subsidies in the short and medium run (but, it is hoped, a smaller one in the long run)[42].
- **The ageing of the population and the higher divorce rate** have pushed up the number of small households while simultaneously reducing the income per household – a development contributing significantly to the rise in the number of recipients of income-related "subject" subsidies. The number of beneficiaries has grown from 456 000 in 1980 to 980 000 in 1990, when 31 per cent of rents were covered by this scheme.

Although object subsidies have been created to provide high quality housing at affordable prices, over one-third of these subsidies accrue to persons with higher than modal incomes[43]. This is mainly due to a lack of incentives to move up the housing ladder when household earnings rise, a phenomenon which tends to create an excess demand for social dwellings. Eligibility for social housing is income tested by the Housing Authorities only when a person registers as a house seeker; once a social dwelling is occupied, no further income tests are undertaken. Despite the fact that the share of subsidised housing in the total stock of dwellings is the highest in the OECD area (see Annex III), the government is under continuous pressure to increase their number further. The authorities have introduced special object subsidies to encourage people with relatively high incomes to move up the housing ladder ("premium C" and "rent premium", see Annex III)[44]. These subsidies seem to be much too small in view of the size of the gap between the cheap regulated sector and the relatively expensive free-market sector. These subsidies are therefore ineffective and appear to benefit essentially those who, even without them, would have moved up to the free-market housing sector. Another problem with object subsidies is that they tend to make the government budget more inflexible because current subsidies reflect past commitments and can be curbed only gradually through higher rent increases.

In general, subject subsidies tend to produce mismatches in the housing market. Since these subsidies repay part of the rent, municipalities, which are in charge of allocating social dwellings, have no incentive to devise rationing rules aimed at allocating the cheapest rental accommodation to households with the lowest incomes: subject subsidies, although paid by municipalities, are fully funded by the central government. As a result, the demand for subject subsidies can be seen as reflecting, to a certain extent at least, a misallocation of social dwellings at the local level. If subject subsidies were not fully financed by the central government, municipalities would probably find ways to improve the allocation of social dwellings and thus reduce the cost of the subject subsidy scheme.

Housing subsidies, like many other subsidies, tend to create distortions, especially in the labour market. One major example of a distortion due to **subject** housing subsidies is the associated increase in effective marginal tax rates. This carries the risk of creating, or aggravating the ''poverty trap'', broadly defined as a situation presenting a strong disincentive to participate in the labour market or, more generally, to improve one's income. This risk is compounded by the cumulation of social benefits which is a predominant feature of the Dutch welfare system. Due to their specific characteristics, such as low income, family status, old age, disability etc., various social groups are eligible for several support schemes at the same time. For instance, about 40 per cent of beneficiaries of subject subsidies are eligible for other conditional government transfers, such as disability, unemployment and welfare benefits[45]. One effect of this cumulation is that it increases the loss of income-dependent social benefits caused by a rise in gross (wage) income[46]. Another effect of cumulation of benefits is that an across-the-board cut in support schemes would hit disproportionately households which depend on more than one scheme. As for **object** housing subsidies, since they are not systematically income- and wealth-tested (see above) and because of uncertainties concerning the availability of social housing in other regions and the risk of having to queue again, they may discourage people from accepting jobs in different regions.

Other subsidies

Among the other subsidy schemes, the most important in terms of expenditure are subsidies for public transportation, homes for the elderly, sheltered employment for handicapped workers and student grants, which will be successively discussed.

Public transport companies have been receiving large and growing subsidies. The central government currently finances a substantial proportion of their budgets: 45 per cent for the railway system, 60 per cent for local transport companies and 77 per cent for city transport companies – percentages that are high compared with other OECD countries (see Table 16)[47]. The main problem is that there is little incentive to reduce costs, as the system seems to penalise efficient companies[48]. Another major reservation about these subsidies is that public transport companies lack autonomy, as they have been placed under legal restraint in exchange for a regular provision of subsidies. For example, urban and regional public transport companies are not allowed to pursue an independent fare policy, nor are they allowed to set up their own timetables independently of the central government. They cannot therefore react to market signals which are in any case distorted because the revenues from fares are not collected exclusively by the individual companies. Under the current system, the central government also collects, from various sources, a proportion of the fares. This revenue is then redistributed to the companies according to their share in the total number

Table 16. **Subsidies to urban public transport and railway companies in selected OECD countries**

	Urban public transport[1]	Railways[2]
	Percentage of operation cost	
Netherlands	**>70**	**44**
Germany	30-50	31
Belgium	>70	54
France	50-70	28
United Kingdom	10-30	29
Denmark	n.a.	35

1. 1982; France 1980.
2. 1985.
Source: Centraal Planbureau, *Collectieve uitgaven in historisch en internationaal perspectief,* Working Paper No. 38, The Hague, December 1990.

of passenger-kilometers[49]. In coming years, new standards linking subsidies to the performance of the public transport companies will be introduced and the Authorities expect that they will result in a more efficient allocation of financial resources.

As in the case of public transport, the rapid increase in subsidies for **sheltered workshops for handicapped workers** seems to have been due, at least in part, to a perverse incentive structure. Under the Sheltered Employment Act 1969 local authorities or private foundations set up sheltered workshops for partially handicapped workers. These workshops should provide temporary work for the partially handicapped with the aim of improving or maintaining their skills. While generating some own means by selling their products, the workshops are mainly financed by subsidies. The number of workers in sheltered workshops has steadily increased from 44 000 in 1972 to 82 000 in 1989[50]. The workers are considered to be unemployed and are required to accept a suitable offer of a regular job outside the sheltered circuit.

The performance of the present system of sheltered workshops has been largely unsatisfactory. First, the number of workers reinserted into the regular labour force has not lived up to expectations[51]. Incentives for re-entry into the regular labour market are low, both from the perspective of the employer and the employee. As regards the employee, his salary is usually higher in the sheltered workshop than his potential salary on the regular labour market. At the same time, workshop employers are reluctant to give up their most productive workers (who are generally the ones receiving offers of regular jobs). By remaining in the workshops these workers occupy jobs which are not meant for them. Second, although the system has been designed to facilitate work experience for partially handicapped workers, about 40 per cent of workers in sheltered workshops are not eligible for a disability benefit. This group consists mainly of long-term unemployed who cannot find a job because of their inability to adapt to a normal work environment. Both factors lead to lower efficiency levels in the system than could otherwise have been attained. To redress this situation, the Government introduced a budget system in 1989 to stabilise the costs and to improve the efficiency of the sheltered workshops.

In the case of **homes for the elderly,** legal restraints by the responsible Authorities (the provinces and the four major cities) on further growth in the number of beds have led to higher subsidies[52]. As the most urgent cases are given priority, the average age of occupants and their degree of infirmity has increased, forcing the homes to reduce their occupation-rate. This has led to a drop in revenue from own-contributions. As a result, subsidies have had to be increased both in absolute terms and as a proportion of operating costs. There seems to be considerable scope for cost reduction through economies of scale[53], but since the budget of these homes is largely predetermined and consists partly of lump sums which are the same for all homes irrespective of their size, there is little incentive for mergers and other forms of scale increases that could lead to greater efficiency. Another factor possibly discouraging efficiency, is that budgets for individual homes are based on historical costs and not on normative costs, even though, at present, there are striking differences in costs per bed between individual homes.

In the case of **financial support for students,** growth in subsidies has been primarily the result of a widening of possibilities for students to obtain grants. After the push for equality of opportunities in the 1960s, financial aid for students was made available in the 1970s to all students needing income replacement, culminating in a relatively generous system by international standards[54]. In the second half of the 1980s, expansion of student grants picked up again, as the number of students soared after the weakening of the labour market in the wake of the 1981/82 recession. At the same time, students in secondary education – excluded from financial support before – were offered facilities similar to those for students at universities.

Public sector efficiency

Policies to enhance government efficiency

Greater productivity in the public sector would seem an ideal response for countries struggling with fiscal consolidation or facing the challenge of meeting renewed spending pressures without raising taxes. Given the size of the public sector in OECD economies, even a small improvement in productivity can have a significant impact on the balance between total public expenditure and revenue. It is thus not surprising that over the last decade or so, many OECD countries, including the Netherlands, have put in place a wide range of measures aimed at improving efficiency in the use of resources by the general government, cutting personnel expenditure, and reducing the size of the public sector. The approach currently followed in the Netherlands is fairly comprehensive, although the results expected are rather modest compared to total government expenditure. The theoretical underpinning is similar to that of other countries and seeks first, to improve the management of the public sector by introducing market discipline and market processes; and second, to encourage greater private sector involvement in public projects – a process which can extend to full "privatisation" of state-owned enterprises.

Since 1983, the Dutch Government, and more specifically the Ministry of Home Affairs, has been engaged in several efficiency operations which can be summarised as follows:

- The **first efficiency operation,** which covered the period 1983-86, is known as the "2 Procentsoperatie". Its aim was an across-the-board reduction of 2 per cent per year in the number of civil servants in the central government, to be achieved not only through attrition, but also through outright lay-offs. The services excluded were the police, justice, taxation and foreign aid services. This very simple method (known as the "cheese slice method") did not rest on any specific evaluations or estimates of productivity growth. The number of civil servants was in fact reduced broadly as planned but, as a result of increased employment in excluded services and a reduction of the working week, total employment in the central government decreased only from 175 000 in 1983 to 172 000 in 1986.
- The **second efficiency operation** covered the period 1987-90 and is known as the "Aflankingsoperatie" ("slimming operation"). It was based on a more differentiated plan than the first operation and its aim was to reduce the number of civil servants in the central government by 3 per cent per year, or some 25 000 over the four-year period, of which 10 000 through privatisation and decentralisation. The main areas targeted for privatisation were Welfare Departments, the Sea Pilots Department, and sections of the Department of Water Control (Rijkswaterstaat). This operation was due to yield an annual reduction in government expenditure of up to Gld 1 billion by 1990, equivalent to ½ per cent of total central government expenditure. It rested on the assumption that, as in the private service sector, productivity would

grow at 1 per cent per year and that an additional saving of 2 per cent per year could be gained through a reduction in bureaucracy. To reach these targets, every ministry made a plan to improve efficiency and to reduce bureaucracy.

- A **third efficiency operation** is planned for the years 1991-94, this time involving not only the central government but also local authorities. It consists of two tiers: a "small" and a "large" efficiency operation. The small efficiency operation essentially aims at reducing employment and enhancing productivity within each ministry and department. Productivity is expected to grow by ½ per cent a year which, combined with wage increases of ¼ per cent, would result in a reduction in wage costs of ¼ per cent a year. The "large" efficiency operation entails a general reorganisation and restructuring of activities in the public sector, aimed at abolishing duplication of work in different departments and decentralising tasks. Through this operation the Dutch Government intends to improve the quality and efficiency of the Administration. Present national estimates suggest that this should lead to the elimination of some 6 000 jobs at the Central Government level – mainly through attrition and the termination of certain services. According to the 1992 Budget, the "large" efficiency operation should result in a reduction in expenditure of Gld 1.3 billion in 1994 for the whole public sector (less than ½ per cent of total public expenditure).

Assessment of efficiency policies

Both earlier operations were broadly successful in reaching their employment targets, although there were some delays in other respects – about 10 per cent of privatisations envisaged under the second operation have still not been completed. This does not mean, however, that total government expenditure has correspondingly declined. In the case of the first efficiency operation particularly, some departments relied partially on contracting out to achieve the aimed for reduction in the number of civil servants; and, of course, privatisations – which were a prominent feature of the second operation – require more contracting out, as the privatised services must now be procured on the market. Hence, support activities such as cleaning, catering, printing, training and computer services have increasingly been contracted out to private companies and government services which have been incorporated into limited companies[55]. Growing emphasis on automation, reorganisation and restructuring of the public administration has also resulted in an increase in contracting out.

While this trend has been in line with the authorities' stated policy of enhancing the role of the private sector in fulfilling the tasks of the public sector, it is difficult to say whether it has had a positive effect on government expenditure. Contracting out can be a useful instrument since through competitive tender it brings market forces to bear. But its successful implementation requires the existence of a reasonably large number of suppliers of the relevant services – a requirement which does not always seem to be met in the Netherlands, notably in the case of the Mint and the Sea Pilots Department. Moreover, the expected gains need to be judged against the costs of contracting out. Transactions and administrative costs will increase especially when it is difficult to judge the quality of the services contracted out, when the potential cost of defaults is high, and when frequent tendering is necessary to ensure competition. For all these reasons, it is difficult to assess whether contracting out leads to a net reduction in government expenditure[56]. However, the Dutch authorities are confident about the positive role of contracting out. They stress that all relevant decisions have been taken on the basis of elaborate studies indicating that this form of privatisation can lead to greater efficiency in performance and, directly or indirectly, to positive financial effects for the government.

The authorities also believe that the economic and financial performance of government services which have been incorporated into limited companies has increased. They mention evaluations by independent private experts which have shown that in certain cases[57] privatisation has resulted in a remarkable improvement in efficiency – of the order of 20-40 per cent in terms of personnel – as well as better profitability and client relations. On the other hand, a few years ago the assessment by the General Audit Office of the 1988 privatisation of the Sea Pilots Department – the first such operation in the Netherlands – was rather negative. Not only had current government expenditure not decreased following the privatisation, but the government faced potential future costs since it had guaranteed to pay sea pilots' wages in case the new company was unable to do so. However, according to the authorities, a new investigation shows that from an efficiency point of view, the privatisation of the Sea Pilots has been a distinct success: the services rendered to the shipping industry have improved, while the number of sea pilots employed has been reduced. Moreover, the government is taking measures to make the Sea Pilots Company financially more independent, thereby removing the disadvantageous budgetary consequences for the government.

Another important aspect of these efficiency operations is that there are often once-off costs and a need for additional investment as departments must be reorganised and certain tasks computerised in order to compensate for the loss of personnel. Hence, there are trade-offs between immediate cost and savings and dynamic efficiency considerations. According to the General Audit Office (Algemene Rekenkamer) the net effect on government expenditure of the past two efficiency operations is likely to have been negative, at least for the time being. A worrying development has been the rise in the number of ex-civil servants with an unemployment allowance – including a special allowance created in the framework of the second efficiency operation which is more generous than the normal unemployment allowance. Moreover, workers in education and health care have been accounting for a growing proportion of the newly disabled. In the education sector disability has increasingly been due to mental problems linked to a heavier workload and job stress. With respect to the ongoing operation, the authorities estimate that reorganisation costs and trade-offs may represent 20 per cent of gross budgetary savings. Past efficiency operations have also been accompanied by a considerable increase in the number of temporary workers on the public sector payroll.

Despite all the authorities' efforts to promote productivity, the Central Administration is of the opinion that it is difficult, or even impossible, to measure the enhancement of labour productivity in the public sector, because output is often hard to identify and hence hard to measure in terms of quality and quantity. While it may indeed be impossible to assess with any accuracy the impact of the various efficiency operations on productivity in the public sector as a whole, it is nonetheless interesting to note that since 1983 (when the first operation began) government employment as a percentage of total employment has decreased in the Netherlands – from 16.2 per cent in 1983 to 15.5 per cent in 1988 – while it has increased, on average, in the smaller European countries – from 18.1 to 18.3 per cent. For an earlier period, work carried out by the Social and Cultural Planning Bureau points to generally declining trends in total and labour productivity in large segments of the Dutch public sector[58]. Labour productivity in the delivery of final public services, such as education and health care, was found to have fallen on average by 0.2 per cent per year over the 1975-1986 period[59]. According to these calculations, productivity declined in the 1970s and levelled off in the 1980s. In terms of subsectors, over the 1975-1986 period, education and health care recorded productivity losses, law enforcement and especially tax and social security agencies recorded gains, while in public transport productivity remained unchanged. Total productivity was found to have declined by more than one per cent a year over this period, with tax and social security agencies being the only subsectors recording an increase[60].

In addition to this trend analysis of productivity, the Social and Cultural Planning Bureau has done a considerable amount of work on the production structure of a selected number of producers of final public services, including homes for the aged, the police, public libraries, primary and secondary general education and courts of justice. To explore the question of scale effects, cost functions were estimated for homes for the aged and city police. In both cases, the results show increasing returns-to-scale up to a certain level of production which, in terms of labour-years, varies depending on the kind of service produced. After this optimum level, diseconomies of scale set in. Hence, scale of production seems to play an important role in explaining differences in productivity between individual producers.

Final remarks

Efforts to reduce the government's claim on resources by means of enhanced efficiency in the public sector are certainly welcome, even though savings may be quite modest in relation to the required fiscal consolidation. Given their relative size and distortionary impact, social welfare programmes – notably the disability and subsidy schemes, including housing subsidies – would need to bear the brunt of corrective measures and cuts in government expenditure. These measures could take the form of across-the-board reductions in benefits; reductions of benefits for specific categories of claimants; or a more strict case-by-case filtering with the aim of reducing the number of claimants. While the first approach may be appealing because it is relatively easy to implement, it carries the risk of unduly penalising people who genuinely need social assistance. On the other hand, the second and third approaches may be better from a social viewpoint, but are likely to involve heavy administrative costs. The complexity of the problems involved and the necessity of redressing the situation fairly rapidly, point to the need for a package of measures which would strike a balance between these approaches.

IV. Conclusions

The performance of the Dutch economy, which had been one of the best among OECD countries in 1988-89, was again positive in 1990, but in the course of the year and in the first half of 1991 the situation progressively changed. Growing evidence suggests that the period of rapid growth with practically no inflation may have come to an end. The present slowdown reflects weakening domestic demand after the buoyant conditions of the preceding years. However, up to mid-1991, its impact on economic activity has been cushioned by vigorous export growth driven by expanding demand in Germany after unification. Nonetheless, the sustained decline in unemployment which had been observed in the second half of the 1980s lost some momentum early in 1991, and the long-term rise in business sector profitability seems to have come to a halt. During 1990, growth in real wages in the private sector accelerated and exceeded productivity gains so that real unit labour costs increased. Inflation, as measured by the year-on-year increase in the consumer price index, has accelerated to 4½ per cent in the third quarter of 1991, partly due to policy measures (increases in rents and excise taxes) desirable from the point of view of structural adjustment. For 1991 as a whole, inflation is estimated to have been 3¾ per cent, compared with an average of less than 1 per cent for the 1987-1990 period.

The outlook is rather mediocre. If the rate of growth of GDP is projected to decline only to around 2 per cent in 1992, it is due to the expected strength of net exports: the progression of total domestic demand is expected to decelerate to around ½ per cent – one of the lowest rates in the OECD area. With employment growth tapering off and stagnating real income, household consumption is likely to slacken appreciably in 1992. Reflecting a further decrease in the number of subsidised dwellings to be built, high interest rates and weak real income growth, residential construction is expected to continue to decline. The progression of private non-residential investment could also turn negative in 1992. Unemployment is likely to edge up again. Inflation may decelerate to around 3½ per cent, as a more rapid increase in import prices should be broadly offset by a lower progression of wage costs (owing to a reduction in employers' contributions) and somewhat greater productivity gains. With exports representing about 60 per cent of GDP, there is a distinct risk that if the economic recovery in the OECD area is weaker or later than projected, the Dutch economy could slacken markedly in 1992. On the domestic side, the most significant risk is that the increase in consumer prices may start interacting with wages and lead to a period of wage pressure after years of restraint. But recent collective agreements and current wage claims seem to justify confidence in continued moderation.

Economic policy has little leeway to mitigate the deceleration of activity. Monetary policy is determined almost exclusively by the commitment to a firm exchange-rate link with the Deutschemark. This arrangement provides a credible anti-inflationary anchor which enhances confidence in the currency – witness the progressive reduction in interest differentials vis-à-vis Germany. It also means that, barring a major weakening of the Deutschemark, Dutch interest rates will have to remain high and largely follow German rates. In any case, given the acceleration in inflation and the risk of a price-wage spiral, a relaxation of monetary policy would be inappropriate on domestic grounds. As for fiscal policy, despite a number of years of consolidation and some progress, it is still not on a sufficiently sound footing. The public debt in relation to GDP remains above the OECD average and is rising. The budget position is currently adversely affected by the economic slowdown and high interest rates. The situation is further complicated by the conditional "link" between contractual wages in the private sector – which have been accelerating – and social security benefits. According to the Coalition Accord of 1989, the budget deficit is to be reduced progressively from its 1990 level of 5¼ per cent of Net National Income to 3¼ per cent in 1994. As in other OECD countries where budget consolidation has not yet brought the public finances to a sustainable position, it is essential that the Dutch authorities keep to the annual targets of their medium-term fiscal programme, taking such discretionary action as is required to that end, even if for a time this means overriding the "automatic stabilisers". Failure to meet announced budget objectives, even if attributable to temporary demand weakness, would undermine the credibility of the medium-term strategy. Over the summer of 1991, the Government announced a new series of measures, mainly concerning the disability scheme. According to the authorities, these measures will be sufficient to reach the budget targets, and the public debt in relation to GDP will stabilise in 1992. As for the "link", the Government has fixed the increase in social benefits in 1992 at 3 per cent.

Although cyclical factors play some role, the problem of Dutch public finance is essentially a structural one. It is true that the process of fiscal consolidation has made considerable progress since 1982. The share of public expenditure in GDP has fallen substantially, with wages, investment, and to a lesser extent, social transfers bearing the brunt of this reduction. On the revenue side, the drop in yield from natural gas extraction was partially offset in 1989 and 1990 by the sale of financial assets, while the burden of taxes and social security contributions stabilised. Nonetheless, the gradual reduction of the budget deficit, as noted above, was insufficient to prevent the public debt from rising as a percentage of GDP. It is regrettable that the Dutch Authorities did not use the conjunctural upswing to aim for more ambitious targets, as some other OECD countries have done. From now on fiscal consolidation may be more difficult, given both the deceleration in growth and the need for more room to manœuvre to finance the necessary improvement in infrastructure, especially in the transport area, and the higher cost of protecting the environment. The Government's commitment not to increase, and if possible to decrease, the "collective burden", – which is high by international standards and undermines economic incentives – is welcome. All things considered, sustained fiscal consolidation has to rely on a major overhaul of social security benefits and subsidies, particularly those to households, along the lines of the recently-announced measures.

Despite repeated attempts to curb it, expenditure in these areas has recorded a rapid increase during the 1980s and currently represents almost 60 per cent of total public expenditure. The most alarming development in this respect undoubtedly has been the relentless growth in the number of the disabled. At the end of 1990, nearly 900 000 people were receiving disability benefits – an increase of over one-third since 1980, and corresponding to 14 per cent of the labour force. Combined with sick leave, spending on disability represents nearly 7 per cent of GDP. As to subsidies, shortcomings in the arrangements have become increasingly obvious. First, their share of GDP has risen without interruption since the late 1960s, as new programmes, mainly in the areas of housing and welfare, were created without reliable estimates of either the potential number of claimants or the future development of determinants of entitlements per claimant. Second, some subsidies accrue to people who do not belong to the original target group. For instance, as there is no systematic income or wealth testing, over one-third of object subsidies that have been created to provide high quality housing at affordable prices, accrue to persons with higher than modal incomes. Third, as noted below, subsidies tend to create rigidities, mainly in the labour market.

Without calling into question its central tenets, the welfare system should be refocused and made less generous in terms of eligibility and benefits. For instance, the Dutch disability system is unique in its low thresholds for entitlement, the lack of distinction between "social risk" and "professional risk", and its generosity in terms of the level and duration of benefits. The measures recently announced with respect to disability aim at reducing substantially the level of benefits, strengthening prevention, and enhancing the re-integration of disabled persons into the labour market. The package also includes financial incentives for employers and employees to limit the use of the disability scheme. Finally, eligibility requirements will be tightened. These measures undoubtedly represent an important step towards tackling an unsustainable situation. Their successful implementation, however, will require continued efforts and support from the administration, the social partners and the medical service, representing a drastic change in behaviour of all parties involved.

A complementary way to help public finances is through initiatives to enhance productivity in the public sector. The approach currently followed in the Netherlands is quite comprehensive and the expected savings will certainly be welcome – even if they are rather modest compared with the medium-term targets for reduction of the budget deficit. While it is obviously too early to pass judgement on these new "efficiency operations", the results of previous and admittedly less sophisticated "operations" seem to have been mixed. The targets for cuts in the number of civil servants were largely achieved, but government expenditure did not decrease correspondingly, as some departments relied partially on contracting out to compensate for the loss of personnel. There was also a rise in the number of ex-civil servants with an unemployment allowance or a disability pension. Therefore, unless the reduction in personnel occurs progressively through attrition it may lead to a temporary increase in social welfare payments. More generally, efficiency operations often require once-off costs and additional investment while expenditure savings usually appear in the long run. The authorities consider that from an efficiency point of view privatisation of public services has been a success. But for the time being at least, the net impact on the government budget has not always been positive.

Reform of the system of social protection is not only crucial for further progress in fiscal consolidation, but also for an improvement in the overall performance of the Dutch economy. The present system is the source of important distortions in the labour market and adds to tensions between labour supply and demand, contributing to persistent underemployment. There are clear indications that the generosity of social benefits and the high effective marginal tax rates implicit in income-dependent subsidies create strong disincentives to work and underlie the exceptionally high dependency ratio in the Netherlands, where one employed person supports almost one person on social benefits. The financing of these benefits entails a considerable fiscal burden, such that the "tax wedge" remains among the highest in the OECD area, notwithstanding the recent tax reform. On the demand side of the labour market, the burden of social security contributions weighs heavily on wage costs and has contributed to a substitution of capital for labour and a loss of low productivity employment. In many cases, subsidies have proved to be a source of social inefficiency and tend to reduce mobility of labour. Another problem is that some subsidy schemes are inclined to create disincentives to reduce costs, for example in the public transport sector. Similarly, in the area of environmental protection subsidies may not always lead to least-cost outcomes, and a more extensive use of market-oriented instruments could be considered.

A major overhaul of the welfare system should lead to important gains in the overall efficiency of the economic system, and increases in employment. Social acceptance of such an overhaul would be facilitated by effective programmes to ensure the retraining and reinsertion of people currently unemployed or in the disability scheme. Higher labour participation could also require conditions facilitating the creation of jobs for low-qualified workers, somewhat in contrast with well-established trends towards high levels of productivity in the Dutch economy as a whole. In this context greater flexibility in the labour market in general and especially with respect to wage differentials would be helpful.

Hence, efforts to invigorate the labour market – such as the recent initiative to improve the functioning of labour exchange offices through a large-scale decentralisation – should be strengthened. A reform of the system of housing subsidies could also help to improve the flexibility of labour.

To the extent that the budget position allows it, the saving from social expenditure should be used to reduce taxes and social premiums, thereby decreasing the tax wedge. Combined with a more flexible and responsive labour market, lower labour costs could enhance capacity-expanding investment. In this respect, the large current-account surplus could prove a distinct advantage, because it means that an increase in investment (as a proportion of GDP) would not call for a corresponding increase in national saving. Every other initiative promising to enhance potential growth, such as improving competition policy and reducing structural impediments elsewhere in the economy, should be pursued. In this respect, the recent government decision to curb price-cartels is welcome. This policy will be more effective if other types of competition-reducing arrangements are tackled as well. All this would greatly benefit the whole economy, including the public sector. Stronger non-inflationary growth, perhaps more than direct budgetary cost saving, could be the way a correction of the disability and social welfare situation would contribute to fiscal consolidation.

In conclusion, the positive economic performance of the economy over recent years should not be allowed to conceal the fact that a number of deep-rooted structural problems, especially in the area of public finances and the labour market, need to be addressed. What makes these problems so intractable is that they interact strongly and must be tackled more or less simultaneously. To break into this spiral, it would seem urgent for the Dutch authorities to take strong measures to correct the problem of disability, to reduce the dependency ratio and, more generally, to curb transfer payments and subsidies to households – all measures which can be expected both to improve public finances and to reinvigorate the labour market and the whole economy. Admittedly, it would be easier, in a technical sense, to take these measures when the economy is strong and a large number of new jobs are being created. But it might be argued that the largess and unsustainability of the Dutch welfare system can best be exposed now at a time of slow growth, retrenchment and fiscal difficulties. The challenge to policy-makers is to mobilise the socio-political support for the measures needed to put fiscal policy on to a sustainable path, not waiting until an impending crisis necessitates more draconian action. It is important that the credibility enjoyed by the Dutch authorities for their monetary and inflation control now be strengthened also in the area of the public finances.

Notes and references

1. This figure may overstate actual developments since the Quarterly Employment Survey of Firms recorded an increase of 152 000 jobs for wage earners.
2. Estimated by the Dutch authorities at approximately 7 per cent on a registered basis. On this basis the unemployment rate in 1990 was 5 per cent.
3. Legal rents were increased by 5½ per cent, compared to 3 per cent in previous years. The excise tax on motor fuels was increased by Gld 0.22 per litre for unleaded petrol and Gld 0.31 for leaded petrol.
4. High contractual saving is the result of several factors, including the demographic situation, the fact that most pension schemes are compulsory and fully funded, and the prudent policy of pension funds with respect to their reserves.
5. These figures exclude reinvested profits.
6. For example, the Dutch civil servants' pension fund (ABP), which manages some $80 billion and is the second largest such fund in the world, was legally prevented from investing abroad until 1988, when new rules allowed it to invest up to 5 per cent in foreign assets. The fund managers are reportedly expecting to reach the 5 per cent ceiling in late 1992 or early 1993, in which case the international diversification of this pension fund alone could result in an average annual outflow of some $½ billion.
7. Outflows due to the diversification of Dutch portfolios may not be fully offset by inflows due to the diversification of foreign portfolios. With Dutch interest rates closely related to German rates and the guilder firmly linked to the Deutschemark, foreign investors may regard Dutch securities and German securities as being close substitutes in terms of expected yield, but may prefer German securities because of their greater liquidity.
8. On the other hand, a wage explosion could easily eliminate the saving surplus by decreasing the level of profit in the business sector and national saving.
9. Net National Income (NNI) is equal to GDP minus depreciation plus net primary income received from the rest of the world. For the Netherlands, NNI is about 10 per cent lower than GDP.

10. The official definition of the "collective burden" includes government profits from natural gas extraction (excluding non-tax export revenues), as well as some other non-tax revenues (for example environmental charges). Such revenues are comparable with taxes and are used for public expenditure which otherwise would be financed by taxes.

11. Tweede Kamer der Staten Generaal, *Tussenbalans* (Midterm Review), Brief van de Minister President, 19 February 1991.

12. The use of two different methods of calculating depreciation by the Tax Authorities and the National Accounts combined with declining inflation has resulted in lower than expected corporate taxes. The Tax Authorities apply the so-called "historical cost-price method", which takes the price actually paid for existing capital goods as the basis for calculating annual depreciation. In contrast, the National Accounts use the so-called "replacement value method" which calculates annual depreciation on the basis of current prices. In a world without inflation, the two methods give the same results and create no problems with respect to forecasting tax revenue. In a world with inflation, however, the second method leads to higher depreciation allowances and, other things being equal, lower net corporate profits and hence lower corporate taxes. In forecasting the rate of growth of the tax base, the Central Planning Bureau and the Ministry of Finance use National Accounts figures. When inflation is on a declining trend, the difference between replacement values and historical prices of capital goods becomes smaller and, hence the rate of change of the tax base is over-estimated. As a result, actual tax revenue falls short of what was forecast.

13. The number of hours lost due to sick leave as a percentage of total work-hours.

14. Because of institutional and definitional differences, international comparisons are difficult. The Dutch figure for the public debt tends to be substantially upward biased compared to other countries, mainly because of a fully funded pension scheme for public sector employees. With assets in the public employees' pension scheme totalling Gld 158 billion in 1990, the net government debt could in theory be reduced by 35 per cent of NNI, if the pension scheme was consolidated with the public sector.

15. Centraal Planbureau, *Collective uitgaven in historisch en internationaal perspectief,* Werkdocument No. 38, and *Economisch Beeld 1991,* The Hague, 1990.

16. Tweede Kamer der Staten Generaal, Budget memorandum (1990, pp. 12-13).

17. OECD, *Ageing populations, the Social Policy Implications,* Paris, 1988.

18. This includes a renewed version of the Vermeend/Moor act, which offers an exemption of employers' social security contributions supplemented by a subsidy to firms hiring long-duration unemployed, and a renewed version of the so-called JOB facility, a subsidy for temporary employment of long-duration unemployed

(around 2 000 participants in 1990, see for a discussion of both schemes the 1988/89 *Economic Survey*).

19. See for example the recent advice to the Government by the Scientific Council for Government Policy: WRR, *Een weekend perspectief; arbeidsparticipatie in de jaren'90,* Rapporten aan de Regering No. 38, December 1990.

20. Tweede Kamer der Staten Generaal, *Mededingingsbeleid: convergentie in Europa,* Letter to Parliament from the Secretary of State of Economic Affairs, 6 May 1991.

21. In the latter area, the EC banned in 1990 an arrangement by the electricity generation cartel (SEP) forcing their members to abstain from electricity imports. After the ban, electricity imports doubled.

22. H.W.de Jong, "Nederland: het kartelparadijs van Europa?", *Economisch Statistische Berichten,* Vol. 75, No. 3749, pp. 244-248. March 1990.

23. Very much in line with this reasoning, the EC recently decided to permit a merger between the two Dutch main coffee producers Douwe Egberts and Van Nelle.

24. "Professional risk" concerns disability caused by industrial or occupational accidents or diseases. "Social risk" concerns disability from other causes.

25. See OECD, *Reforming Public Pensions,* Paris, 1988.

26. Sick leave benefits are equal to almost 100 per cent of salary and last for a maximum of a full year.

27. In terms of benefit-years, i.e. the full time equivalent of the number of benefits, the increase over the 1980-1990 period has been 29 per cent.

28. People who have become disabled before reaching working age.

29. *Determinantenonderzoek WAO,* 1987.

30. For example, obtaining a new diploma or additional qualifications results in a higher remaining earning capacity and therefore a lower disability benefit, regardless of whether the person finds a new job or not. Also, typically, employees enjoy a 2-year employment protection period (no lay-offs allowed) and in the case of sickness or disability their employers will continue to pay them a proportion of their salary sufficient to prevent any losses of income for 1 or 2 years.

31. See Chart 4.2, page 51, OECD, *Reforming Public Pensions,* Paris, 1988.

32. According to the Central Planning Bureau, "...in the Netherlands a socio-cultural climate has developed in which it is acceptable to stay away from work on account of vague physical and especially psychological complaints". (*Central Economic Plan 1991,* The Hague, pp. 11-12).

33. The large inflow of young Dutch workers into the disability system is the main difference compared with, for instance, Belgium and Germany. The inflow of people over 55 years of age per 1 000 workers is similar in the three countries.

34. A study covering the Netherlands, Germany and Belgium, shows that, allowing for age and sex differences in the active labour force, sick leave is considerably higher in the Netherlands than in Germany and Belgium. In terms of incidence, sick leave in the Netherlands is 20 per cent higher than in Germany and 70 per cent higher than in Belgium; in terms of duration, it is 40 per cent longer than in Germany and 90 per cent longer than in Belgium. R. Prins, "Sickness absence in Belgium, Germany (FR) and the Netherlands" 1990, as referenced in the *Labour Market Report, 1990* by the Ministry of Social Affairs and Employment.

35. According to international treaties (ALOE), under the "social risk" category disability benefits must be at least 60 per cent of the minimum wage (untested for means and wealth). Since in the Netherlands replacement rates are currently 70 per cent of the last wages, the introduction of a "social risk" could allow a substantial reduction of these rates.

36. In terms of full-time equivalents, without measures the number of disabled would rise from 760 000 in 1989 to 885 000, and with measures to 825 000, in 1994. The Government has thus dropped the Midterm plan to reduce the number of disabled to the 1989 level by 1994.

37. In the Dutch context, all capital or income transfers tied to the purchase of specific goods and services to either the suppliers or the consumers of these goods and services are usually denoted as subsidies, although in a strict National Accounting sense not all of them are regarded as such. In the paragraphs below this convention will nevertheless be followed. Hence, the figures on subsidies shown in this section do not coincide with those shown in Table 11 which are on a National Accounts basis.

38. See General Audit Office, *Annual Report 1988,* The Hague 1989 and A. de Kemp, "Beheersing van subsidie-uitgaven"', *Economisch Statistische Berichten,* Vol. 75, No. 3741, pp. 60-63.

39. Excluding investment subsidies under the WIR (Wet Investeringsrekenining), which was abolished in 1988.

40. Although one-third of all subject subsidies accrues to elderly people for whom the effect on marginal tax rates is less relevant.

41. To avoid a potential rise in subject subsidies resulting from this measure subject subsidies have been curbed.

42. The optimism on future rents based on high inflation rates in the 1970s has led to the introduction of a so-called "dynamic cost-price rent" which based the projected future annual redemption profile on the assumption of a steady increase in the annual returns from rents (in line with a structural high inflation rate). This meant that the object subsidies could be kept low initially, but were bound to rise once legal rents increased less than assumed when the redemption profile was established. See also Annex III.

43. See Ministry of Finance, *Subsidies: een analyse van de actualiteit, effectiviteit an doelmatigheid,* The Hague, December 1990.

44. Recently this measure has been complemented by a policy favouring the construction of non-subsidised up-market dwellings which, according to provisional estimates, seems to be successful in attracting tenants from the subsidised sector.

45. Approaching this phenomenon in a slightly different way: among households receiving a social security benefit, 26 per cent also benefit from a rent subsidy and public health insurance; and 5 per cent, in addition to the above benefits, also receive a children's allowance and a student grant for children below 18; see Social and Cultural Planning Bureau, *Gecumuleerd Beleid,* Cahier No. 76, Rijswijk, 1990.

46. According to the Social and Cultural Planning Bureau (op. cit.), in the case of a 5 per cent increase in gross income, for 25 per cent of all households the corresponding increase in net income represents between 60 and 80 per cent of the gross increase (the remainder representing higher tax payments and social security contributions as well as losses of social security benefits); for 63 per cent of households the increase in net income represents between 40 and 60 per cent of the gross increase; and for 8 per cent of households, the increase in net income represents between 20 and 40 per cent of the gross increase. Only for 0.1 per cent of households does such an increase in gross income result in an actual decrease in net income. These figures, however, must be interpreted with care. True, the proportion of households in a narrowly defined "poverty trap" (that is, a range of gross income where an increase in gross income results in an actual decrease in net income) is very small (0.1 per cent). But households with increases in net income representing only between 20 and 40 per cent of the increase in gross income may arguably be regarded as being in a broadly defined poverty trap, and these households represent 8 per cent of the total – a not insignificant proportion. Moreover, this quantification does not include the possible cost of losing eligibility either to object housing subsidies (see below) or to collective health insurance. These two types of benefits cannot easily be included in an exercise of this kind, but can be quite important in households' decision making process. Hence, the above figures must be regarded as understating the effects of cumulation.

47. Because of the different presentation of costs and revenues, there are several difficulties associated with an international comparison of public transport coverage ratios. For instance, in the Netherlands unlike in some other countries, subsidies to the public transport companies include government contributions to the cost of infrastructure.

48. Cost reductions achieved by a company can lead to a reduction in its subsidy, due to a possible downward revision of standard costs – subsidies paid to a company in a certain year are a fixed proportion of its standard cost per passenger fixed by the Central Authorities on the basis of past experience, multiplied by the number of

passengers in the preceding year. See for example A.A.I. Holtgrefe, ''Het openbaar vervoer: rijden zonder stuur'', *Economisch Statistische Berichten,* Vol. 6, No. 3798, pp. 257-259.

49. See A.A.I. Holtgrefe, *op. cit.*

50. R.M. Krug, *Sheltered employment for handicapped people; trends and issues in the Netherlands,* Paper for the international Expert Meeting on Vocational Rehabilitation and Sheltered Employment, Vienna, 6-10 November, 1990, Ministerie voor Sociale Zaken en Werkgelegenheid.

51. The number of re-entries has even **declined** considerably over time, with 1 900 re-entries out of 44 000 workers in 1972, 960 out of 67 000 in 1977 and 300 out of 78 000 in 1988.

52. See Social and Cultural Planning Bureau (SCP), *Doelmatig dienstverlenen,* Sociale en Culturele Studie, No. 11, Rijswijk, April 1989; F.P.van Tulder, *Productivity of public services in the Netherlands, 1970-1986,* mimeographed, 1990 and SCP, *Trends in de kwartaire sector,* mimeographed, December 1990.

53. The homes receive from the responsible Authorities an annual sum (subsidy) based on various criteria, such as the number of inhabitants over 65 in the surrounding area, the number of occupants of these homes, and regional differences in the size of own-contributions of occupants (own-contributions are means- and wealth-tested). To a certain extent the subsidy is a fixed, lump sum allocated to every home.

54. See OECD, *Financing higher education, current patterns,* Paris, 1990.

55. Such as the Government Computer Centre (Rijks Computercentrum), the Mint (Rijksmunt) and the Government Procurement Office (Rijksinkoopbureau).

56. H. Oxley *et al., The public sector: issues for the 1990s,* OECD Department of Economics and Statistics Working Papers, No. 90, 1990.

57. For instance, the Government Printing Office, the Assay Department and a Fishing Port Authority.

58. F.P.van Tulder, *op. cit.*

59. Productivity was measured by the ratio of the volume of output to the volume of input. Output was measured in terms of physical indicators, such as the number of pupils in different types of education or the number of out-patients treated and in-patient days in health services. Input was measured in terms of real costs, that is actual costs deflated by a price index.

60. According to the author of the analysis, the fact that total productivity declined more rapidly than labour productivity may have reflected: first, the sharp increase in the volume of non-labour input per labour years as a result of capital deepening investment; and second, an under-recording of actual labour costs. Because of upgrading of personnel, labour costs may have risen more than the wage index used

in the calculations, so that the actual evolution of labour productivity may have been worse than calculated. To a certain extent, the poor productivity results and differences between subsectors may reflect an overall increase in quality of public services and changes in the quality of services in certain subsectors relative to other subsectors.

Annex 1

Calendar of main economic events

1990

1st January

The "Oort" revision of the personal income tax system comes into effect. The top marginal tax rate is reduced from 72 to 60 per cent. The lowest rate, which now includes social security contributions, is raised from 15 to 35 per cent. The number of tax brackets is reduced from nine to three. Contributions for the AOW (old age pensions), AWW (widows and orphans pensions). AWBZ (general health care) and AAW (general disability) schemes are now included in the personal income tax system. Those over 65 are exempted from AOW and AWW; their lower bracket tax rate is 18 per cent instead of 35 per cent.

20th January

The agreed wage increase in metal industries for the period from April 1990 to April 1991 is 3¾ per cent. Taking the carry-over effect from 1989 into account, this agreement results in a wage rise of only 2¼ per cent in 1990.

31st January

Stamp duty will be abolished from 1st July. The loss in revenue by the state will be compensated for by the abolition of provisions paid to banks on state bonds.

2nd February

It is announced that the Wage-Cost Reduction at the Minimum Wage Level Law (Wet Loonkostenreductie op Minimumloonniveau, WLOM), which entitles employers to a wage cost reduction of 10 per cent when hiring an employee at the minimum wage will take effect after 1st April.

7th March

The Cabinet publishes its plan for "social renewal". This plan co-ordinates various existing projects aimed at enhancing social prospects for deprived groups. Under the plan municipalities will be allowed to decide how associated funds, Gld 1.5 billion, are used, taking account of specific local conditions.

7th May

The Minister of Finance approves a proposal by commercial banks to introduce charges on bank/giro transfers.

The Government decides on a package of measures for the transport sector. Excise duties on petrol will be raised by Gld 0.08 a litre from 1st November 1990 – a measure expected to increase government revenue by Gld 300 million in 1991 to be used for transport policy. From 1992 a toll will either be levied on main roads and tunnels in the western urban area, or a rush hour charge will be levied as a surtax on the road tax. Electronic road pricing is abandoned for the time being. Of the four planned tunnels, only the "Wijkertunnel" in the Amsterdam region will be built. Public transport fares will be raised by 3½ to 4 per cent in order to reduce financial deficits. A shift of funds from road construction to investment in public transport is envisaged. In 1992 an "Infrastructure Fund" will be set up to receive revenues from the new excise duties, tolls and the rush hour charge.

10th May

The Second Chamber approves legislation on the standard tax deduction for commuting. Commuting costs for distances of over 30 kilometres will not be deductible unless public transport is used. Moreover, allowances for commuting paid by employers will be exempted from taxation for distances of less than 10 kilometres if public transport is used. A special arrangement is included for car-pooling.

8th June

The Cabinet decides that the greater part of the expected WIR overruns will have to be financed by the private sector. The total overrun is estimated to be Gld 2.6 billion, of which Gld 700 million will be financed through expected windfalls in gas revenues and corporation taxes. The rest will be financed through higher AWBZ premiums for employers (Gld 600 million), and a so-called WIR tax of 35 per cent, with a Gld 25 000 threshold.

13th June

The ministers of Economic Affairs and the Environment publish the revised NEPP, called "NEPP-plus". In 1994 total environmental spending will rise by Gld 1.1 billion beyond the levels foreseen by the NEPP on a net basis.

18th September

The 1991 Budget is published. On unchanged policies, the Central Government deficit as a share of Net National Income (NNI) is projected to exceed the 1992 target of 4¼ per cent by 1 percentage point. Measures to offset this shortfall in revenue over expenditure are to be presented in a Midterm Review (see below). The 1991 target for the deficit (4¾ per cent of NNI) is expected to be attained.

27th September

The oil futures market in Rotterdam, Roefex, announces its closure. Turn-over had become too small as its role was overtaken by the London International Petroleum Exchange.

15th October

The new Law on Surveillance of Investment Companies (Wet toezicht Beleggingsinstellingen) comes into effect. Investment companies residing in the Netherlands and companies residing elsewhere which are **not** liable to EC regulation will have to apply for a permit to enter the Dutch market. Other companies have simply to inform the Netherlands Bank of their entry to the Dutch market.

2nd November

The Nederlandsche Bank raises the official discount rate by 0.25 percentage points following an increase in the German Lombard rate. The new official discount rate is 7.25 per cent, the advance rate 8 per cent and the discount rate on promissory notes 8.5 per cent.

28th November

The Minister of Finance permits the private sector to issue loans with the nominal rate of interest indexed on inflation.

1991

1st January

Social security benefits and the minimum wage are raised by 1.27 per cent.

1st February

The Nederlandsche Bank raises its official interest rates by ½ per cent following a similar increase by the Bundesbank. The new official discount rate is 7¾ per cent, the advance rate 8½ per cent and the discount rate on promissory notes 9 per cent.

19th February

The Government publishes its **Midterm Review.** It contains a set of proposals for expenditure cuts and some increases in taxes amounting to around Gld 17½ billion in 1994, aimed at keeping the budget deficit in line with the medium-term target (see main text). The proposals include a number of cuts: in subsidies (up to Gld 3.4 billion in 1994); in disability and sickness benefits in the private sector (Gld 3.8 billion) and the public sector (Gld 1 billion); in the number of public sector workers in the framework of the "large efficiency operation" (Gld 1.1 billion); and in expenditure on defence and social welfare (Gld 3.8 billion). In addition, tax expenditure on owner occupied housing will be decreased (Gld 0.8 billion), excises on petrol raised (Gld 1.3 billion) and a planned decline in VAT rates postponed (Gld 2.5 billion). Moreover, the Midterm Review announces that further expenditure overruns in the area of social security due to an acceleration in private wage growth (social security benefit rates are linked to the private wage development) will lead to a "penalty" on the social partners in the form of an increase in social security contributions. The additional funds raised would be used to finance the expenditure overrun.

5th March

Nationale Nederlanden NV, the Netherlands' largest insurance company, and the NMB Postbank Groep NV, the country's third largest bank, ratify a full merger. The new financial institution has been baptised "Internationale Nederlanden".

25th April

For the first time in the post-War period the Government issues a 15-year bond loan. The usual term of Government bonds is ten years.

6th May

The Government announces a ban on so-called horizontal price arrangements between companies in the same trade, except for price arrangements in franchising.

7th May

The Government announces new expenditure cuts of up to Gld 3½ billion in 1994 to offset overruns in the disability scheme ("Kaderbrief"), in addition to the Midterm Review package.

14th May

A new metal trade wage agreement, which is indicative of overall wage developments, includes a 7¼ per cent pay rise in the coming 21 months (3¼ per cent on 1st June 1991, 4 per cent on 1st April 1992 and ½ per cent on 1st September 1992). The agreement also includes a top-up of disability benefits by 10 per cent of the last-earned wage for workers of 55 years and older in their first year of disability. The minimum age for early retirement is reduced from 59 to 55, while the employers' contribution to the early retirement scheme is increased from 3.9 to 5.4 per cent of gross salaries in 1992.

18th May

The Government and industry sign an agreement (covenant) imposing reduced use of packaging materials and mandatory recycling of 60 per cent of those materials by the year 2000.

31st May

The Government's "Spring Review" (Voorjaarsnota) is submitted to Parliament. It states that the budget deficit should develop in line with the target of 4¾ per cent of NNI in 1991. The collective burden is expected to be 53.4 per cent of NNI, 0.2 percentage points below the ceiling agreed in the Coalition Accord.

24th June

Parliament approves the Bill on the link between private sector wages, the minimum wage and social security benefits. The new law will become effective on 1st January 1992 and, unlike the old law, makes the link conditional upon two factors: it will be postponed if either private sector wage growth is judged to be too strong or if the dependency ratio (the ratio between the number of inactive social security beneficiaries and employed persons) exceeds 0.86.

1st July

Excise taxes on unleaded and leaded petrol are increased by Gld 0.22 and Gld 0.31 a litre respectively. Legal rents are raised by 5½ per cent. Both measures were announced in the Midterm Review (see above).

Social security benefits and the minimum wage are increased by 1.7 per cent. After the increase the gross minimum wage is Gld 2102.10 per month.

The Government submits a set of policy proposals relating to retirement pensions (Pensioennota) to Parliament. It includes a proposal to base pensions on the average wage during a worker's career instead of his last earned wage. Moreover, it contains a proposal to improve pension rights for two-earner couples relative to single-earner couples.

3rd July

Parliament approves a stepwise increase in the taxed imputed rent for owner-occupants from 1.8 to 3.3 per cent of the market value of the house in 1994, as proposed by the Government in its Midterm Review.

The report by the Stevens Commission concerning a new overhaul of the tax system is published. Apart from streamlining the assessment and collection of both income tax and employee's social security contributions, the report proposes to replace the present three tax brackets (with rates of 35.1, 50 and 60 per cent) by two (with rates of 33.6 and 55 per cent). The first bracket would be extended so that 80 per cent of taxpayers fall in this bracket. Moreover, standard tax deductions for employees' social security contributions and commuting cost would be abolished. The proposals are broadly neutral, both from the point of view of tax yield and the distribution of after-tax personal income.

16th August

The Nederlandsche Bank raises its official rates by ¼ per cent following an increase in official German rates. The new official discount rate is 8 per cent, the advance rate 8.75 per cent and the discount rate on promissory notes 9.25 per cent.

Annex II

Disability in the Netherlands: legislative and associated arrangements

1967

Two disability insurance laws are enacted, one covering private sector workers – the **Disability Act** (Wet Arbeidsongeschiktheid, **WAO**) – and another covering civil servants – the **Civil Servants Pension Fund Act** (Algemeen Burgerlijk Pensioenfonds Wet, **ABPW**). The main characteristics of these schemes can be summarised as follows:

- **Risks covered.** Both schemes cover the risks of industrial accidents and occupational diseases ("professional risk") as well as invalidity by other causes ("social risk"). Both types of risk are treated in exactly the same way, whereas earlier legislation made a distinction between a professional and a social risk;
- **Replacement ratios.** The WAO grants a maximum benefit of 70 per cent of the last earned wage (with a ceiling which is at present Gld 274 per day). This replacement ratio varies with the degree of disability, and is independent of total contributions paid. The degree of disability is determined by a worker's "remaining earning capacity", being defined as the number of hours per week (as a percentage of full time) he could still work with his handicap in a job requiring the same skills as before. The remaining earning capacity is fixed on the basis of a medical report by the Joint Medical Service (Gemeenschappelijke Medische Dienst, GMD) – a body created by the semi-public Industrial Insurance Boards (Bedrijfsverenigingen, see below). The Social Insurance Authorities are allowed to fix the remaining earning capacity at zero (implying a maximum replacement ratio) if no "suitable job" is likely to be found at the worker's last wage and in the same geographical area (the so-called "discounting of the claimant's labour market position"). Regulations under the ABPW are similar, except that the replacement ratio varies slightly with total contributions paid.
- **Benefit duration.** Not only the replacement ratio, but also the duration of benefits is independent of contributions paid, and lasts in principle until retirement. During the first year of legal disability, the claimant cannot be dismissed by his employer.

- **Eligibility requirements.** Under the WAO there are two eligibility requirements: *i)* the claimant must have been in the sickness scheme (Ziektewet, ZW) for one year; and *ii)* he must have lost, due to his handicap, at least 15 per cent of his remaining earning capacity. The first eligibility requirement does not exist under the ABPW, but the second one does.
- **Funding.** The WAO is entirely financed from employees' contributions, which are collected by the Industrial Insurance Boards. The contribution rates are fixed by the Central Government (Minister of Social Affairs) after consultation with the Social Security Council (Social Verzekeringsraad, SVr), which co-ordinates the implementation of social security schemes by the Boards. The ABPW is financed by the General Public Service Pension Fund (ABP).

1976

The **General Disability Act** (Algemene Arbeidsongeschiktheidswet, AAW) is created to complement the WAO and ABPW. It covers all residents not covered by one of the other disability schemes, including the self-employed and people with an "early handicap", i.e. a handicap that existed before working age. A person is eligible if at least 25 per cent of his earning capacity is lost.

1986

The **Employment of Disabled Workers Act** (Wet Arbeid Gehandicapte Werknemers, WAGW) is created in a combined effort to prevent further growth in the number of jobless disabled and to foster reintegration of disabled into the regular labour market. The law is in fact a tripartite "letter of intent" committing parties to creating conditions which facilitate reintegration and prevention. For example, employers are committed to recruit more disabled candidates, while workshops should be adapted where necessary to allow handicapped workers to be employed as normally as possible and/or to prevent new disability. The WAGW came into force on 1st July 1986, and was to be followed by an evaluation three years after that date. If social partners had not increased the number of re-integrated disabled up to 3-7 per cent of the work force on 1st July 1989, the Government would decide on a "mandatory quota system", which fixes the share of disabled workers at 3-7 per cent of the total workforce of each firm. Non-compliance with the quota would henceforth be sanctioned by a financial penalty, whereas firms employing more disabled workers than required would receive a bonus.

Although the targets were not attained, the quota system was never implemented by the new Government that came into office in November 1989, as it felt that the law itself needed reconsideration. The WAGW appears to have failed in a number of respects.

First, according to an evaluation by the Ministry of Social Affairs[1], social partners have been reluctant to insert special arrangements favouring reintegration of disabled workers into Collective Wage Agreements (CAOs). In only 317 out of 622 CAOs agreed between 1st July 1986 and 31st December 1988 (covering 1.7 out of 2.8 million workers) were new arrangements introduced in the spirit of the WAGW. But even in those cases the arrangements were often vague and of a general nature. In only 19 CAOs were numerical targets for reintegrated handicapped explicitly stated. In some others, in spite of the WAGW, existing arrangements on disability were even suppressed. Second, an evaluation study focusing on the functioning of the Industrial Insurance Boards[2] showed that the WAGW had little impact on their attitude towards reintegration. Third, an evaluation of the actual effects of the WAGW on reintegration[3] showed that in no single industry did more than 3 per cent of the workers consist of handicapped – 3 per cent being the minimum required under the the WAGW (see above).

1987

The **Revision of the Social Security System Act** (Invoeringswet Stelselherziening, ISW) is enacted with the aim of reducing the incentive to obtain a disability rather than an unemployment benefit. Under the old system (see above), the Social Insurance Authorities were allowed to ''discount'' the worker's labour market prospects when determining the degree of disability and the associated replacement ratio. For example, a worker being declared disabled on purely medical grounds up to 50 per cent of his previous potential, could still become eligible for a full disability benefit (of 70 per cent of the last wage), provided that he was unlikely to find a half-time job in his profession at the same skill level and in the same geographical region as his former job (or return to his former job on a half-time basis). Under the new system, claimants who are less than 80 per cent disabled and are also unemployed will receive a pro-rated disability pension, supplemented by an unemployment-related component, to bring the total benefit up to 70 per cent of the last wage. Hence, a person declared 50 per cent disabled will receive a disability benefit equal to half the full benefit of 70 percent (i.e. 35 per cent) of the last wage. The remaining 35 per cent is financed through the unemployment insurance system and depends on the accumulated rights of the beneficiary. The total benefit will then decline over time as the unemployment-related portion of the benefit falls, with a maximum benefit period of five years. In addition to this measure, the eligibility requirements for the unemployment benefit itself are tightened, as the new legislation requires the worker to accept an appropriate job **outside** his geographical region.

According to an evaluation of the ISW the effects of this revision have been rather disappointing[4]. On *a priori* grounds one would have expected the attractiveness of the disability scheme to have been reduced significantly. However, the annual inflow into the disability scheme has **accelerated** in the past few years, even though there has been some shift from **full** to **partial** disability.

1990

On 2nd October the Government and the social partners reach an agreement (The **October Agreement**) on measures to improve monitoring of workers on long-duration sick leave by the Social Insurance Authorities, with a view to enhancing prevention of disability and reintegration. The following concrete measures are agreed upon:

- Employers are committed to improve or introduce company health care and to make efforts to diminish stress in the work place.
- The Joint Medical Service (responsible for the medical examination of potentially disabled, but not involved in the administration of sick leave) should play an active role at an early stage of a person's evolution from sickness to disability. More specifically:
  - *i)* After **six weeks** of sick leave, the Industrial Insurance Board (responsible for the administration of social security for a particular industry) should inform the Joint Medical Service.
  - *ii)* After **three months** of sick leave the Authorities should set up a "return-to-work plan".
  - *iii)* After **six months** continuing sick leave should again be reported to the Joint Medical Service (a rule already existing since October 1985).
  - *iv)* After **23 months** of leave, the Joint Medical Service should arrange a "reintegration talk" with the disabled worker (the employer can obtain a lay-off permit for a disabled worker only after 24 months of leave).

1991

On 26th August, as foreshadowed in the Midterm Review, the Government announces a series of measures to reduce spending on disability and complement the Bill "Push-Back the Volume of Disability" (see below). According to these measures – which, if approved by Parliament, would take effect on 1st July 1992 – the level of disability benefit for an individual claimant drops after a certain period from 70 per cent of his last wage to 70 per cent of the minimum wage plus a supplement. Both the length of the period during which the claimant receives a full benefit (of 70 per cent of his last wage) and the size of the reduction after this period has ended depend upon the claimant's age when entering the scheme.

More specifically, the length of the full benefit period is:

1 year	for claimants younger than 30
1 1/2 years	for claimants from 30 to 37
2 years	for claimants from 38 to 42
2 1/2 years	for claimants from 43 to 47

3 years	for claimants from 48 to 52
4 years	for claimants from 53 to 57
5 years	for claimants older than 57

After the full benefit period has ended, the benefit drops to a level of 70 per cent of the minimum wage (wmin) supplemented by an extra allowance which depends – once again – upon the claimant's age when entering the scheme and the last wage (wlast). More specifically, the extra allowance is equal to 1.75 times the claimant's age minus 18 times the difference between wlast and wmin.

Existing cases would not face a drop in benefit. Instead the benefit would be frozen in nominal terms and, hence, decline in real terms only. This decline would stop once the benefit reached a level which is in line with the new system. Moreover, this freeze would only set in after one to five years, depending on the claimant's age when the new system takes effect. A further exception would be made for existing cases of persons over 50, who would keep their present rights.

In addition to the above measures, which basically concern the level and duration of benefits **after** the degree of disability has been assessed by the Social Insurance Authorities, the concept of disability itself will be tightened. Under the present system, the assessed degree of disability reflects the claimant's loss in earning capacity assuming that he does not change trade or profession. Under the proposed system, however, when determining the earning capacity the Authorities will take into consideration the possibility of a change of trade or profession by the claimant. For instance, if a claimant is incapable of pursuing his previous trade, but is capable of earning half his previous wage in another one, his earning capacity loss would be 50 per cent, instead of 100 per cent under the present system. This new approach, which in itself would lead to a lower "volume" of disability, is to be complemented by more rigorous medical filtering to limit abuses. Not only is the disability scheme to be changed, but also the sick-leave scheme. Sickness payments replacing regular wages during the first six weeks of sick leave will be charged by the Social Security Authorities to the employer. In addition, sickness benefits topping up the statutory benefit of 70 per cent of wages up to 100 per cent of wages will no longer be re-insurable under the sick-leave scheme. Finally, the *malus* to be paid by employers laying off workers to the disability scheme is to be increased from 4 to 12 months of salary.

On 3rd September the bill "**Push-Back the Volume of Disability**" (Wet Terugdringing Arbeidsongeschiktheidsvolume, TAV) is submitted to Parliament, providing "corrections" to existing laws related to sickness and disability, notably the ZW, AAW, WAO and WAGW. It introduces the following regulations and instruments:

- A **differentiated tariff** for employer's contributions to the sick-leave insurance (ZW), related to absenteeism in the firm.
- A ***bonus/malus*** system related to disability; a bonus worth a number of months of gross wage would be given to a firm hiring a disabled worker, whereas a firm

laying-off a disabled worker would have to pay a *malus* also worth a number of months of gross wage.

- A **wage-cost subsidy** for firms hiring a partly disabled worker through the mediation of Social Insurance Authorities.
- An **increased budget** for the Joint Medical Service (GMD) for re-education of the disabled.
- A **rise in the legal sickness allowance** up to 100 per cent of earnings of reintegrated disabled workers during the first three years of their new employment; a measure improving the attractiveness of disabled workers as the firm no longer has to "top up" the legal sickness benefit (normally 70 per cent of earnings) to 100 per cent.

Annex III

Institutional aspects of housing in the Netherlands and five selected OECD countries

This annex briefly reviews the institutional framework in the housing sector and housing policies in the Netherlands compared with five surrounding OECD-countries: Belgium, France, Germany, the United Kingdom and Denmark[5].

Housing policies in the Netherlands

The Government has traditionally intervened extensively in the housing market throughout the post-War period. This intervention has taken the form of subsidies, public ownership and management of rental accommodation, State loans to finance dwelling construction, fixing of dwelling construction quotas per region and municipality, tax deductions related to owner-occupied housing and rationing of a substantial share of the

Table A1. **Central government expenditure on housing policies**

	1975	75/80	80/85	85/87	87/88	88/89	89/90
	Share (%)	Contributions to growth (%)					
Central administration	1.3	0.2	0.1	0.1	0.3	0.3	0.1
"Object" subsidies	25.9	3.9	3.9	0.1	4.9	3.3	0.4
Loans to Housing Associations	40.4	4.1	1.5	2.4	−10.5	−3.5	−7.5
"Subject" subsidies	5.9	1.4	1.0	0.1	0.7	0.2	−0.2
Urban renewal	6.7	1.0	1.0	−1.0	−0.2	1.2	−0.6
Tax credit[1]	19.7	5.0	1.7	0.5	2.1	1.1	−0.5
Total	100.0	15.6	9.1	2.4	−2.6	2.5	−8.3
	1975	1980	1985	1987	1988	1989	1990
Total as per cent of GDP	2.4	3.3	4.1	4.3	4.0	3.9	3.4

1. Net of personal income tax on imputed rent revenue of owner-occupiers.
Sources: Ministry of Housing, Physical Planning & Environment, *Volkshuisvesting in Cijfers 1990*, Zoetermeer 1991 and OECD Secretariat estimates.

dwelling supply. These measures have produced an important public housing sector with large subsidies flowing into the system (see Table A1). In the paragraphs below these forms of Government intervention will be discussed in more detail.

Rental housing

In 1990, 3.2 million of the existing 5.8 million dwellings were rented. The great majority of rented dwellings was owned by public investors (in fact, public and semi-public ones) including Local Authorities (9 per cent) and Housing Associations (65 per cent). Another 11 per cent was owned by institutional investors, who have to comply with the same regulations as public investors. Both public and institutional investors are supported by supply-related "**object subsidies**" aimed at keeping rents at acceptable levels while creating an incentive for a wide range of suppliers to build low priced accommodation of acceptable quality. Rents in subsidized housing are allowed to vary according to the size and quality of dwellings. The annual increase is decided upon each year by the Government and applies to the twelve months following the first of July. This annual rent increase plays a central role in overall incomes policy and can be a sensitive issue.

The annual rent increase is an important determinant of the flow of object subsidies. The object subsidy fills the gap between actual and authorized "cost-price" rents, the latter being calculated according to rules set by the Housing Authorities, and covering running costs, depreciation and a "normal" yield linked to the interest rate on government bonds. Legal rent increases can be used to steer the flow of object subsidies. If, for example, rents are allowed to rise faster than foreseen when the dwellings were built, the gap between actual and cost-price rents narrows and object subsidies drop accordingly. With a view to reducing these subsidies, the Government has recently decided to raise rents by 5½ per cent per year in the next four years (a rate of increase which, in nominal terms, is significantly higher than in the past but in real terms is still relatively moderate, given that inflation has accelerated). Object subsidies are rapidly expanding (Table A1), due to a change in the system of calculating the cost-price rent for dwellings built after 1975. Until 1988, depreciation and the associated time profile of redemption of loans for these dwellings were based on a progressively increasing annual installment. This meant that object subsidies for new houses were initially low, but were bound to increase rapidly as time proceeded. The recent abolition of this system of "dynamic cost-price rents" (as it was called in the seventies), raises cost-price rents – and, for that matter, object subsidies – in the short and medium term but, with indebtedness of investors declining more rapidly, important savings could be realised in the longer term.

In addition to object subsidies, aid to public housing has been provided through loans from the government to Housing Associations – the so-called "**Woningwetleningen**" (long-term loans under the Dwelling Act). In 1988 this facility was abolished, requiring Housing Associations to borrow directly on the capital market. The level of outstanding debt related to Dwelling Act Loans has been decreasing since, helped also by early redemptions in 1987/88, when the market interest rate was significantly below the interest rate on these loans.

Supply-related object subsidies are complemented by income-related "**subject subsidies**" – introduced in 1970 – providing financial support to lower income groups whose actual rent is higher than a socially accepted maximum. These subsidies are granted to households with a taxable income below Gld 38 000 a year (1990) occupying a dwelling with a rent exceeding a range of 15 to 20 per cent of taxable income (with the prevailing rate depending on the level of household income). The subsidy fills the gap between the actual and the "normative" rent, but may be adjusted downwards if the quality of the home exceeds the average in the relevant price range[6]. Despite progression in per capita income, the number of households receiving a subject subsidy has grown from 456 000 (9 per cent of all households or 16 per cent of rented accommodation) in 1980 to 950 000 (16 per cent of all households or 31 per cent of rented accommodation) in 1990. This seems to reflect primarily the ageing of the population and a higher rate of divorce, which have depressed income per household.

Owner occupied housing

As the Government has judged the share of owner occupied housing in the total dwelling stock to be too small to meet demand, it has set up an extensive system of subsidies supporting both low-income households wanting to buy their own home and construction companies building these homes at affordable prices. At present two types of subsidy exist:

- **Premium A.** The objective of this scheme is to facilitate the supply of owner occupied housing for low income earners (Gld 43 500 or less). It applies to houses with a value below Gld 134 000 (Gld 144 000 in the western part of the country) and amounts to Gld 3 600 per year, while the number of years during which the premium is received varies with income and the value of the house. The income position of the beneficiary is regularly tested and the subsidy duration adjusted accordingly. Per year around 20 000 Premium A dwellings are built, or 20 per cent of total residential construction.
- **Premium C.** The objective of this scheme is to promote ownership of non-regulated ("free sector") dwellings both for owner-occupancy and renting through a lump sum of Gld 5 000 per dwelling. In addition, private investors offering rental accomodation are eligible for a subsidy of Gld 2 000 per dwelling per year for five years, while owner-occupants with a mortgage are supported through a full guarantee by the Local or National Authorities. Premium C applies to houses with a value of less than Gld 190 000. The number of dwellings built under this scheme has gradually declined from 18 000 in 1988 to around 10 000 in 1990 (or from around 20 to 10 per cent of total dwelling construction).

Finally, interest payments on mortgages are fully deductible from taxable income. This is offset to a degree by the inclusion in taxable income of imputed rent revenue accruing to owner occupiers. As it appeared that imputed rents were undervalued while, at the same time, actual rents were being raised considerably (see above), the rate of imputed rent (as a percentage of the market value of the house) was raised from 1.8 in 1989 to 3.3 in 1994.

An international comparison

Although governments in most OECD countries intervene in the housing market, the Netherlands stands out with a relatively large public housing sector and important flows of supply-related object subsidies (Tables A2 and A3). The paragraphs below provide some more details.

Systems of public housing

In other OECD countries the regulated rental sector is generally much smaller than in the Netherlands where around 76 per cent of rented dwellings is owned by public Housing Associations and Local Authorities, and 98 per cent of rented dwellings are subject to price regulation and quantity rationing by Housing Authorities (Table A2). In Belgium only 13 per cent of rental accommodation is owned by semi-public Housing Associations (''Huisvestingsmaatschappijen''). The French public housing sector is somewhat larger. Public housing, supplied by so-called HLM societies (Habitation à Loyer Modéré), covers around 30 per cent of rented dwellings. About two-thirds of the HLM stock is owned by Local Authorities (Offices Publiques d'Habitation) and the remainder by semi-public Housing Associations (Sociétés Anonymes d'Habitations), some of which operate in private rental and owner-occupied housing markets as well. Germany falls roughly in between Belgium and France, with about 21 per cent of rented accommodation owned by non-profit Housing Associations, the so-called ''Gemeinnützige Wohnungsunternehmen''. The degree of Government intervention in the United Kingdom, is comparable to the Netherlands, with the share of (semi-) public housing at around 79 per cent of total rental housing, the majority of which is owned by Local Authorities.

Supply-related subsidies and rent policy

Although systems of financing public housing in other Member countries do not differ much from the Dutch system, the sums involved are much smaller, with the exception of the United Kingdom. ''**Soft loans**'' to Housing Associations, comparable to Dwelling Act Loans in the Netherlands, exist in Belgium, France (partly funded through special saving accounts and employees' contributions) and Germany. Governments in all countries provide **object subsidies.** In the United Kingdom, Housing Authorities fix a ''fair rent'' for dwellings owned by Housing Associations. Hence, as in the Netherlands, the object subsidy in semi-public housing is the residual between cost-price and the legal rent. In the British case the subsidy takes the form of a once-off capital grant (Housing

Table A2. **Stock of dwellings by ownership in six countries**

	Owner-occupied	Rented	Breakdown of the stock of rented dwellings: Public ownership: Local authorities	Housing associations	Total	Private ownership: Subject to regulation	On free market	Total	*Memorandum item:* Total subject to regulation
	Per cent of total		Per cent of rented dwellings						
The Netherlands[1]	**45**	**55**	**11**	**65**	**76**	**23**	**2**	**25**	**98**
Germany[2]	38	58	0	21	21	13	66	49	33
Belgium[3]	65	35	0	13	13	0	87	87	13
France[4]	54	39	22[6]	12	33	9	57[7]	66	42
United Kingdom[5]	65	36	72	7	79	0	21	21	79
Denmark[5]	51	42	3	17	20	25	55	80	45

1. 1985.
2. 1987 for composition of total stock, 1986 for composition of rented stock.
3. 1980.
4. 1985 for composition of total stock, 1980 for composition of rented stock.
5. 1987.
6. Including free accommodation for low income groups.
7. Including dwellings owned by firms for housing of employees.

Sources: Ministry of Housing, Physical Planning & Environment and OECD Secretariat estimates.

Table A3. **Subsidies related to housing in six countries**

As per cent of GDP

	Supply-related subsidies			*Income-related subsidies*			Tax credit	Saving facilities	Total
	Owner-occupied	Rented	Total	Owner-occupied	Rented	Total			
Netherlands[1]	**0.0**	**1.7**	**1.7**	**0.0**	**0.4**	**0.4**	**1.1**	**0.0**	**3.2**
Germany[2]	n.a.	n.a.	n.a.	0.0	0.2	0.2	n.a.	n.a.[6]	n.a.
Belgium[3]	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.1
France[4]	0.2	0.3	0.6	0.2	0.5	0.7	0.7	0.1[7]	1.6
United Kingdom[5]	0.1	1.5	1.6	0.0	0.7	0.7	0.9	0.0	3.2
Denmark[4]	n.a.	n.a.	0.4	0.5	0.0	0.5	n.a.	0.0	n.a.

1. 1988.
2. 1987.
3. 1983.
4. 1985.
5. 1983/84.
6. Bausparkasse.
7. Epargne-logement.

Sources: Ministry of Housing, Physical Planning & Environment and OECD Secretariat estimates.

Association Grant) equal to the discounted value of the expected future flow of losses at projected cost-price and fair rents. In other countries, object subsidies are some fixed rate of authorized cost-price rents. Rents are then equal to cost-price rents minus the object subsidy, with some variation allowed for quality differences. In Belgium rents for public housing may vary with the income of tenants. In Germany, however, object subsidies are "hidden", through the sale of land to Housing Associations at reduced prices. In Germany rents for new subsidised dwellings are free once soft loans have been redeemed.

Income-related subsidies

Income-related subsidies exist in most countries and, with the exception of Belgium and Germany, tend to be somewhat more important than in the Netherlands. In contrast to the Dutch system, income-related subsidies can be granted to both tenants and owner-occupants in Germany ("Wohngeld") and France ("Aide Personnalisée au Logement"). Germany has, in addition, a unique system of rent tax for relatively well-off households occupying cheap accommodation, providing an incentive to move up the housing ladder. Such a tax has often been considered but never implemented in the Netherlands. Again the British system is closest to the Dutch one, with only households in rented homes potentially eligible for income-related subsidies (the Standard Housing Benefit and the Certificated Housing Benefit). In the British owner-occupied sector, groups of individual house-owners can obtain support comparable to the rented sector if they establish a co-operative society of shareholders acting as a Housing Association. In principle, this possibility exists in the Netherlands as well, but is rarely used.

Tax credit and saving facilities

Although systems of tax credits exist in other countries, standard tax deductions related to mortgage interest payments of owner-occupants are generally subject to some ceiling, which is absent in the Netherlands. On the other hand, the Netherlands has no special facilities for households who save to buy their own home, such as in Germany ("Bausparkasse") and France ("Epargne-Logement"), while the imputed rent revenue on owner-occupied dwellings is taxed.

Notes

1. Ministry of Social Affairs and Employment, *WAGW-relevante ontwikkelingen in CAOs,* Dienst Collectieve Arbeidsvoorwaarden (DCA), July 1990.
2. SVr, *WAGW in uitvoering, Samenvattend eindrapport,* Zoetermeer, 1990.
3. See IVA, *Arbeid en gehandicapte werknemers, Stand van zaken in arbeidsorganisaties,* Ministry of Social Affairs and Employment, The Hague, June 1990 and for an evaluation of the WAGW in the construction sector W.Bremer and I.Corten, *De bouw en de WAGW,* EIM, Amsterdam, 1990. The latter report is interesting because the construction sector, by its nature, is vulnerable to disability, meaning that there is a relatively large potential for reintegration compared to other industries. But even here the quota requirement was far from met.
4. Gemeenschappelijke Medische Dienst (Joint Medical Service), *Eindrapport Evaluatie Stelselherziening,* 1990.
5. The section on the Netherlands is an update of an earlier discussion of housing policies in an annex of the 1986/87 Economic Survey of the Netherlands. This update is based on: Ministry of Housing, Physical Planning and Environment, *Country Monograph 1988 the Netherlands,* submitted to the 49th Session of the Committee on Housing, Building and Planning, Economic Commission for Europe, United Nations, September 1988; Ministry of Housing, Physical Planning and Environment, *The main lines of housing policies in the Netherlands,* Zoetermeer, 1990; and Ministry of Housing, Physical Planning and Environment, *Volkshuisvesting in cijfers,* Zoetermeer, November 1990. The international comparison in the second section of this annex is partly based on: Ministry of Housing, Physical Planning and Environment, *Volkshuisvestingsbeleid in Europa, Fase I,* Zoetermeer, 1990.
6. The quality discount is 100 per cent of the unadjusted subsidy for rents of over Gld 700 per month. Hence, while in principle the cut-off level of eligibility is Gld 775 per month, in practice because of the quality discount all dwellings with a rent of more than Gld 700 are excluded from the scheme.

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STATISTICAL ANNEX

Selected background statistics

	Average 1981-90	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
A. Per cent changes from previous year											
Private consumption[1]	1.4	–2.5	–1.2	0.8	0.8	2.4	3.1	3.2	0.9	2.9	3.9
Gross fixed capital formation[1]	2.6	–10.5	–3.9	2.2	5.4	6.6	7.8	0.8	8.3	4.5	5.1
Public[1]	–1.3	–4.7	–7.1	–4.6	7.5	–3.9	–2.8	–4.2	2.1	1.7	3.1
Residential[1]	0.5	–9.6	–5.6	–0.4	4.5	–0.7	4.1	1.7	13.2	0.6	–3.1
Business[1]	4.6	–12.6	–2.0	5.6	5.4	13.0	11.8	1.4	7.4	6.7	8.7
GDP[1]	1.9	–0.7	–1.4	1.4	3.2	2.6	2.0	0.8	2.7	4.0	3.9
Implicit price deflator:											
GDP	2.3	5.5	6.0	1.8	1.8	1.8	0.4	–0.5	1.8	1.5	2.9
Private consumption	2.4	6.3	5.3	2.8	2.1	2.2	0.3	–0.2	1.0	1.6	2.3
Exports of goods and services	0.9	13.8	4.0	0.0	5.5	1.5	–15.2	–5.5	0.6	5.2	–0.8
Imports of goods and services	0.4	14.3	1.3	0.4	5.6	1.1	–16.0	–5.4	–0.8	6.7	–2.8
Industrial production	2.6	–0.1	–1.9	0.5	6.2	4.5	2.8	0.6	5.1	4.4	3.5
Employment	0.4	–1.5	–2.5	–1.9	–0.1	1.5	2.0	1.4	1.4	1.7	2.1
Compensation of employees	2.9	1.9	3.0	1.0	0.2	3.2	3.9	3.0	3.0	2.4	7.0
Productivity (GDP[1]/employment)	1.4	0.8	1.1	3.4	3.3	1.0	0.1	–0.6	1.3	2.3	1.8
Unit labour costs (comp. of employees/GDP[1])	1.0	2.6	4.4	–0.4	–2.9	0.6	1.9	2.2	0.4	–1.6	2.9
B. Percentage ratios											
Gross fixed capital formation as % of GDP at constant prices	20.3	19.0	18.5	18.6	19.0	19.8	20.9	20.9	22.0	22.1	22.4
Stockbuilding as % of GDP at constant prices	–0.6	–0.7	–0.3	0.1	0.3	0.4	–0.7	–1.8	–2.2	–0.7	–0.4
Foreign balance as % of GDP at constant prices	3.0	3.5	3.0	2.8	4.0	3.4	3.4	2.0	2.6	2.9	2.5
Compensation of employees as % of GDP at current prices	53.5	57.0	56.2	54.9	52.4	51.8	52.5	53.9	53.1	51.5	51.5
Direct taxes as % of household income	11.1	12.1	11.6	10.8	10.5	10.0	10.5	10.6	11.1	11.1	12.5
Social security contributions as % of household income	20.4	19.0	19.6	21.9	21.4	21.5	20.6	21.0	21.2	19.8	17.6
Household saving as % of disposable income	3.2	2.4	4.8	2.1	2.0	2.0	2.9	2.1	2.6	4.2	6.8
Unemployment as % of civilian labour force	8.7	6.3	8.8	11.2	11.2	10.0	9.2	8.7	8.3	7.4	6.5
C. Other indicator											
Current balance (billion dollars)	5.2	2.7	4.2	3.9	4.9	5.1	4.9	2.9	5.1	8.0	10.3

1. At constant 1980 prices.
Source: OECD Secretariat estimates.

Table A. **National product and expenditure**

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
	Million Gld., current prices									
Private final consumption expenditure	213 230	221 832	229 862	236 749	247 721	256 147	263 932	268 953	281 184	299 045
Government final consumption expenditure	62 746	65 120	66 582	66 392	67 664	68 552	70 589	71 160	72 373	75 188
Gross fixed capital formation	67 578	67 166	69 462	74 318	80 240	86 183	87 104	95 832	102 785	109 402
Private	56 474	56 549	59 270	63 123	69 306	75 610	76 860	85 259	91 774	97 762
Government	11 104	10 616	10 191	11 195	10 934	10 573	10 244	10 573	11 011	11 639
Increase in stocks	–3 088	–1 026	564	1 991	2 492	–1 782	–4 790	–5 559	–2 095	–1 053
National expenditure	340 466	353 094	366 470	379 450	398 118	409 100	416 835	430 386	454 247	482 582
Exports of goods and services	204 615	212 600	219 765	248 562	265 545	232 522	226 648	246 397	275 223	285 765
Less: Imports of goods and services	192 237	196 833	205 211	227 754	245 503	213 012	213 315	226 755	255 938	262 123
Gross domestic product in purchaser's values	352 900	368 899	381 020	400 250	418 180	428 609	430 169	449 820	475 300	508 309
Less: Net indirect taxes	32 900	32 700	33 919	35 379	37 189	39 800	40 590	42 060	45 270	50 680
Net income from the rest of the world	–960	–380	560	–500	680	–980	–735	–2 415	726	692
Gross national product at factor cost	319 040	335 819	347 660	364 370	381 670	387 830	388 844	405 345	430 756	458 321
Less: Depreciation and other operating provisions	35 616	37 854	39 193	41 195	42 867	43 804	45 480	48 034	51 442	54 023
Net national income at factor cost	283 368	297 926	308 473	323 182	338 783	344 027	343 365	357 224	378 820	403 425
	Million Gld., 1980 constant prices									
Private final consumption expenditure	200 626	198 275	199 864	201 547	206 389	212 858	219 660	221 725	228 247	237 171
Government final consumption expenditure	61 463	61 849	62 526	62 081	62 878	64 347	65 653	65 941	66 104	66 146
Gross fixed capital formation	63 407	60 929	62 284	65 665	70 000	75 465	76 077	82 382	86 085	90 452
Private	52 936	51 200	53 001	55 683	60 406	66 136	67 144	73 263	76 810	80 888
Government	10 471	9 729	9 282	9 982	9 594	9 329	8 933	9 118	9 274	9 563
Increase in stocks	–2 420	–840	330	970	1 260	–2 480	–6 670	–8 140	–2 810	–1 480
National expenditure	323 078	320 215	325 005	330 264	340 528	350 192	354 721	361 909	377 627	392 290
Exports of goods and services	179 746	179 720	185 737	199 199	209 651	216 634	223 373	241 193	256 291	268 316
Less: Imports of goods and services	178 632	168 172	169 928	176 356	185 353	197 757	204 950	214 842	229 773	242 977
Gross domestic product in purchaser's values	336 740	334 369	329 659	334 290	344 950	353 940	361 140	364 119	374 060	389 120
Less: Net indirect taxes	32 020	30 680	30 050	30 760	30 320	30 110	32 050	31 070	31 760	33 740
Net income from the rest of the world	–620	–770	–940	30	–800	30	–1 780	–1 420	–3 230	–2 390
Gross national product at factor cost	304 100	302 919	298 669	303 560	313 830	323 860	327 310	331 629	339 070	352 990

Source: CBS, *Nationale Rekeningen 1990.*

Table B. **Origin of net domestic product at factor cost**

Million Gld., current prices

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Agriculture, forestry and fishing	12 170	13 400	13 582	14 445	13 992	15 101	14 304	14 551	17 380	17 550
Mining and quarrying (incl.nat.gas)	24 590	24 860	26 133	29 798	33 971	22 053	14 232	11 198	11 740	14 090
Manufacturing	47 790	52 230	54 405	59 304	62 114	70 158	69 644	76 255	79 700	86 350
Construction	21 790	21 120	20 064	19 957	19 805	20 817	21 536	25 095	26 340	28 650
Electricity, gas and water (excl.nat.gas)	4 840	5 180	5 337	5 219	5 349	5 627	5 306	5 423	5 510	6 190
Transport and communication	19 440	19 760	20 305	21 475	22 710	24 570	24 698	26 390	27 060	27 290
Other private sector	121 350	129 120	137 284	143 480	149 993	155 985	162 172	169 432	179 450	189 960
Less: Imputed bank service charge	–12 660	–14 080	–16 145	–16 415	–16 730	–16 757	–16 302	–17 172	–17 840	–18 000
Government	45 020	46 720	46 951	46 414	46 910	47 450	48 510	48 470	48 740	50 650
Net domestic product at factor cost	284 330	298 300	307 910	323 680	338 120	345 010	344 100	359 640	378 080	402 730
Net income from the rest of the world	–960	–380	560	–500	680	–980	–730	–2 420	720	690
National income	283 370	297 920	308 470	323 180	338 800	344 030	343 370	357 220	378 800	403 420

Source: CBS, *Nationale Rekeningen 1990.*

Table C. **Income and expenditure of households and private non-profit institutions**

Million Gld., current prices

	1982	1983	1984	1985	1986	1987	1988	1989	1990
Compensation of employees	205 710	209 810	210 150	216 850	225 220	232 180	238 950	245 410	260 150
Wages and salaries	160 320	159 850	160 550	166 100	172 870	178 860	184 750	192 480	224 170
Employers' contributions to social security	45 390	49 960	49 600	50 750	52 350	53 320	54 200	52 930	35 980
Income from property and entrepreneurship	67 600	74 830	81 100	86 380	89 620	92 060	97 100	106 020	112 890
Imputed interest of insurance and pension funds	23 130	26 080	28 630	31 080	32 790	34 010	35 510	37 350	39 500
Other incomes	44 470	48 750	52 470	55 300	56 830	58 050	61 590	68 670	73 390
Current transfers from government	106 470	109 500	109 660	108 580	109 450	110 410	112 770	115 830	128 830
Current transfers from the rest of the world	990	1 180	1 190	1 390	1 400	1 520	1 440	1 530	1 810
Income of households, etc.	380 770	400 600	407 610	421 360	434 790	446 930	461 310	479 690	514 620
Less: Direct taxes on households, etc.	115 440	128 920	128 200	130 510	132 690	138 830	146 260	145 560	153 150
Disposable income	265 330	271 680	279 410	290 850	302 100	308 100	315 050	334 130	361 470
Less: Current transfers to the government	2 160	2 290	2 500	2 610	2 750	3 170	3 280	3 410	3 630
Less: Current transfers to the rest of the world	2 140	2 230	2 410	2 530	2 500	2 650	1 820	1 900	2 070
Less: Consumer's expenditure	221 830	229 860	236 750	247 720	256 150	263 930	268 960	281 180	299 050
Food	44 070	44 960	46 730	47 440	48 030	48 740	49 580	51 090	53 450
Clothings and footwear	18 310	18 310	18 290	19 700	21 020	21 930	21 660	22 030	23 590
Rent	23 770	26 140	27 580	28 830	30 450	32 070	33 990	36 160	38 360
Durables	26 970	28 460	28 220	29 890	32 860	35 410	35 430	37 710	40 950
Other	108 710	111 990	115 930	121 860	123 790	125 780	128 300	134 190	142 700
Saving of households, etc.	39 200	37 300	37 750	37 990	40 700	38 350	40 990	47 640	56 720

Source: CBS, *Nationale Rekeningen 1990.*

Table D. **Industrial production and productivity**

Index 1980 = 100

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Mining and quarrying	91.14	77.86	84.13	86.22	93.65	87.80	90.84	80.70	85.69	86.55
Manufacturing industries	100.08	98.25	100.75	106.51	109.60	112.52	112.88	118.91	124.11	128.58
Basic metals	105.83	97.09	95.50	107.83	104.74	102.46	107.10	116.45	121.96	124.15
Metal products, machinery and equipment	100.25	100.08	99.25	105.25	109.00	109.73	106.73	112.54	118.89	124.70
Food, beverages and tobacco	103.42	104.50	104.42	108.00	105.42	112.44	112.36	115.34	119.65	124.04
Textiles, clothing and leather	90.03	91.40	87.70	93.50	95.68	90.24	86.76	88.14	90.50	93.71
Chemicals	107.49	105.77	121.17	131.81	142.01	145.80	152.82	161.19	169.10	173.04
Electricity, gas and water	99.58	102.75	103.58	104.83	108.82	113.54	109.27	111.45	118.26	115.53
Total industry	98.00	94.25	97.08	101.50	105.67	105.84	106.81	107.08	112.45	115.35
Manufacturing employment and productivity										
Employment[1] (end of quarter)	96.57	92.25	87.25	88.02	89.52	91.52	92.02	92.66	94.22	95.79
Output per person-year	103.63	106.50	115.48	121.00	122.43	122.94	122.67	128.33	131.72	134.23

1. Person-years.

Source: OECD, *Indicators of Industrial Activity.*

Table E. **Money and banking**

End of period

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
	Million guilders									
Money supply:										
Total primary liquidity	64 025	72 291	79 657	84 992	90 770[2]	97 212	104 148	111 310[2]	119 025	125 612
Notes and coins	22 336	23 388	26 348	27 797	28 604[2]	29 771	33 287	34 613	36 001	36 403
Demand deposits	41 689	48 903	53 309	57 195	62 166[2]	67 441	70 861	76 697[2]	83 024	89 209
Secondary liquidity	48 431	49 731	55 431	59 371	68 990[2]	70 722	71 228[2]	87 200[2]	107 701[2]	119 187
Claims of money-creating institutions on:										
Private sector	204 796	242 877[2]	250 876	260 318	271 775[2]	292 281	307 826[2]	376 318[2]	401 644	427 518
Central government	28 275	40 841[2]	48 467	56 629	62 462[2]	65 679	59 463[2]	62 959	66 744	69 152
Local government	18 747	23 444	23 267	21 108	22 915[2]	29 532	33 172	60 442[2]	60 811	60 265
Foreign securities	3 117	4 104	5 931	6 883	9 455	13 961	16 769	23 058	22 439	24 738
	Per cent									
Interest rates[1]*:*										
Official discount	8.83	7.29	4.50	5.00	5.25	4.58	4.40	3.65	5.92	7.04
Call money (Amsterdam)	11.05	8.01	5.28	5.78	6.30	5.83	5.16	4.45	6.99	8.28
Three-month loans to local authorities	11.63	8.32	5.62	6.10	6.32	5.61	5.31	4.77	7.33	8.62
Capital market yields[1]*:*										
Government bonds	11.52	9.90	8.25	8.04	7.26	6.31	6.28	6.05	7.24	9.01
Of which: Short-term	11.40	9.79	8.14	7.97	7.13	6.15	6.17	5.82	7.26	9.05
Medium-term	11.52	9.93	8.23	8.10	7.32	6.36	6.35	6.16	7.21	8.99
Privately placed public utility loans	12.24	10.45	8.81	8.56	7.79	6.79	6.96	6.83	7.56	9.15
Mortgages on dwellings	12.71	11.05	9.13	8.99	8.36	7.26	7.30	7.12	8.15	9.50

1. Yearly average.
2. Start of new series.

Source: De Nederlandsche Bank, *Annual Report 1990.*

Table F. **Merchandise trade**

US $ million

	Imports, cif						Exports, fob					
	1985	1986	1987	1988	1989	1990	1985	1986	1987	1988	1989	1990
Total	65 294	75 512	91 252	99 741	104 216	126 123	68 350	80 516	92 827	103 207	107 803	131 810
By areas:												
OECD countries	49 904	62 798	75 793	81 388	83 691	101 931	59 449	70 962	81 904	86 303	91 681	112 749
EEC (12)	38 045	48 238	58 482	63 213	64 600	78 862	50 608	60 333	69 478	73 807	78 398	97 500
Other Europe	4 249	5 329	6 652	6 800	7 248	8 994	4 144	5 372	6 671	6 653	6 985	8 575
North America	5 759	6 379	7 155	7 773	8 374	9 573	3 953	4 298	4 550	4 555	4 817	5 067
Japan	1 560	2 477	3 029	3 159	3 087	3 977	379	577	724	845	984	1 028
Australia	253	314	397	368	331	471	288	304	387	366	406	487
New Zealand	37	58	75	73	49	50	74	75	92	74	88	89
Non-OECD countries	15 388	12 703	15 451	16 027	17 428	20 823	7 786	8 793	10 135	10 649	10 187	11 472
Developed countries[1]	158	191	188	210	197	265	210	254	289	311	280	308
Eastern Europe	3 099	1 861	2 269	2 052	2 405	2 797	908	1 057	1 300	1 409	1 683	1 780
China	189	268	351	457	495	720	245	209	182	257	239	189
Developing countries	11 940	10 381	12 641	13 306	14 330	17 040	6 421	7 272	8 364	8 671	7 984	9 193
Unspecified	2	10	7	2 325	3 096	3 368	1 114	759	787	6 254	5 933	7 588
By SITC sections:												
0. Food and live animals	7 117	8 732	10 584	12 284	10 637	12 163	11 168	14 221	17 059	18 669	19 014	22 548
1. Beverages and tobacco	849	1 071	1 286	1 294	1 294	1 604	1 147	1 643	2 007	2 003	2 117	2 926
2. Crude materials, except fuels	3 847	4 125	4 921	5 701	6 040	6 648	3 405	4 338	5 378	6 378	6 552	7 453
3. Mineral fuels, lubricants, etc.	14 572	9 007	10 273	9 348	10 871	13 273	15 814	12 410	10 310	8 886	9 879	12 997
4. Animal and vegetable oils and fats	761	528	495	604	624	627	879	690	683	725	804	854
5. Chemicals	6 573	7 888	9 653	10 780	11 490	13 194	11 324	13 785	16 739	19 514	19 394	22 345
6. Manufactured goods classified chiefly by material	9 478	12 747	15 075	17 201	17 887	21 795	8 383	10 936	13 024	15 043	15 896	18 886
7. Machinery and transport equipment	15 033	21 434	26 174	28 974	31 372	38 972	11 516	15 944	19 427	22 930	24 366	30 979
8. Other manufactures	6 615	9 458	12 079	13 006	13 367	17 222	4 377	6 154	7 720	8 608	9 302	12 233
9. Other non classified	444	516	708	545	628	619	331	391	475	448	475	587

1. South Africa only.

Source: OECD, *Foreign Trade Statistics, Series A* and *C.*

Table G. **Public sector**

	1970	1980	1985	1986	1987	1988	1989	1990
Budget Indicators: General Government Accounts (% GDP)								
Current receipts	37.7	46.0	45.1	45.5	48.0	48.0	45.3	44.9
Non-interest expenditures	36.6	49.1	48.4	48.0	49.2	47.9	45.9	46.0
Primary budget balance	1.1	–3.0	–3.3	–2.5	–1.2	0.1	–0.6	–1.1
Net interest (including net capital transfers)	–1.9	–1.0	–1.5	–3.5	–5.3	–5.2	–4.5	–4.1
General government budget balance	–0.8	–4.0	–4.8	–6.1	–6.5	–5.1	–5.1	–5.3
Structure of expenditure and taxation (% GDP)								
Government expenditure	35.6	50.2	52.7	52.4	53.7	52.3	50.2	50.7
Transfers	16.0	26.2	27.2	27.2	27.4	26.6	26.0	27.4
Subsidies	1.3	2.5	3.0	3.1	3.7	3.7	3.0	2.8
General expenditures:								
Education	5.3	6.3	5.2	5.1	5.1	4.9	4.6	..
Tax receipts	41.8[1]	45.8	44.9	45.8	48.5	48.4	46.0	45.2
Personal income tax	11.5[1]	12.0	8.7	9.3	9.6	9.9	9.7	11.2
Corporate tax	2.8[1]	3.0	3.1	3.3	3.7	3.5	3.5	3.4
Social security tax	15.4[1]	17.4	19.9	19.6	20.7	20.5	18.9	17.0
Payroll tax	1.2[1]	1.6	1.6	1.7	1.8	1.7	1.7	1.6
Consumption tax	10.8[1]	11.6	11.5	11.9	12.6	12.5	12.0	12.0
Of which: Value added tax	6.3[1]	7.3	7.3	7.5	7.9	8.0	7.5	7.5
Other indicators								
Income tax elasticity	1.1[2]	1.1	–0.9	2.8	1.2	2.6	0.9	2.9
Income tax as % of total tax	34.2[1]	32.9	26.4	27.5	27.4	27.9	28.8	32.3
Net public debt as a % of GDP	30.0	24.9	43.0	46.5	52.3	55.1	57.3	58.8

	Prior to		After
Tax rates			
Income tax			
Top rate	72%	1st January 1990	60%
Lower rate	14%	1st January 1990	8%[3]
Number of brackets	9	1st January 1990	3
Average social security tax rate			
Employees	21%	1st January 1990	26.85%
Employers	19.95%	1st January 1990	9.15%
VAT rate	6% – 20%	1st January 1989	6% – 18.5%
Corporation tax rate	42%	1st October 1988	40% – 35 %[4]

1. 1973.
2. 1974.
3. This rate is 35% including the social security tax for AOW (pensions), AWW (widows and orphans), AWBZ (health care) and AAW (disablement). Those over 65 are exempted from AOW/AWW; their total first bracket tax rate is 18% instead of 35%.
4. 40% for the first Gld 250 000 profit and 35% over that amount.

Sources: CPB, *Centraal Economische Plan 1991;* OECD, *National Accounts, Revenue Statistics of OECD Member countries* and Secretariat estimates.

Table H. **Structure of output and performance indicators**

	1980	1985	1986	1987	1988	1989	1990	1980	1985	1986	1987	1988	1989	1990
	Share of GDP							Share of total employment						
A. Structure of output (constant prices)														
Agriculture, hunting, forestry and fishing	3.7	4.6	4.9	4.5	4.6	4.8	5.1	5.8	5.9	5.7	5.6	5.5	5.4	5.3
Mining and quarrying	6.3	5.5	5.1	5.2	4.4	4.5	4.4	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Manufacturing	19.0	19.6	19.7	19.5	19.9	20.0	20.0	20.7	19.4	19.3	19.2	19.1	19.1	19.1
Of which: Food, beverages and tobacco	3.6	3.6	3.7	3.7	3.7	3.6	3.7	3.6	3.5	3.5	3.4	3.4	3.3	3.3
Textile and leather industries	0.8	0.8	0.7	0.7	0.7	0.7	0.7	1.4	1.0	1.0	1.0	1.0	0.9	0.9
Wood industry	1.5	1.2	1.2	1.2	1.3	1.3	1.3	1.8	1.5	1.5	1.5	1.5	1.6	1.6
Paper industry	2.1	2.1	2.1	2.1	2.1	2.1	2.2	2.3	2.3	2.3	2.3	2.3	2.4	2.3
Chemicals and rubber industries	2.6	3.4	3.4	3.6	3.6	3.7	3.6	2.3	2.4	2.5	2.5	2.5	2.5	2.5
Metal and other products	8.0	8.3	8.1	7.9	8.0	8.2	8.2	9.0	8.5	8.5	8.4	8.3	8.2	8.3
Electricity, gas and water	2.3	2.4	2.4	2.3	2.3	2.3	2.3	1.0	1.0	1.0	1.0	1.0	0.9	0.9
Construction	7.8	6.4	6.5	6.4	7.0	6.9	6.9	9.3	7.2	7.3	7.3	7.4	7.4	7.4
Trade, restaurants and hotels	15.2	14.7	14.2	14.4	14.5	14.7	15.1	19.5	19.2	19.3	19.5	19.7	20.1	20.5
Transport, storage and communication	7.7	8.3	8.4	8.6	8.8	8.9	8.9	6.7	7.0	7.1	7.0	7.0	7.1	7.1
Other services[1]	26.5	27.6	28.0	28.5	28.1	27.9	27.8	22.8	24.2	24.3	24.4	24.6	24.8	24.9
Total business sector	84.7	85.2	85.3	85.4	85.8	86.3	86.9	85.1	84.0	84.2	84.3	84.6	84.9	85.3
Government	15.3	14.8	14.7	14.5	14.2	13.7	13.1	14.9	16.0	15.8	15.7	15.4	15.1	14.7
	Productivity growth[2]							Share of total investment[3]						
B. Economic performance (constant prices)														
Agriculture, hunting, forestry and fishing	7.2	–2.4	9.5	–5.7	5.3	7.5	9.9	5.5	5.1	5.4	5.1	5.9	6.0	..
Mining and quarrying	–8.8	10.2	–15.9	3.5	–12.0	5.5	1.4	24.4	27.3	28.3	28.9	28.5	28.2	..
Manufacturing	4.3	0.6	0.4	–0.6	3.9	2.8	2.0							
Of which: Food, beverages and tobacco	3.9	–2.9	6.4	–0.3	3.2	1.7	3.8							
Textile and leather industries	5.3	5.1	–8.1	–3.9	4.0	3.1	3.4							
Wood industry	2.4	4.5	0.3	–0.9	4.0	–0.5	–2.1							
Paper industry	2.3	–1.6	0.0	–0.2	3.4	–0.5	4.1							
Chemicals and rubber industries	5.8	6.5	–1.0	2.9	2.6	1.9	0.3							
Metal and other products	4.6	0.1	–1.8	–2.0	4.0	5.8	1.3							
Electricity, gas and water	1.4	1.1	3.9	–4.0	1.8	4.2	5.0							
Construction	4.2	0.6	–1.9	–1.3	8.6	2.8	2.1							
Trade, restaurants and hotels	0.5	4.4	–3.5	–0.3	1.1	2.0	2.4							
Transport, storage and communication	3.0	0.3	–0.7	2.7	4.4	2.0	1.3							
Other services[1]	0.8	1.7	0.9	0.8	–0.3	0.4	0.6	54.7	53.9	53.9	54.3	54.7	55.1	..
Total business sector	2.2	2.0	–0.4	–0.3	1.7	2.3	1.9	84.5	86.3	87.6	88.3	89.0	89.3	..
Government	–0.0	0.3	0.0	–0.8	1.2	0.7	0.5	15.5	13.7	12.4	11.7	11.0	10.7	..

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
C. Other indicators (current prices)														
R & D as % of GDP in manufacturing sector	4.7	4.7	4.9	5.1	5.3	5.6	5.6	6.0	5.7	6.4	6.6	7.1	6.9	..
Total R&D expenditure as % of total GDP	2.0	1.9	1.9	1.9	1.9	2.0	2.0	2.0	2.0	2.1	2.2	2.3	..	..
Government funded R&D as % of total	45.6	47.0	47.6	48.0	47.8	50.0	48.5	47.2	46.8	44.2	44.0	44.3	..	..
Breakdown of employed workforce by size of establishment[4]:														
1 to 9 type-workers	..	..	..	80.4	80.7	80.5	80.1	80.6	81.1	82.0	82.4	82.0	81.4	81.4
10 to 99 type-workers	..	..	..	17.6	17.4	17.7	18.1	17.6	17.1	16.3	16.0	16.3	16.8	16.8
Over 100 type-workers	..	..	..	1.9	1.9	1.8	1.8	1.8	1.8	1.7	1.7	1.7	1.8	1.9
Total	..	..	..	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Workforce (thousands of type-workers)	..	..	..	210.71	214.73	217.47	215.91	215.96	215.72	220.46	223.22	223.29	223.88	233.58

1. Excluding government services.
2. 1980 figures represent 1980-1984 average.
3. Mining and quarrying also includes manufacturing, electricity, gas and water and construction; other services also include trade, restaurants and hotels and transport, storage and communication.
4. Entreprises (excl. government) classified by the number of type-workers (1 type-worker = 250 man-days; since 1985, 1 type-worker = 260 man-days).

Sources: CBS, *Statistical Yearbook of the Netherlands 1990*, and, *Nationale Rekeningen, 1990;* OECD, *National Accounts* and *Main Science and Technology Indicators* and CPB direct submission.

Table 1. **Labour market indicators**

A. **Evolution**

	Peak	Trough	1985	1986	1987	1988	1989	1990
Standardised unemployment rate	1983: 12.0	1970: 1.0	10.6	9.9	9.6	9.2	8.3	7.5
Unemployment rate								
Total	1984: 14.2	1971: 1.3	13.1	12.1	9.5	9.1	8.3	7.4
Male	1984: 14.6	1979: 3.6	13.1	11.9	7.1	7.0	6.3	5.4
Female	1984: 13.5	1971: 0.9	13.1	12.6	13.5	12.4	11.5	10.6
Youth[1]	1984: 25.2	1971: 1.4	23.0	20.0	14.8	13.6	12.2	11.1
Share of long term unemployment[2]	1985: 60.7	1981: 29.6	60.7	55.5	45.6	50.0	49.9	..
Registered vacancies (thousands)[3]	1980: 52.1	1982: 17.6	..	66.2	70.6	68.6	92.6	115.4
Average weekly paid hours of work, full-time workers[4]	1956: 49.5	1978: 41.0	39.7	39.6	39.5	39.4	..	..

B. **Structural or institutional characteristics**

	1970	1980	1985	1986	1987	1988	1989	1990
Labour force (percent change)	0.6[8]	0.6[10]	0.3	1.0	0.8	0.9	0.7	..
Participation rate[5]:								
Total	..	53.6	51.5	51.5	51.5	51.6	51.6	..
Male	..	79.4	75.8	75.3	79.0	79.4	79.6	..
Female	..	35.5	41.0	41.3	48.9	50.6	51.0	..
Employment/population between 15 and 64 years	57.7	51.3	46.3	46.8	47.0	47.3	47.8	..
Civilian employment by sector (% change)								
Agriculture	-1.5[9]	0.3[10]	0.4	0.4	12.9	1.1	0.7	..
Industry	-0.7[9]	-1.8[10]	1.4	-3.3	12.1	1.2	2.6	..
Services	2.8[9]	1.5[10]	2.3	3.7	11.9	3.6	2.2	..
Of which: Government	2.3[9]	0.6[10]	0.8	0.8	0.5	-0.2	-0.3	..
Total	1.4[9]	0.4[10]	1.6	1.6	12.0	2.8	2.2	..
Civilian employment by sector (% of total)								
Agriculture	5.7[11]	4.9	4.9	4.8	4.9	4.8	4.7	..
Industry	34.9[11]	31.5	28.1	26.8	26.8	26.4	26.5	..
Services	59.4[11]	63.6	67.0	68.4	68.3	68.8	68.6	..
Of which: Government	13.6[11]	14.8	16.0	15.8	15.7	15.5	15.1	..
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	..
Part-time employment[6] (percent of total employees)	17.4	23.3	30.3	0.0	44.0	46.2	46.8	48.4
Non-wage labour cost[7]	13.6	16.4	17.0	17.1	17.0	17.1	16.2	..
Minimum wage as a % of average wage	56.6	54.6	49.5	48.5	47.8	47.0	46.4	..

1. People between 15 and 24 years as a percentage of the labour force of the same age group.
2. People looking for a job since one year or more as a percentage of total unemployment.
3. Based on survey data, Secretariat estimates for 1988.
4. Until 1983, only male workers in industry and since 1984, male workers in total economy.
5. Labour force as a percentage of the corresponding population aged between 15 and 64 years.
6. Employees working less than 35 hours per week.
7. Total employers' contributions as a percentage of total compensation.
8. 1970–79 average.
9. 1975–79 average.
10. 1980–1984 average.
11. 1975 figure.

Sources: CBS, *Statistical Yearbook of the Netherlands 1990, Monthly Labour Force Survey* and *Bi-annual Labour Force Survey;* Ministry for Social Affairs and Employment; OECD, *Main Economic Indicators, Labour Force Statistics* and Secretariat estimates.

Table J. **Financial markets**

	1970	1980	1985	1986	1987	1988	1989	1990
A. Sector size								
Sector employment[1]/total employment	2.8	3.6	3.8	3.8	3.8	3.8	3.8	3.8
Sector GDP[1]/total GDP	3.0	4.8	5.3	5.3	5.3	5.2	5.4	5.1
Funds redistributed by financial markets/GDP	..	26.5	11.9	15.4	10.8	26.0	22.4	17.3
Domestic financial assets/GDP	..	145.8	198.3	211.8	221.1	253.1	252.7	248.2
Stock-market capitalisation/GDP	..	18.6	39.4	42.7	35.1	44.4	57.4	45.7
B. Structure of financial flows								
Share of intermediated finance in external financing[2]	..	..	41.4	34.2	35.9	30.3	36.3	33.9
Securities issues in domestic credit flows[3]	21.7	20.1	39.1	28.5	33.7	41.5	44.1	50.5
Private non-financial sector's portfolio structure[4]:								
Deposits	..	..	26.8	30.6	18.8	31.9	34.6	..
Bonds	..	..	5.6	8.9	8.5	7.7	4.0	..
Shares	..	..	4.6	4.7	12.1	–3.4	–1.8	..
Institutional investment[5]	..	..	44.5	40.7	35.9	51.9	41.8	..
Structure of non-financial corporate liabilities[6]:								
Equity	..	..	34.5	36.4	36.5	37.6	37.5	..
Short-term: interest bearing	..	..	7.7	7.3	7.2	7.3	7.4	..
non-interest bearing	..	..	28.0	26.2	25.0	24.7	25.1	..
Long-term: interest bearing	..	..	20.0	20.4	21.7	21.8	21.7	..
non-interest bearing	..	..	9.7	9.7	9.6	8.7	8.3	..
C. Internationalisation of markets								
Foreign business of the banking sector[7]:								
Assets	40.8	34.2	33.6	31.5	31.1	28.9	31.2	32.4
Liabilities	39.0	35.4	29.8	28.9	29.2	26.2	25.8	26.7
International banking networks:								
Foreign banking presence[8]	..	23	42	41	42	43	43	47.0
Foreign claims in % of domestic assets	..	33.7	30.7	26.7	25.9	24.7	26.7	27.4
Relative size of cross-border transactions in securities[9]:								
Net purchases of foreign securities by domestic residents	..	1.9	–22.0	–49.8	–19.9	–25.2	–0.4	–11.7
Net purchases of domestic securities by foreign residents	..	34.3	25.9	15.1	33.5	39.7	34.4	–8.3
D. Efficiency of markets								
Interest rate margins[10]	..	2.6	2.5	2.4	2.2	1.9	1.8	1.7
Banks' productivity[11]	..	84.0	75.0	76.6	68.7	67.6	65.6	..
Cost of commercial bank intermediation[12]	..	0.4	0.6	0.6	0.7	0.7	0.7	..
Deviation of domestic interest rates from international levels:								
Three-month loans to local authorities/Euro-Guilder three-month deposit rate	0.21	0.04	–0.05	–0.02	0.00	–0.02	–0.03	–0.02
Money market: Netherlands-Germany	..	..	1.07	1.05	1.31	0.50	0.34	0.20
Netherlands-United States	..	..	–1.96	–1.13	–1.83	–3.14	–1.85	0.44
Capital market: Netherlands-Germany	..	..	0.31	0.28	0.06	–0.16	0.22	0.14
Netherlands-United States	..	..	–3.45	–1.45	–2.20	–2.01	–1.24	0.32

1. Sector defined as financial institutions plus insurance.
2. External financing is the sum of intermediated financing (by financial institutions) and non-intermediated financing (share or bond financing, direct inward investment and direct borrowing abroad).
3. Value of net bond and share issues in per cent of change of total domestic credit.
4. Sub-totals do not sum to 100 because some items, such as commercial credit and direct investment abroad, are not included.
5. Mutual funds, pension funds, assets management funds and insurance company funds not classed as deposits.
6. The non-financial corporate sector is represented by manufacturing industries, trade corporations, transport corporations and services corporations from 1983 to 1987; in 1982, it includes only trade corporations and manufacturing industries and from 1980 to 1981, only manufacturing-industries data are available.
7. Deposit money banks; in per cent of balance sheet.
8. Number of branches and subsidiaries.
9. Ratio of cross-border transactions in securities to net issues on domestic securities markets. Data include new issues and redemptions as well as secondary market transactions.
10. Interest received minus interest paid divided by total assets.
11. Expenses divided by earnings of universal banks, Rabobanks and, as from 1986, the Postbank.
12. Net pre-tax earnings of universal banks, Rabobanks and, as from 1986, the Postbank in percentage of total balance sheet.

Sources: De Nederlandsche Bank, *Quarterly Bulletin 1991/2*, September 1991 and *Annual Report 1990;* Central Bureau of Statistics, various publications and OECD, *Financial Statistics*.

BASIC STATISTICS

BASIC STATISTICS:

INTERNATIONAL COMPARISONS

BASIC STATISTICS: INTERNATIONAL COMPARISONS

	Units	Reference period[1]	Australia	Austria	Belgium	Canada	Denmark	Finland	France	Germany	Greece	Iceland	Ireland	Italy	Japan	Luxembourg	Netherlands	New Zealand	Norway	Portugal	Spain	Sweden	Switzerland	Turkey	United Kingdom	United States	Yugoslavia
Population																											
Total	Thousands	1989	16 833	7 624	9 938	26 248	5 132	4 964	56 160	61 990	10 033	253	3 515	57 525	123 120	378	14 849	3 343	4 227	10 337	38 888	8 493	6 723	55 255	57 236	248 762	23 690
Inhabitants per sq. km	Number	1989	2	91	326	3	119	15	102	249	76	2	50	191	326	145	364	12	13	112	77	19	163	71	234	27	93
Net average annual increase over previous 10 years	%	1989	1.5	0.1	0.1	1.0	0.0	0.4	0.5	0.1	0.5	1.1	0.4	0.2	0.6	0.4	0.6	0.6	0.4	0.5	0.5	0.2	0.6	2.4	0.2	1.0	0.8
Employment																											
Total civilian employment (TCE)[2]	Thousands	1989	7 725	3 342	3 670	12 486	2 610	2 460	21 484	27 208	3 671	140	1 077	20 833	61 280	181	6 065	1 461	2 014	4 377	12 260	4 466	3 518	16 771	26 457	117 342	..
Of which: Agriculture	% of TCE		5.5	8.0	2.8	4.3	5.7	8.9	6.4	3.7	25.3	10.0	15.1	9.3	7.6	3.3	4.7	10.3	6.6	19.0	13.0	3.6	5.6	50.1	2.1	2.9	..
Industry	% of TCE		26.5	37.0	28.5	25.7	27.4	30.9	30.1	39.8	27.5	30.7	28.4	32.4	34.3	31.5	26.5	25.4	25.3	35.3	32.9	29.4	35.1	20.5	29.4	26.7	..
Services	% of TCE		68.0	55.1	68.7	70.1	66.9	60.2	63.5	56.5	47.1	59.3	56.5	58.2	58.2	65.2	68.8	64.3	68.1	45.7	54.0	67.0	59.3	29.5	68.4	70.5	..
Gross domestic product (GDP)																											
At current prices and current exchange rates	Bill US $	1989	282.4	126.5	153.0	545.5	106.2	115.5	958.2	1 189.1	54.2	5.2	33.9	865.8	2 869.3	7.0	223.7	41.7	90.2	45.3	380.3	189.9	177.2	79.1	837.5	5 132.0	81.8
Per capita	US $		16 800	16 603	15 393	20 783	20 685	23 270	17 061	19 182	5 399	20 516	9 644	15 051	23 305	18 613	15 063	12 503	21 341	4 623	9 711	22 360	26 350	1 432	14 642	20 629	3 454
At current prices using current PPP's[3]	Bill US $	1989	240.4	102.1	135.0	506.7	74.9	74.6	818.0	929.0	72.8	4.0	31.6	799.7	1 934.4	6.5	203.6	38.2	69.4	72.1	401.2	131.7	119.0	247.4	820.6	5 132.0	..
Per capita	US $		14 304	13 407	13 587	19 305	14 594	15 030	14 565	14 985	7 253	15 870	8 984	13 902	15 712	17 192	13 709	11 446	16 422	7 360	10 244	15 511	17 699	4 481	14 345	20 629	..
Average annual volume growth over previous 5 years	%	1989	3.9	2.7	2.6	3.9	2.0	4.0	2.7	2.6	2.2	3.1	3.2	3.1	4.5	4.4	2.4	0.8	2.2	4.3	4.2	2.3	3.0	5.1	3.8	3.6	..
Gross fixed capital formation (GFCF)	% of GDP	1989	25.5	24.0	19.1	22.2	18.2	27.6	20.8	20.5	18.5	18.7	18.4	20.2	31.0	24.1	21.8	21.0	27.5	26.2	24.0	21.2	27.6	22.8	19.6	16.6	14.5
Of which: Machinery and equipment	% of GDP		10.7	10.2	9.5	7.5	8.0	10.9	9.3	9.3	8.0	5.1	9.9	10.6	13.0	10.9	10.6	10.5	9.4	9.8 (86)	8.5	9.6	9.5	11.7 (87)	9.4	7.8	..
Residential construction	% of GDP		5.4	4.7	4.1	7.4	4.2	7.7	5.1	5.3	4.6	4.3	3.6 (88)	4.8	6.1	4.3	5.5	4.9	4.1	4.8 (86)	4.9	5.2	18.1[9]	5.8 (87)	3.8	4.4	..
Average annual volume growth over previous 5 years	%	1989	6.1	4.6	7.5	8.1	3.5	6.3	5.3	3.5	1.3	1.6	0.5	4.1	8.1	7.8	5.7	3.2	0.2	8.9	11.1	6.5	6.7	4.6	6.9	3.9	..
Gross saving ratio[4]	% of GDP	1989	22.5	26.0	20.9	19.9	17.4	25.6	21.3	26.5	14.7	16.6	19.7	20.2	34.2	60.9	24.3	17.4	24.8	26.0	22.1	18.7	34.0	24.0	15.4	15.6	..
General government																											
Current expenditure on goods and services	% of GDP	1989	16.4	18.1	14.4	18.7	25.1	19.8	18.3	18.7	21.6	19.07	15.4	16.8	9.2	16.0	15.3	16.4	21.0	16.1	15.1	26.0	12.9	16.0	19.4	17.9	14.4
Current disbursements[5]	% of GDP	1989	32.1	44.9	53.3	41.6	56.0	35.1	46.2	41.6	47.7	32.1	49.9 (87)	47.1	25.6	45.0 (86)	51.7	..	50.9	40.4 (86)	35.5 (88)	57.3	29.9	..	37.6	34.6	..
Current receipts	% of GDP	1989	34.2	46.1	48.5	39.6	57.4	39.9	46.5	44.6	31.8	36.6	43.7 (87)	41.1	33.3	52.9 (86)	50.1	..	54.9	37.6 (86)	36.3 (88)	64.1	34.1	..	39.7	31.8	..
Net official development assistance	% of GNP	1989	0.38	0.23	0.43	0.43	0.88	0.57	0.75	0.41	0.07	0.04	0.16	0.39	0.32	0.26	0.97	0.23	1.05	0.18	0.06	0.88	0.33	..	0.31	0.17	..
Indicators of living standards																											
Private consumption per capita using current PPP's[3]	US $	1989	8 258	7 434	8 486	11 225	7 705	7 766	8 733	8 120	5 026	9 447	5 079	8 577	9 068	9 534	8 133	7 007	8 224	4 683	6 443	8 090	10 181	2 768	9 154	13 768	1 638*
Passenger cars, per 1 000 inhabitants	Number	1988	435 (87)	370	349	454 (86)	321	344	394	457	130	488	210 (87)	408	241	443	348	490	388	190 (87)	263	400	419	20 (83)	318	559	129 (87)
Telephones, per 1 000 inhabitants	Number	1987	550 (85)	525	478	780	864	617 (85)	608 (85)	650	413	525	265 (85)	488	555 (85)	425 (86)	639	697	622 (84)	202	396	890 (83)	856 (86)	91	524 (84)	650 (84)	154 (86)
Television sets, per 1 000 inhabitants	Number	1986	472	323	301	546	386	372	332	379	174	306	216	255	585	253	327	358	348	157	322	393	411	165	534	813	176
Doctors, per 1 000 inhabitants	Number	1989	2.3 (86)	2.1	3.3 (88)	2.2 (88)	2.7 (88)	2.0	2.6	3.0	3.2 (88)	2.7 (88)	1.5 (88)	1.3 (88)	1.6 (88)	1.9 (88)	2.4	1.9	2.5 (87)	2.8	3.7	3.1	2.9	0.8	1.4 (88)	2.3 (88)	1.8 (86)
Infant mortality per 1 000 live births	Number	1989	7.9	8.3	8.6	7.2 (88)	7.5	6.1 (88)	7.5	7.5	9.9	5.3	7.6	8.9	4.6	9.9	6.8	10.8 (88)	8.3 (88)	12.2	7.8	5.8	7.3	6.5 (88)	8.4	9.7	24.8 (88)
Wages and prices (average annual increase over previous 5 years)																											
Wages (earnings or rates according to availability)	%	1989	5.3	4.7	2.9	3.9	6.0	7.6	3.9	4.1	16.1	..	6.1	6.9	3.3	..	2.1	9.2	9.0	15.6	8.8	7.9	..	..	8.4	2.7	220.8
Consumer prices	%	1989	7.8	2.2	2.4	4.3	4.3	4.9	3.6	1.3	17.1	23.7	3.7	6.2	1.1	1.8	0.7	11.2	6.6	12.6	6.9	5.6	2.1	50.6	5.3	3.6	210.2
Foreign trade																											
Exports of goods, fob *	Mill US $	1989	37 191	32 448	100 081[7]	117 154	28 113	23 279	179 192	340 987	7 595	1 429	20 782	140 596	274 266	..[8]	107 760	8 883	27 145	12 722	43 408	51 592	51 683	11 557	153 121	363 811	13 363
As % of GDP	%		13.2	25.7	65.4	21.5	26.5	20.2	18.7	28.7	14.0	27.5	61.3	16.2	9.6	..	48.2	21.3	30.1	28.1	11.4	27.2	29.2	14.6	18.3	7.1	16.3
Average annual increase over previous 5 years	%		10.0	15.6	14.0	6.2	12.0	11.5	13.0	14.7	9.5	14.2	16.6	13.9	10.1	..	10.4	10.2	7.5	19.6	13.3	11.9	14.8	10.1	10.3	10.8	9.8
Imports of goods, cif *	Mill US $	1989	40 981	38 902	98 586[7]	114 288	26 721	24 537	186 159	269 403	16 200	1 407	17 490	152 910	209 763	..	104 224	8 822	23 630	18 842	70 971	49 113	58 464	15 793	197 806	473 211	14 802
As % of GDP	%		14.5	30.8	64.4	21	25.2	21.2	19.4	22.7	29.9	27.1	51.6	17.7	7.3	..	46.6	21.1	26.2	41.6	18.7	25.9	33.0	20.0	23.6	9.2	18.1
Average annual increase over previous 5 years	%		12.7	14.7	12.2	9.2	10.0	14.5	13.2	12.0	11.0	10.8	12.5	12.7	9.0	..	10.9	7.4	11.2	18.9	19.8	13.2	14.7	7.8	13.5	7.8	8.6
Total official reserves[6]	Mill SDR's	1989	10 486	6 543	8 192[7]	12 217	4 868	3 889	18 728	46 196	2 453	257	3 087	35 551	63 887	..	12 562	2 303	10 490	7 573	31 554	7 274	19 234	3 638	26 456	48 358	3 147
As ratio of average monthly imports of goods	ratio		3.1	2.0	1.0	1.3	2.2	1.9	1.2	2.1	1.8	2.2	2.1	2.8	3.7	..	1.4	3.1	5.3	4.8	5.3	1.8	3.9	2.8	1.6	1.2	2.6

* At current prices and exchange rates.
1. Unless otherwise stated.
2. According to the definitions used in *OECD Labour Force Statistics*.
3. PPP's=Purchasing Power Parities.
4. Gross saving = Gross national disposable income minus Private and Government consumption.
5. Current disbursements = Current expenditure on goods and services plus current transfers and payments of property income.
6. Gold included in reserves is valued at 35 SDR's per ounce. End of year.
7. Including Luxembourg.
8. Included in Belgium.
9. Including non-residential construction.

Sources : Population and Employment: OECD Labour Force Statistics.
GDP, GFCF, and General Government: OECD National Accounts, Vol. I and OECD Economic Outlook, Historical Statistics.
Indicators of living standards: Miscellaneous national publications.
Wages and Prices: OECD Main Economic Indicators.
Foreign trade: OECD Monthly Foreign Trade Statistics, series A.
Total official reserves: IMF International Financial Statistics.

August, 1991

EMPLOYMENT OPPORTUNITIES

Economics and Statistics Department, OECD

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- To prepare regular surveys of the economies of individual Member countries;
- To issue full twice-yearly reviews of the economic situation and prospects of the OECD countries in the context of world economic trends;
- To analyse specific policy issues in a medium-term context for the OECD as a whole, and to a lesser extent for the non-OECD countries.

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g) The Department works on a tight time schedule and strict deadlines. Moreover, much of the work in the Department is carried out in small groups of economists. Thus, the ability to work with other economists from a variety of professional backgrounds, and to produce work on time is important.

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