OECD ECONOMIC SURVEYS

NETHERLANDS

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ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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- to achieve the highest sustainable economic growth and employment and a rising standard of living in Member countries, while maintaining financial stability, and thus to contribute to the development of the world economy;
- to contribute to sound economic expansion in Member as well as non-member countries in the process of economic development; and
- to contribute to the expansion of world trade on a multilateral, non-discriminatory basis in accordance with international obligations.

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Publié également en français.

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BASIC STATISTICS OF THE NETHERLANDS

THE LAND

Area, 1992 (1000 sq. km)	41.5	Major cities, 1st January 1992 (thousand inhabitants):	
Agricultural area (as a percentage of total)	64.2	Amsterdam	713
Forest (as a percentage of total)	8.0	Rotterdam	590
		The Hague	445

THE PEOPLE

Population, 1992 (thousands)	15 129	Employment, 1991 (thousand man-years):	
Number of inhabitants per sq. km	446	Total	5 271
Net natural increase, 1991 (thousands)	69	Agriculture, fishing	257
		Industry	1 368
		Other activities	3 646

PRODUCTION

Gross domestic product, 1991 (billion guilders)	543.6	Origin of net domestic product at factor cost, 1991 (per cent):	
GDP per head (US $), 1991	19 213	Agriculture	4.0
Gross fixed investment:		Industry	23.3
Per cent of GDP, 1991	20.8	Construction	6.3
Per head (US $), 1991	3 994	Other	66.4

THE PUBLIC SECTOR

Public consumption, 1991 (% of GDP)	14.3	Composition of Parliament (No. of seats):	
Current receipts, 1991 (% of GDP)	46.5	Christian-democrats	54
Current disbursement, 1991 (% of GDP)	51.0	Social-democrats	49
		Liberals (right)	22
		Liberals (left)	12
		Green (left)	6
		Other	7
		Total	150
		Last general election: September 1989	

FOREIGN TRADE

Exports of goods and services, 1991 (% of GDP)	54.1	Imports of goods and services, 1991 (% GDP)	48.9
Main exports, 1991 (% of total merchandise exports):		Main imports, 1991 (% of total merchandise imports):	
Food	17.3	Food, beverages and tobacco	11.7
Energy	9.7	Energy	8.6
Chemicals	16.1	Manufactured goods except metal	9.4
Metals	6.6	Machinery and electrical equipment	22.6
Machinery and transport equipment	23.5	Transport equipment	9.2

THE CURRENCY

Monetary unit: Guilder	Currency units per US $, average of daily figures:	
	Year 1992	1.76
	February 1993	1.85

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 22nd February 1993.

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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 22nd March 1993.

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The previous Survey of the Netherlands was issued in December 1991.

Introduction

The Dutch economy, which expanded rapidly at the end of the 1980s, has slowed down, like virtually all other European economies. While this cyclical development has been more pronounced than expected at the time of the previous EDRC review of the Netherlands, it has nonetheless been relatively muted, and has not been accompanied by widespread and acute tensions: inflation, after increasing in 1991 largely as a result of indirect taxes and user fees needed to correct structural budget imbalances and reduce subsidies, has already decelerated and there has been no wage-price spiral. The current-account surplus has remained large and the guilder has been strong in exchange markets. Until recently, labour-market conditions had been affected relatively little by the slow-down, but the labour market remains one of the weak points of the Dutch economy, with a high degree of underemployment. While economic growth is expected to slow again this year, it should nonetheless remain close to the EC average, and a rebound is projected in 1994, following a marked decline in interest rates and the international recovery. Inflation is likely to abate further as a result of the new central agreement on wage moderation and the recent effective appreciation of the guilder.

The soundness of Dutch economic policy – characterised by a strong medium-term orientation centred around a close link between the guilder and the Deutschemark and fiscal consolidation – was underscored during the recent period of exchange rate turbulence, when the market never questioned the guilder-DM relationship and long-term interest differentials with Germany remained by far the narrowest of any EMS country. But in the current environment of slow growth the pursuit of strict policies proves increasingly demanding. Interest rates are projected to fall markedly over the next year or so, but broadly in line with German rates. On the fiscal side, additional restrictive measures had to be taken late last year, to seek to ensure that, despite the worse than expected economic outlook, the target for the 1993 budget deficit will be achieved. On the other hand, this year the "collective burden" (the share of taxes, social security contributions and part of gas revenues in Net National Income) may again exceed the ceiling set by the 1989 Coalition Agreement. The authorities also want to reduce the "dependency ratio" (the ratio of social benefit recipients to employed persons), and stabilise the public debt as a proportion of GDP by 1994. To achieve these various goals and improve the performance of the economy they are relying on wage moderation and the correction of structural imbalances. Hence, the implementation of competition policy has been stepped up and the authorities are seeking the introduction of more stringent legislation in this area. Moreover, a major package to tackle the disability problem was announced in 1991. Some of the measures were implemented in March 1992, but Parliament has only recently approved the most important ones and they are expected to be implemented on 1 July 1993.

Part I of the Survey looks at recent trends and prospects for the Dutch economy. It also considers in some detail conditions in the labour market and their evolution over the last decade or so. Part II, first discusses how monetary policy and monetary conditions have been affected by the recent period of exchange rate turbulence; it then focuses on fiscal policy; finally, it reviews structural policies and especially labour-market policy in a longer-term perspective. Part III deals with competition. It stresses the singular features of the Dutch legal and institutional setting, and tries to explain why an apparently low level of competition has not resulted in more evident, harmful effects. Part IV summarises the main findings and presents policy conclusions.

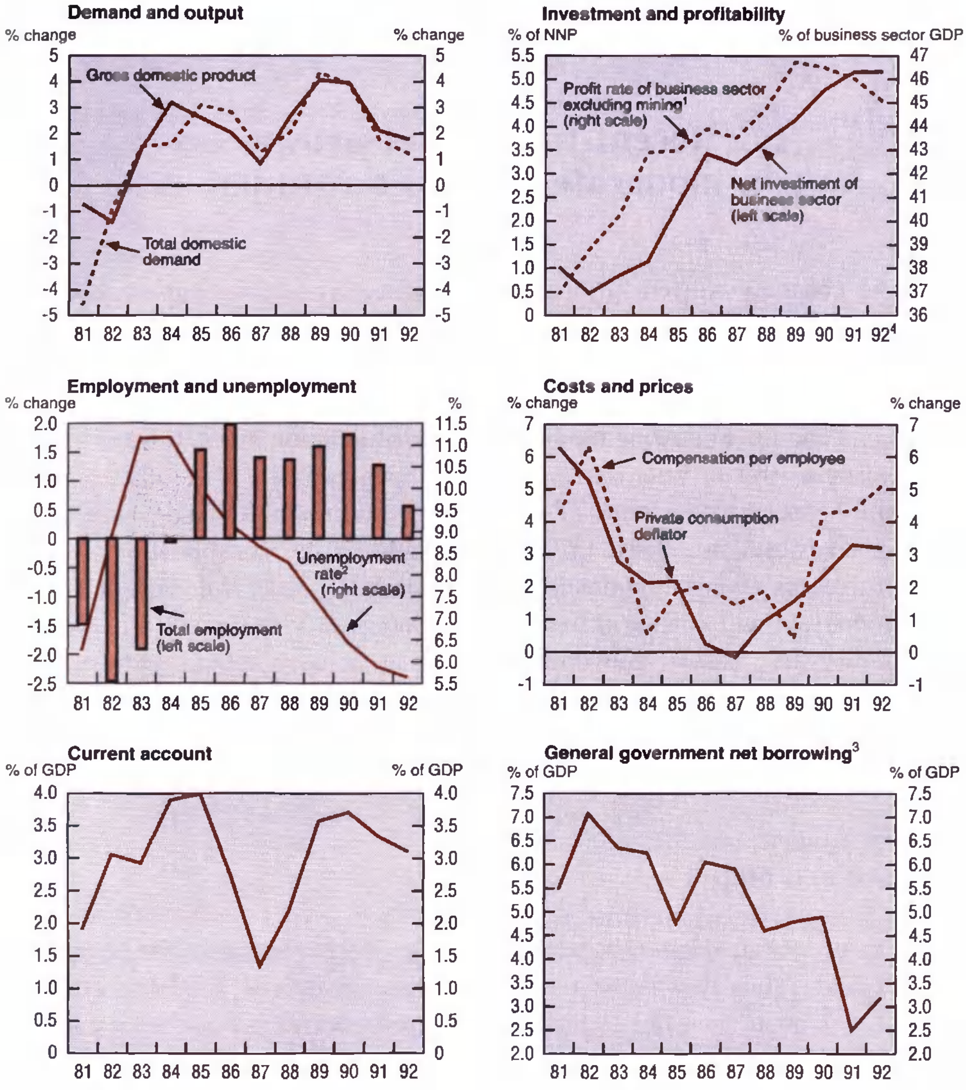
I. Recent trends and prospects: a moderate cyclical downturn

The economy slowed further in 1992, reflecting widespread weakness in domestic demand and a deteriorating international environment. Employment continued to grow moderately in the first half of the year; however, the number of people receiving unemployment benefits had already started to rise markedly in the second quarter. Following the sharp pick up of inflation in 1991, wage growth accelerated in 1992 to 5 per cent. Inflation, although slightly lower than in 1991, was still 3.2 per cent in terms of the private consumption deflator, boosted by indirect taxes and user fees. In coming months, fiscal consolidation, weaker competitiveness owing to depreciation of some European currencies, and slack foreign demand will depress activity. The economy is thus projected to weaken further this year, before recovering in 1994, as activity abroad and domestic investment pick up. While unemployment may rise, inflation is expected to fall markedly, due to wage moderation, the effective appreciation of the guilder, and the 1 per cent cut in the central VAT-rate in October 1992.

Demand and output

The economic slowdown, which started in 1991, continued last year (Diagram 1 and Table 1). On the basis of provisional figures, GDP growth was 1.6 per cent, about the same as the OECD average, but somewhat better than the EC average (1.1 per cent). The economy was unexpectedly strong in the first quarter, apparently because of the unseasonably fine weather and the leap day, but the growth rate fell to 1 per cent in the second quarter and remained at around this rate in the second half of 1992. Reflecting slack in practically all its major components, domestic demand was even weaker, growing by only a little over 1 per cent in 1992 as a whole. The reasons for the economic slowdown have been

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.
4. OECD estimates.

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

Table 1. **Demand and output: recent trends and projections**

Annual percentage change, 1985 prices

	1987 Current prices billion of Guilders	Per cent of GDP	1990	1991	1992	1993	1994
Demand and output							
Private consumption	263.9	61.4	3.9	3.3	1.6	1.2	1.4
Government consumption	70.6	16.4	0.1	0.7	0.1	–0.3	–0.3
Gross fixed investment	87.1	20.2	5.1	–0.1	1.3	–0.5	2.4
Final domestic demand	421.6	98.0	3.5	2.1	1.3	0.6	1.4
Stockbuilding [1]	–4.8	–1.1	0.3	–0.3	–0.2	–0.1	0.1
Total domestic demand	416.8	96.9	3.9	1.8	1.1	0.5	1.5
Exports of goods & services	226.6	52.7	4.7	4.3	2.6	1.9	4.3
Imports of goods & services	213.3	49.6	5.4	4.0	1.8	1.5	3.9
Foreign balance [1]	13.3	3.1	–0.3	0.3	0.5	0.3	0.4
GDP at constant prices			3.9	2.1	1.6	0.8	1.9
GDP price deflator			2.9	3.1	3.0	2.4	2.2
GDP at current prices	430.2	100.0	7.0	5.3	4.5	3.6	4.6
Memorandum items							
Private consumption deflator			2.4	3.3	3.3	2.3	2.0
Private compensation per employee			4.7	4.4	5.3	4.4	4.4
Total Employment			2.1	1.3	0.4	0.0	0.5
Unemployment rate			6.5	5.9	5.6	5.9	5.9
Breakdown of gross fixed investment							
Public sector	10.2	2.4	3.1	–0.3	2.6	1.1	1.8
Private sector residential	21.9	5.1	–3.1	–7.7	2.5	–1.2	1.7
Private non-residential	54.9	12.8	8.7	2.7	0.7	–0.5	2.8
Net lending general government (per cent of GDP)			–4.9	–2.5	–3.5	–3.7	–3.1
Household savings ratio			6.5	1.6	2.1	2.1	1.9
Short-term interest rate			8.7	9.3	9.4	7.7	6.3
Long-term interest rate			9.0	8.8	8.3	6.8	6.6
Current balance (per cent of GDP)			3.7	3.3	3.1	3.7	3.8

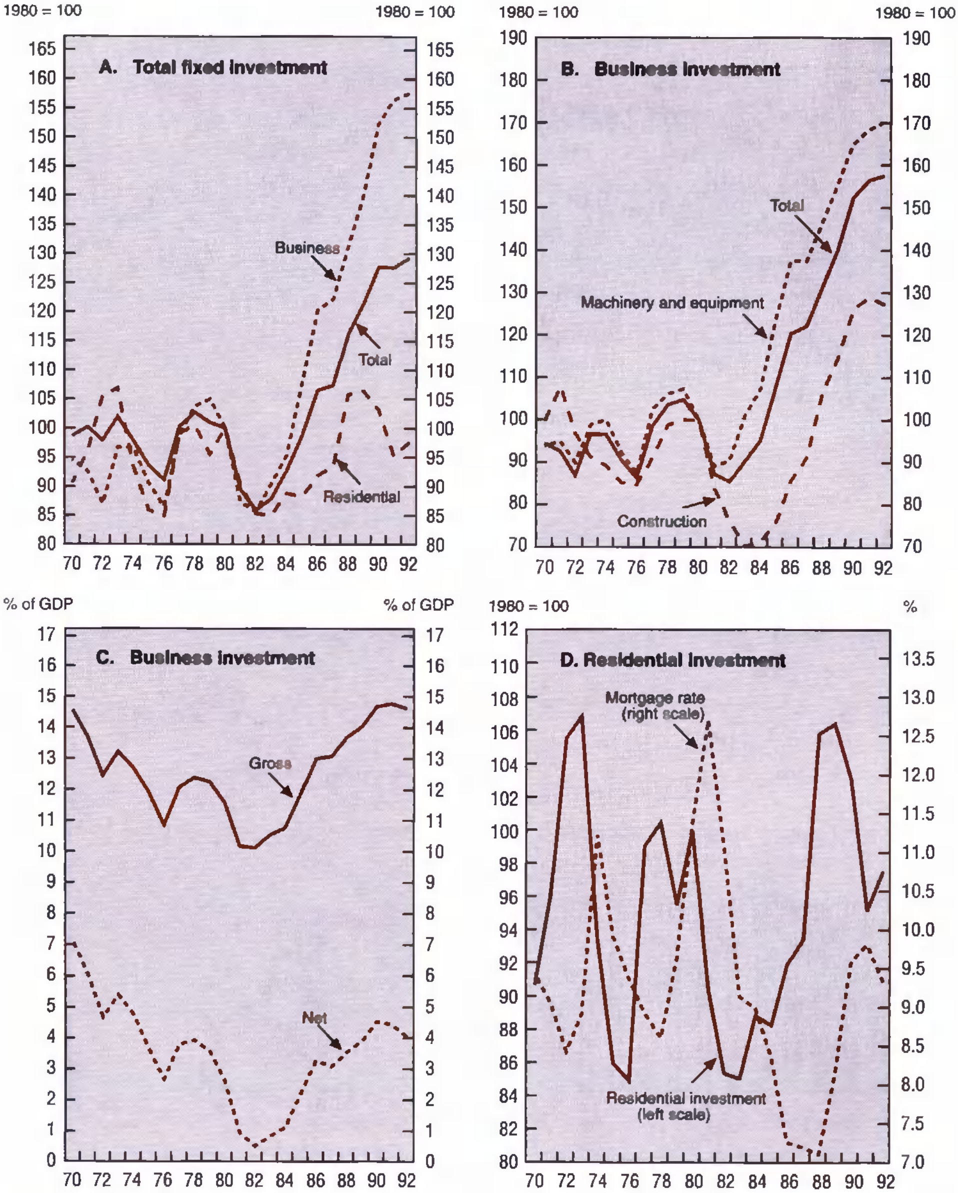
1. Contribution to growth of GDP.
Source: OECD estimates.

both domestic and foreign. Fiscal consolidation led to an actual decline in public sector investment in 1991 and, through cuts in social housing programmes, contributed to the decline in residential investment in 1990-92. Several years of rapid expansion of productive capacity at the end of the 1980s made business investment ripe for a correction when aggregate demand weakened and interest rates remained high. The slowdown in export market growth and, more generally, the uncertainty caused by conjunctural developments in neighbouring countries and the recent turbulence in European exchange markets have certainly weighed markedly and variously on a small, open economy like the Netherlands. Nonetheless, due to the continuing good competitive position in 1991, export performance was relatively strong in 1992, and the contribution of net exports to growth may have been broadly the same in these two years (around ½ per cent).

Gross fixed investment was weak – although not compared with most other European countries – growing by a mere 1.3 per cent. Residential investment, after declining for two years in a row, rebounded somewhat (Diagram 2). The reduction in the social housing programme stopped in 1992; housebuilding was buoyed earlier in the year by mild weather conditions; and despite high interest rates, the number of private sector housing starts has remained broadly stable. One reason for the relative resiliency of the unsubsidised housing sector may have been the authorities' decision to lower the income threshold for owner-occupied houses which has induced people to move from the subsidised to the unsubsidised part of the market. Another reason may have been the persistence of regional shortages in segments of the housing market. The growth of private non-residential investment, which had averaged 7½ per cent in 1988-90 and more than halved in 1991, decreased further in 1992. This strong deceleration has been caused by an interaction of demand factors, decreased profitability, high real interest rates, depressed business and consumer confidence, and declining capacity utilisation. By 1990, the investment/GDP ratio had reached a high level, not only by past Dutch standards, but also compared with other EC countries.[1] The capital stock and the production capacity had increased markedly, and when demand faltered the rate of capacity utilisation fell (Diagram 3). Although this rate is still relatively high, the poor outlook and growing uncertainty has led to a pronounced scaling down of investment plans, especially in sectors exposed to international competition. Financial factors have contributed to this process, but their role seems to have been secondary. Nonetheless, high interest rates have

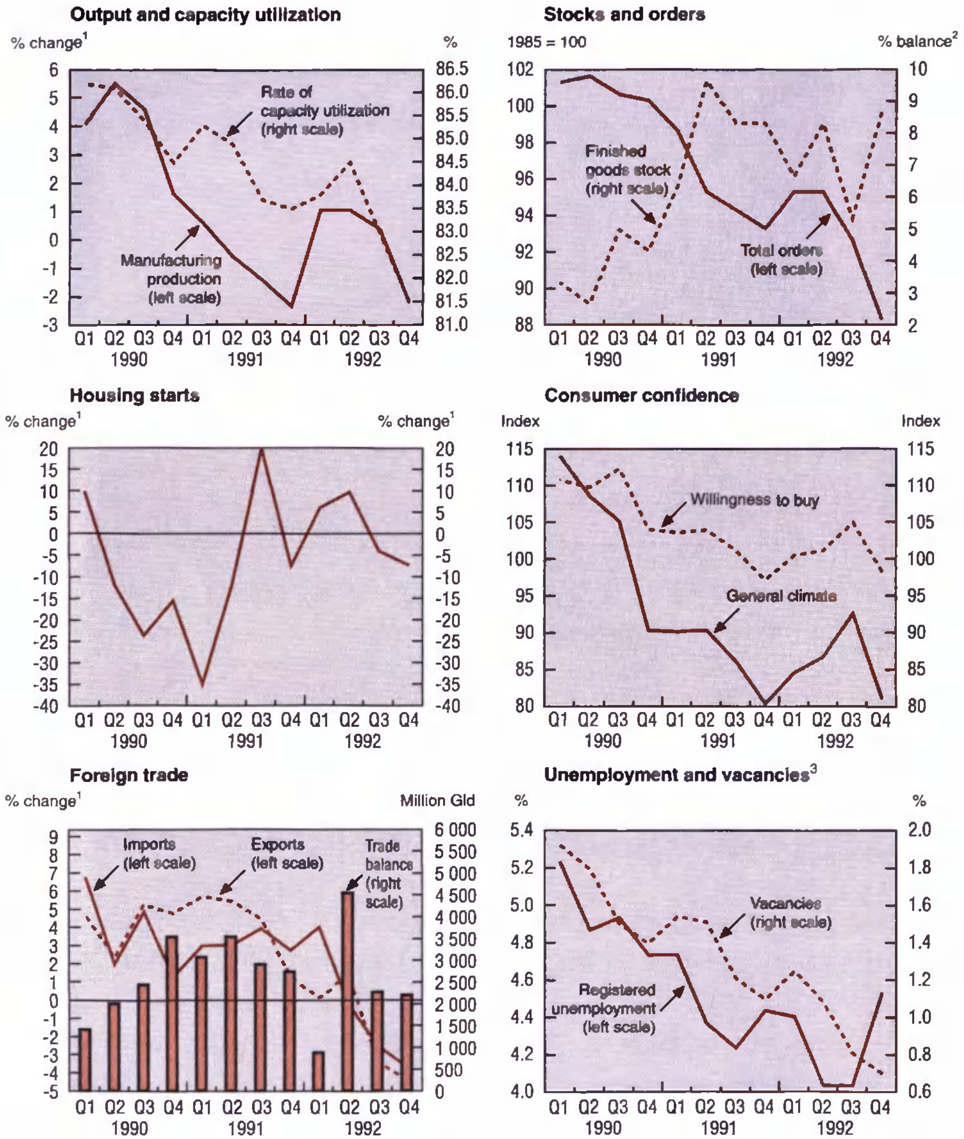
Diagram 2. **PRIVATE FIXED INVESTMENT**

At 1980 prices



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

Diagram 3. **CONJUNCTURAL 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.*

weighed on firms' financial results and increased the opportunity cost of real investment. Profit levels and the financial position of the Dutch enterprise sector are now less favourable than a few years ago, and this has been reflected in a 4 percentage point increase in the share of labour in Net National Income since 1990.[2]

After a decline in 1991, stocks did not change greatly in 1992 and depressed output only slightly. The relatively mild response of this item to changes in effective demand has been an important feature of the current cycle and has contributed to its mildness. As in several other OECD countries, it may have reflected new techniques of stock management. Public investment grew again in 1992 – by 2.6 per cent – after its dip in 1991. Like residential investment, it was buoyed by the mild winter and particularly by rising investment by local governments for environmental protection.

Although its growth rate halved to 1.6 per cent, private consumption was one of the strongest components of domestic demand. Its deceleration reflected primarily a moderate growth in real disposable income, as real wages virtually stagnated, the growth of employment abated markedly and property income declined. Expenditure for consumer durables actually fell by 1 per cent in the first seven months (compared to the same period a year earlier). This item has a more pronounced cycle than private consumption as a whole, and now it may be close to the trough. The growth of public consumption virtually stopped, due to general budget cuts and particularly to cuts in defence spending. A reduction in the military forces combined with efforts to enhance the efficiency of the central government resulted in lower government employment.

The labour market

Recent developments

Until recently, the labour market had not been greatly affected by the economic slowdown. While in most other OECD countries employment stopped growing or even declined in 1992, in the Netherlands it continued to grow for the eighth year in a row. The main reason for this favourable development was probably the lagged effect of the long period of wage moderation which lasted until the end of the 1980s.[3] In the first half of 1992, the number of employees increased by around 1 per cent, at an annual rate, compared with 2.1 per cent in 1991. Employment growth was especially buoyant in the service sector. But due to the high proportion of part-time jobs in new employment, growth measured in full-time equivalents was only half of that measured in persons. New jobs were largely filled by women, most of them re-entering the labour market, so that the number of unemployment beneficiaries declined only marginally, despite the rise in employment. After the peak in 1990, the vacancy rate declined further in the first half of 1992 – to 1.2 per cent. Like the share of vacancies that are difficult to fill, the vacancy rate is especially important for persons with low skills and qualifications, suggesting that mismatches continue to be significant and are concentrated in this segment of the labour market. The standardised unemployment rate fell to 6.1 per cent in mid-1992, the lowest level since the early 1980s. Since then it has picked up markedly, but it remains below both the EC and OECD averages. The number of long-term unemployed (more than a year) declined over the first nine months of the year, probably due to active measures such as the start up of the Youth Work Guarantee Plan and Labour Pools (see Part II). However, the number of people drawing an unemployment benefit increased, mainly reflecting new dismissals.

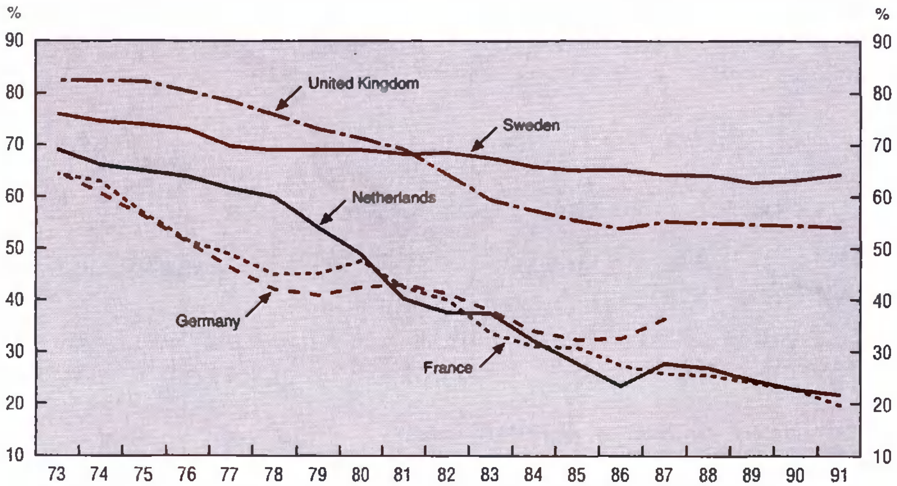
While unemployment, *stricto sensu,* is low by international standards, it is also necessary to take into account the nearly one million persons receiving disability benefits, which represents a serious underemployment problem and a burden on those who work. It is widely believed that there is an important "hidden unemployment" component among the disabled, and this is a major cause of the Netherland's very low participation rate, measured in full-time equivalents. Until recently, developments had been encouraging. The share of active labour market participants in the total population of working age continued to rise in 1991 – reaching 62 per cent on average, or 49 per cent in full-time equivalents – and may have broadly stabilised in 1992. The growth in the number of beneficiaries in the disability scheme decelerated more than expected in 1992, possibly due to anticipatory effects of the corrective measures proposed by the Government (see Part II).

Historical overview

Despite these relatively positive short-term developments, the labour market remains one of the weak points of the Dutch economy, reflecting an historical evolution dating back to the early 1970s. Labour market conditions first deteriorated as a result of the decline in labour-intensive industries, such as shipbuilding, mining and textiles, and then because of the impact of the two oil shocks. Until 1983, strong wage pressure was also an important reason for labour shedding. That year, the unemployment rate reached 11 per cent, after one of the steepest rises in the OECD area. Low-skilled workers who had had earnings close to the minimum wage accounted for more than three-quarters of the unemployed. While the participation rate of older workers fell in most OECD countries, in the Netherlands the decline was especially sharp (Diagram 4). During those years of slack labour market conditions for unskilled workers, the disability scheme began to be used as an alternative to unemployment. Recipients of disability benefits increased from a little over 200 000 – or 4 per cent of the labour force – in 1970, to well over 700 000 – or 12¾ per cent of the labour force – in 1983.

Reflecting the recovery of the economy in the mid-1980s and the period of rapid expansion at the end of that decade, labour-market conditions began to improve in 1984, and employment rose steadily – and faster than the EC aver-

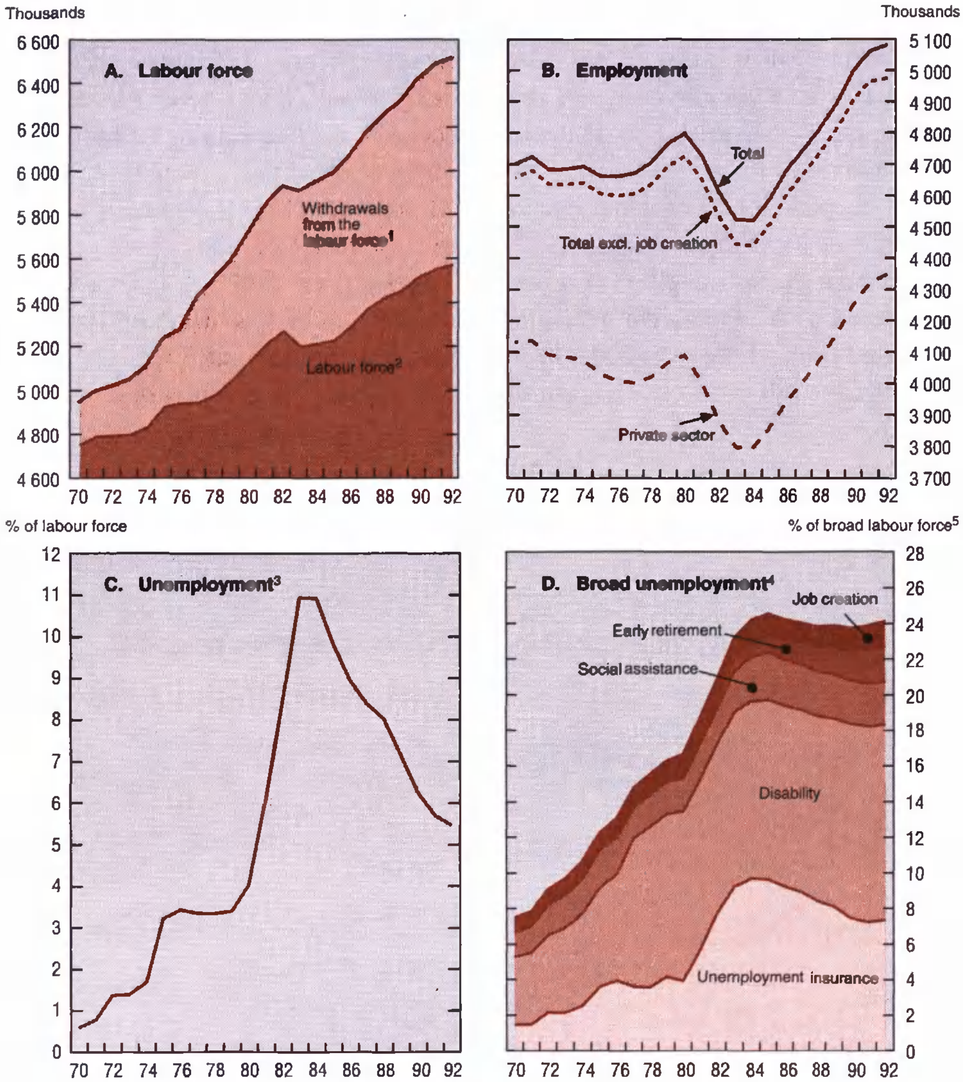
Diagram 4. **PARTICIPATION RATES OF OLDER MALE WORKERS (60-64)**



Source: OECD, *Labour Force Statistics.*

Diagram 5. **OVERVIEW OF THE LABOUR MARKET**

In full time equivalents



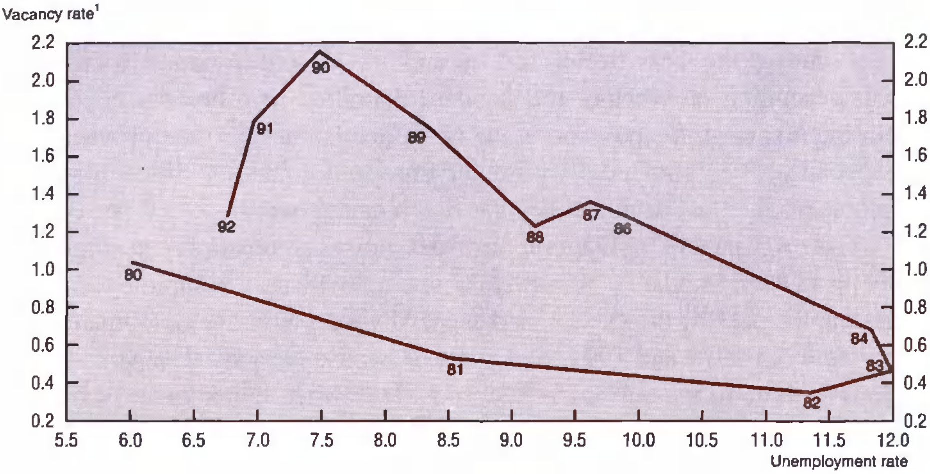
1. Beneficiaries under disability and early retirement schemes.
2. Total employment and unemployment.
3. Registered unemployment ('narrow unemployment').
4. Inactive people of working age receiving social security benefits, and people in job creation programmes.
5. Employment and broad unemployment.

Sources: CPB, Ministry of Social Affairs and OECD.

age – until 1990.[4] Wage moderation was a determinant factor: it resulted in a much slower increase in real wages and labour costs than in other EC countries and especially Germany, the main trading partner. But the evolution of unemployment during the past decade or so and its present situation look quite different depending on whether the standard definition or a broader concept is used. In the first case, the position in the Netherlands does not seem particularly bad, especially when compared with other European countries. Since 1984, the unemployment rate has declined by over 5 percentage points, to 5.9 per cent in 1991 (Diagram 5, panel C).[5] Even on this basis, however, unemployment remains high by past Dutch standards. Non-cyclical unemployment, measured by "unemployment at the peak of the cycle", and especially long term unemployment, rose strongly between 1979 and 1991, two years of intense capacity use. Mismatches had already come to the surface in the mid-1980s when employment started to rise. The Beveridge curve – that is, the number of vacancies per unemployed – showed a clear outward shift in 1984 (Diagram 6). While many of the persisting mismatches undoubtedly reflect a lack of skills and appropriate training, difficulties in filling some low-skill jobs, despite high unemployment among unskilled workers point to supply side problems related to incentive and motivation.

The unemployment picture looks considerably less favourable on the basis of a broader concept including, in addition to narrow unemployment, all inactive persons of working age receiving a social security benefit or enrolled in special job creation programmes ("broad unemployment"). Mainly because of the relentless increase in the number of persons receiving disability benefits, and despite the fall in narrow unemployment, broad unemployment continued to increase even in the late 1980s, during the period of rapid economic expansion (Table 2). As a result, broad unemployment as a percentage of the "broad labour force"[6] (in full-time equivalents) has been about 25 per cent for nearly a decade, and after edging down for a few years is now rising again (Diagram 5, panel D). It may be revealing that the most rapid increase in the number of beneficiaries has been recorded in the disability and the early retirement schemes, two of the most generous welfare programmes which offer income-related benefit up until retirement age. The disability scheme may have been used by both employers and employees as an alternative to unemployment. Estimates of this "hidden unemployment" component in the number of disabled persons vary greatly, from a little over 10 per cent to around 50 per cent.[7]

Diagram 6. **THE BEVERIDGE CURVE**
Per cent of labour force



1. 1992 based on OECD estimates.
Sources: Ministry of Social Affairs and Employment, Rapportage Arbeidsmarkt and CBS, *Statistisch Bulletin.*

While the unemployment scheme is not the most generous welfare scheme, replacement rates for all types of family situations and for all unemployment spells are among the highest in the OECD area. The level of minimum benefits being linked to the minimum wage (100 per cent of the minimum wage for a couple and 70 per cent for single persons), the disincentive problem is especially relevant at the lower-wage end of the labour market. It is accentuated by the tax system and other aspects of the welfare system. The high marginal tax rate on income at levels between the minimum wage and average wages greatly reduces the gain in disposable income from taking work that would put people in these brackets. Moreover, if they fall below certain income thresholds, the unemployed become eligible for a variety of social benefits (rent subsidies, support for child care, home help, student grants, etc.), which further reduce the gains from work for those who receive them. Finally, it should also be noted that minimum labour costs are high relative to the productivity of low-skilled workers.

Partly as a result of the large number of disabled persons and the relatively low participation of women, the participation rate – that is the work force as a per

Table 2. **Employment, unemployment and working age population**

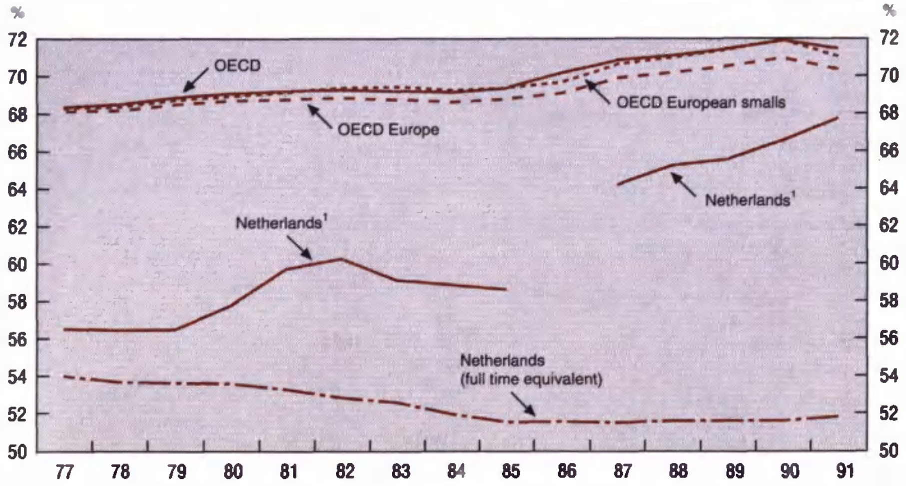
Change in number, thousands

	70-80	80-90	80-83	83-90	90-92 [1]
Full-time equivalents					
1. Employment [2]	68	179	–281	460	70
of which:					
Sickness	102	43	–46	89	7
2. Broad unemployment [3]	641	690	542	148	59
Beneficiaries of social security	611	671	537	134	45
of which:					
Unemployment insurance beneficiaries	166	297	381	–84	2
Social assistance	43	63	42	21	1
Early retirement	12	107	34	73	24
Disability	390	204	80	124	18
Subsidised employment	30	19	5	14	14
of which:					
Social job creation	30	8	5	3	3
Youth Work Guarantee Plan		7	0	7	–1
Job pools	4	0	4	12	
3. Inactives without social security benefits	497	101	79	22	7
of which:					
in full-time education	449	82	82	0	–69
4. Working age population (1+2+3)	1 206	970	340	630	136
Persons					
1. Employment	327	423	–241	664	239
2. Broad unemployment [3]	721	725	562	163	88
Beneficiaries of social security	690	706	557	149	74
of which:					
Unemployment insurance beneficiaries	185	338	410	–72	6
Social assistance	49	59	42	17	1
Early retirement	12	107	34	73	24
Disability	445	202	71	131	43
Subsidised employment	30	19	5	14	14
of which:					
Social job creation	30	8	5	3	3
Youth Work Guarantee Plan		7	0	7	–1
Job pools	4	0	4	12	
3. Inactives without social security benefits	158	–178	19	–197	–191
of which:					
in full-time education	449	82	82	0	–69
4. Working age population (1+2+3)	1 206	970	340	630	136

1. Projections for 1992.
2. Non-subsidised employment.
3. Broad unemployment: inactive people of working age receiving social security benefits and people in job creation programmes.

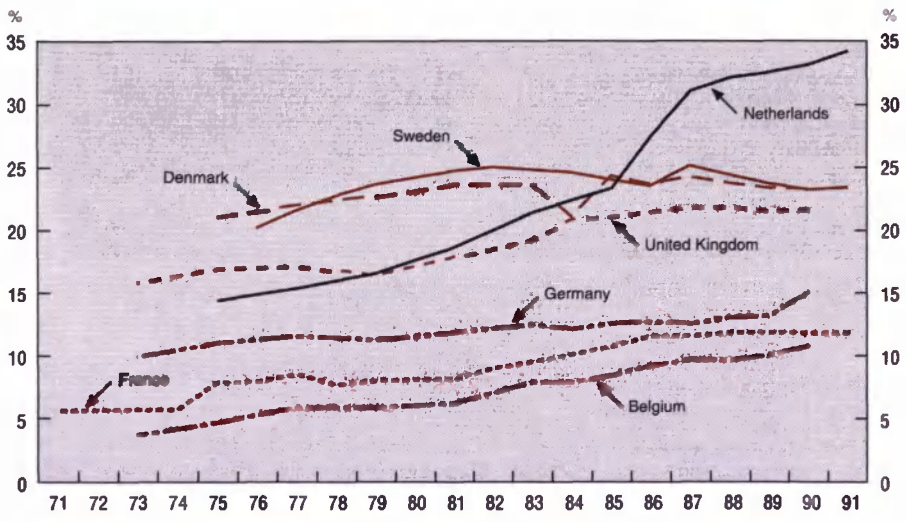
Sources: CBS, Statistical Yearbooks; CPB, direct submissions and MEV 1993; Ministerie van Sociale Zekerheid en Werkgelegenheid, Sociale Nota 1993 Bijlage 1, Rapportage Arbeidsmarkt 1984 and 1990.

Diagram 7. **LABOUR FORCE PARTICIPATION RATE: AN INTERNATIONAL COMPARISON**



1. Break in series in 1987.
Source : OECD, *Labour Force Statistics* and *Employment Outlook.*

Diagram 8. **SHARE OF PART TIME WORK IN TOTAL EMPLOYMENT**



Source: OECD, *Employment Statistics.*

cent of the population of working age – is still relatively low in the Netherlands, especially in terms of full-time equivalents (Diagram 7). Also, the share of part-time workers in total employment which is strikingly high by international standards (Diagram 8), contributes to the relatively low participation rate measured in full-time equivalents. Part-time work may have been greatly encouraged by a combination of social security and tax considerations, since inactive persons with social benefits can improve their income to up to 87 per cent of the net minimum wage in the case of a single person and 120 per cent in the case of a single earner family by working part time. In reality, they may improve their income even more. Research indicates that about 10 per cent of social assistance benefit recipients do not report their additional income to the social security administration. This problem is being tackled by comparing social security files with tax administration files. Part-time jobs have often been filled by women re-entering the labour market, which helps to explain why the participation rate has increased (and the number of inactive persons without a social security benefit has fallen), but broad unemployment has nevertheless continued to increase.

Costs and prices

Over the last couple of years, the growth in prices and wages has been markedly affected by fiscal measures – such as increases in excise taxes, health-care tariffs and social rents – aimed at correcting structural budget imbalances and reducing subsidies. This gave rise to fears that these measures, however necessary, might lead to a price-wage spiral. But thanks to the new central agreement on wage moderation negotiated late last year, and to the deceleration in inflation as a result of the economic downturn and the cut in the central VAT-rate, these fears have greatly decreased.

Reflecting the sharp pick up in inflation in 1991, growth in compensation per employee in the private sector accelerated in 1992, to 5 per cent (Table 3). The increase in labour productivity was around 1 per cent. As a result, the rise in unit labour costs, which had gathered momentum in 1990-91, accelerated further, broadly matching that in partner countries. Compensation per employee increased at about the same rate in the exposed and sheltered sectors of the economy, but productivity growth seems to have been significantly higher in the exposed sector – some 2½ compared with 1 per cent. At around 4½ per cent,

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

Per cent change

	1986	1987	1988	1989	1990	1991	1992
Costs (business sector)							
Weekly contractual wage rates[1]	1.3	0.6	0.8	1.5	3.1	3.7	4.2
Earnings[2,3]	2.2	1.8	1.9	2.2	3.9	4.6	5.9
Compensation per employee[3]	2.1	1.4	1.9	0.4	4.7	4.3	5.1
Unit labour costs[3]	1.8	2.2	0.4	–1.7	2.6	3.0	3.9
Import prices of goods[3]	–17.6	–5.0	–0.6	6.3	–2.5	–0.2	–2.0
Real labour costs[4]	1.6	1.9	0.0	–1.1	1.7	1.2	2.9
Prices							
Producer prices	–5.4	–1.9	1.7	3.5	–0.6	1.7	1.3
Consumer price index							
Total	0.1	–0.7	0.7	1.1	2.5	3.9	3.7
Modified[5]	0.1	–1.6	0.7	2.2	2.3	3.3	3.1
Private consumption deflator	0.3	–0.2	1.0	1.6	2.3	3.3	3.2
GDP deflator	0.4	–0.4	1.8	1.5	2.9	3.1	2.1
	Value added share						
Profits							
Manufacturing	25.7	22.9	27.6	29.0	31.0	28.9	25.5
Total enterprises	29.3	26.7	27.9	30.0	30.3	29.9	26.2[6]
Total enterprises excluding mining, public utilities and real estate	16.9	16.0	18.5	20.7	20.7	19.6	14.5[6]

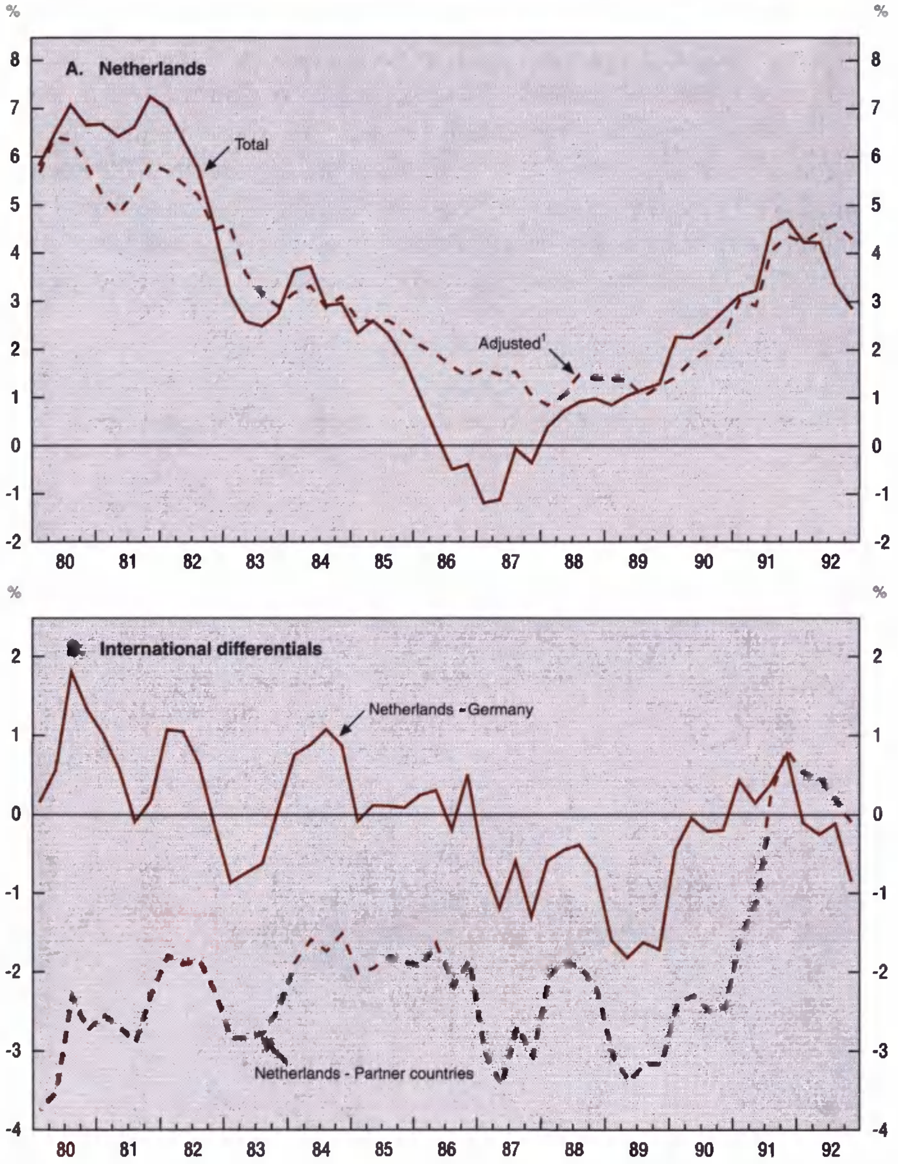
1. Adult full-time employees.
2. Wages and salaries excluding social security contributions.
3. National accounts basis.
4. Compensation per employee divided by GDP deflator.
5. Lower weight for medical costs and indirect taxes.
6. Revised National Accounts definitions.

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

contractual wage increases were rather high given the conjunctural situation. Among the main factors which determine contractual wage growth in the Netherlands, the average increase in producer prices and consumer prices – 3¼ per cent – played an important role. In addition to contractual wages, structural changes in the labour force, payments on top of regular wages and a slight decline in employer contributions accounted for ½ percentage point of the above-mentioned 5 per cent increase in labour costs in the private sector in 1992.

Diagram 9. **CONSUMER PRICE DEVELOPMENTS**

Change over previous four quarters

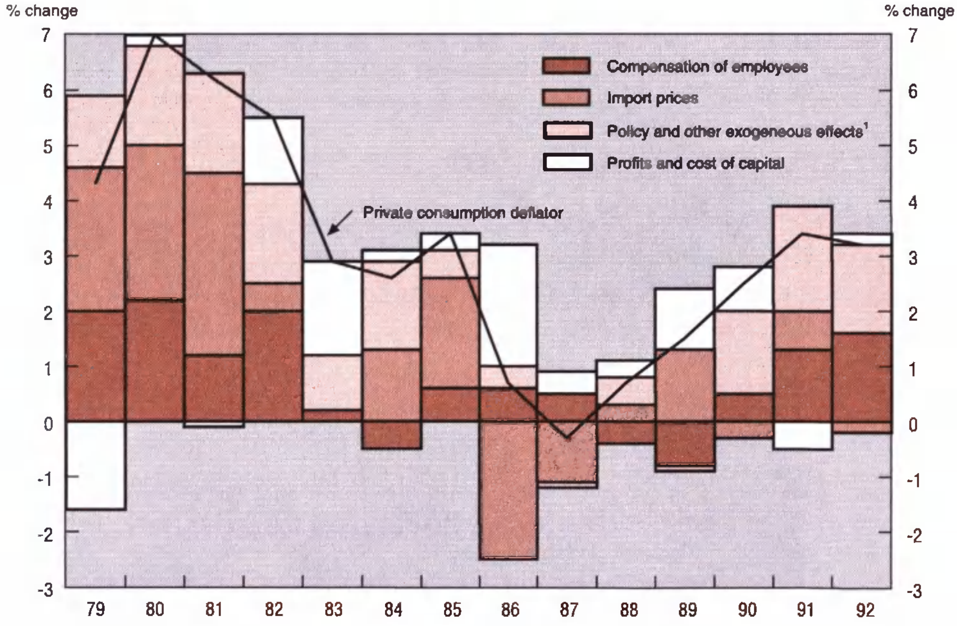


1. Excluding food and energy.

Sources: OECD, *Main Economic Indicators* and OECD estimates.

Inflation, measured by the four-quarter increase in the CPI, steadily accelerated until the last quarter of 1991, reaching 4½ per cent. It abated in the first half of 1992, reflecting sluggish demand conditions and declining import prices (Diagram 9, panel A). But it picked up again in the third quarter because of increases in social rents, health-care tariffs and excise taxes. To limit the rise in the CPI and set the stage for a new agreement between the social partners on wage moderation, as well as to bring it more in line with rates in other EC countries, the general VAT-rate was reduced by 1 percentage point, effective from 1 October 1992. For 1992 as a whole inflation was 3.7 per cent, compared with 3.9 per cent in 1991.[8] Underlying inflation – excluding food and energy prices –

Diagram 10. **CONTRIBUTIONS TO THE PRIVATE CONSUMPTION DEFLATOR**
Percentage change



1. Gas, indirect taxes, rents and non-market services.
Sources: CPB, *Macro Economische Verkenning,* 1993, Actualisatie MEV 1993 and Centraal Economisch Plan 1993.

increased from 3.5 in 1991 to 4.4 per cent in 1992. But excluding the mechanical impact of the hike in indirect taxes, social rents and public services, inflation was only some 2 per cent in 1992.

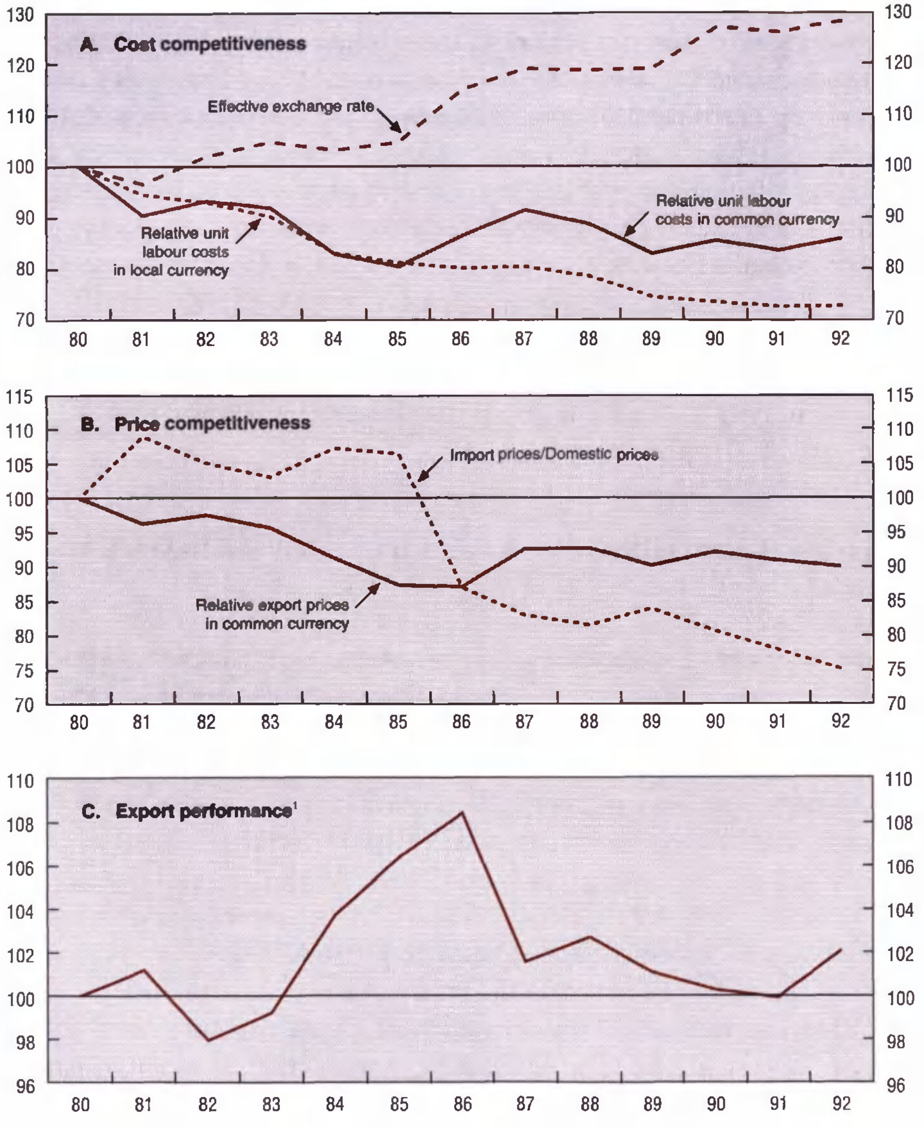
An analysis of the contributions to the private consumption deflator shows that a major change has taken place over the past few years, largely as a result of the temporary interruption of wage moderation and the policy measures mentioned above. While in the late 1980s, wage compensation of employees had a negative contribution and profits and the cost of capital a positive one, in 1991 and, to a certain extent, also in 1992 these effects were reversed. As for policy and other exogenous effects, they made a very small or negative contribution in the late 1980s, but a rather large and positive one in 1990-92 (Diagram 10). From an international viewpoint, the inflation performance of the Netherlands (in terms of consumer prices) has been slightly better than that of Germany over the recent period but, in 1991-92, for the first time in a decade, it was worse than that of its trading partners (Diagram 9, panel B).

International competitiveness, foreign trade and the balance of payments

The international competitive position of the Dutch economy which, on balance, had changed little in 1991 and the first six months of 1992, deteriorated significantly in the second half, mainly as a result of the effective appreciation of the guilder. Relative unit labour costs and relative export prices, in a common currency, had edged down in 1991, reflecting a slower increase in domestic costs and prices relative to partner countries and a stable exchange rate (Diagram 11, panels A and B). But import prices had fallen markedly relative to domestic prices (Diagram 11, panel B). For 1992, owing to the appreciation of the guilder in the autumn, all three indicators point to a deterioration in competitiveness: a strong one in terms of labour costs and import prices relative to domestic prices, and a mild one in terms of export prices, as Dutch exporters seem to have absorbed, at least for the time being, a large proportion of the exchange rate change and reduced their profit margins.

Given the usual lags, trade performance in 1992 reflected the evolution of competitiveness through 1991. Hence, after a couple of lackluster years, the export performance seems to have been rather good in 1992, especially for

Diagram 11. **COMPETITIVENESS AND TRADE**
Index 1980 = 100



1. Ratio of volume of Dutch manufacturing exports to export market.
Sources: CPB submission and OECD estimates.

manufacturing (Diagram 11, panel C). Apart from competitiveness, trade flows were affected by the economic slowdown, both at home and abroad, which resulted in a strong deceleration in the volume of both imports and exports. All considered, the typical, large trade surplus may have changed little in 1992, remaining at around Gld 22 billion or 4 per cent of GDP.[9] Among the other current-account items, the most striking recent development has been a pronounced deterioration in net investment income, resulting primarily from a strong increase in profit remittances from the operations of foreign multinational corporations in the Netherlands. This may have reflected the global deterioration of the profit and cash-flow position of these corporations, as well as the reduction in their real investment in the Netherlands. On the other hand, non-factor services improved significantly, so that the current-account surplus, at some Gld 17 billion, may have remained broadly unchanged in absolute terms and may have declined only slightly in relation to GDP (to 3.0 per cent) (Tables 1 and 4).[10]

Large, "autonomous" capital outflows have typically matched the current-account surplus, with little pressure on interest rates and the exchange rate. This

Table 4. **The current account**

Transactions basis

	1987	1988	1989	1990	1991
			Growth rates		
Exports of goods	–3.6	9.6	11.8	3.6	4.2
Volume	2.7	9.2	6.3	4.5	5.1
Price	–6.1	0.4	5.1	–0.9	–0.8
Imports of goods	0.0	7.3	12.4	2.7	2.9
Volume	5.3	8.0	6.9	4.8	3.6
Price	–5.0	–0.6	5.2	–2.0	–0.6
			Billion guilders		
Balances					
Trade	4.6	9.2	9.0	11.2	14.5
Non-factor services	7.1	8.7	9.9	13.3	13.3
Factor income	–1.2	–3.5	–0.2	–0.6	–0.9
Transfers	–4.7	–4.4	–1.7	–5.0	–9.1
Current account	5.8	9.9	17.0	18.9	17.9
As a per cent of GDP	1.4	2.2	3.6	3.7	3.3

Source: Centraal Planbureau, direct submission.

situation still prevailed in the first eight months of 1992, but long-term capital transactions were close to balance, apparently reflecting a reshuffling of portfolios away from bonds denominated in high-yield currencies and towards guilder-denominated bonds, perhaps in anticipation of exchange rate tensions and/or a decline in Dutch long-term interest rates and attendant capital gains. As a result, net outflows were largely in a short-term form and due to private, non-monetary (*i.e.* non-banking) transactions – a rather unusual situation. During the autumn EMS crisis, however, these short-term flows seem to have reversed. With the guilder close to the ceiling of the narrow band, the Dutch Central Bank had to intervene in support of the weak EMS currencies, and official reserves increased substantially.[11]

Short-term prospects

The outlook is relatively sombre, although economic growth is projected to remain positive this year and pick up in 1994. Inflation is expected to abate, but unemployment will increase. Economic policy, which is discussed in Part II, has little leeway to support economic activity directly. Fiscal consolidation will continue to weaken demand growth even if the cyclical deterioration of the budget is not fully offset by additional expenditure cuts and revenue increases. However, interest rates are projected to decline markedly this year and next, in line with German rates. Due to the recent loss in international competitiveness, net exports can hardly be counted on to buoy the economy until export market growth accelerates. Hence, the projections presented here are highly dependent on the conjunctural evolution in partner countries, and notably in Germany. They were finalised in late February 1993, and reflect an expected rate of growth in the EC of a little less than 1 and 2 per cent in 1993 and 1994, respectively.

On this basis, GDP growth is likely to slow further in 1993, to less than 1 per cent, before accelerating to around 2 per cent in 1994 (Table 1). This evolution of the economy should largely reflect that of gross fixed investment. Residential investment may decline again this year as a result of the deterioration in the economic climate, the lagged effect of high interest rates and slack in the construction of social dwellings. But sharply lower interest rates and better income prospects should boost this item in 1994. Business fixed investment may first weaken, as firms continue to adjust to the falling rate of capacity utilisation and the uncertain sales outlook. The cyclical correction in business investment is expected to be relatively mild, though, one reason being the need for internationally-oriented Dutch firms to continue to adjust to the EC Single Market and European integration. This, and the fact that the rate of capacity utilisation remains relatively high and wage moderation is expected to improve profitability, should lead to an increase in investment in 1994, in line with a pick up in domestic and foreign demand. While public consumption is likely to remain weak, public investment may show some strength, due to investment in the infrastructure and expenditure by local governments for environmental protection. Private consumption is expected to provide support for the economy this year and then contribute to its rebound. The healthy financial position of households and social security benefits should underpin consumption growth in coming months, even with an increase in unemployment. On the other hand, the recent appreciation of the guilder has eroded international competitiveness, and the contribution of net exports to growth may weaken. Nevertheless, due to a rebound in net investment income, the current account is expected to widen anew, to some 3½ per cent of GDP. Employment may fall both in 1993 and 1994, resulting in an increase in the unemployment rate. Reflecting the appreciation of the guilder, slow economic activity, and especially the new central agreement between the social partners on wage moderation, inflation – as measured by the private consumption deflator – could fall to 2¼ per cent this year, before rebounding moderately in 1994.

However, these projections could still be too optimistic. Since they were finalised the outlook in neighbouring countries and especially in Germany has deteriorated further. On the basis of the level of economic activity which now seems likely to prevail in continental Europe, the growth rate of Dutch GDP in 1993 may have to be revised downward. A sharper deceleration of the economy could heighten some domestic risks and, combined with slack exports, jeopardise the upturn projected for 1994. The economy, and especially housing and business investment, might not respond as strongly and as rapidly as projected to the decline in interest rates. Households are in a relatively sound financial position, and even for firms and commercial banks, despite the recent erosion of profitability, there is little or no need for a major balance-sheet restructuring. This may have opposite implications. On the one hand, firms and households could take advantage fully of lower borrowing costs and increase spending, without waiting for their debt ratios to improve – the hypothesis which, to a certain extent, has been embodied in these projections. On the other hand, their spending not being heavily dependent on borrowing, it has not been severely curtailed by high interest rates, so that better borrowing conditions, especially in the case of a further worsening of the economic climate, may not boost spending as much as projected.

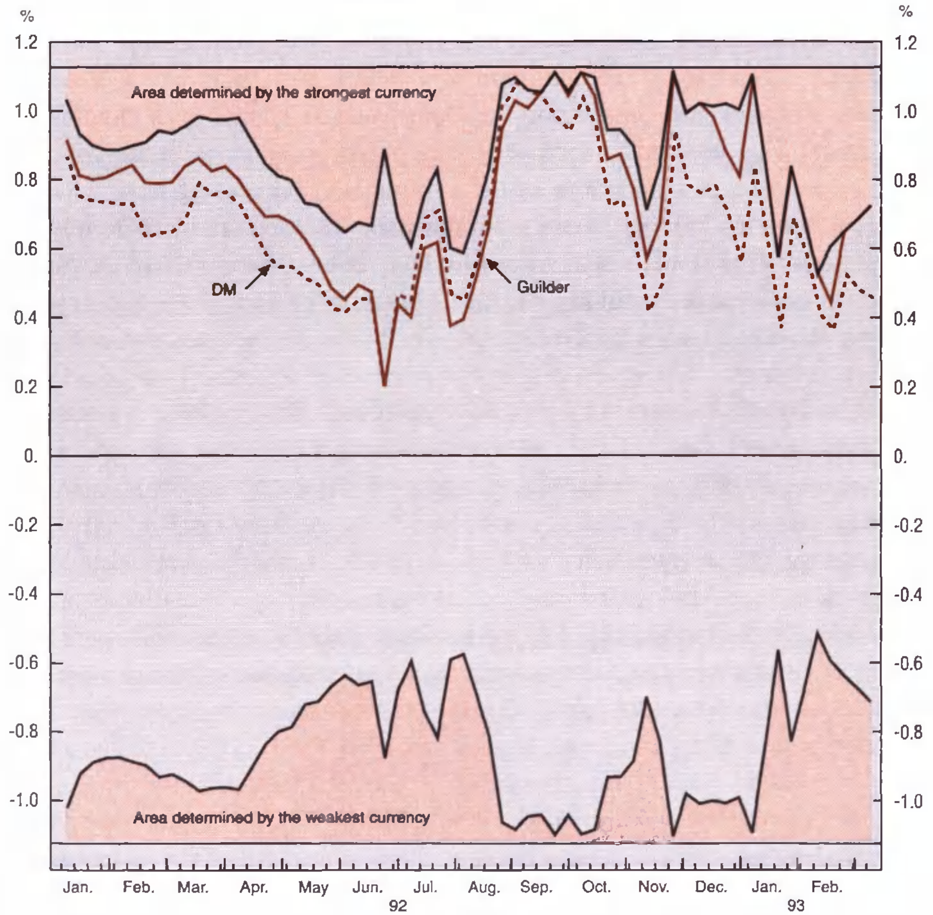
II. Economic policies: costs and rewards of rigour

Since the mid-1980s, economic policy in the Netherlands has been characterised by a strong medium-term orientation, and its focus has been on a close link between the guilder and the Deutschemark, fiscal consolidation, and the correction of structural imbalances. The pursuit of such rigorous policies is proving increasingly demanding in the current environment of slow economic growth at home and abroad, more rapid domestic inflation, and persistently high interest rates. Additional fiscal measures had to be taken, and more may be needed, to ensure that the multiple goals of budgetary policy – *i.e.* progressively reducing the deficit as a percentage of Net National Income, preventing the "collective burden"[12] from exceeding the 1990 level, and stabilising the debt to GDP ratio by 1994 – will all be broadly achieved. On the structural side, the implementation of some of the measures announced by the Government during the summer of 1991 to tackle the problem of disability has been somewhat delayed and it is now expected – in a revised form – in July 1993. Finally, given the exchange rate commitment *vis-à-vis* the Deutschemark, short-term interest rates, although well below the peaks of 1990, remain high at a time of sharply decelerating economic activity. But in view of the need to secure the disinflationary process, the current level of interest rates is not obviously inconsistent with domestic requirements. More generally, the strength shown by the guilder during the recent period of exchange rate turmoil has been a testimony to the benefits of stable and sound policies. Nonetheless, given the relatively difficult situation, the authorities are relying on wage moderation as a way to save employment, reduce the dependency rate and generally improve the performance of the economy – an approach they used successfully in the 1980s, but which was temporarily interrupted at the turn of the decade when wages accelerated in line with inflation.

Monetary policy

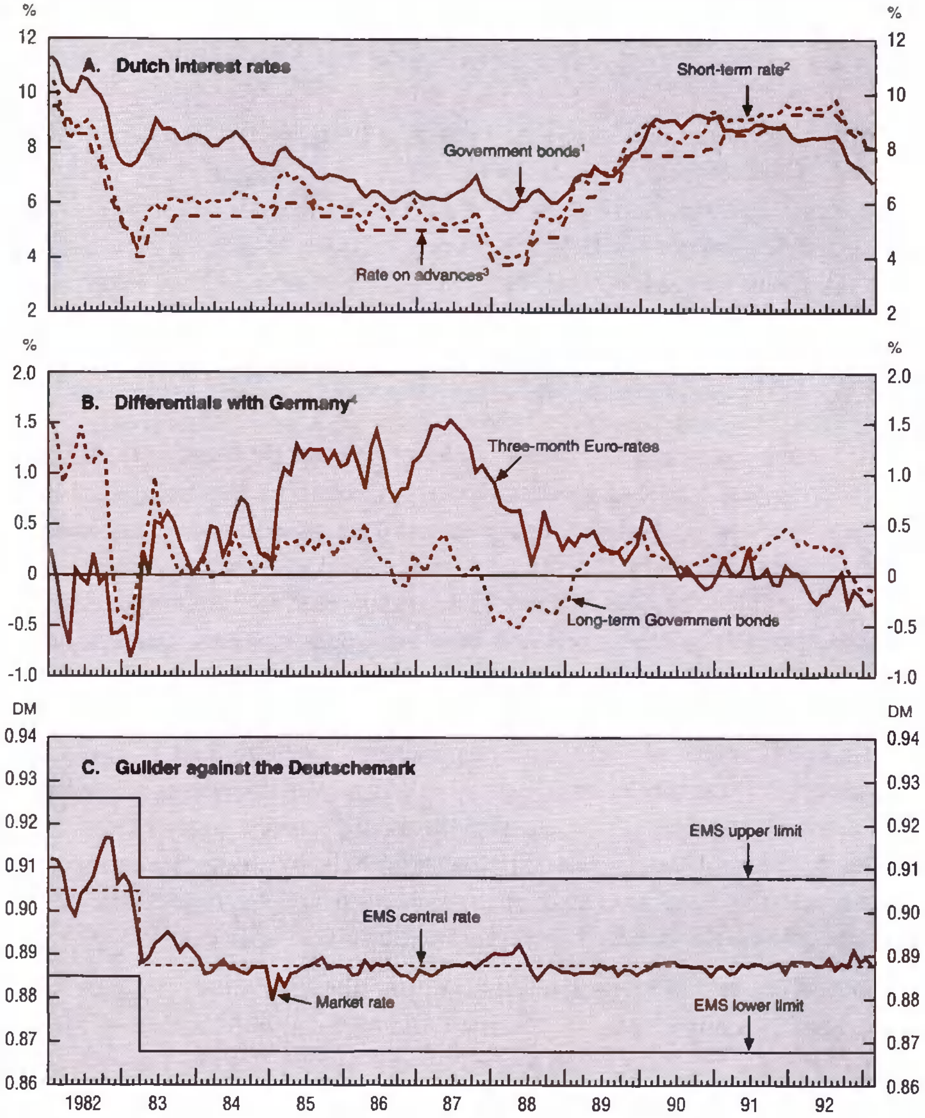
During the first six months of 1992, the guilder was generally slightly above its DM central rate, and comfortably in the upper half of the EMS narrow band (Diagram 12). Dutch interest rates were quite stable, with a strongly inverted yield curve, as in Germany (Diagram 13, panel A). The short-term differential

Diagram 12. **THE GUILDER AND THE DEUTSCHEMARK IN THE EMS NARROW BAND**



Source: OECD Secretariat.

Diagram 13. **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.

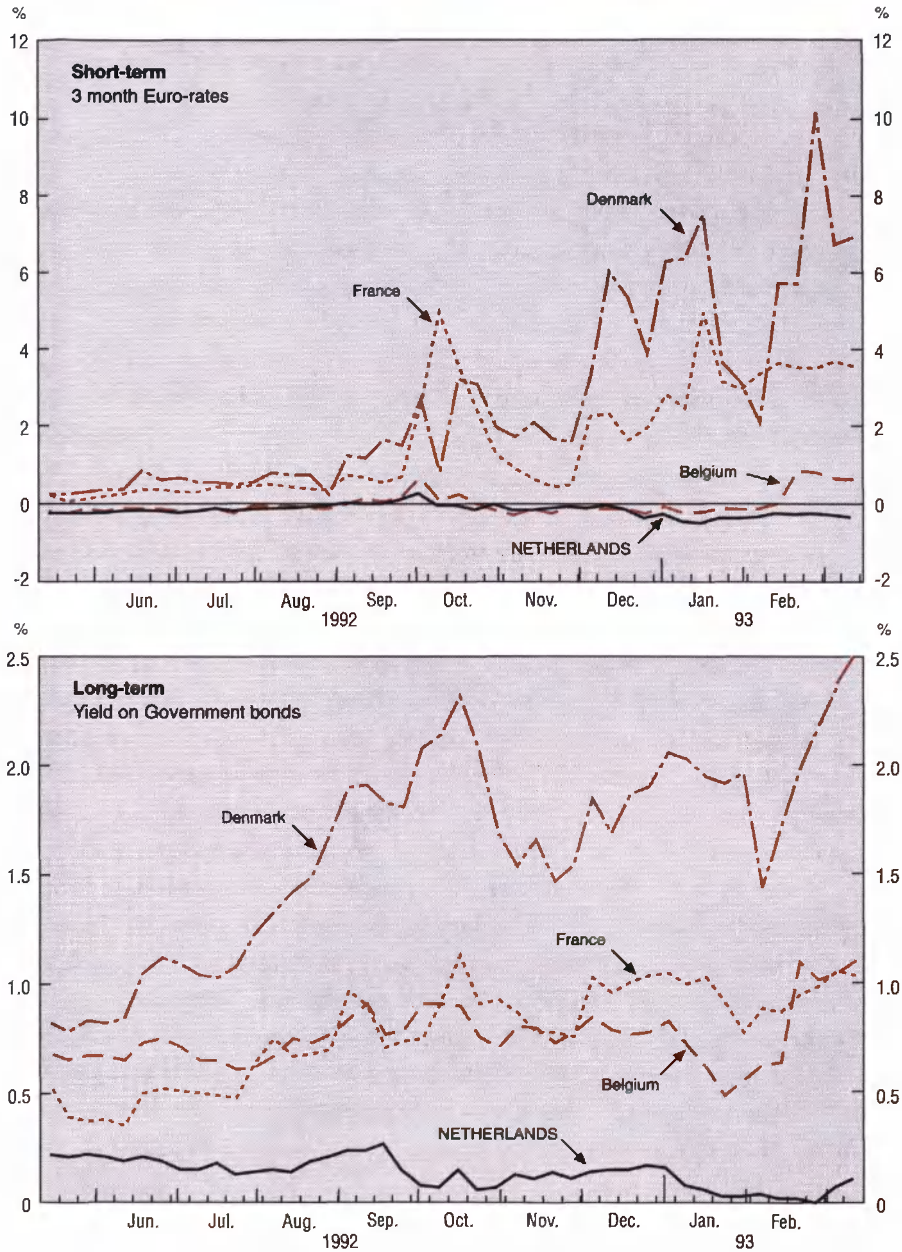
Sources: OECD, Financial Statistics Monthly and *Main Economic Indicators.*

with Germany turned negative and the long-term differential narrowed further (Diagram 13, panel B). The rejection of the Maastricht Treaty by Denmark in early June brought the long period of relative EMS calm to an end. As the Deutschemark first moved above the guilder in late June and then soared to the ceiling of the narrow band in September, Dutch short-term rates rose by nearly ½ of a percentage point and long-term rates by a little less, while interest differentials with Germany moved back to the levels prevailing in early 1992. These defensive interest rate movements were far smaller than those recorded by other EMS countries, except for Belgium, during this period of exchange rate turbulence (Diagram 14). Moreover, they were very shortlived. As EMS tensions abated, Dutch interest rates fell sharply in October and early November, and then again at the turn of the year, reflecting both a decline in German rates and a new shrinkage of differentials with Germany.

Since the exchange rate of the guilder with the Deutschemark is now the main intermediate target of monetary policy, throughout this period Dutch official rates followed equivalent German rates but in a flexible way, as required by exchange market conditions. Hence, with the Deutschemark strengthening against the guilder, the Central Bank unilaterally raised its rate on special loans in several steps in July-September; and later on, when pressures unwound and the Deutschemark weakened against the guilder, the Central Bank more than matched the decrease in German official rates. As a result, the guilder-DM rate has remained remarkably stable, never diverging by more than ± 0.20 per cent from its central rate (Diagram 13, panel C). However, mainly as a result of the devaluation of the Spanish peseta and the Portuguese escudo within the EMS, and the decision of the United Kingdom and Italy to allow their currencies to float outside the EMS exchange rate mechanism and depreciate, the effective exchange rate of the guilder has appreciated by over 5 per cent.[13]

Following the shift in emphasis from the "liquidity ratio" – *i.e.* the growth of the broadly defined domestic money supply relative to national income in nominal terms – to the exchange rate as the intermediate target of monetary policy, the authorities no longer have explicit monetary targets. Thus, the room for applying monetary cash reserves – in order to prevent excessive money creation by the banking system – is very limited. Only in cases where disequilibria in the real economy take place, in combination with excessive domestic money creation and lasting liquidity outflows, would the application of monetary

Diagram 14. **INTEREST DIFFERENTIALS WITH GERMANY**



Source: OECD Secretariat.

cash reserves be considered. In practice, this instrument has not been in force since early 1990. Last year, liquidity conditions remained broadly satisfactory, despite the period of exchange rate turbulence. The growth of M2 had decelerated in the 12-month period to August 1992 (to 5 per cent, from 6.9 per cent in the previous corresponding period) as a result of slower liquidity creation by domestic sources (mainly reflecting a shift from money-creating to money-destroying activities by the government sector) and a reduction of the liquidity creating effect of external transactions (entirely due to a smaller net inflow on account of non-monetary capital transactions). In September, official intervention in support of weak EMS currencies resulted in a substantial injection of liquidity into the economy, but by raising the (interest bearing) money market reserve requirements, the authorities neutralised the effects on the interbank money market without any problems.

Monetary conditions are expected to ease markedly over the coming two years, with interest rates declining sharply, especially at the shorter-end of the market, as a result of a similar evolution in German rates. By 1994, the current inverted yield curve should give way to a more normal upward sloping curve. On the other hand, interest differentials with Germany, which are now very close to zero both at the short and long ends of the market, are not expected to change much. With the foreign exchange risk no longer playing a determinant role, liquidity considerations may prevent the long-term differential from becoming significantly negative, even if the Netherlands has a distinctly better inflation performance than Germany. Given the exchange rate orientation of monetary policy, the scope for the monetary authorities to reconcile internal and external considerations in case of a stronger than expected deceleration of domestic demand would be fairly small. Nonetheless, as repeatedly stated by the authorities, a consistent and credible anti-inflationary monetary policy based on the guilder's close link with the Deutschemark enables the Netherlands to benefit from the lowest interest rates possible over the long run. Indeed, Dutch interest rates are currently among the lowest in Europe, both in nominal and real terms. Nominal interest rates are lower only in Switzerland and, for short-term rates only, in the United Kingdom.

Fiscal policy

The economic slowdown has made it increasingly difficult to achieve the various fiscal targets set by the authorities. The Coalition Agreement of 1989 commits the Government to reducing the central government budget deficit by half a percentage point of Net National Income (NNI) a year, to 3¼ per cent in 1994. Furthermore, it stipulates that the "collective burden" (the share of taxes, social security contributions and part of the gas revenues in NNI) should be at least stabilised at the level then estimated for 1990 (53.6 per cent of NNI).[14] More generally, the Government aims through fiscal policy at achieving various goals, such as an equitable income distribution – by linking social benefits to the average of public and private wage increases, or trying to maintain their purchasing power; redressing the incentive structure between working and not working; and supporting the policy of wage moderation. These commitments and goals are – especially in times of no or low economic growth – somewhat conflicting, however, and measures aimed at one goal must then often be complemented by additional measures to offset unwanted impacts on other goals. While the Coalition Agreement targets cover only the period up to 1994, respect of the Maastricht target for the public debt ratio would require some further reduction of the budget deficit beyond that date. Moreover, the collective burden should also be reduced to improve the functioning of the Dutch economy in general, and more specifically the labour market.

Recent developments

The budget target for 1992 (a central government deficit of 4¼ per cent of NNI) was met. While, according to OECD estimates, the cyclical downturn did increase outlays by an estimated ¼ per cent of NNI, it did not have a strong negative impact on tax revenues, as they respond with a lag to changes in economic activity. Relatively inelastic tax payments and a weak economy caused the collective burden to exceed its ceiling by half a percentage point of NNI, as in 1991. Moreover, while the budget deficit of the central government was virtually unchanged as a share of NNI, the general government balance deteriorated by ¾ percentage point of GDP. But these outcomes were both shaped by cyclical and especially non-recurrent factors – *i.e.* measures that shifted cash outlays between 1991 and 1992, and the acceleration of tax collections which resulted in a once-off reduction of the deficit in 1991. Allowing for these two factors, the Dutch authorities estimate that the central government budget deficit decreased by 1 percentage point of GDP in 1992. Despite its recent setback, the general government deficit has decreased from 5 per cent of GDP in 1989 to 3.5 per cent in 1992, while the EC average has increased from 3 per cent to 5.5 per cent of GDP. This is a reflection of the authorities' strong commitment to their medium-term strategy, and improved control over central government outlays which has prevented spending overruns. Moreover, structural tax shortfalls, increases in interest payments and higher social security outlays were recognised at an early stage and fully compensated by additional policy measures regarding both government expenditure and receipts decided in the 1991 Mid-term Review.

For 1992 these measures included:

- cuts in subsidies. Subsidies for public housing – the most important subsidy scheme, representing over 1½ per cent of GDP – were reduced through a higher annual rate of increase in rents than in recent years. At the same time, to avoid changing the relative cost of living in rented and owner-occupied dwellings, the taxable annual imputed rent for house owners was raised. The net effect of these measures was to reduce the budget deficit in 1992 by over Gld 1 billion;
- a reduction in foreign development aid by over Gld 400 million;
- implementation of some of the reforms to the sickness and disability schemes announced by the Government over the summer of 1991 (see Part II), estimated to have represented a saving of Gld 250 million;
- the "large efficiency operation" and cuts in defence expenditure which resulted in a decrease in government employment of 1 per cent in 1992, and a saving of over Gld 400 million;
- other savings proportionally divided over departments, resulting in an expenditure cut of Gld 2.8 billion, and tax measures adding up to Gld 1.5 billion.

Altogether, these measures reduced the budget deficit by some Gld 6½ billion or over 1 per cent of NNI.

Moreover, as the dependency ratio (between recipients of social benefits and working people) was expected to exceed the reference level of 86 per cent in 1992, the Government decided against a full linkage of social benefits and average wages in the public and the private sector, increasing the former by 3 per cent, compared with an expected increase in the latter of 3.7 per cent – a decision representing a budget saving of Gld 350 million. To cushion the decline in purchasing power of social benefit recipients, the general deductions on their taxable income were raised. However, to redress the incentive balance, the maximum standard deduction for active people was also raised (by Gld 450), which resulted in a 0.5 percentage point increase in the after-tax difference between the minimum wage and social benefits. The budget cost of this measure was compensated by not correcting the tax brackets for inflation, thereby effectively increasing direct taxes on higher incomes. Finally, the general VAT-rate was decreased from 18.5 to 17.5 per cent effective from 1 October, but its impact on the 1992 Budget was minor (Table 5).

The 1993 Budget again largely reflects policy measures decided in the Mid-term Review and aims at a central government deficit of 3.75 per cent of NNI. Real non-wage expenditure is projected to decline by 1½ per cent, mainly as a result of cuts in subsidies, measures to enhance efficiency and reductions in defence spending. The "large efficiency operation" is expected to lead to a further decline in government employment of 0.2 per cent. In the social security area, some savings should result from the implementation of the second and most

Table 5. **Most important tax measures in 1992 and 1993**

	Billion guilders		Structural impacts
	1992	1993	1992 and 1993
Direct taxes			
Limited correction to tax brackets for inflation	1.1	1.3	2.9
Increase in general deduction on taxable income	–1.0	–0.8	–2.2
Increase in workers' deduction on taxable income	–0.5		
Increase in the imputed rent for house owners	0.2	0.3	0.6
Indirect taxes			
Lowering of the VAT-rates in 1992	–0.3		–2.0
Harmonisation of excise taxes on tobacco, tax base of the VAT and special indirect tax on cars		1.1	1.2
Increase in excise taxes on diesel and tobacco	0.3	0.6	1.3
Broadening of the environmental levies' tax base	0.4	0.3	1.0

Sources: CPB, Macro Economische Verkenning 1993 and Actualisatie MEV 1993; and direct submission Ministry of Finance.

important part of the package of measures announced over the summer of 1991 – namely, reforms of the sickness and disability schemes (TZ and TBA Bills). Most of these measures have now been approved by Parliament but in a revised form and with a delay, which will result in a smaller saving than originally expected. As in 1992, the Government will not apply a full linkage between social benefits and private wages. In fact, benefits will be frozen (in nominal terms), and government wages will be increased by 1 per cent – the same as the increase in contractual wages expected by the authorities. Due to carry-over effects, social benefits are expected to increase by 0.7 per cent and government wages by 1¾ per cent. The purchasing power of benefits will be protected by similar tax measures as in 1992, including a Gld 340 increase in the general deduction on taxable income. This will be broadly offset by limiting the adjustment of tax brackets for inflation to 0.7 per cent.

As the economic outlook worsened markedly after the 1993 Budget was finalised over the summer of 1992, new measures, representing additional budget savings estimated by the Dutch authorities at 0.5 per cent of NNI, were taken late in the year to seek to ensure that the fiscal targets are met. Half of the measures were in the form of spending cuts proportionately divided over the ministries, and the other half in the form of once-off measures.[15] At the time, this package seemed sufficient to achieve the budget target, but not to prevent the collective burden from again exceeding the reference level of 53.6 per cent of NNI. However, since these measures were taken, the conjunctural climate has deteriorated further, and strict adherence to the fiscal targets will entail additional budget savings this year and, due to carry-over effects, especially in the 1994 Budget. According to OECD estimates, the general government deficit, as a proportion of GDP, would increase in both years without such measures.

Fiscal consolidation beyond 1994

Achieving the budget target for 1994 and keeping the central government deficit at that level thereafter would ensure broad respect of the Maastricht target of a general government deficit (financial deficit) of 3 per cent of GDP. But in this case, the public debt which, as a proportion of GDP, has recently levelled off at around 80 per cent, would, depending on the trend growth of nominal GDP and the level of interest rates, remain at around this level or decline at a very slow pace, reaching the EMU-level far into the next century (Table 6, First scenario

Table 6. **Fiscal consolidation beyond 1994: different scenarios**[1]

General government, per cent of GDP

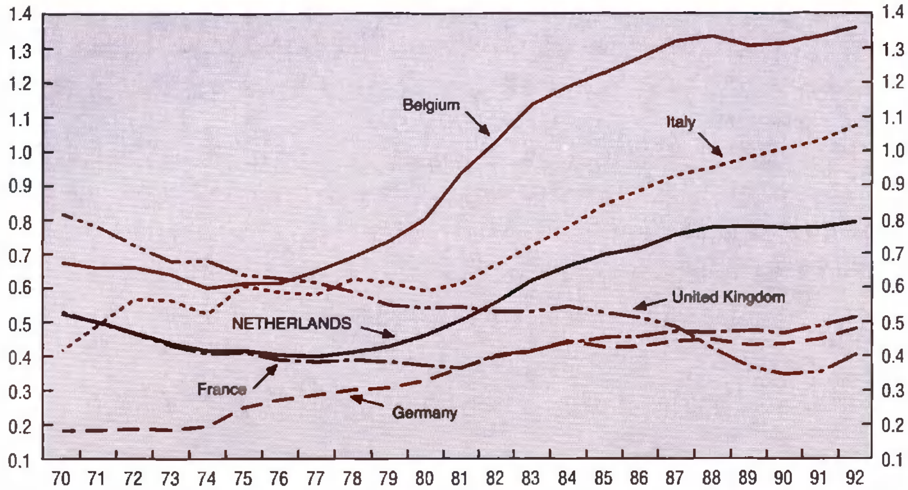
	1994	1996	1998	2005	2010
First scenario[2]					
Financial surplus	–3.1	–3.0	–3.0	–3.0	–3.0
Net interest payments	4.9	4.6	4.6	4.6	4.6
Primary surplus	1.7	1.7	1.7	1.7	1.7
Gross debt	80.2	78.5	77.0	72.6	70.3
Second scenario[3]					
Financial surplus	–3.1	9.7			
Interest payments	4.9	4.1			
Primary surplus	1.7	13.8			
Gross debt	80.2	60.0			
Third scenario[4]					
Financial surplus	–3.1	–2.0	–1.0	–1.0	–1.0
Interest payments	4.9	4.5	4.4	3.5	3.1
Primary surplus	1.7	2.5	3.4	2.5	2.1
Gross debt	80.2	77.2	72.4	57.5	49.6
Fourth scenario[5]					
Financial surplus	–3.1	–2.5	–2.0	–2.0	–2.0
Interest payments	4.9	4.6	4.5	4.1	3.9
Primary surplus	1.7	2.0	2.5	2.1	1.9
Gross debt	80.2	77.7	74.8	65.3	60.3

1. The basic assumptions in all scenarios are of an unchanged differential between the effective interest rate on the public debt and the nominal growth rate of the economy, and of nominally frozen financial assets.
2. The financial surplus is kept stable at its 1994 level.
3. Starting in 1995, expenditure cuts are taken in equal annual steps as required to achieve the strict Maastricht target of a debt/GDP ratio of 60 per cent in 1996.
4. In the next Government period, 1995-98, the budget deficit is assumed to be reduced by 0.5 percentage points of GDP a year.
5. In the next Government period, 1995-98, the budget deficit is assumed to be reduced by 0.25 percentage points of GDP a year.

Source: OECD estimates.

and Diagram 15). The Maastricht requirements in this area stipulate that either the debt/GDP ratio does not exceed 60 per cent in 1996, or that it is on a sufficiently downward trend. For the Netherlands, the following additional considerations are also relevant: a significant proportion of future public pension payments is covered by accumulated financial assets (representing 30 per cent of GDP); and the country is a sizeable net capital exporter, with a net creditor position approaching 30 per cent of GDP. Apart from the EMU requirements, a reduction of the debt/GDP ratio is desirable in its own right, to decrease the burden of the debt, create room for manœuvre to increase more productive public

Diagram 15. **RATIO OF GROSS PUBLIC DEBT TO GDP**



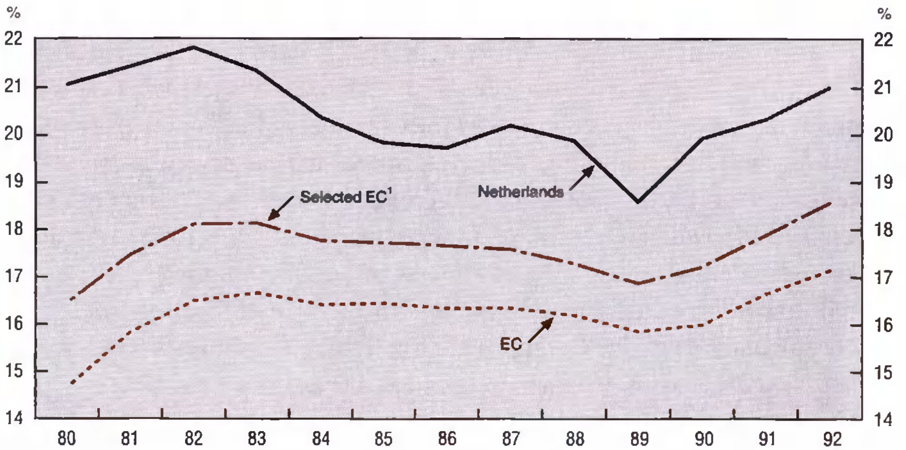
Source: OECD Secretariat.

expenditure – especially investment in the infrastructure – and to preserve consumer and business confidence. For illustrative purposes, it may be useful to consider, with the aid of simple mechanical scenarios, the implications of a further reduction in the general government deficit after 1994.

These illustrative scenarios assume that the differential between the interest rate on the public debt and the growth rate of the economy will remain at its projected 1994 level; and do not take into consideration feedback between changes in public expenditure and output which, however, due to the openness of the economy, tend to be small in the Netherlands. According to these calculations, reducing the debt/GDP ratio to 60 per cent by 1996 seems unrealistic since it would require an improvement in the budget position of well over 10 per cent in two years (Table 6, Second scenario). The Third and Fourth scenarios assume a further but more modest deficit reduction after 1994. If during the next government period – 1995-98 – the general government deficit were reduced by ½ per cent of GDP a year, falling to 1 per cent of GDP in 1998 and remaining at that level thereafter, the reference level of 60 per cent of GDP for the government debt would be achieved in 2004 (Table 6, Third scenario). Alternatively, if over the same period, the deficit were cut by ¼ per cent of GDP a year and reduced to 2 per cent of GDP in 1998, the government debt would meet the EMU reference level in 2010 (Table 6, Fourth scenario).

A reduction in public expenditure is necessary, even if the scope is to some extent influenced by retrenchment policies in past years. In the 1980s, the burden of adjustment fell disproportionately on public investment and government wages. The Dutch authorities feel that further spending cuts in public investment would not be desirable. On the contrary, more public investment is needed to keep the capital stock in infrastructure in line with the requirements of a growing economy, especially in the area of transport. The share of public employment in total employment is already below the EC average, and it may be difficult to reduce public employment much further beyond that envisaged in the "efficiency operations" without jeopardising the smooth working of the administration. In the last couple of years, military spending has been cut, and recently the Government has announced its intention to reduce its armed forces by nearly 45 per cent, and abolish conscription by 1998. The defence budget could thus decline from its current level of 2½ per cent of GDP to some 1¾ per cent in 1998, providing a

Diagram 16. **GENERAL-GOVERNMENT TRANSFERS TO HOUSEHOLDS**
Per cent of GDP



1. Germany, France, Italy, United Kingdom and Netherlands.
Sources: OECD, *National Accounts* and OECD estimates.

welcome but limited contribution to the required expenditure reduction. In identifying other categories of current expenditure to restrain, objective criteria, such as international comparisons, may provide some guidance. In this respect, outlays for social security and especially spending on disability clearly stand out. General government transfers to households as a percentage of GDP, which had declined in the 1980s reflecting the nominal freeze of benefits after 1983, are still well above the EC average and have been rising again since 1989 (Diagram 16). Spending on disability represents some 6½ per cent of GDP, compared with 2¼ per cent for the EC on average. Many subsidies, notably for social housing and public transport are also quite high by international standards.

Wage moderation

As noted, the authorities are again seeking to promote "wage moderation". In November 1992, this approach led to a new central wage agreement between the social partners, the first such agreement since 1982. It included a "wage freeze" until March 1993,[16] and a broad understanding that wage moderation would be extended beyond that date if economic conditions required it. Contractual wage increases for 1993 negotiated before the agreement had averaged nearly 5 per cent and covered about 35 per cent of all contracts. According to the agreement, the social partners will take into consideration the expected downward revision in inflation (1¾ per cent in 1993) and new 1993 tax measures (estimated to represent a 1 per cent increase in after-tax wages) when negotiating the remaining 1993 wage contracts. More generally, the social partners have accepted the basic principle that moderate wages are an essential condition for increasing labour participation and improving international competitiveness. According to the Dutch authorities, if the wage rise is 1¼ per cent (the average wage increase demanded by employees and offered by employers) for the contracts still to be negotiated, the total average rise will be of the order of 3 per cent in 1993. Calculations by the Central Planning Bureau show that wage moderation – defined as a 2 per cent decrease in nominal wages compared with base line – would increase employment by 0.2 per cent in 1994. The relevance for the fiscal targets would be minor in the short term: the budget deficit would deteriorate by 0.2 per cent of NNI and the collective burden would also be reduced by 0.2 per cent, both effects resulting primarily from a reduction in taxable wage income. In the long run, these two effects could both be positive and significant for the targets, due to a sizeable increase in employment.

A similar policy approach was followed in the 1980s, and wage moderation is largely seen as one of the main reasons for the remarkable turn-around of the economy after 1983. It kept the increase in labour costs (in local currency) well below that in partner countries,[17] and this enabled Dutch firms both to regain export market shares and to restore profit margins and finance the investment boom of the second half of the decade. Although conditions are different today, wage moderation remains unquestionably one of the instruments for tackling the major problems facing the small and open Dutch economy. It can be expected to play a determinant role in stopping the recent erosion of profitability, reducing inflation and effectively disposing of the risk of a price-wage spiral, which had arisen in the last couple of years, following the increase in indirect taxes and user fees. By improving international competitiveness it should, with a lag, result in additional exports which would support employment; and, by curbing labour costs, it should encourage labour-capital substitution over the longer term.

However, in the near future, wage moderation may reduce the increase in personal income and weaken domestic demand. Also, because of the close link between the guilder and the Deutschemark and with the foreign exchange risk no longer playing a determinant role, even a continued better inflation performance than in Germany may not allow Dutch interest rates to fall sufficiently below German rates to provide an appreciable boost to output and employment through this channel. More importantly, wage moderation cannot be a substitute for more fundamental measures to correct structural imbalances – notably very high non-wage labour costs, mismatches and insufficient incentives to work – which undermine the functioning of the labour market. Especially at the lower-wage end of this market, low participation is generally believed to reflect not only high labour costs in relation to productivity, but also a lack of skills and qualifications, and insufficient incentive to work. As for the tax-wedge, it is one of the highest in OECD countries.

Labour-market policy

Attention has increasingly focused on structural reforms as a way to enhance the supply responsiveness of the economy and to improve macroeconomic performance. Some of the most pressing structural problems centre on the labour market. As noted in Part I, the participation rate is low by OECD standards and long-term unemployment is sizeable. In addition, the Netherlands has the highest proportion of population receiving disability benefits and the dependency ratio is also among the highest, with one employed person supporting almost one person on social benefits. The policy response to these problems and the current situation with respect to policies concerning the labour market and related social programmes are reviewed here.[18]

Despite a progressive shift in emphasis over the 1980s towards "active" measures, Dutch labour-market policy remains characterised by generous income-support measures: the legal minimum wage is high relative to the productivity of unskilled workers; social benefits are extensive and their level is also relatively high; and the duration of wage-related unemployment insurance benefits is partly age-related, partly determined by working record and, on average, long. The minimum wage is especially important in the Netherlands: not only may it cost jobs due to its demand-side effects; but since the level of social benefits is linked to the minimum wage, the minimum wage affects the benefit-wage differential and may also have negative incentive or supply-side effects. The growth in the legal minimum wage was linked to average wage growth in the private sector by the "linkage law" (WAM) of 1979, but the linkage was applied fully only in the first half of 1980. Following the strong increase in unemployment in the early 1980s, a central wage agreement between the Government and the social partners was reached in late 1982. In exchange for fiscal relief and measures ensuring the purchasing power of employees, unions accepted moderate wage growth, the elimination of price-indexation of wages and the introduction of some labour sharing. The "linkage" between social benefits and the growth of wages in the private sector was set aside in the second half of 1983, and minimum wages and benefit levels were cut by 3 per cent and nominally frozen until 1990. This allowed the gap between the average income of active and inactive people to increase by more than 11 per cent between 1983 and 1988.

In 1990 and 1991, the minimum wage was again linked to wage growth in the market sector, but in 1992 a new law (WKA) made this link conditional: the Government is no longer obliged to respect the full linkage if there is "excessive" wage growth or if the number of social security beneficiaries increases to the extent that a significant hike in the rates of taxes and social security contributions is needed. For practical purposes, the law refers to the ratio of full-time equivalent beneficiaries to full-time employed persons (dependency ratio), which incorporates both these factors. If the dependency ratio exceeds a reference level – currently 0.86 – the Government need not respect full linkage. Hence, in 1992, with the dependency ratio expected to exceed 0.86, the Government was able to apply a less than full "linkage" and increase social benefits by less than private wages.[19] This further increased the gap between the average income of active and inactive people, but, as noted in Part I, incentives for entering the labour market are still too low. The financial benefits of employment (net of all related costs), particularly for unskilled workers, remain lower than social benefits.

"Active" measures taken during a person's unemployment spell have become progressively more important as a means to reduce long-term unemployment. The basic strategy of the "route placement" introduced in the early 1990s, is to work out a plan tailored to the characteristics and needs of the long-term unemployed, ranging from remotivation, to training or retraining, to work experience and to placement in the open labour market. Such an approach, which has also been introduced in other countries, seeks to make the most effective use of the diversity of training possibilities in the Netherlands and the number of institutions and layers of decision making in the labour-market area (see below). The number of participants in different training programmes (excluding the apprenticeship system) increased from 50 000 in 1986 to 103 000 in 1990. Recruitment subsidies are available in several forms, but they have been used only to a limited extent by employers, perhaps because they see recruitment as a long-term commitment for which temporary cost reductions are not sufficiently attractive. The Youth Work Guarantee Plan became operational nation wide as of 1 January 1992. It offers youngsters six month labour contracts – subsidised by the central government – in municipalities. These contracts can be extended by an additional period of six months. For youngsters participating in this Plan the right to receive a social benefit is replaced by the right to have a job. The aim of the authorities is to increase the number of participants from 7 000 at mid-1992 – representing 10 per cent of total youth unemployed – to some 10 000 in 1996; and by 1998, all unemployed youth up to the age of 21 and all unemployed school-leavers up to the age of 27 should participate. In 1992, participation was restricted to members of these two groups up to the age of 18 and 21, respectively. The age level will be raised progressively each year. This growth path has been determined by the expected number of suitable jobs available and the effectiveness of other measures to facilitate youth employment.

However, "passive" measures remain more important than in most other OECD countries. Replacement rates of unemployment benefits are high by international standards, for all types of family situations and for all unemployment spells. Large public resources are devoted to job pool (BP) and sheltered workshops (WSW), which employ over 90 000 persons and seem to be used essentially to help on a more or less permanent basis people who are regarded as being "unemployable". For instance, in the case of the sheltered workshops, incentives for re-entry into the regular labour force are low, and a disappointingly small proportion of members has made this transition. Moreover, although this programme was designed to facilitate work experience for partially handicapped workers, about 40 per cent of members are not eligible for a disability benefit. Other active programmes which aim at job creation in the ordinary labour market are modest in size compared with other OECD countries.

In recent years attention has centred mainly on the sickness and disability schemes. The latter is unique because of the low thresholds for entitlement, the lack of distinction between "social risk" and "professional risk",[20] and its generosity in terms of level and duration of benefits – these can continue until the age of 65, after which disabled persons move into the pension system. Over the summer of 1991, the Government announced a major package of measures altering various aspects of the system of social protection and, more specifically, addressing the question of disability, which was widely perceived as getting out of hand and becoming unsustainable. The package included: financial incentives to discourage the use of the sick leave and disability schemes by both employers and employees; a reduction in the generosity of the disability system (with benefits at the level of 70 per cent of last annual earnings limited to a fixed number of years, and then declining to only 70 per cent of the legal minimum wage plus an additional age-related allowance); and a more stringent control of sick leave and access to the disability scheme.[21] Part of the package was implemented in March 1992[22] but the remainder – *i.e.* the bills concerning the sickness scheme (TZ) and the level of benefits in the disability scheme (TBA) – was approved by Parliament, in a modified form, only early this year, and is to be implemented on 1 July 1993.

The main difference between the approved version of the disability bill and the original version is that the level of benefits for people already in the scheme will not be reduced, while for new claimants the reduction in benefit levels will be more severe. The period during which new claimants will receive a full benefit has been substantially shortened; and the relationship between the replacement ratio and the number of years the claimant has worked has been shortened. For example, a person of 40 years of age with an income 1½ times the average will receive 40 per cent less than under the present system – *i.e.* 50 per cent instead of 70 per cent of the previous earned income.

The original aim of the package was to limit the increase in the number of disabled to 977 000 (or 825 000 in full-time equivalent) in 1994; and the authorities expected the combined saving from the disability and sick leave schemes to be of the order of Gld 4 billion in 1994. Due to the delay in the implementation of most of the measures (now expected in July 1993, instead of July 1992) the projected combined saving has been revised downward to Gld 2.3 billion in 1994. However, the number of disabled does not seem to have grown as much as expected in 1992, and the authorities have revised downward their projections for 1994, to 963 000 persons or 821 000 full-time equivalents[23]. A question still debated in the Netherlands is whether this smaller than envisaged increase in the number of disabled in 1992 represented a reaction to the expected tightening of the scheme or whether it reflected measures already taken and other, "autonomous" forces. While this is an important question, it should not divert attention from the central point, which is that the number of disabled is still growing and that one person in seven is out of work as a result of disability – a proportion far above that of any other OECD country and unjustified by any objective criteria. The direct budgetary cost is some 6½ per cent of GDP, a major burden on those who work. Until the number of social security beneficiaries, among which disability claimants are a crucial category, actually declines and moves closer to levels prevailing in neighbouring countries, it will be difficult for the Government to reduce simultaneously the budget deficit, the collective burden and the dependency ratio.

The growing role of active labour-market programmes has underlined the importance of the institutional setting in the implementation of these programmes and of labour policy in general. One of the recent major changes in this area took place in 1990, when the Public Employment Service (PES) was reorganised into a body institutionally independent from the government, fully tripartite, decentralised, and no longer holding a placement monopoly. The authorities hope that this approach will improve the effectiveness of employment-finding, and reduce mismatches in local labour markets. It is also hoped that the employers and unions will share the responsibilities of tackling unemployment and other labour-market problems by effective placement and training measures. The first results seem to be encouraging. The need to become more "employer-oriented" has generally been accepted, and various agreements on filling vacancies have been reached between the PES and branch organisations. However, an important function of the PES – the administrative authorisation for dismissals – does not fall under the tripartite decision-making process. Neither does the imposition of sanctions when benefit claimants fail to accept jobs or retraining, which is the responsibility of the Industrial Insurance Boards and municipalities ("GSD"): the PES is obliged to notify these two bodies when such failures occur, but in practice it does not always do so. If decentralisation is likely to bring advantages – notably, an implementation of policy more in line with local conditions and requirements – it might also entail costs, as the reporting of differently-organised local activities to the central level and their monitoring and assessment have become more complex and time-consuming.

This reorganisation of the Public Employment Service has accentuated the already considerable influence of the social partners in the Dutch labour market. In addition to sharing power with the government in many tripartite institutions – like the PES – they directly manage and control some major institutions, such as the Industrial Insurance Boards. This "social partnership" creates checks and balances, emphasises consensus and the national interest, and seeks to foster social cohesion. However, the complexity of decision-making procedures creates risks for the effectiveness of labour-market policy and management. For instance, while central government legislation describes the terms and conditions under which unemployment, sickness, and disability benefits are to be granted, the Industrial Insurance Boards, over which the central government has limited control, are in charge of the actual administration. Hence, the intention of legislation can be undermined at the implementation stage, and when the interests of the individual workers and firms diverge from the public interest, it can result in unintended uses of the system, as apparently has been the case in the granting of disability benefits. A similar situation prevails in respect to the implementation of active employment policies: for instance, 19 Industrial Insurance Boards, some 650 municipalities and the PES (now itself decentralised) can all, in principle, play a role in reintegrating the unemployed into the active labour force. In order to prevent inefficiencies, co-operation between these organisations at the local level is required, and indeed various initiatives are being taken in this direction.

Other structural policies

The second phase to reforming the health care system was implemented at the beginning of 1992. It changed the financing of pharmaceuticals, which will henceforth be funded by a national public scheme. Beyond this, the proposed reform – which, however, looks rather uncertain at the moment – includes the gradual introduction of a basic insurance package covering about 95 per cent of health care services, with the insurance premium composed of a small lump sum and the rest (82 per cent) being income related.[24] The new system allows for competition between insurance companies (for supplementary health care insurance packages and the lump sum premium), as well as between health care providers (because private insurance companies and health care providers should negotiate individually and reach bilateral contracts).[25]

Several measures have been taken to improve the international competitiveness of the Amsterdam Stock Exchange. These include the abolition of the tax on Stock Exchange dealings, the introduction of an Open Order Book and the strengthening of the position of market makers to increase the liquidity of the market. Regulations limiting cross-holdings by banks and insurance companies have been liberalised, thereby allowing several mergers between major banks and insurance companies (see Part III). As a result of the implementation of the Second EC Banking Directive, the establishment of subsidiaries of non-EC banks has been subjected to stricter reciprocity requirements.

In the environment area, after the pace-setting initiatives of the late 1980s and early 1990s, which set ambitious targets, a considerable effort has been made to get the implementation process moving. The National Environmental Policy Plus (NEPP) of 1990 gave a detailed overview of policies required to meet medium term targets for specific groups such as agriculture, transportation, industry, construction and consumers. NEPP proposed to achieve these targets through, among other things, voluntary agreements (covenants) between the

Government and those target groups. A number of such covenants have been signed and put into operation, such as the one with the packaging industry to reduce the environmental costs of the packing of products. The rates of the General Environmental Levy have been raised, and its base has been reformed to make it dependent half on CO_2 emissions and half on the energy content of fuels. Although originally earmarked for environmental expenditure, the revenue will be used for general public expenditure. Other environmental taxes and levies are used mainly by local authorities in the field of water pollution and waste to finance environmental investment, the operating costs of public abatement systems and subsidies to promote clean technologies and products. Manure charges and a mineral accounting system have been introduced to control the production of manure. The Government has sent a bill to Parliament on the introduction of a tax on garbage and consumption of well or ground water. Through steep levies, water pollution has been greatly curbed; but traffic congestion, air and soil pollution remain concerns. An electronic toll system is under consideration which would introduce user charges in congested areas, but its implementation is technically difficult.

III. Competition and competition policy: the unusual Dutch case[26]

Until recently, the Netherlands did not have a very strict competition policy, and its legislation in this area is still quite different from that of most other OECD countries: for instance, cartels and other collusive agreements are not banned in principle. Moreover, complex and restrictive licensing rules and administered prices in the public sector play a major role. As a result, many sectors of the economy are enmeshed in a web of restrictive agreements, regulations and barriers to entry, and the degree of competition, at least in many of these sectors, seems to be low.

Already in the late 1980s, the Government had expressed dissatisfaction with this state of affairs: it started preparing a complete overhaul of competition policy and stepped up implementation within the existing system. Yet, the economy has apparently suffered less from this situation than other countries with a weak competition policy such as Sweden, Switzerland and Denmark. While economic growth has been slightly lower than the EC average over the last decade or so, prices are not obviously higher than in most other countries. What then is the answer to this apparent paradox? A possible explanation might be that the Dutch way of dealing with competition, combined with the openness of the economy, has been sufficient to prevent most blatant abuses of market power; also, the social consensus, may have had a beneficial impact on overall economic performance. More probable, however, is that the harmful effects of the low degree of competition have indeed been important but hard to detect. The first part of this chapter considers competition policy, legal and institutional restrictions on competition, and the major changes which are underway. The second part discusses competition in public sector activities. Finally, the third part tries to assess the intensity of competition in commercial markets and its impact on the economy as a whole.

Competition policy and restrictions on competition

Overview

In the Netherlands, restrictions on competition have been rooted in cartellisation, widespread barriers to entry imposed by official licensing rules or by professional associations, as well as in government controls over various sectors in the form of subsidies, administered prices and public ownership. Dutch competition policy is based on the "abuse principle". Action is taken only against restrictive agreements which are contrary to the public interest, or which are applied in a way contrary to that interest; and the onus of proof is on the authorities. In some other OECD countries the objectives of competition policy are more explicitly the enhancement of static and dynamic efficiency. Until a few years ago, the authorities, on balance, paid little explicit attention to competition, perhaps because the openness of the economy and occasional interventions by the Competition Policy Department were considered sufficient to prevent major abuses.[27]

The approach of the authorities was one of continuously weighing the pros and cons of individual restrictive agreements against the specific characteristics of markets, without giving their opinion on groups of agreements in general,[28] or spelling out their guiding principles. In fact, the typically Dutch approach of handling competition questions largely through self-regulation and in an "informal" way raised few formal complaints, as in many other small countries.[29] However, given that there is no private action under this set-up, the scarcity of complaints does not imply that the state of competition is adequate.[30] In every formal case the Competition Policy Department seeks the advice of the Economic Competition Commission – a consultative body: it is thus revealing that over the past ten years there have been only 25 such requests for advice. In a few cases, consumer organisations have complained directly to the EC.[31] Over the past few years the situation has changed considerably, and the implementation of competition policy has shifted from a case-by-case approach to an approach which tries to prohibit certain types of restrictive practices in general.[32,33] However, the authorities feel that despite their efforts to invigorate competition many domestic markets are still not well developed and lack dynamism. Hence a major overhaul is planned over the next few years.

Spurred by European integration and the need to conform with EC legislation, the authorities had already decided some time ago to strengthen the system of control over cartels and dominant enterprises, as well as to update and liberalise the Establishment Law governing the licensing of small and medium-sized enterprises. The first concrete step in this direction has been to prohibit horizontal price agreements as from 1 July 1993. The authorities' aim is to align the Netherlands with the EC and make its competition policy better suited to a highly deregulated and integrated economic environment. But the transition from the Dutch system organised around the "abuse principle" and based on compromise and consensus to a prohibition system will be a progressive one. The authorities see the last couple of years as a first phase, with few spectacular accomplishments but a lot of necessary groundwork to convince the business sector of their determination, prepare the country at large for the forthcoming changes, and gain political support for the necessary legislation.

The Economic Competition Act

Competition policy is generally implemented by the Competition Policy Department of the Ministry of Economic Affairs and is governed by the Economic Competition Act (of June 1956). This Act applies to any agreements or decisions governed by civil law that regulate economic competition between enterprises as well as between a number of liberal professions. In general (that is, with the exception of vertical price restraints and a number of practices and horizontal price agreements which have been specifically banned[34]), there is no prohibition on restrictive business practices. Hence formal agreements to restrict competition are not illegal, *per se*. However, these agreements have to be notified to the authorities. Until the late 1980s, there were indications that many companies did not respect this rule, either deliberately or through ignorance, even though failure to register could lead to prosecution. But in the past couple of years, following efforts to step up competition policy and heightened publicity on the need for reporting, the number of agreements notified has increased markedly. Agreements are filed in the Cartel Register which, by law, is not accessible to the public.[35] While the precise content of this Register is therefore not known, each year the Ministry of Economic Affairs provides Parliament with an overview of it, from which it is possible to derive a few general indications and some fragmentary numerical evidence. In June 1992, there were 245 notified market sharing agreements, 267 price agreements, 45 exclusive dealing agreements, and 202 distribution agreements (Table 7).[36]

More generally, most business agreements listed in the Cartel Register are:

- horizontal price agreements, which fix prices, set minimum or maximum prices, arrange discounts, etc.;
- market sharing agreements, which generally fix the quantity each company can produce, sell or buy but can also fix production capacity of each company, or divide the market by areas, group of clients or suppliers, or can arrange for specialisation of production;
- collusive tendering cartels or bid rigging, which are prevalent in sectors with a large number of projects, as in construction and related industries;
- collective exclusive agreements by professional associations, which regulate entry to the market (especially in liberal professions);
- exclusive dealing and selective distribution agreements, which are vertical arrangements restricting the choice of suppliers or limiting the range of products at the wholesale or retail level.

These kinds of restrictive agreements dominate the Cartel Register and (with the exception of exclusive dealing) would be illegal in most other OECD countries with more stringent competition policies. Horizontal price agreements are

Table 7. **Restrictive agreements in the Cartel Register**

	30 June 1991	30 June 1992
Price agreements[1]	259	267
Market sharing agreements	236	245
of which:		
establishing quotas[2]	59	58
other market sharing agreements[3]	188	198
Exclusive dealing agreements	46	45
Distribution agreements[4]	198	202
of which:		
franchise agreements	133	140

1. For example: horizontal price agreements, vertical price agreements, tender agreements.
2. Quotas for production, sales or purchase.
3. For example: selective distribution, territorial division, market division by customers.
4. For example: collective sales organisation, collective buying organisation, franchising.

Source: Direct official Dutch submission.

often combined with market sharing arrangements, since without the latter the stability of a price cartel can be jeopardised by the desire of certain members to increase their market share by providing extra services or not respecting fully their price agreements. Moreover, a market sharing agreement can increase profits of the price cartel by imposing price discrimination on different market groups defined in the agreement. Cartels are apparently widespread in sheltered sectors, like wholesale and retail trade, construction, and finance and insurance. But the number of cartels in one sector does not necessarily give a good indication of the economic importance of concerted behaviour in that sector, since a single strong arrangement may have more impact than a number of weak ones.

The Establishment Law and professional associations

One barrier to entry into some markets finds its legal underpinning in the Establishment Law of enterprises (1954) which, in principle, covers the whole business sector but applies especially to small and medium-sized firms.[37] Professional associations can ask for such regulation. The Law, which covers approximately 50 per cent of all small and medium-sized firms, forbids the establishment of a new business without a proper licence and sets minimum qualifications for the establishment (licensing) of enterprises. These qualifications consist of requirements for general business education (notably accounting) and professional or skill competence with related, specific exams. While the original aim of the Law was to avoid the negative effects of unfair competition by unqualified firms – a preoccupation dating back to the Great Depression – in the more recent period it has been used to improve quality and standards by imposing ever stricter minimum requirements. One result of the Law has been the development of a well organised and targeted system of vocational training and education for people in the small and medium-sized business sector, under the responsibility of branch organisations.[38] Another, less positive, result has been the segmentation of an important part of the economy since many establishment regulations effectively represent barriers to entry which prevent inter-branch competition and reduce the overall level of flexibility and competition in the economy.

Barriers to entry and limitations on competition can also be imposed by professional associations. Although such associations may, in some cases, provide a preferable alternative to government regulation in addressing the vital needs of society, and of the members of the association themselves (for example, sanctioning unethical practices, forming standards for professional qualifications and monitoring adherence to these standards), in some instances they may also give rise to price fixing, excessive entry restrictions and market sharing – such as limiting the number of members of a given profession in shopping centres or imposing restrictive opening hours in the retail sector. These restrictive arrangements – like cartels – are not forbidden *per se,* and can be prosecuted only under the "abuse principle".

Rules of Conduct for Mergers

A distinctive feature of the Dutch socio-economic system is the rules of conduct for mergers and acquisitions. The "Merger Code", laid down in a 1975 resolution of the Social and Economic Council, requires that all bids (even from a foreign company) be preceded by notification and talks between the two companies involved. The rules mainly serve to protect the interest of workers; competition policy considerations are not included. The authorities have no power to stop any merger, unlike in most other OECD countries.[39]

However, the pace of mergers and acquisitions has quickened considerably over the past few years, reflecting changes in business strategies in anticipation of the EC Single Market. While their number averaged around 450 between 1980 to 1988, it has been above 700 during the past three years (1989-91). Of the some 10 000 mergers and acquisitions monitored by the Social and Economic Council since 1970, about 15 per cent directly involved foreign companies. Over this period there have only been some 30 public admonitions, mainly for lack of prior notification.

The task ahead

The aim of the authorities, as noted, is to align Dutch competition policy with the EC and make it better suited to a highly open, dynamic economy. They plan to do this in a gradual way, with the transition period extending over several years. As noted, price agreements between companies and between independent professionals have recently been prohibited, and in the course of 1993 the authorities expect a similar decision for market-sharing agreements[40] and collusive tendering. These prohibitions on restrictive business practices will include some exceptions, in particular for positive forms of co-operation such as; joint purchasing by retailers, and research and development agreements. They will also include an exemption clause, but according to the authorities, exemptions will rarely be granted, and only if both the public interest demands it and the agreement is in line with EC policy. In addition, the authorities propose to enhance external publicity and promote co-ordination with the European Commission. They feel that these changes in the legislation will make implementation considerably more effective and less time consuming: under the new rules, it will be up to firms to prove that a restrictive agreement enhances public interest and hence deserves an exemption. But it is expected that those operating many of the 150-odd horizontal price agreements which were on the Cartel Register at end-1992 will ask for an exemption. Since before taking a decision on these requests, the Ministry of Economic Affairs will have to seek the advice of the Economic Competition Commission, and pending the decision of the last court of appeal cartels will be able to operate as before, it could be several years before existing price agreements are effectively eliminated.

The authorities are also in the process of introducing a new, sharply revised Establishment Law to reduce barriers to entry and segmentation, thereby increasing the role of market discipline and flexibility. The emphasis is on ensuring a satisfactory level of entrepreneurship in small and medium-sized firms, rather than setting standards for professional competence or for the quality of goods and services produced, minimum standards of quality and safety being ensured by specific laws protecting the consumer. A further reason for liberalising the Establishment Law and aligning it with the EC is that it currently results in reverse discrimination: as EC legislation assures freedom to establish,[41] it is easier for citizens of other EC countries than for Dutch citizens to establish in the Netherlands.

The proposal of the Ministry of Economic Affairs classifies branches into three groups of growing complexity and, accordingly, stricter requirements.[42] According to this proposal, barriers to entry will not be abolished completely: for about 70 per cent of existing small and medium-sized firms regulated under the present Law a licence will still be required. However, the qualifications needed for this licence will be less complicated than is now the case, and will not include manual skills or specific professional training. Licensing violations will no longer be a criminal but a civil offence. Like the existing Law, the new one will not cover professional associations and their arrangements.

The first reaction by the decentralised branch organisations to the draft proposal has been negative. These organisations emphasise "quality" considerations as well as objectives of health, safety and consumer protection in general, and wish to see stricter rather than fewer and more liberal regulations. After a second period of hearing with branch organisations, the Ministry of Economic Affairs sent the final proposal to Parliament in December 1992. According to the authorities, the first changes in the current system cannot be envisaged before the end of 1993. Full implementation of the new Law will take considerably longer, perhaps until 1996.

Finally, the Dutch authorities have recently announced that, parallel to the aforementioned prohibitions on restrictive business practices – which are based on the existing Competition Law – a request for advice on the introduction of a completely new Competition Law will be lodged with the Social and Economic Council. Among the subjects to be considered is the issue of an independent competition agency and the question of whether a national merger policy would be appropriate in the Netherlands.

Competition in public sector activities

In the Netherlands the government intervenes, directly or through subsidies, in important sectors of the economy (including telecommunications, energy and gas, public transport, housing, and health care) either for social reasons or because of the natural-monopoly character of some of these sectors. On the other hand, direct government involvement in the supply of goods and services is limited. Unlike in several other European countries, there have never been periods of large-scale nationalisation, so that state holdings in individual companies are rather small. Nonetheless, with a view to reducing the size of the public sector and improving its efficiency, the government has been using a wide range of measures which have had a bearing on competition – including contracting out[43] and full privatisation of state-owned enterprises.[44] Moreover, it has engaged in a process of reducing subsidies and deregulating controlled sectors.

Especially relevant has been the incorporation of state enterprises and other government agencies[45] into public companies, provisionally 100 per cent state owned. Progress has also been made in the reduction of the monopolistic position of the public sector. While the PTT has retained an exclusive statutory concession for postal deliveries as well as for the construction and maintenance of telecommunications infrastructure, the monopoly on terminal equipment and, under certain conditions, on courier services has been ended and these markets have been opened up to other companies. Moreover, the Government recently decided to admit private suppliers of satellite services and mobile communication systems to the telecom market. The impact on competition of the other incorporations has been most significant for those government agencies which formerly enjoyed a monopoly in the performance of services suitable for commercialisation, such as the Government Printing Office, the Government Purchasing Office, the Government Training Institute and the Government Computer Centre. These incorporated public companies now compete with other private companies for contracts with both the public and private sectors. On the other hand, incorporated agencies performing "public services", such as the sea pilot service, the air traffic control service, the Land Register and the Assay Department have been less able to operate according to competitive principles. Case-by-case arrangements had to be devised to promote efficiency and prevent them from abusing their monopoly position.[46]

In the area of utilities and public transport, the degree of government involvement is still very high and competition limited. Nonetheless, some progress has been made. Of particular importance has been the vertical disintegration of production and distribution of electricity. The electricity generating companies, which used to be under government control, have acquired an independent status, with their shares owned by the provincial authorities. The new electricity law of 1989 provides for greater price competition between these companies, and makes it easier for large industrial users ("end-users") to import electricity. No end-users currently import electricity directly, but this seems to be due exclusively to price considerations. On the other hand, generating companies import over 15 per cent of the electricity consumed in the Netherlands.[47] The extraction and processing of oil and natural gas is done by private companies, although they need a concession and must offer all their gas output designated for domestic consumption to Gasunie (for exporting gas, they need only approval of the selling price).[48] The government supervises major policy decisions concerning tariffs, as well as minimum selling prices of producers and Gasunie. Public transport is largely under the control of the central government, which finances a substantial proportion of the budgets of the national railway system, and of local and city transport companies.[49] The Government has recently decided on a major overhaul of public transport: subsidies are to be reduced through a combination of fare increases and improved efficiency. Moreover, it has been proposed that the Dutch Railways and the regional transport companies be made more independent, allowing them to become more flexible and responsive to market signals. However, they will retain their exclusive franchises, and until free entry is allowed – for example, for bus companies – direct competition will be practically non-existent.

The regulated housing and rental sector is much larger in the Netherlands than in other OECD countries: around 76 per cent of rented dwellings are owned by public Housing Associations and Local Authorities, and 98 per cent are subject to price regulation and quantity rationing by Housing Authorities. The government regulates this sector essentially through subsidies and the setting of legal rents. The aim is to provide high quality housing at affordable prices. As legal rent increases play a large role in incomes policy, they 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, subsidies – which repay the Housing Association and other social investors the difference between actual costs and revenue from rents – have risen and now exceed 1½ per cent of GDP. This system has greatly reduced competition and has been the source of a number of problems and distortions, especially in the labour market.[50] To correct this situation and allow market forces to play a larger role in the housing market, the authorities are determined to progressively reduce these subsidies and increase legal rents.

The health sector is also heavily regulated.[51] Hospitals are either state owned or non-profit organisations. The supply of doctors and the medical profession in general is regulated by powerful organisations which restrict entry, supervise members and, after negotiations with the insurance companies, the national health fund and the government, set uniform prices. However, the ongoing reform of the health care system is expected to inject a certain degree of competition into this sector. The new system will allow for competition between insurance companies (essentially for health care insurance in addition to the basic insurance package which will be provided by the new system) as well as between health care providers (as private insurance companies and health care providers will be expected to negotiate individually and agree on bilateral contracts).

An assessment of the intensity of competition

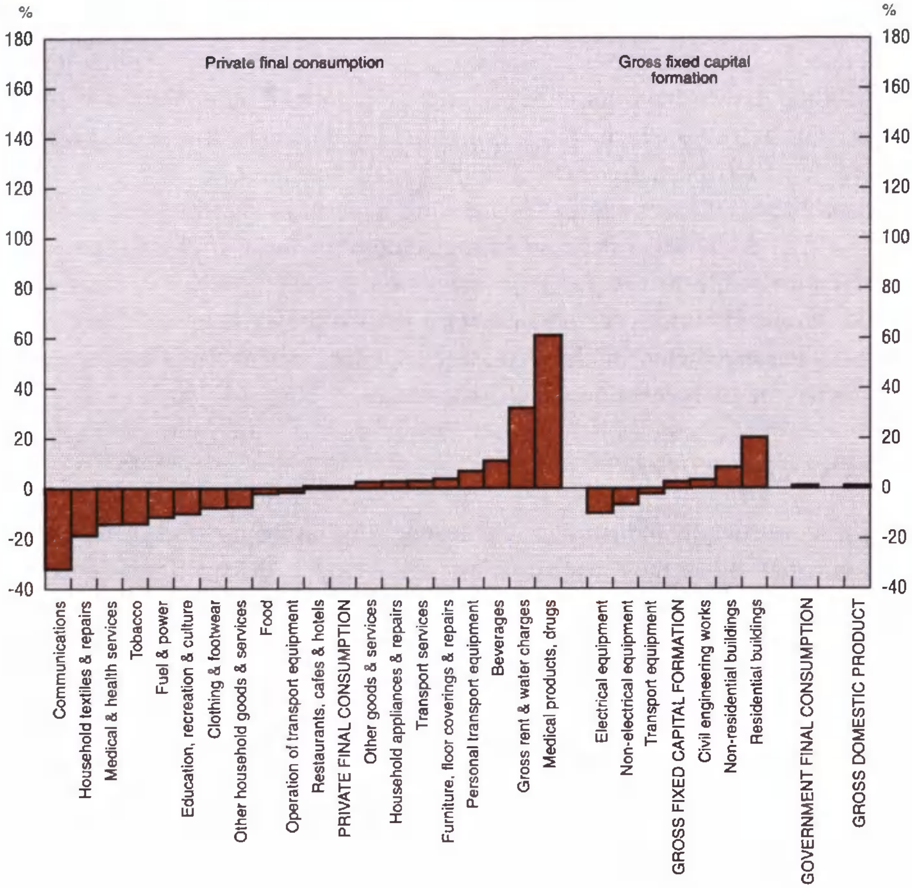
The above discussion of the legal-institutional setting suggests that a number of factors – lenient cartel legislation, a low-key competition policy and the Establishment Law – have combined to restrain competition in many commercial markets. The extent to which competition has in fact been restrained and what the economic cost has been are difficult to ascertain: not only because of the well-known problems of assessing the degree of competition and the need to rely on proxy indicators, but also because of the secrecy of the Cartel Register, which makes it impossible to test for any correlation between, say, abnormally high prices or profits in various sectors and branches and the existence of competition-restraining arrangements in these markets. Hence, the analysis below on the effective degree of competition will be tentative.

In commercial markets

The construction industry is widely regarded as being one of the sectors where competition is most restricted by cartels and collusive agreements. It is said to be insufficiently innovative and consumer oriented, and excessively focused on the short-term.[52] There is indeed some compelling evidence supporting these views. Prices are some 10-20 per cent higher than in the EC on average (Diagram 17): they are higher than in France and Belgium, but virtually the same as in Germany (Table 8). Moreover, by comparison with the EC, prices are low for civil engineering works – a subsector which is exposed to international competition and where the Netherlands has specialised, apparently gaining a comparative advantage. Salaries in the construction sector are out of line with the rest of the economy: the lowest wage scale is some 20 per cent higher than comparable wage scales in exposed sectors, such as agriculture and manufacturing;[53] and contractual labour conventions are particularly restrictive, as temporary dismissal and part-time workers from temporary work agencies are not allowed.

The weak state of competition in the construction sector has been linked to the existence of a number of cartels. In 1987, through an order in Council, the authorities prohibited the most harmful agreements in this sector. Nonetheless, a nation-wide collusive tendering cartel – to prevent price undercutting – was allowed to remain in existence and was recently found by the EC Commission on

Diagram 17. **RELATIVE PRICE LEVELS[1] IN 1990 BETWEEN THE NETHERLANDS AND THE EC**



1. Defined as the percentage difference between the price level in the Netherlands and the weighted average price level in EC countries.

Source: OECD, Purchasing Power Parities and Real Expenditures.

Table 8. **Comparative price levels in the construction sector, 1990**

EC=100

	Netherlands	Germany	France	Belgium
Construction	113	113	90	96
Residential buildings	120	126	89	104
Non-residential buildings	108	107	97	88
Civil engineering works	103	101	81	95

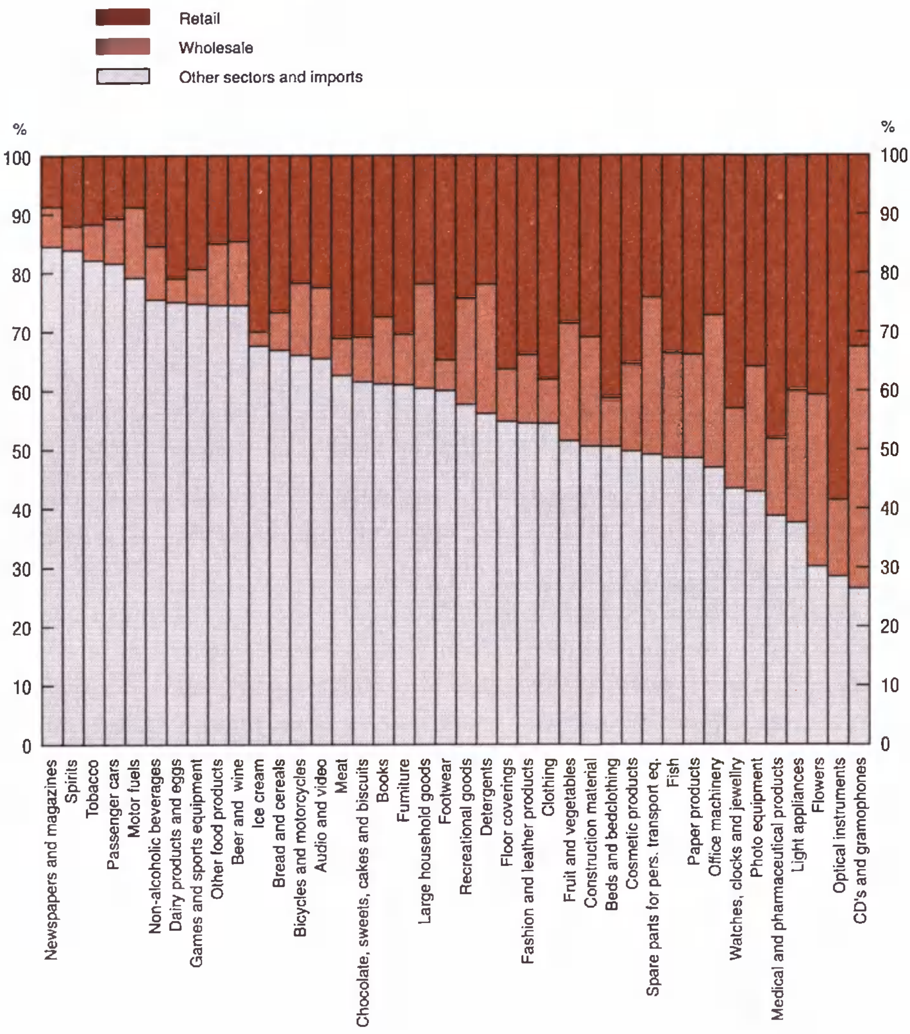
Source: OECD, *Purchasing Power Parities.*

Competition to be in conflict with EC competition law.[54] On local markets the official arrangement could be, and apparently often was, complemented by more restrictive forms of collusive tendering, with enterprises agreeing on which one would be the lowest bidder and rotating in such a way that each enterprise would "win" an agreed-upon number of contracts.

Commercial banks used to co-operate via the "*Bankiers Vereeniging*", a bankers' association which resulted in concerted behaviour with regard to, among other things, lending rates and the general elimination of interest payments on current accounts. Saving banks are restricted to certain retail activities but can, since 1984, opt to become fully-fledged universal banks after a ten-year transitional regime, during which lending activities to the business sector are restricted for prudential reasons by the Central Bank. The strict separation of banks and insurance companies was liberalised in 1990; cross-holdings between banks and insurance companies or even merger into a holding company are no longer forbidden; however, it is still required that banking and insurance activities be kept separate, but it has become easier for insurance companies to start up bank activities.

Domestic regulations and collusive agreements in banking could lose some of their significance as a result of the Single Market which has brought the threat of entry of other EC banks. So far the reaction of the Dutch commercial banks has been defensive: they have consolidated their home-market position through domestic mergers rather than expansion abroad. Two national mergers involving the largest banks and the largest insurance company have taken place recently.[55]

Diagram 18. **PRIVATE GOODS COMSUMPTION EXPENDITURE : COMPOSITION BY SUPPLYING SECTORS**



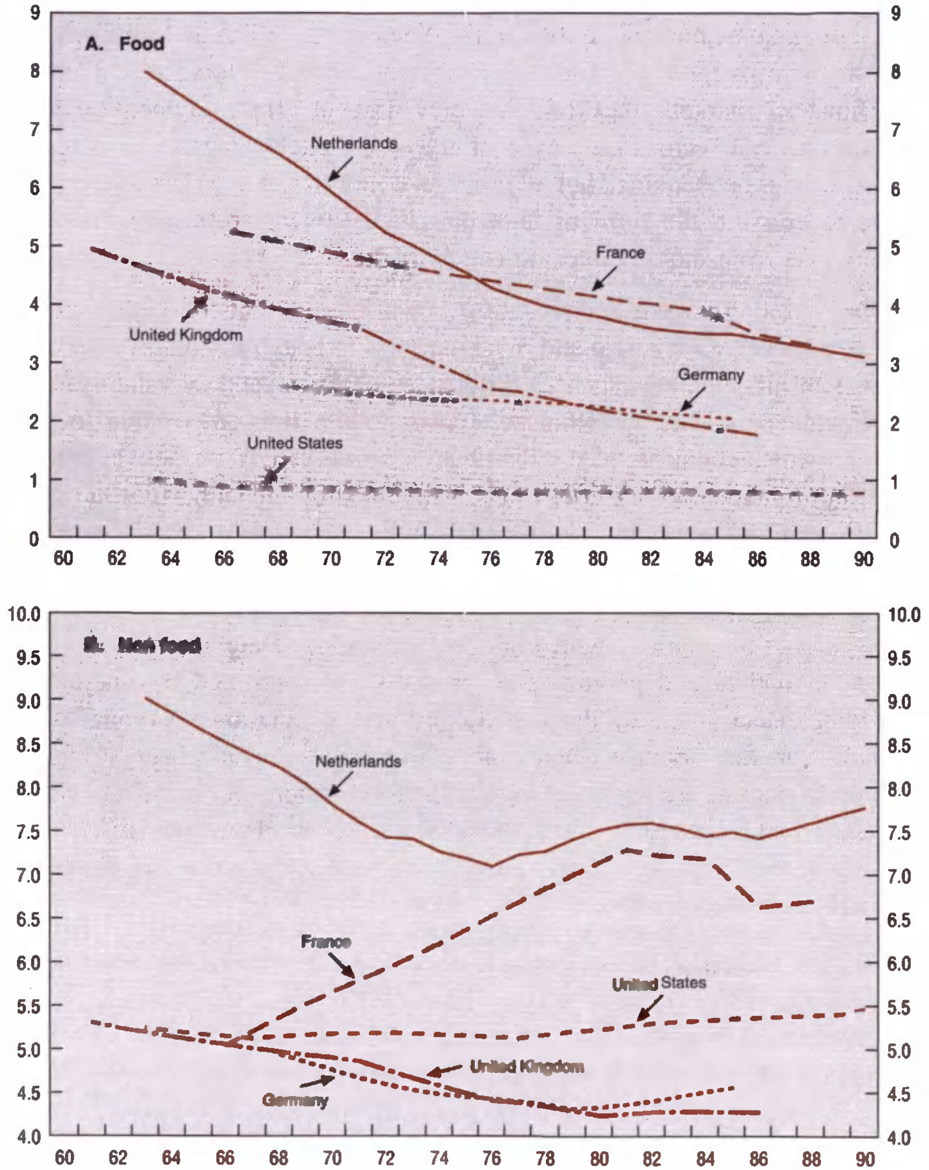
Source: Central Bureau of Statistics.

About 70 per cent of the balance sheet of all Dutch banks is now accounted for by these two financial institutions and the Rabo Bank (a large bank with a co-operative structure). Concentration in other EC-countries is also dominated by national operations, but less so than in the Netherlands.[56] The authorities did not object to these mergers because, taking into account developments in international financial markets, they felt that they did not affect competition in the domestic financial sector in a way contrary to the public interest. This may be true for wholesale banking, but it is more doubtful for retail banking where barriers to entry in the form of high initial investment costs may discourage foreign banks from moving into the Dutch market.

The overall efficiency and state of competition in the distribution sector can be proxied by gross wholesale and retail margins, although these may also reflect a number of other factors, such as differences between rents of establishments, complementary services and transport costs. While it is impossible to know exactly in which segments of the distribution sector cartels are active, from the general information on the Cartel Register divulged by the authorities, it appears that there is a high concentration of cartels in this sector.[57] Moreover, cartels are generally assumed to exist in markets for compact discs, optical goods, pharmaceuticals, photographic goods, cosmetic products, construction material and bicycles – all markets with high profit margins (Diagram 18). Excessive margins on optical and photographic products are confirmed by international price comparisons made by the Dutch consumer association.[58] Compared with Denmark – another country where competition policy has not been stringent – Dutch trade margins are relatively high in the food sector – for bread and cereals, meat, fruit and vegetables – and the clothing sector. However, margins are relatively low on passenger cars, spirits, beer, wine, tobacco, sports equipment, and audio and video products.

Another indication of low pressure of competition may be the outlet density which remains high in relation to many other OECD countries, particularly in the non-food sector (Diagram 19). Regulatory restrictions and collusive agreements have prevented the opening of large stores and structural adjustment. For the retail food market – 30-40 per cent controlled by one single retail group – zoning regulations can be an effective protection against entry of large retailers. Government policy is focused on protecting established down-town shopping areas, as a way of preventing inner-city decay, increased use of cars and related problems.

Diagram 19. **OUTLET DENSITY IN SELECTED OECD COUNTRIES**
Number of outlets per 1000 habitants



Sources: Central Chamber of Commerce, Rotterdam and OECD.

Large retail outlets outside the cities are generally forbidden by town and country planning regulations, defined by the central government in co-operation with provinces and municipalities (exceptions are allowed for furniture stores and auto dealers, for which there is insufficient space in down-town areas). Although they may address problems related to the Netherlands' high population density, these regulations largely prevent the country from benefiting from the economies of scale and scope[59] available in the distribution sector.[60] Despite these regulatory impediments, the concentration process has not fully by-passed the Dutch distribution sector. Multi-outlet firms such as franchises and common purchase organisations have flourished. The retail sector has developed a large number of small outlets which are often covered by an umbrella organisation (or even a cartel) allowing them to co-operate and benefit from economies of scale in advertising, promotion, market research, standardisation of stock format, inventories and common purchasing.

The performance of the market service sector in the period 1980 to 1987 seems to have been on the weak side when compared with other selected OECD countries. In all parts of the sheltered service sector – which covers retail and wholesale trade, restaurants and hotels, communications, finance and insurance – production and employment growth was significantly slower than in other selected EC countries (Table 9). In contrast, sectors under strong international competitive pressure, like transport and business services, were developing dynamically (public services were stagnating, reflecting budgetary spending cuts in education, health care and social services). The service sector does not seem to have higher entry and exit rates than other sectors (Table 10). Weak competitive pressure can be ascribed to a number of factors. First, the Establishment Law and zoning regulations which restrict entry of new shops, cafes and restaurants.[61] Second, professional organisations of liberal professions and insurance companies which have a strong legal self-regulatory power over their members allowing them to restrain competition. Non-binding collusive agreements apparently set uniform tariffs for notaries, lawyers, accountants, doctors, dentists, and for certain standard insurance company policies. By negotiating directly with these organisations over tariffs – notably for medical services, medical insurance policies and notarial services – the Government implicitly recognises these collusive agreements. Finally, many services, such as public transport, communica-

Table 9. **Production growth in the service sector: an international comparison**

Per cent change over 1980 – 1987

	Netherlands	France	Germany	USA	Japan	UK	Italy	Belgium
1. Wholesale and retail trade, restaurants and hotels	4.5	13.6	5.0	30.8	23.4	25.7	14.2	6.7
1.1 Wholesale and retail trade	5.2	13.5	6.0	31.9	23.4		16.7	6.7
1.2 Restaurants and hotels	–0.6	14.1	–1.7	7.5			2.4	
2. Transport, storage and communication	25.4	27.5	16.5	17.3	29.0	21.9	23.8	5.4
2.1 Transport and storage	25.3	12.0	8.1	5.1		14.0	13.2	–0.8
2.2 Communication	25.6	59.6	31.0	37.4		35.9	65.0	26.7
3. Finance, insurance, real estate and business services	22.4	27.3	24.2	28.7	42.6		26.4	34.4
3.1 Financial institutions	22.8	33.5	24.8	31.4	75.7			52.7
3.2 Insurance	1.8	–10.7	26.5	32.7				19.5
3.3 Real estate and business services	25.5	27.9	23.5	27.9				29.3
Total (1+2+3)	15.6	22.1	15.5	27.8	32.4		20.8	15.6
4. Community, social and personal services	7.9	36.3	36.0	31.6	38.4			17.6
4.1 Sanitary and similar services								
4.2 Social and related community services	10.9	51.1		32.4				
4.3 Recreational and cultural services	6.8	18.4		43.8				
4.4 Personal and household services	4.3	5.2		25.8				
5. Producers of Government services	6.3	15.4	9.0	8.6	14.0		10.9	3.5
6. Other producers	–3.3	–10.8	23.9		30.8			–7.6
Total services	11.9	21.0	18.9	24.6	30.9		18.6	12.3
Memorandum items:								
Sheltered market services (1+2+3 excl. 2.1 and 3.3)	9.2	20.4	11.2	31.7				14.9
Total GDP	8.1	13.0	9.4	20.6	28.3		13.8	7.7

Source: OECD Secretariat.

tions, hospital health care, child care, education, social services, and recreational and sporting activities are produced in the public sector with little or no competition.

Table 10. **Entry and exit rates in manufacturing: an international comparison**

Annual average percentage changes in the population of firms

		Entry rate	Exit rate
Netherlands	**(1985-1987)**	**3.5**	**2.1**
Switzerland[1]	(1985)	5.9	1.3
Italy[2]	(1984-1989)	9.8	7.8
United States	(1978-1984)	11.1	10.0
Germany	(1980-1987)	10.0	9.6
France	(1980-1982)	5.0	4.7
United Kingdom	(1979-1983)	7.0	4.7
Canada	(1980-1983)	7.0	4.7
Denmark	(1976-1977)	5.9	6.1
Memorandum items Netherlands			
Construction sector		3.0	4.0
Service sector		3.4	2.0
of which:			
Retail		2.5	3.4
Café, Restaurant, etc.		2.4	2.9
Banking		0.6	–5.2[3]
Insurance		1.8	1.1
Real Estate agents		0.8	–1.6[3]
Business services		9.1	5.5

1. Corporation only.
2. Excluding *"Enti della Púbblica Amministrazione"*.
3. Exit rates include changes in stock due to mergers and split-ups of enterprises.

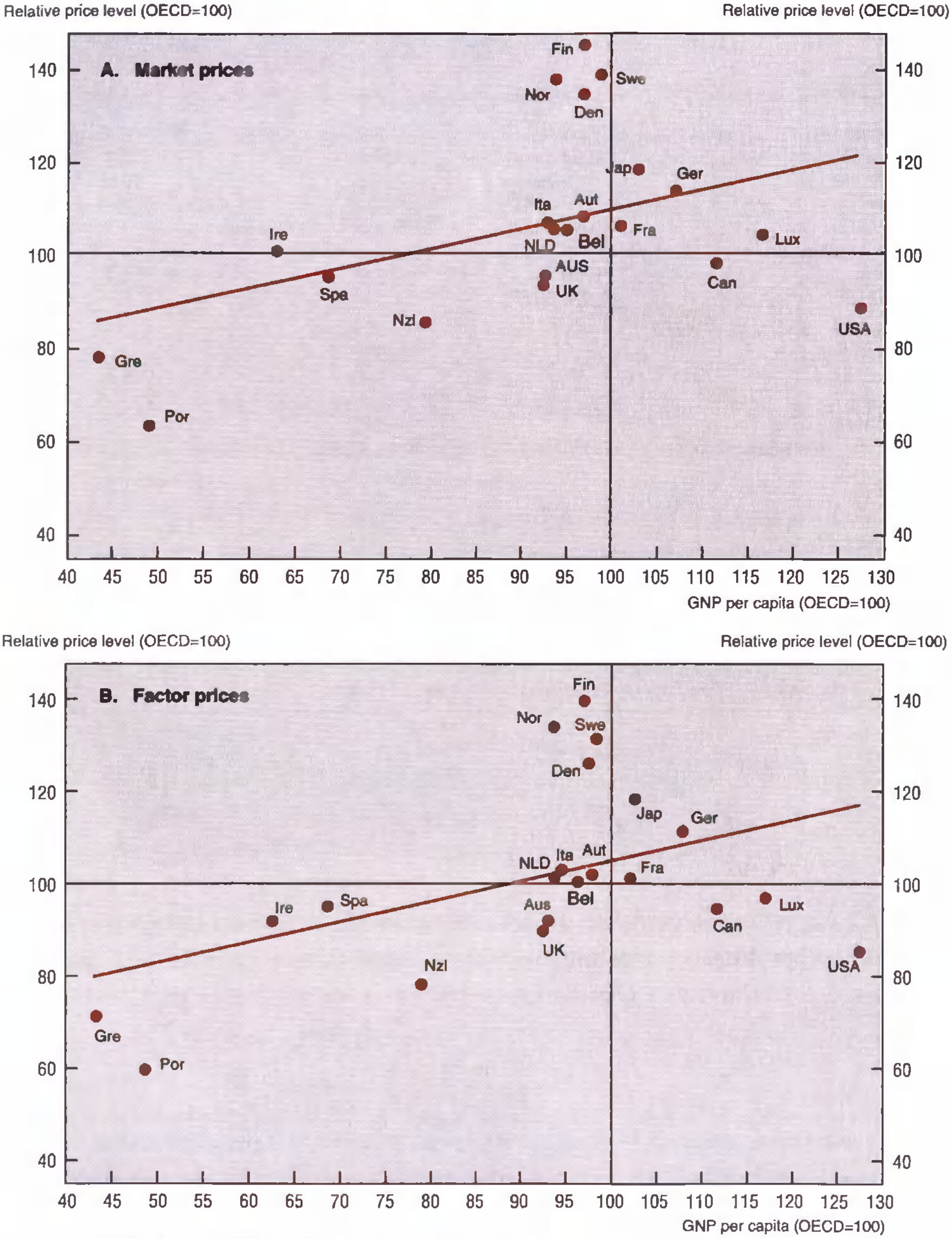
Sources: Armington, C., *"Entry and exit of firms: An international comparison"*, 1986, miméo, Brookings Institution; Institut für Arbeitsmarkt – und Berufsforschung der Bundesanstalt für Arbeit and data submitted by INPS; *Annuaire statistique de la Suisse*. Centraal Bureau voor de Statistiek, Voorburg.

The macroeconomic implications

In contrast to the evidence at the sectoral level, for the economy as a whole – unlike other European countries with a weak competition policy, such as Sweden, Switzerland and Denmark – it has been unexpectedly difficult to find evidence of major, harmful macroeconomic effects that can be linked directly to the state of competition. Not only is the price level of Gross Domestic Product Practically in line with the EC average, but it has improved considerably over the last decade or so, since in 1980 the price level was over 10 per cent above the EC average (Diagram 17). This broad-brush picture is confirmed when the analysis is extended to the entire OECD area and is refined by the introduction of per capita GNP. On this basis, Dutch prices are practically at the level that a normal

Diagram 20. **REAL INCOMES AND RELATIVE PRICES**

1990



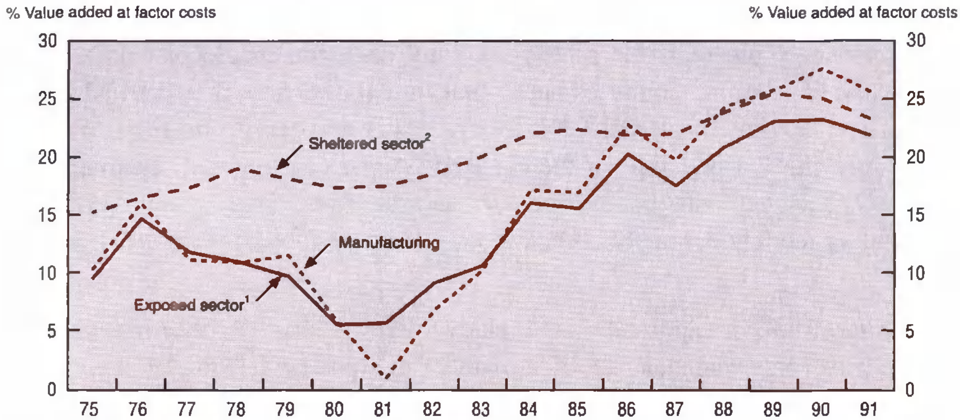
Source : OECD, *Purchasing Power Parities and Real Expenditures.*

relationship between per capita GNP and prices would indicate, while they were somewhat above this norm in 1980 (Diagram 20). At the same time, however, the performance of the real side of the economy has been mediocre, and slightly below that of other EC countries but similar to that of Denmark and Sweden: the annual rate of growth of real GDP averaged 1.9 per cent from 1980 to 1990, compared with 2.3 per cent for the EC, and 1.8 per cent for both Denmark and Sweden. This gap can be ascribed to several interrelated structural factors – including the low degree of competition – which cannot be precisely disentangled.

In terms of per capita GDP, the relative performance has been considerably worse: an average annual rate of growth of 1.3 per cent from 1980 to 1990, compared with 2.0 per cent for the EC. According to the Dutch authorities these relatively poor results have been due, at least in part, to the web of restrictive agreements, regulations and barriers to entry which have characterised many sectors of the economy. They feel that more Dutch firms should focus on the exploration of new markets, product innovation and production technology. Hence, low competition in the Netherlands may have hindered intangible aspects of economic activity, like "quality" and dynamism to a greater extent than in other countries. These harmful effects tend to be particularly insidious, since they can be difficult to detect, even over a period of several years, and when they finally become evident they reflect deep-rooted structural disfunctions which will be hard to correct. Until recently profits seemed rather high. The rate of return in the business sector rose sharply throughout the 1980s (Diagram 1), and in 1990 business saving, at over 17 per cent of GDP, was well above the EC and OECD averages. Profit shares have been consistently higher and much more stable in the sheltered sector, the difference with the exposed sector being especially pronounced in periods of slow economic growth, as in the late 1970s and early 1980s (Diagram 21).[62] This suggests that, when confronted with weak demand, firms in the sheltered sectors have been able to rely on competition-restraining arrangements to limit price adjustments and preserve profits.

Measurement problems may have hampered the detection of macroeconomic evidence of the harmful impact of weak competition. Indeed, the impact of the degree of competition on the macroeconomic performance of the Netherlands over this period is likely to have been dwarfed by other more powerful forces, both positive and negative. On the positive side, the key ingredi-

Diagram 21. **NET CAPITAL INCOME SHARE**



1. Comprises manufacturing, agriculture and transport and communication.
2. Includes construction, domestic industries (*e.g.* construction material and printing), finance and insurance, wholesale and retail trade and other market services.

Source: Centraal Planbureau.

ents in the turn-around of the economy after a period of tensions and negative growth in 1981-82, were a new-found social consensus and wage moderation. These twin factors allowed firms both to regain foreign market shares and boost profit margins, and led to a sustained investment boom and several years of very low inflation – hence the realignment of the overall price level with the EC average. On the negative side, the relatively mediocre growth performance and, in particular, the poor results in terms of per capita GDP are to be ascribed primarily to problems in the labour market and the low participation rate, factors which have reflected a variety of complex and often interacting factors. Insufficient incentives to work and a lack of appropriate skills and qualifications seem to have played a major role, although the state of competition has undoubtedly contributed to these unsatisfactory outcomes. Government regulations in the housing market and related subsidies have hindered the mobility of labour; and inadequate competition between firms has restrained output and reduced the demand for labour.

The openness of the Dutch economy – actual and potential – certainly provides a powerful check on abuses of market power, though only to the extent that foreign producers do not join the domestic cartels. Actual imports of goods, at over 45 per cent of GDP, are among the highest in the OECD area, and considerably above those of Switzerland (31 per cent), Denmark (25 per cent) and Sweden (24 per cent) – countries where a seemingly low level of competition has been accompanied by a relatively high price level. Moreover, as a result of several factors, the threat of potential imports is particularly strong in the Netherlands. While the domestic market is not especially large in terms of population and purchasing power, it is nonetheless one of the most important of the smaller OECD countries, and well ahead of those of Sweden and Switzerland. Moreover, it is not segmented by geographical, linguistic or sociological differences, and it is highly accessible in terms of location and communications. As selling and transaction costs do not represent a major hurdle, foreign firms can be expected to compete, rather than co-operate with domestic producers and traders; and unjustified high prices in the Dutch market can easily trigger additional

Table 11. **Concentration in manufacturing: an international comparison**

	Distribution of employment in manufacturing by enterprise size [1]			
	Number of persons engaged	20 to 99	100 to 499	More than 500
	Percentage shares			
Netherlands	**(1991)**	**34.0**[3]	**29.0**	**37.0**
France	(1987)	23.6	26.4	50.0
Germany	(1987)	14.6	24.8	60.1
Italy	(1987)	33.7	28.5	37.7
Spain	(1985)	33.8	35.4	30.8
Sweden	(1991)	18.7	25.7	55.6
Switzerland	(1985)	41.2[2]	28.2	30.6
United Kingdom	(1982)	19.1[2]	34.4	46.5
Memorandum item				
Netherlands	(1968)	24.1[3]	24.3	51.6
	(1976)	26.9[3]	29.1	44.0
	(1984)	30.3[3]	26.7	43.2

1. Only enterprises with more than 20 persons engaged are included.
2. 1-99 persons engaged.
3. 10-99 persons engaged.
Sources: *EUROSTAT, Structure and activity of industry*, Luxembourg, 1990, Swedish Ministry of Finance and Italian Ministry of Industry. For The Netherlands, *CBS, Statistical Yearbook*, 1992.

imports and bring in new foreign entrants, as indeed has happened in a number of cases.[63]

Finally, the considerable degree of protection of Dutch firms with respect to mergers and acquisitions – especially in the case of foreign hostile take-overs – may have contributed to keeping the level of industrial concentration rather low by international standards (Table 11). Manufacturing employment is less concentrated in large enterprises than in most other European countries and notably Sweden – although not Switzerland. Moreover, according to one criterion (Table 12), the number of very large industrial corporations in relation to GDP is about average, and well below that of Sweden and Switzerland.

In sum, there are signs in selected markets and in some macroeconomic indicators that the lax attitude towards competition in the Netherlands has not been altogether benign. Reforms being undertaken by the Dutch authorities and the coming into full force of the Single European Market Programme should contribute to more dynamic economic performance in the future.

Table 12. **The world's 500 largest industrial corporations by country**

Country	Number of firms	GDP US $ billion	Number of firms per GDP trillion
Sweden	17	144.6	118
Finland	8	82.2	97
Switzerland	11	142.1	77
South Korea	11	213.0	52
Japan	111	2 179.9	51
United Kingdom	44	911.8	48
Netherlands	**8**	**234.8**	**34**
Australia	9	271.7	33
France	30	980.4	31
United States	164	5 392.2	30
Germany	30	1 151.6	26
Canada	12	510.5	24
Italy	7	919.7	8

1. GDP at current prices and current PPPs in 1990. For South Korea actual exchange rates are used.
Sources: *FORTUNE International*, July 29 1991, DRI and OECD.

IV. Conclusions

Like most other European economies, the Dutch economy has entered into a downturn. But in the Netherlands, this cyclical episode is likely to be relatively mild, in part because of the absence of many of the imbalances that typically characterise the end of a period of expansion. Inflation did increase in 1991, but largely as a result of fiscal measures to correct structural problems: although wage growth has accelerated there has been no wage-price spiral, and price inflation has already decelerated. Stockbuilding has not played a major role; and the financial position of the private sector has remained generally healthy, with little or no need for a major balance-sheet restructuring, although the recent erosion of profitability, especially in the exposed sector, is viewed with concern. Labour-market conditions have reacted with a considerable lag to the slowdown. Total employment continued to grow in 1992, and the unemployment rate declined further, but these two long-term trends reversed during the year, reflecting labour shedding.

The outlook is nonetheless mediocre. Economic growth is likely to decelerate further this year, before picking up in 1994; inflation should fall markedly,but unemployment is expected to increase both this year and next. This evolution of the economy would owe much to that of gross fixed investment. The healthy financial position of households and social security benefits should underpin consumption growth, even in the face of rising unemployment, thereby providing support for the economy in coming months and then contributing to its rebound. On the other hand, owing to fiscal consolidation, no demand support may come from the public sector. Despite the projected acceleration in export market growth in 1994, the contribution of the foreign balance to growth may decline slightly, as the recent effective appreciation of the guilder has eroded international competitiveness. In all, GDP growth may decline to less than 1 per cent this year, but rebound to around 2 per cent in 1994, in line with the international recovery. However, these projections are highly dependent on external developments, and risks would seem particularly high. The stimulus that the large, projected decrease in interest rates may provide is difficult to assess; and, most importantly, the outlook in neighbouring countries, and especially in Germany, which has recently taken a turn for the worse, is very uncertain.

Economic policy has not much room for manœuvre to stimulate economic activity in the short term. Given the guilder's firm link with the Deutschemark, and interest differentials *vis-à-vis* Germany close to zero, the decline in interest rates will be closely in line with that of German rates. A steeper fall would in any event not seem to be called for because of the need to secure expectations of further progress in the process of disinflation. The options for fiscal policy would seem equally limited. The target for the reduction of the central government deficit was reached in 1992, and new measures have been taken to ensure that it is reached again this year. Nonetheless, allowing for incidental factors, the general government deficit merely stabilised in 1992 and, according to official estimates, in the absence of additional measures, it may remain broadly unchanged again this year. Fiscal consolidation needs to be continued, as indeed is the Government's intention. In view of the progress achieved, however, this may not necessarily imply a full offset of the "automatic stabilisers". The authorities have been less successful with respect to their objective for the collective burden which is among the highest in OECD countries: in 1991 and 1992, it exceeded the ceiling set by the 1989 Coalition Agreement by half a per cent of Net National Income and may do so again this year. It should be brought back within the ceiling as soon as possible. According to the Maastricht criteria, the debt/GDP ratio should at least be set on a sufficiently downward trend in coming years, reaching the reference level of 60 per cent at a satisfactory pace. In this respect, when evaluating the high Dutch debt figure, explicit consideration should be given to the fact that future public pension payments are covered by significant accumulated financial assets (representing 30 per cent of GDP). Nevertheless, the reduction of the debt/GDP ratio which is called for would require further cuts in the budget deficit, for even if the central government deficit were to reach the reference level fixed by the Dutch authorities for 1994 (broadly equivalent to the Maastricht target for the general government deficit), the debt/GDP ratio would decline only very slowly. Hence, fiscal consolidation should be pursued beyond 1994, and to be consistent with the objective of lowering the collective burden and increasing incentives to work, the focus should be on expenditure cuts.

This relative immobility of macroeconomic policy can be seen as the cost of the inability to make sufficient progress in reducing the budget deficit and collective burden during the expansion of the second half of the 1980s. There are substantial benefits in persevering with the medium-term strategy, which aims at simultaneously reducing the government deficit and debt, improving the quality of public expenditure, reducing the collective burden, containing wage cost developments, and improving the functioning of the labour market. A sound budget position is essential to preserve consumer and business confidence. Moreover, a consistent and credible anti-inflationary monetary policy based on the close link of the guilder with the Deutschemark has enabled the Netherlands to benefit from the lowest interest rates possible in the long term – as confirmed by events during the recent EMS crisis when the guilder-DM parity was never questioned by the market and long-term interest differentials with Germany remained by far the smallest of all EMS countries.

In this difficult environment, the authorities regard wage moderation as essential to increasing employment, reducing the dependency ratio and generally improving the performance of the economy. Wage moderation was quite successful in the mid-1980s, and is indeed desirable, especially for a small, open economy. The acceleration in inflation during 1991 was largely due to increases in indirect taxes and user fees required to correct structural budget imbalances and reduce subsidies, but it was followed by a pick up in the growth of wages, which raised fears of a price-wage spiral. The new central agreement on wage moderation, combined with the slowdown of the economy, the appreciation of the guilder and the VAT-rate cut in October 1992, has allayed such fears and should secure the ongoing process of disinflation. It can also be expected to stop the erosion of profitability, improve international competitiveness and, eventually, by boosting net exports, support employment. However, in the short term, wage moderation may weaken domestic demand. More importantly, it cannot be a substitute for more fundamental measures to improve the incentive balance between working and not working, and the functioning of the labour market.

Improved macroeconomic performance and productivity growth will depend, more than in the past, on progress on the structural front, where ample scope for reform remains. While the economy is basically healthy, underemployment – covering both unemployed people and a rising number of disabled – represents a major structural problem. Its direct budgetary burden and general economic cost make it very hard, if not impossible, to achieve simultaneously the multiple goals of the Government. A major cause of underemployment seems to be an insufficient incentive to work, as a result of the generosity and lax implementation of the welfare system, as well as the high effective marginal tax rates implicit in income-dependent subsidies.

Important policy steps have recently been taken in the direction of redressing the incentive balance, and reducing expenditure on social welfare. Fiscal measures have reduced the tax burden on wages, especially at the lower-wage end of the labour market, and widened the gap between the income position of active and non-active people. The linkage between the growth of contractual wages in the private sector and social security benefits will not be applied in 1993 and benefits will be frozen in nominal terms. Moreover, over the summer of 1991, the Government announced a major package of measures to tackle the problem of disability and alter other aspects of the system of social protection. Some of these measures were implemented in March 1992, and may be one of the reasons why the number of disabled has grown less than expected in recent months. Another part of the package was approved by Parliament with some delay and in a revised form, and will be implemented only on 1 July 1993. The main difference between it and the original proposal is that the level of benefits for people already in the disability scheme will not be reduced, while for new claimants the reduction in benefit levels will be more severe. On balance, these reforms, may not be sufficient to actually reduce the number of disability beneficiaries, which is still increasing and now exceeds 800 000 in full-time equivalents, nearly 15 per cent of the work force. Spending on disability represents some 6½ per cent of GDP, compared with 2¼ per cent for the EC on average – a difference unjustified by any objective criteria.

Given the problem of low participation, more needs to be done. As the scope for redressing the incentive balance through tax reduction is limited by the necessity of pursuing fiscal consolidation, the focus has to be on welfare expenditure. What is required is not to abandon the aspiration of the Dutch people to promote a tolerant, caring and supportive society, but rather, to inject more market discipline into the system, reduce abuses, and make implementation consistent with the intention of the legislation. These changes should be complemented by "active" measures aimed at enabling disabled and unemployed persons to re-enter the workforce and, more generally, the correction of mismatches in the labour market. Here too, recent initiatives, such as the "route placement" strategy, the reorganisation of the Public Employment Service and the Youth Work Guarantee Plan have, on balance, been steps in the right direction, but it is too early to assess their effectiveness. Direct job creation in the sheltered workshops should aim more at increasing their members' incentives for re-entry into the regular labour force. Hence, for a few years, some of the savings from tightening the disability scheme could be absorbed into additional expenditure on active measures.

Competition is another structural area where conditions are unsatisfactory and seem to have hindered economic performance, at least in some sectors. The legal-institutional setting is particularly favourable for restrictive agreements and until recently competition policy was not very active. Although at the macroeconomic level, methodological and measurement problems have hampered the identification and quantification of the welfare losses due to weak competition policy, there is strong microeconomic evidence of such negative effects in some of the sectors reviewed here. The price level of gross domestic product is now virtually in line with the EC and OECD averages, after being significantly above in 1980. Profits are not abnormally high by international standards. On the other hand, the growth performance has been slightly below the EC average and particularly mediocre in terms of per capita GDP. Abuse of market power has apparently been checked by the exceptional degree of openness of the economy – actual and potential – which may explain why the measured macroeconomic effects do not seem to have been as important as in some other European countries with similar legislation and degree of cartellisation, such as Sweden and Switzerland. Nonetheless, with a more satisfactory level of competition, the macroeconomic performance would no doubt have been better.

The strongest evidence of low competition is to be found in the sheltered sector of the economy, where profits have been consistently higher and more stable than in the exposed sector. In the construction industry prices are, on average, significantly higher than the EC average, and wages are sharply higher than in the rest of the economy. Outlet density remains high, particularly in the non-food area. Although difficult to quantify, the degree of competition seems particularly low in many liberal professions. Blatant cases of restricted competition exist not only in the private sector, but also in the public sector and in markets controlled by the government. While in the field of public transport, utilities, telecommunications and health care, conditions are broadly similar to those in many other European countries, the regulated housing and rental sector is the largest in the OECD area.

The determination of the authorities to introduce more stringent legislation and step up the implementation of competition policy is welcome, since these moves can be expected to invigorate market forces and increase the responsiveness of the economy. It will also bring Dutch practice more into line with policy at the European Community level and the approaches followed more generally in OECD countries, thereby reducing the scope for friction as economic integration proceeds. Horizontal price agreements, market-sharing agreements and collusive tendering will all be prohibited, and the Establishment Law – governing the licensing of small and medium-sized enterprises – will be updated and liberalised. But the transition from the Dutch system organised around the abuse principle and based on compromise and consensus to a prohibition system in the private sector will be a slow and progressive one. Moreover, while these changes are steps in the right direction, they may not be sufficient. Competition policy should be moved further in the direction of that of the majority of OECD Member countries, in which mergers and acquisitions are controlled. Further, an independent competition agency should be established. The Dutch authorities are indeed considering these moves, but think it is unclear whether they are appropriate for a small, very open economy. Finally, the introduction of market forces in the public sector should be accelerated. The authorities should reduce their holdings in recently incorporated public companies, phase out subsidies and controls in the housing market as soon as possible, and seek opportunities for privatisation and deregulation in markets which are not natural monopolies, most notably in the fields of utilities, health care and public transport..

In conclusion, partly as a result of the prudent, medium-term orientation of economic policy, the current downturn is expected to be relatively mild, and the performance of the Dutch economy should remain broadly similar to, or even better than, that of most other European countries. However, in view of the difficult international environment, the absence of any significant room for manœuvre in the budgetary field without jeopardising the medium-term strategy

– even with the complement of wage moderation – and the difficulties of simultaneously achieving multiple policy goals, the authorities should focus on correcting structural imbalances in the field of competition and particularly in the labour market. The welfare system is central to the problem of non-employment: its overhaul, including a major tightening of the disability scheme, supported by appropriate measures to ensure the re-entry of inactive people into the labour force, is the key to reconciling different policy goals and increasing the non-inflationary growth rate of the economy.

Notes and references

1. The Dutch investment/GDP ratio was 14.3 per cent in 1990, compared with an EC average of 13.5 per cent and an OECD average of 14.4 per cent.
2. Excluding mining and housing services.
3. Over the past few years, however, wage growth has accelerated markedly (see below).
4. The average annual rate of growth of employment from 1983 to 1990 was 1.4 per cent, compared with an EC average of 0.8 per cent.
5. Unemployment as a percentage of the labour force, Dutch definition. The standardised rate declined to 7 per cent in 1991, compared with an OECD average of 6.8 per cent, and an EC average of 8.7 per cent.
6. Including employment and broad unemployment.
7. See OECD, *Economic Surveys, Netherlands, 1991/1992,* pp. 63-64.
8. Measured by the private consumption deflator, inflation was 3.2 per cent in 1992.
9. OECD definition.
10. In the recent period, there has been an increase in the gap between the current-account surplus on a transaction basis and on a cash basis – the former exceeding the latter by some Gld 10 billion in 1991. The Dutch authorities are looking into the question. A preliminary finding is that imports on a transactions basis have been somewhat underestimated. The figures in the text are on a transactions basis.
11. In 1992, the Dutch Central Bank sold one quarter of the gold in its reserves – 400 tonnes worth more than $ 4 billion. The sale reduced gold to 40 per cent of the Central Bank's total reserves.
12. The share of taxes, social security contributions and part of gas revenues in Net National Income.
13. From end-May to late February 1993.
14. In the event, the collective burden turned out to be 52.2 per cent in 1990.
15. Such as delaying defence purchases, advancing certain social security payments to the 1992 Budget from the 1993 Budget, and other incidental measures.
16. More precisely, it was agreed to postpone wage negotiations until March 1993.

17. The average annual rate of growth of compensation per employee was 1.4 per cent in 1983-89, compared with 6.1 per cent for the EC; for unit labour costs, the growth rates were 0.1 and 4.0 per cent respectively.

18. This section draws heavily on OECD (1993), *The Labour Market in the Netherlands.*

19. According to Central Planning Bureau calculations, this, combined with fiscal measures aimed at reducing the tax burden on labour, should lead to an increase in employment of 5 000 persons in the short term and 15 000-20 000 persons in the longer term (or 0.3 per cent of the labour force).

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

21. For a discussion of the 1991 measures and the problem of disability in general see OECD, *Economic Surveys, Netherlands, 1991/1992,* pp. 59-71.

22. It included a *bonus-malus* system, a wage-cost subsidy, an increased budget for the Joint Medical Service for the re-education of the disabled, and other measures combined in the bill "Push back the volume of disability" (TAV).

23. The Government has thus dropped the Midterm plan to reduce the number of disabled to the 1989 level (845 000) by 1994.

24. It will be collected by the Government and transferred, according to a risk adjusted formula, to private insurance companies.

25. See Part III.

26. The work and publications of the OECD Committee on Competition Law and Policy are also relevant for this chapter.

27. The relatively lenient character of Dutch competition policy and legislation is illustrated by the fact that in the period 1970-90, of all Article 85 judicials by the EC rejecting nation-wide cartels, around 40 per cent concerned the Netherlands. See H.W. de Jong, "Nederland: het kartelparadijs van Europa?", *Economisch Statistische Berichten,* Vol. 75, No. 3749, pp. 244-248, March 1990.

28. Except in the case of resale price maintenance and collusive tendering in the construction sector.

29. During the 12 months from mid-1991 to mid-1992, the Ministry of Economic Affairs received 48 complaints, related to the following aspects of competition: suspicion of unfair competition (19 per cent); various forms of price discrimination (19 per cent); refusal to supply (17 per cent); and horizontal and vertical price agreements (15 per cent). During this period, the Ministry dealt with 69 complaints: for 23 per cent of these cases, the complaints proved to be unfounded or the plaintiffs withdrew them; 25 per cent of the complaints were resolved by mediation between the parties; 52 per cent of complaints resulted in the adaptation or abolition of the competition agreement to which they related, or were found by the Ministry to relate to an agreement which was not in conflict with the public interest.

30. In the Netherlands, private parties have no active role in the enforcement of competition laws but may complain to the Department of Economic Affairs which may start an investigation.

31. For instance, the major Dutch consumer organisation (Consumentenbond) requested the EC Commission on Competition to investigate the possible negative consequences for consumers

in the Netherlands of the 1990 merger between the Dutch bank NMB-Postbankgroup and the Dutch insurance company Nationale Nederlanden. For a merger involving financial companies to fall under the EC jurisdiction, however, each of the companies concerned cannot have more than a certain proportion of its aggregate community assets (in the case of a bank) or gross premiums (in the case of an insurance company) within one and the same member country. Since in the case under consideration the two companies had assets and premiums in the Netherlands exceeding these proportions, the EC declared that the case did not fall under its jurisdiction, and it had to be dealt with by the Dutch competition authorities.

32. The enforcement of competition policy has been based mainly on provisions concerning specific restrictive agreements which are contrary to the public interest (article 19 of the Economic Competition Act) and provisions concerning the abuse of a dominant market position (article 24). Investigations can be started by the Economic Competition Department of the Ministry of Economic Affairs, but no measures can be taken without an opinion from the Economic Competition Commission. Furthermore, restrictive agreements of a specific type or nature can be prohibited, as if it were a block-prohibition. The State Council advises the Cabinet on the judicial implications of Orders in Council. The Chamber of Competition Affairs deals with appeals against decisions by the Minister of Economic Affairs concerning the prohibition of a restrictive agreement or the abuse of a dominant market position. Actions by the authorities can lead to nullification of restrictive agreements, either conditionally or unconditionally, including a ban upon similar behaviour by the economic parties committed by this decision in the future. Due to the abuse system, deterrence is hardly feasible, and competition policy has been limited to the correction of restrictive agreements and abuses of market dominance which are contrary to the public interest.

33. In the authorities' view, this shift in the focus of attention largely explains why, despite a more active competition policy, there have been few formal cases against collusive and competition-restrictive behaviour. Other factors may also have played a role: the limited resources of the authorities, especially in view of the complex and time-consuming nature of the Dutch system which, as noted, puts the onus of proof (of the abuse principle) on the Government; the possibility for cartels or firms to deal with complaints informally, and the fact that, the concept of competition not being strongly embedded in Dutch culture, many firms or consumers may still not be fully aware of their rights in this area and of the possibility of lodging a complaint.

34. Both collective resale price maintenance (RPM) – *i.e.* a horizontal agreement among upstream firms regarding downstream resale prices – and RPM for a range of individual goods were banned in 1964. A number of practices with respect to collusive tendering in the building and construction industry were banned in 1987.

35. The secrecy clause has been motivated by fears that without it companies would not be willing to notify their cartels and collusive agreements to the authorities.

36. The number of registered cartels is apparently much smaller than the sum of these restricted agreements, since a single cartel can include several restrictive agreements.

37. It does not cover the bank and insurance sector, nor fisheries and the agricultural sector. Moreover, as the government wanted to add requirements for sanitation and other standards, in 1964 the Establish Law covering hotels and catering services was introduced. Lastly, in 1971, the Establishment Law covering the retail sector was introduced, enabling the big

retailers to extend their range of products (which was not entirely possible under the restrictive requirements of the general Establishment Law).

38. Unlike professional organisations, branch organisations are open to practically all members of a given branch (*i.e.* they have few or no "requirements").

39. "Bare bids", *i.e.* bids which are not preceded by talks, are prohibited. However, the Merger Code has no legal force. If the Social and Economic Council, which is in charge of its application, feels that a company has not respected the rules, all it can do is issue a public admonition. In the Dutch system this is a reasonably strong measure, however, especially since practically all Dutch companies quoted on the Amsterdam Stock Exchange are, directly or indirectly, represented on the Council and have accepted the Code. In any case, to fend off the threat of being absorbed by other companies, and especially foreign ones, Dutch companies use a number of legal provisions that are broadly accepted by the authorities. As a result, major, unfriendly take-overs are quite rare in the Netherlands.

40. Agreements between companies or between independent professionals that imply restrictions on their freedom to determine their production or supply, production capacity, site of establishment, areas of distribution, supply sources or the division of customers or suppliers are considered to be market sharing agreements.

41. More precisely, the EC Treaty prohibits national law, without any objective justification, to impose impediments to establish on all EC citizens. Hence, a person who is allowed to establish an enterprise in any one of the other EC countries and, depending on the branch, has 3-6 years of relevant work experience, cannot be denied establishment in the Netherlands on the basis of the Dutch Establishment Law. Special directives make it possible to start a business with a licence based on branch experience instead of education.

42. According to the proposals of the Ministry of Economic Affairs, the three groups are as follows:

Group A – Branches with a low degree of complexity: would have no requirements. This group would cover 69 of the 105 branches which are already regulated or have asked for regulation (19 branches have asked for regulation in the recent past).

Group B – Branches with an average degree of complexity: would require general business or commercial knowledge. This group would cover 23 branches which are all (except 1) already regulated.

Group C – 14 branches with an above average degree of complexity: in addition to general business/commercial knowledge would also require more specific business knowledge. These 14 branches are divided into three subgroups (clusters). Each branch would be responsible for arranging its courses but a certificate would give access to all other branches in the specific subgroup (cluster).

The degree of complexity is the principal but not exclusive criterion for the determination of these groups or levels. Other criteria used by the Ministry of Economic Affairs are the level of investment required to start an enterprise, the risk of irreversible damage in the case of uncontrolled competition, and whether branch organisations stated during the consultation round that specific establishment regulations were not necessary in their branch.

43. See OECD, *Economic Surveys, Netherlands, 1991/1992*, p. 82.

44. In addition, the government has recently liquidated its holdings in Volvo-car, Vredestein (tyre manufacturing) and ROM (shipbuilding). In all, since 1985, the revenue from the sale of state holdings has exceeded Gld 5 billion and some 125 000 jobs have been transferred to the private sector.

45. State enterprises are government agencies with a significant degree of economic autonomy – but not independent legal entities like the commercial companies in which the state owns shares.

46. The Assay Department was converted into a public company owned by the trade association, which benefits from high-quality inspections at low cost.

47. In 1990, the EC banned an arrangement by the electricity generating cartel (SEP) which forced their members to abstain from importing electricity.

48. Gasunie is a joint venture by the state and two oil companies.

49. See OECD, *Economic Surveys, Netherlands, 1991/1992,* pp. 77-78.

50. See OECD, *Economic Surveys, Netherlands, 1991/1992,* pp. 74-76.

51. Health care insurance is provided by both a system of national health care funds (ZFW) and private insurance companies. Under a certain level of income one is obliged to be insured with the national health care system, with income-related premiums. Above a certain level of income one has to leave the ZFW, and be insured with a private insurance company.

52. See for example, Jacobs, *De economische kracht van de bouw.*

53. In 1991, the lowest negotiated wages represented 128 per cent of the minimum wage in construction, 107 per cent in industry, 106 per cent in agriculture, 112 per cent in finance and insurance and 102 per cent in transport.

54. In addition to forbidding the cartel, the EC Commission on Competition fined the Dutch construction enterprises Gld 51 million. The cartel has appealed the decision. The cartel worked as follows. Before submitting their final tenders, bidders met, under the chairmanship of an independent person, to discuss the details of their offers. They had to clarify their prices to each other. The lowest bidder generally won the tender. He was then awarded the exclusive right (for a period of two years) to negotiate prices and terms for the project. At this stage, the prices of all bids were increased according to a certain formula to allow for the compensation of calculation costs to be paid to the bidders not awarded the project and for a contribution to the financing of the costs of the cartel organisation. This practice was highly criticised by customers, because, among other things, they had to pay for cases in which enterprises were only tendering in order to receive the calculation allowances while they were not seriously interested in the project. The cartel organisation was not willing to abolish this rule because it gave the enterprises an incentive to co-operate with the cartel, *i.e.* it was an important device for the stability of the cartel.

55. The two largest commercial banks, ABN and AMRO, merged in 1989, forming the ABN/AMRO bank. The NMB bank merged with the Postbank which later merged with the biggest insurance company, "Nationale Nederlanden", into the ING-group.

56. Almost half the EC concentration cases reported in 1989-90 were national operations (115 cases), while cross-border operations originating from other EC countries and non-EC countries amounted to 68 and 56 cases, respectively (see *Banks under Stress,* OECD, 1992).

57. In 1986, 120 cartels were registered as being active in the distribution sector, most of them containing price agreements. In 1992, the Cartel Register contained 45 exclusive dealing agreements and 202 distribution agreements – *i.e.* selective distribution, territorial division and market divisions by customers (Table 7).

58. See *Consumentengids* nr. 5-92 and 8-91.

59. The economies of scope are gains in efficiency resulting from undertaking several different activities under a common management.

60. Tentative calculations suggest that doubling the size of the store decreases unit costs per square metre by between 20 to 30 per cent. Evidence from France suggests that average sales per employee tend to be 50 to 80 per cent higher in the largest stores than in the smallest ones. It further suggests that following the *de facto* phasing out of restrictions on large stores since the early 1980s, the productivity of smaller shops has grown somewhat faster than that of hypermarkets, as competitive pressure on the former has increased.

61. Shop opening hours are also severely restricted.

62. The sheltered sector, however, includes "semi-public" activities, such as gas and electricity, where prices are still largely set by the authorities.

63. For example, for a period of time, cartel and government price regulations resulted in imports of milk and bread from Belgium.

Annex

Calendar of main economic events

1992

January

Social security benefits and the minimum wage are increased by 1.5 per cent bringing the gross minimum wage to Gld 2133.30 per month.

The first stage of the health care finance reform is introduced. A national public health care scheme (AWBZ) will finance all pharmaceuticals, including those for people who are privately insured.

In line with the 1988 EC directive the finance Ministry requires shareholders to disclose stakes exceeding 5, 10, 25 and 66⅔ per cent.

February

The Nederlandsche Bank cuts its interest rate on special advances from 9.4 to 9.3 per cent

March

The central government's short term credit ceiling with the Nederlandsche Bank is increased by Gld½ billion to Gld 5.58 billion. The Nederlandsche Bank does not allow the government's yearly average take-up of credit to exceed one third of that figure, *i.e.* Gld 1.86 billion.

Some of the measures to reform the disability scheme (the Bill "Push-Back the Volume of Disability") are implemented. They include a "bonus-malus" system,[1] a wage subsidy for firms hiring (partially) disabled people and an increased budget for Joint Medical Services (GMD).

April

The Government starts the procedure of declaring market-sharing and collusive tendering agreements between enterprises non-binding.

May

The government's "Spring Review" (Voorjaarsnota) is submitted to Parliament. It states that the central Government's budget deficit should develop in line with the target of 4¼ per cent of NNI in 1992. The collective burden is expected to exceed the ceiling agreed in the 1989 Coalition Accord.

A new metal wage agreement, which is indicative of overall wage development, includes an immediate wage increase of 4.5 per cent and another 4.75 per cent pay rise in April 1993. Under the agreement, the Government will compensate workers for the effects of the government's new measures to reduce sickness benefits.

June

The Minister of Economic Affairs announces a liberalisation of the Establishment Law (for details see Part III).

The Parliament approves the treaty of Schengen, facilitating free movement of persons and goods in eight EC-countries: Germany, France, Italy, Spain, Portugal, Belgium, Luxembourg and the Netherlands

July

Social security benefits and minimum wages are increased by 1.4 per cent bringing the gross minimum wage to Gld 2163.20 per month.

Legal rents are raised by 5½ per cent for the second year in a row in order to curb the growth of housing subsidies.

The Nederlandsche Bank increases its rate on special advances from 9.3 to 9.5 per cent, in line with similar decisions by the Bundesbank. In response to some weakness of the guilder vis-à-vis the Deutschemark, the Nederlandsche Bank further increases the rate on special advances to 9.6 per cent later in the month.

August

The Parliament starts a parliamentary inquiry into efficiency in the implementation of the social security system, which is governed by representatives of unions and employers' organisations.

The Dutch and German Governments plan to invest more than Gld 8 billion between 1996 and 2010 in cross border rail infrastructure; 70 per cent of the cost will be borne by the Netherlands.

The Nederlandsche Bank increases the rate on special advances from 9.6 to 9.7 per cent.

September

The 1993 Budget is published and aims to achieve the Coalition Accord budget target for 1993.

The Minister of Economic Affairs agrees to the take-over of Fokker, the Dutch aeroplane manufacturer, by German DASA, the aircraft subsidiary of Mercedes Benz. DASA buys the government's 10.6 million shares and attains a majority stake of 51 per cent.

The Nederlandsche Bank reduces its discount rate from 8.5 to 8.0 per cent, the rate on advances from 9.25 to 8.75 per cent and the rate on special advances, in three steps from 9.7 to 9.0 per cent.

October

The general VAT tax rate is lowered by 1 percentage point to 17.5 per cent.

The Nederlandsche Bank reduces its discount rate from 8.0 to 7.75 per cent, the rate on advances from 8.75 to 8.5 per cent and the rate for special advances from 9.0 to 8.8 per cent.

November

The Government revises its economic forecast for 1993 downwards. To achieve the budget target of 3.75 per cent of NNI for 1993, the Government decides to make extra budget savings amounting to Gld 3 billion or 0.5 per cent of NNI.

Following Parliamentary approval, the Netherlands ratifies the Maastricht Treaty.

The Government, employers' organisations and unions agree to freeze wages until March 1993 with a broad understanding that wage moderation should be extended beyond that date if required by worsening economic conditions.

The Nederlandsche Bank reduces the rate on special advances from 8.8 to 8.7 per cent.

December

The 1993 Budget, which was revised following the deterioration of the economic situation, is approved by the Parliament.

The Nederlandsche Bank reduces the rate on advances from 8.50 to 8.25 per cent and on special advances from 8.7 to 8.6 per cent.

1993

January

The legal opening hours for shops are extended from 6:00 pm to 6:30 pm.

In order to comply with EC directives to harmonise VAT rates between EC member states, the Government re-orders the categories of goods covered by the lower and standard rate.

Excise tax on diesel is increased by Gld 0.11 a litre.

The special indirect tax on cars, additional to the VAT-rate, is replaced by a registration fee (BPM) to prevent tax evasion through cross-border shopping in other EC countries after the elimination of internal borders. The BPM-rate on cars is 45.2 per cent of the car's catalogue value, minus Gld 3394 and Gld 1278 for petrol and diesel cars respectively.

The 7 per cent government bond issue yields revenue of Gld 8.9 billion.

The usual half year's increase in social security benefits related to private wage growth does not take place. Due to increases in standard deductions in the tax system, after-tax social assistance benefit rises by 1.8 per cent.

Parliament approves a reduction in the armed forces of 44 per cent over the coming eight years.

The Nederlandsche Bank converts 400 tonnes of gold reserves, around a quarter of the total stock, into foreign interest bearing assets. The total revenue amounts to $ 4.3 billion. The dividend payments to the Central Government are expected to increase by Gld 400 million per year.

The Government introduces an "Industry Fund" to increase the supply of high risk capital for high-tech business projects. Besides the government's share of Gld 200 million, financial companies will contribute another Gld 680 million to the fund. The loans, restricted to Gld 50 million per enterprise, are meant to finance high-tech projects only on a temporary basis and should be offered at market interest rates.

The Nederlandsche Bank reduces its discount rate from 7.75 to 7.50 per cent, the rate on advances from 8.25 to 8.0 per cent and the rate for special advances from 8.6 to 8.4 per cent.

Note

1. Under the bonus malus system, if a firm employs a disabled worker for a minimum of one year, it receives a bonus worth 6 months of the relevant salary, whereas it has to pay a malus of a maximum of a half year's salary if it lays-off an employee into the disability scheme.

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STATISTICAL ANNEX

Selected background statistics

	Average 1982-91	1982	1983	1984	1985	1986	1987	1988[2]	1989	1990	1991
A. Per cent changes from previous year											
Private consumption[1]	1.9	-1.2	0.8	0.8	2.4	3.1	3.2	0.8	3.5	4.1	3.3
Gross fixed capital formation[1]	4.1	-3.9	2.2	5.4	6.6	7.8	0.8	4.5	4.9	3.6	0.1
Public[1]	-0.9	-7.1	-4.6	7.5	-3.9	-2.8	-4.2	5.7	1.8	3.5	-0.6
Residential[1]	1.6	-5.6	-0.4	4.5	-0.7	4.1	1.7	11.1	0.7	-3.6	-7.7
Business[1]	6.5	-2.0	5.6	5.4	13.0	11.8	1.4	1.7	7.4	6.6	3.1
GDP[1]	2.1	-1.4	1.4	3.2	2.6	2.0	0.8	2.6	4.7	3.9	2.2
Implicit price deflator:											
GDP	2.0	6.0	1.8	1.8	1.8	0.4	-0.5	1.2	1.2	2.6	3.0
Private consumption	1.9	5.3	2.8	2.1	2.2	0.3	-0.2	0.5	1.2	2.3	3.3
Exports of goods and services	-0.5	4.0	0.0	5.5	1.5	-15.2	-5.5	0.5	4.5	-0.5	-0.0
Imports of goods and services	-1.1	1.3	0.4	5.6	1.1	-16.0	-5.4	-0.4	4.8	-1.7	-0.0
Industrial production	2.9	-1.9	0.5	6.2	4.5	2.8	0.6	5.1	4.0	3.9	-0.9
Employment	0.6	-2.5	-1.9	-0.1	1.5	2.0	1.4	1.6	1.9	2.3	1.3
Compensation of employees	3.0	3.0	1.0	0.2	3.2	3.9	3.0	2.7	2.8	6.7	5.8
Productivity (GDP[1]/employment)	1.5	1.1	3.4	3.3	1.0	0.1	-0.6	1.0	2.7	1.5	0.9
Unit labour costs (comp. of employees/GDP[1])	0.8	4.4	-0.4	-2.9	0.6	1.9	2.2	0.0	-1.8	2.7	3.5
B. Percentage ratios											
Gross fixed capital formation as % of GDP at constant prices	19.9	18.0	18.1	18.6	19.4	20.2	20.8	21.2	21.2	21.2	20.7
Stockbuilding as % of GDP at constant prices	0.2	-0.2	0.1	0.2	0.2	-0.4	-0.1	-0.0	1.0	0.9	0.3
Foreign balance as % of GDP at constant prices	3.8	3.8	3.7	4.7	4.2	4.2	2.7	3.5	3.5	3.8	4.4
Compensation of employees as % of GDP at current prices	53.1	56.2	54.9	52.4	51.8	52.5	53.9	54.2	52.6	52.7	53.0
Direct taxes as % of household income	11.0	11.6	10.8	10.5	10.0	10.5	10.6	11.3	11.2	12.6	13.9
Social security contributions as % of household income	20.5	19.6	21.9	21.4	21.5	20.6	21.0	21.2	19.8	17.6	18.4
Household saving as % of disposable income	3.0	4.8	2.1	2.0	2.0	2.9	2.1	2.7	4.5	6.8	2.3
Unemployment as % of civilian labour force	9.0	8.8	11.2	11.2	10.0	9.2	8.7	8.7	7.9	7.1	6.7
C. Other indicator											
Current balance (billion dollars)	5.5	4.2	3.9	4.9	5.1	4.9	2.9	5.0	8.0	10.4	9.6

1. At constant 1987 prices.
2. Break in series in 1987.
Source: OECD Secretariat estimates.

Table A. **National product and expenditure**

	1982	1983	1984	1985	1986	1987[1]	1988	1989	1990	1991
	Million Gld., current prices									
Private final consumption expenditure	221 832	229 862	236 749	247 721	256 147	267 937	271 639	284 486	302 820	323 073
Government final consumption expenditure	65 120	66 582	66 392	67 664	68 552	69 784	70 200	71 764	74 682	77 905
Gross fixed capital formation	67 166	69 462	74 318	80 240	86 183	91 582	97 388	104 074	109 843	112 999
Private	56 549	59 270	63 123	69 306	75 610	80 708	85 772	92 002	97 011	99 795
Government	10 616	10 191	11 195	10 934	10 573	10 873	11 616	12 072	12 832	13 204
Increase in stocks	–1 026	564	1991	2 492	–1 782	–417	306	5 427	4 491	1 706
National expenditure	353 094	366 470	379 450	398 118	409 100	428 886	439 533	465 752	491 836	515 684
Exports of goods and services	212 600	219 765	248 562	265 545	232 522	219 255	240 251	267 673	280 983	293 875
less: Imports of goods and services	196 833	205 211	227 754	245 503	213 012	207 559	222 380	248 758	256 502	266 002
Gross domestic product in purchaser's values	368 899	381 020	400 250	418 180	428 609	440 582	457 404	484 665	516 316	543 557
less: Net indirect taxes	32 700	33 919	35 379	37 189	39 800	39 430	41 710	43 630	48 990	51 680
Net income from the rest of the world	–380	560	–500	680	–980	–1 155	–3 498	–199	–577	–890
Gross national product at factor cost	335 819	347 660	364 370	381 670	387 830	399 997	412 200	440 840	466 750	490 990
less: Depreciation and other operating provisions	37 854	39 193	41 195	42 867	43 804	48 540	51 190	54 880	58 250	61 560
Net national income at factor cost	297 926	308 473	323 182	338 783	344 027	351 458	361 006	385 963	408 500	429 433
	Million Gld., 1987 constant prices									
Private final consumption expenditure	238 237	240 146	242 169	247 986	255 760	267 937	270 196	279 620	291 077	300 544
Government final consumption expenditure	66 499	67 226	66 748	67 605	69 185	69 784	70 764	71 838	73 298	74 440
Gross fixed capital formation	69 760	71 311	75 182	80 146	86 403	91 582	95 724	100 460	104 065	104 167
Private	61 636	63 700	66 807	72 566	79 481	80 708	84 232	88 766	91 958	92 127
Government	11 882	11 327	12 167	11 693	11 365	10 873	11 491	11 694	12 106	12 039
Increase in stocks	–604	236	696	904	–1 781	–417	–186	4 830	4 210	1 350
National expenditure	373 894	378 922	384 797	396 643	409 568	428 886	436 499	456 749	472 651	480 502
Exports of goods and services	182 355	188 460	202 120	212 725	219 810	219 255	238 942	254 824	268 969	281 425
less: Imports of goods and services	167 751	174 102	182 993	195 226	201 660	207 559	223 341	238 397	250 081	259 404
Gross domestic product in purchaser's values	388 498	393 280	403 924	414 142	427 718	440 582	452 099	473 176	491 539	502 523
less: Net indirect taxes	30 050	30 759	30 320	30 109	32 050	39 430	41 070	43 780	47 800	48 560
Net income from the rest of the world	–809	219	–645	297	–1 585	–1 155	–1 170	1 420	4 390	4 170
Gross national product at factor cost	357 640	362 739	372 960	384 329	394 083	399 997	409 859	430 816	448 129	458 133

1. Break in series in 1987.
Source: CBS, *Nationale Rekeningen 1991.*

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

Million Gld., current prices

	1982	1983	1984	1985	1986	1987[1]	1988	1989	1990	1991
Agriculture, forestry and fishing	13 400	13 582	14 445	13 992	15 101	14 212	14 580	17 019	16 738	17 283
Mining and quarrying (incl.nat.gas)	24 860	26 133	29 798	33 971	22 053	13 940	10 892	11 586	13 503	16 990
Manufacturing	52 230	54 405	59 304	62 114	70 158	67 623	73 186	76 798	81 347	83 094
Construction	21 120	20 064	19 957	19 805	20 817	20 390	23 277	24 416	26 402	27 255
Electricity, gas and water (excl.nat.gas)	5 180	5 337	5 219	5 349	5 627	4 807	4 785	4 716	5 001	5 398
Transport and communication	19 760	20 305	21 475	22 710	24 570	24 172	25 206	26 163	27 128	29 366
Other private sector	129 120	137 284	143 480	144 773	150 793	163 814	168 226	177 962	187 051	198 691
less: Imputed bank service charge	–14 080	–16 145	–16 415	–16 730	–16 757	–16 544	–17 450	–18 028	–18 064	–19 935
Government	46 720	46 951	46 414	46 910	47 450	48 900	48 610	48 800	50 680	52 480
Net domestic product at factor cost	298 300	307 910	323 680	338 120	345 010	352 610	364 510	386 160	409 080	430 320
Net income from the rest of the world	–380	560	–500	680	–980	–1 150	–3 500	–200	–580	–890
National income	297 920	308 470	323 180	338 800	344 030	351 460	361 010	385 960	408 500	429 430

1. Break in series in 1987

Source: CBS, *Nationale Rekeningen 1991.*

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

Million Gld., current prices

	1983	1984	1985	1986	1987	1988	1989	1990	1991
Compensation of employees	209 810	210 150	216 850	225 220	239 480	245 730	252 710	269 710	285 290
Wages and salaries	159 850	160 550	166 100	172 870	184 840	190 430	198 620	231 360	244 780
Employers' contributions to social security	49 960	49 600	50 750	52 350	54 640	55 300	54 090	38 350	40 510
Income from property and entrepreneurship	74 830	81 100	86 380	89 620	44 950	46 190	47 210	49 870	54 100
Imputed interest of insurance and pension funds	26 080	28 630	31 080	32 790	34 050	35 570	37 390	39 500	42 830
Other incomes	48 750	52 470	55 300	56 830	10 900	10 620	9 820	10 370	11 270
Current transfers from government	109 500	109 660	108 580	109 450	114 270	117 160	120 890	134 650	142 740
Current transfers from the rest of the world	1 180	1 190	1 390	1 400	970	920	980	1 180	1 060
Income of households, etc.	400 600	407 610	421 360	434 790	453 740	466 610	486 070	523 530	553 740
less: Direct taxes on households, etc.	128 920	128 200	130 510	132 690	142 970	150 640	150 540	158 730	178 060
Disposable income	271 680	279 410	290 850	302 100	310 770	315 970	335 530	364 800	375 680
less: Current transfers to the government	2 290	2 500	2 610	2 750	700[1]	730	790	800	790
less: Current transfers to the rest of the world	2 230	2 410	2 530	2 500	2 800	2 130	2 250	2 290	2 560
less: Consumer's expenditure	229 860	236 750	247 720	256 150	267 940	271 640	284 490	302 820	323 070
Food	44 960	46 730	47 440	48 030	43 050	43 480	45 150	47 410	49 900
Clothings and footwear	18 310	18 290	19 700	21 020	16 640	16 170	16 660	18 000	18 940
Rent	26 140	27 580	28 830	30 450	32 070	33 990	36 160	38 360	38 360
Durables	28 460	28 220	29 890	32 860	41 670	41 260	–10 702	46 510	48 520
Other	111 990	115 930	121 860	123 790	134 510	136 740	197 222	152 540	167 350
Saving of households, etc.	37 300	37 750	37 990	40 700	40 030	41 470	48 000	58 890	49 260

1. As from 1987 some items (*e.g.* school and university fees and lotery tickets) have been transfered to the rubrique 'Consumer's expenditure'.

Source: CBS, *Nationale Rekeningen 1991.*

Table D. **Industrial production and productivity**

Index 1980 = 100

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
Mining and quarrying	77.86	84.13	86.22	93.65	87.80	90.84	80.70	84.41	85.64	95.36
Manufacturing industries	98.25	100.75	106.51	109.60	112.52	112.88	118.91	123.77	128.64	129.81
Basic metals	97.09	95.50	107.83	109.58	107.20	112.05	121.84	129.61	132.18	128.70
Metal products, machinery and equipment	100.08	99.17	105.09	109.18	109.73	107.27	112.73	117.82	124.09	125.36
Food, beverages and tobacco	104.50	104.42	108.00	105.00	112.00	111.91	114.89	118.48	123.55	125.91
Textiles, clothing and leather	91.50	89.08	93.58	96.00	90.48	86.96	88.32	91.52	94.40	92.24
Chemicals	100.75	117.10	126.52	134.11	141.93	147.75	156.69	164.06	168.31	170.32
Electricity, gas and water	102.75	103.58	104.83	108.82	113.54	109.27	111.45	115.98	119.07	124.43
Total industry	94.25	97.08	101.50	105.67	105.84	106.81	107.08	111.63	115.19	119.60
Manufacturing employment and productivity										
Employment[1] (end of quarter)	92.25	87.25	88.02	89.52	91.52	92.02	92.66	94.45	96.01	96.46
Output per person-year	106.50	115.48	121.00	122.43	122.94	122.67	128.33	131.05	133.98	134.58

1. Person-years.

Source: OECD, *Indicators of Industrial Activity*.

Table E. **Money and banking**

End of period

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
	Million guilders									
Money supply:										
Total primary liquidity	72 291	79 657	84 992	90 770[2]	97 212	104 148	111 312[2]	119 026	124 292[2]	129 722
Notes and coins	23 388	26 348	27 797	28 604[2]	29 771	33 287	34 613	36 001	36 473[2]	36 986
Demand deposits	48 903	53 309	57 195	62 166[2]	67 441	70 861	76 699[2]	83 025	87 819[2]	92 736
Secondary liquidity	49 731	55 431	59 371	67 158[2]	69 171	67 886[2]	82 747[2]	101 572	114 330[2]	119 939
Claims of money-creating institutions on:										
Private sector	242 877[2]	250 876	260 318	271 775[2]	292 281	301 589[2]	334 478[2]	400 240	426 293	458 574
Central government	40 841[2]	48 467	56 629	62 462[2]	65 679	58 857[2]	62 959	66 744	69 152	67 937
Local government	23 444	23 267	21 108	22 915[2]	29 532	33 199	33 353[2]	60 811	60 195	59 118
Foreign sector	4 104	5 931	6 883	9 455	13 961	16 769	23 058	22 439	24 738	25 465
	Per cent									
Interest rates[1]*:*										
Official discount	7.29	4.50	5.00	5.25	4.58	4.40	3.65	5.92	7.04	7.84
Call money (Amsterdam)	8.01	5.28	5.78	6.30	5.83	5.16	4.45	6.99	8.28	9.00
Three-month loans to local authorities	8.32	5.62	6.10	6.32	5.61	5.31	4.77	7.33	8.62	9.21
Capital market yields[1]*:*										
Government bonds	9.90	8.25	8.04	7.26	6.31	6.28	6.05	7.24	9.01	8.84
of which: Short-term	9.79	8.14	7.97	7.13	6.15	6.17	5.82	7.26	9.05	8.91
Medium-term	9.93	8.23	8.10	7.32	6.36	6.35	6.16	7.21	8.99	8.79
Privately placed public utility loans	10.45	8.81	8.56	7.79	6.79	6.96	6.83	7.56	9.15	8.90
Mortgages on dwellings	11.05	9.13	8.99	8.36	7.26	7.30	7.12	8.15	9.60	9.80

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

Source: De Nederlandsche Bank, *Annual Report 1991.*

Table F. **Merchandise trade**

US $ million

	Imports, cif						Exports, fob					
	1986	1987	1988	1989	1990	1991	1986	1987	1988	1989	1990	1991
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
EC (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	1987	1988	1989	1990	1991
Budget Indicators: General Government Accounts (%GDP)								
Current receipts	37.7	46.0	45.1	48.0	48.0	45.3	44.9	47.2
Non-interest expenditures	36.6	49.1	48.4	49.2	47.9	45.9	46.0	46.5
Primary budget balance	1.1	–3.0	–3.3	–1.2	0.1	–0.6	–1.2	0.6
Net interest (including net capital transfers)	–1.9	–1.0	–1.5	–5.3	–5.2	–4.5	–4.1	–3.3
General government budget balance	–0.8	–4.0	–4.8	–6.5	–5.1	–5.1	–5.3	–2.6
Structure of expenditure and taxation (%GDP)								
Government expenditure	35.6	50.2	52.7	53.7	52.3	50.2	50.3	51.0
Transfers	16.0	26.2	27.2	27.4	26.8	26.1	27.2	27.8
Subsidies	1.3	2.5	3.0	3.7	3.7	3.0	2.5	2.6
General expenditures :								
Education [1]	5.3	6.3	5.2	4.7	4.5	4.2	4.1	4.0
Tax receipts	41.8 [2]	45.8	44.9	48.5	48.4	46.0	45.2	47.2
Personal income tax	11.5 [2]	12.0	8.7	9.6	9.9	9.7	11.2	12.5
Corporate tax	2.8 [2]	3.0	3.1	3.7	3.5	3.3	3.4	3.5
Social security tax	15.4 [2]	17.4	19.9	20.7	20.5	18.9	16.9	17.4
Payroll tax	1.2 [2]	1.6	1.6	1.8	1.7	1.7	1.7	1.7
Consumption tax	10.8 [2]	11.6	11.5	12.6	12.5	12.0	11.9	12.0
of which: Value added tax	6.3 [2]	7.3	7.3	7.9	8.0	7.5	7.5	7.5
Other indicators								
Income tax elasticity	1.1 [3]	1.1	–0.9	1.2	2.6	0.9	2.9	4.1
Income tax as % of total tax	34.2 [2]	32.9	26.4	27.4	27.8	28.5	32.3	33.8
Net public debt as a % of GDP	30.0	24.9	43.0	52.3	55.1	57.2	58.8	58.5

	Until end of 1989	Since beginning of 1990 [6]	Since beginning of 1992
Tax rates			
Income tax			
Top rate	72%	60%	60%
Lower rate	14%	8% [4]	13%
Number of brackets	9	3	3
Average social security tax rate			
Employees	21%	26.85%	28.25%
Employers	19.95%	9.15%	9.90%
VAT rate	6% – 20%	6% – 18.5%	6% – 17.5%
Corporation tax rate	42%	40% – 35% [5]	40% – 35%

1. Break in series in 1987.
2. 1973.
3. 1974.
4. This rate is 35% including the social security tax for AOW (pensions), AWW (widows and orphans), AWBZ (health care) and AWW (disablement). Those over 65 are exempted from AOW/AWW; their total first bracket tax rate is 18% instead of 35%.
5. 40 % for the first Gld 250 000 profit and 35% over that amount.
6. Changes mainly due to the 'Oort' Reform. The change in the corporation tax rate took place in October 1988 and in the VAT rate in January 1989.

Sources: CPB, *Centraal Economische Plan 1992; Macro Economische Verkenning 1993;* OECD, *National Accounts, Revenue Statistics of OECD Member countries* and Secretariat estimates.

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

	1980	1985	1987[1]	1988	1989	1990	1991	1980	1985	1987[1]	1988	1989	1990	1991
	Share of GDP							Share of total employment						
A. Structure of output (constant prices)														
Agriculture, hunting, forestry and fishing	3.7	4.6	4.2	4.3	4.4	4.6	4.6	5.8	5.9	5.3	5.3	5.1	5.0	4.9
Mining and quarrying	6.3	5.5	3.8	3.3	3.3	3.2	3.5	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Manufacturing	19.0	19.6	19.6	19.9	19.9	19.7	19.5	20.7	19.4	18.8	18.7	18.6	18.5	18.3
of which:														
Food, beverages and tobacco	3.6	3.6	3.4	3.4	3.4	3.4	3.4	3.6	3.5	3.2	3.2	3.1	3.1	3.1
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	1.0	1.0
Wood industry	1.5	1.2	1.3	1.4	1.3	1.3	1.3	1.8	1.5	1.4	1.4	1.4	1.4	1.4
Paper industry	2.1	2.1	2.2	2.3	2.3	2.3	2.3	2.3	2.3	2.2	2.2	2.3	2.2	2.2
Chemicals and rubber industries	2.6	3.4	4.2	4.4	4.4	4.3	4.2	2.3	2.4	2.6	2.6	2.6	2.6	2.6
Metal and other products	8.0	8.3	7.7	7.7	7.8	7.8	7.7	9.0	8.5	8.5	8.2	8.1	8.2	8.0
Electricity, gas and water	2.3	2.4	2.0	2.0	1.9	1.9	1.9	1.0	1.0	0.9	0.9	0.9	0.9	0.9
Construction	7.8	6.4	5.4	5.8	5.7	5.7	5.5	9.3	7.2	7.6	7.7	7.6	7.6	7.5
Trade, restaurants and hotels	15.2	14.7	15.9	16.0	16.1	16.4	16.4	19.5	19.2	19.1	19.3	19.6	19.9	20.2
Transport, storage and communication	7.7	8.3	7.7	7.7	7.8	7.8	8.0	6.7	7.0	6.8	6.7	6.7	6.7	6.8
Other services[2]	26.5	27.6	32.0	32.0	32.2	32.2	32.4	22.8	24.2	26.0	26.2	26.6	26.9	27.3
Total business sector	84.7	85.2	87.0	87.2	87.6	87.8	88.0	85.1	84.0	84.6	85.0	85.3	85.7	86.0
Government	15.3	14.8	13.0	12.8	12.4	12.2	12.0	14.9	16.0	15.4	15.0	14.7	14.3	14.0
	Productivity growth[3]							Share of total investment[4]						
B. Economic performance (constant prices)														
Agriculture, hunting, forestry and fishing	7.2	–2.4	–5.7	5.1	7.4	8.7	2.9	5.5	5.1	4.2	4.6	4.9	5.0	5.2
Mining and quarrying	–8.8	10.2	3.5	–12.0	3.4	–8.8	11.6	24.4	27.3	26.8	24.7	23.5	24.2	24.9
Manufacturing	4.3	0.6	–0.6	3.0	3.1	0.3	1.3							
of which:														
Food, beverages and tobacco	3.9	–2.9	–0.3	0.5	4.7	3.3	2.4							
Textile and leather industries	5.3	5.1	–3.9	–1.8	0.4	2.7	0.0							
Wood industry	2.4	4.5	–0.9	1.9	–0.3	–2.7	4.0							
Paper industry	2.3	–1.6	–0.2	3.1	0.7	2.9	1.4							
Chemicals and rubber industries	5.8	6.5	2.9	6.2	2.1	–2.8	–0.3							
Metal and other products	4.6	0.1	–2.0	2.8	4.8	0.4	1.5							
Electricity, gas and water	1.4	1.1	–4.0	2.8	0.1	3.2	4.8							
Construction	4.2	0.6	–1.3	6.8	0.5	1.2	–0.4							
Trade, restaurants and hotels	0.5	4.4	–0.3	0.1	1.5	1.7	–0.8							
Transport, storage and communication	3.0	0.3	2.7	2.6	4.4	0.8	1.0							

	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
Other services[2]	0.8	1.7	0.8	–0.3	1.6	–0.1	0.3	54.7	53.9	56.8	58.4	59.9	58.9	58.1
Total business sector	2.2	2.0	–0.3	0.7	2.6	0.8	0.9	84.5	86.3	87.8	87.7	88.2	88.1	88.1
Government	–0.0	0.3	–0.8	1.5	1.5	1.8	1.4	15.5	13.7	12.2	12.3	11.8	11.9	11.9
C. Other indicators (current prices)														
R & D as % of GDP in manufacturing sector	4.9	5.1	5.3	5.6	5.6	6.0	5.7	6.4	6.6	7.1	6.9	6.5	6.1	..
Total R&D expenditure as % of total GDP	1.9	1.9	1.9	2.0	2.0	2.0	2.0	2.1	2.2	2.3	2.3	2.2	2.1	..
Government funded R&D as % of total	47.6	48.0	47.8	50.0	48.5	47.2	46.8	44.2	44.0	44.3	42.7	41.8	..	..
Breakdown of employed workforce by size of establishment[5]:														
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	81.8	81.5
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	16.3	16.6
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	1.8	1.8
Total	..	100.0	100.0	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	241.81	250.85

1. Break in series in 1987.
2. Excluding government services.
3. 1980 figures represent 1980-1984 average.
4. Mining and quarrying also includes manufacturing (including repair services), electricity, gas and water and construction; other services also include trade, restaurants and hotels and transport, storage and communication.
5. 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 1992,* and *Nationale Rekeningen, 1991;* OECD, *National Accounts* and *Main Science and Technology Indicators* and CPB direct submission.

Table I. **Labour market indicators**

	A. Evolution						
	Peak	Trough	1987	1988	1989	1990	1991
Unemployment rate[1]	1983: 12.0	1970: 1.0	8.7	8.3	7.4	6.5	5.9
Standardised unemployment rate							
Total	1984: 14.2	1971: 1.3	9.6	9.2	8.3	7.5	7.0
Male	1984: 14.6	1979: 3.6	7.2	7.1	6.3	5.4	5.3
Female	1984: 13.5	1971: 0.9	13.6	12.5	11.5	10.7	9.5
Youth[2]	1984: 25.2	1971: 1.4	14.8	13.7	12.2	11.2	10.5
Share of long term unemployment[3]	1985: 60.7	1981: 29.6	45.6	50.0	49.9	48.4	...
Registered vacancies (thousands)[4]	1980: 52.1	1982: 17.6	70.6	68.6	92.6	115.4	95.5
Average weekly paid hours of work, full-time workers[5]	1956: 49.5	1978: 41.0	39.5	39.4	39.4	39.3[13]	39.2[13]

	B. Structural or institutional characteristics						
	1970	1980	1986	1987	1988	1989	1990
Labour force (percent change)	0.6[9]	0.6[11]	1.0	0.8	0.9	0.6	1.1
Participation rate[6]:							
Total	..	53.6	51.5	51.5	51.6	51.6	51.7
Male	..	79.4	75.3	79.0	79.4	79.6	79.7
Female	..	35.5	41.3	48.9	50.6	51.0	53.0
Employment / population between 15 and 64 years	57.7	51.3	46.8	47.0	47.3	47.8	48.3
Civilian employment by sector (% change)							
Agriculture	–1.5[10]	0.3[11]	0.4	12.9	1.1	0.7	1.1
Industry	–0.7[10]	–1.8[11]	–3.3	12.1	1.2	2.6	2.4
Services	2.8[10]	1.5[11]	3.7	11.9	3.6	2.2	3.9
of which: Government	2.3[10]	0.6[11]	0.8	0.5	–0.4	–0.7	–0.5
Total	1.4[10]	0.4[11]	1.6	12.0	2.8	2.2	3.4
Civilian employment by sector (% of total)							
Agriculture	5.7[12]	4.9	4.8	4.9	4.8	4.7	4.6
Industry	34.9[12]	31.5	26.8	26.8	26.4	26.5	26.3
Services	59.4[12]	63.6	68.4	68.3	68.8	68.8	69.1
of which: Government	13.6[12]	14.4	14.4	12.9	12.5	12.2	11.7
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Part-time employment[7] (percent of total employees)	17.4	23.3	37.0	44.0	46.1	46.8	48.3
Non-wage labour cost[8]	13.6	16.4	17.1	17.0	17.0	16.4	10.1
Minimum wage as a % of average worker wage	72.8[12]	71.0	62.5	62.7	62.8	62.8	62.4

1. Official registered unemployment rate in full time equivalents.
2. People between 15 and 24 years as a percentage of the labour force of the same age group.
3. People looking for a job since one year or more as a percentage of total unemployment.
4. Based on survey data, Secretariat estimates for 1988.
5. Until 1983, only male workers in industry and since 1984, male workers in total economy.
6. Labour force as a percentage of the corresponding population aged between 15 and 64 years.
7. Employees working less than 35 hours per week.
8. Total employers'contributions as a percentage of total compensation.
9. 1970-79 average.
10. 1975-79 average.
11. 1980-1984 average.
12. 1975 figure.
13. Secretariat estimates.

Sources: CBS, *Enquete beroepsbevolking 1991, Statistical Yearbook of the Netherlands 1992, 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	1987	1988	1989	1990	1991
A. Sector size								
Sector employment[1]/total employment	2.8	3.6	3.8	3.6	3.6	3.6	3.5	3.5
Sector GDP[1]/total GDP	3.0	4.7	5.1	4.8	4.8	5.0	4.6	4.6
Funds redistributed by financial markets/GDP	..	25.9	11.7	10.5	25.6	22.2	16.8	11.5
Domestic financial assets/GDP	98.2	142.4	198.6	215.9	248.9	248.1	244.4	242.7
Stock-market capitalisation/GDP	..	18.2	38.5	34.3	37.0	47.1	37.5	40.8
B. Structure of financial flows								
Share of domestic intermediated finance in external financing of enterprises[2]	..	..	46.0	45.3	47.6	53.1	52.7	106.5
Securities issues in domestic credit flows[3]	21.7	20.1	39.1	35.1	43.8	41.4	50.1	55.0
Structure of non-financial corporate liabilities[4]:								
Equity	..	..	34.5	36.5	37.6	37.5	37.3	37.3
Short-term:								
interest bearing	..	..	7.7	7.2	7.3	7.4	7.0	8.0
non-interest bearing	..	..	28.0	25.0	24.7	25.1	24.9	23.8
Long-term:								
interest bearing	..	..	20.0	21.7	21.8	21.7	22.8	23.3
non-interest bearing	..	..	9.7	9.6	8.7	8.3	8.0	7.5
C. Internationalisation of markets								
Foreign business of the banking sector[5]:								
Assets	25.8	34.2	33.6	31.1	28.9	31.2	32.4	32.6
Liabilities	24.7	35.4	29.8	29.2	26.2	25.8	26.7	27.1
International banking networks:								
Foreign banking presence[6]	..	23	42	42	43	43	47	46
Foreign claims in % of domestic assets	25.7	33.7	30.7	25.9	24.7	26.6	27.4	26.9
Relative size of cross-border transactions in securities[7]:								
Net purchases of foreign securities by domestic residents	..	1.9	–22.0	–22.0	–26.9	–2.3	–13.8	–17.0
Net purchases of domestic securities by foreign residents	..	34.5	25.9	31.7	38.6	33.2	–6.5	11.9
D. Efficiency of markets								
Interest rate margins[8]	2.6	2.6	2.5	2.3	1.9	1.8	1.7	1.9
Banks' productivity[9]	73.8	84.0	75.0	68.7	67.6	65.6	68.4	..
Cost of commercial bank intermediation[10]	..	0.4	0.6	0.7	0.7	0.7	0.5	..

Deviation of domestic interest rates from international levels [11]:								
Three-month loans to local authorities /								
Euro-Guilder three-month deposit rate	..	..	–0.05	0.00	–0.02	–0.03	–0.02	–0.04
Money market:								
Netherlands-Germany	..	..	1.07	1.31	0.50	0.34	0.20	0.07
Netherlands-United States	..	..	–1.96	–1.83	–3.14	–1.85	0.44	3.37
Capital market:								
Netherlands-Germany	..	..	0.29	0.07	–0.16	0.22	0.15	0.26
Netherlands-United States	–7.35	–11.44	–3.28	–2.00	–2.50	–1.29	0.38	0.88

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. The non-financial sector is represented by manufacturing industries, trade corporations, transport corporations and services corporations.
5. Deposit money banks; in per cent of balance sheet.
6. Number of branches and subsidiaries.
7. 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.
8. Interest received minus interest paid divided by total assets.
9. Expenses divided by earnings of universal banks, Rabobanks and, as from 1986, the Postbank.
10. Net pre-tax earnings of universal banks, Rabobanks and, as from 1986, the Postbank in percentage of total balance sheet.
11. Differential between Euro-currency 3-month deposit rates (money market) and Government bonds (capital market); yearly averages.

Sources: De Nederlandsche Bank, *Quarterly Bulletin 1992/3*, December 1992 and *Annual Report 1991;* Central Bureau of Statistics, various publications.

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
Population																										
Total	Thousands	1990	17 085	7 718	9 967	26 620	5 141	4 986	56 420	63 232	10 140	255	3 503	57 647	123 540	382	14 951	3 379	4 241	9 859	38 959	8 559	6 796	56 473	57 411	251 523
Inhabitants per sq. km	Number	1990	2	92	327	3	119	15	103	254	77	2	50	191	327	147	366	13	13	107	77	19	165	72	235	27
Net average annual increase over previous 10 years	%	1990	1.5	0.2	0.1	1	0	0.4	0.5	0.3	0.5	1.1	0.3	0.2	0.6	0.5	0.6	0.7	0.4	0	0.4	0.3	0.6	2.4	0.2	1
Employment																										
Total civilian employment (TCE)[2]	Thousands	1990	7 850	3 412	3 726	12 572	2 638	2 457	21 732	27 946	3 677	126	1 115	21 123	62 500	189	6 268	1 472	1992	4 474	12 578	4 508	3 563	19 209	26 577	117 914
Of which: Agriculture	% of TCE		5.6	7.9	2.7	4.2	5.6	8.4	6.1	3.4	24.5	10.3	15	9	7.2	3.2	4.6	10.6	6.5	17.8	11.8	3.3	5.6	47.8	2.1	2.8
Industry	% of TCE		25.4	36.8	28.3	24.6	27.5	31	29.9	39.8	27.4	30.2	28.6	32.4	34.1	30.7	26.3	24.6	24.8	34.8	33.4	29.1	35	19.9	29	26.2
Services	% of TCE		69	55.3	69	71.2	66.9	60.6	64	56.8	48.2	59.5	56.4	58.6	58.7	66.1	69.1	64.8	68.8	47.4	54.8	67.5	59.5	32.3	68.9	70.9
Gross domestic product (GDP)																										
At current prices and current exchange rates	Bill US $	1990	294.1	157.4	192.4	570.1	129.3	137.3	1 190.8	1 488.2	66	5.9	42.5	1 090.8	2 940.4	8.7	279.1	44	105.7	59.7	491.2	228.1	224.8	108.4	975.1	5 392.2
Per capita	US $		17 215	20 391	19 303	21 418	25 150	27 527	21 105	23 536	6 505	22 907	12 131	18 921	23 801	22 895	18 676	13 020	24 924	6 085	12 609	26 652	33 085	1 896	16 985	21 449
At current prices using current PPP's[3]	Bill US $	1990	271.7	127.4	163	510.5	85.2	82.2	980.4	1 151.6	74.3	4.1	37.2	919.7	2 179.9	7.3	234.8	45.8	68	82	457.3	144.6	142.1	189.7	911.8	5 392.2
Per capita	US $		15 900	16 513	16 351	19 179	16 570	16 487	17 376	18 212	7 323	16 158	10 627	15 953	17 645	19 282	15 708	13 564	16 033	8 364	11 738	16 896	20 911	3 318	15 882	21 449
Average annual volume growth over previous 5 years	%	1990	3.1	3.1	3.2	3	1.5	3.4	2.9	3.1	1.7	2.7	4.4	3	4.6	4.3	2.7	0.4	1.6	4.6	4.5	2.1	2.8	5.9	3.2	3
Gross fixed capital formation (GFCF)	% of GDP	1990	22.9	24.3	20.3	21.4	17.7	26.3	21.2	21.2	19.7	19.4	19.1	20.2	32.2	25.3	21.5	19.8	18.8	26.4	24.6	20.7	27.1	22.7	19.2	16.1
Of which: Machinery and equipment	% of GDP		9.7	10.1	10.4	7.2	8.1	10	9.7	9.8	8.7	6.2	9.3	10	13.7	11	10.7	9.9	6.8	13.1	8.1	8.9	9.1	11.7 (87)	8.5	7.8 (89)
Residential construction	% of GDP	1990	4.8	4.6	4.3	6.8	3.7	7.1	5.2	5.6	5	4.4	4.2	5.2	6.1	5	5.1	4.8	2.8	4.5	5	5.5	17.9[9]	5.8 (87)	3.4	4.4 (89)
Average annual volume growth over previous 5 years	%	1990	2.4	4.6	9.5	5.8	0.8	4.8	5.8	5.2	2.3	2.1	4.4	4.3	9	11.7	5.1	2.7	–2.8	10.4	11.7	4.9	6	4.7	5.8	2.7
Gross saving ratio[4]	% of GDP	1990	19.7	26	21.8	17.4	18	23.1	21	25.2	13.8	16	23.4	19.3	34.6	60.9	25.4	16.1	24.1	26.6	22.1	17.3	33	22.2	15.6	14.4
General government																										
Current expenditure on goods and services	% of GDP	1990	17.3	18	14.3	19.8	25.2	21.1	18	18.4	21.2	18.8	15.7	17.3	9.1	16.3	14.8	16.7	21	16.7	15.2	27.1	13.3	19.4	19.9	18.1
Current disbursements[5]	% of GDP	1990	34.9	44.9	53.1	44	56.5	37.5	46.2	42.6	50.9	31.5	49.9 (87)	48.1	26.2	45 (86)	51.7	..	51.6	39.3	35.5 (88)	59.1	30.7	..	38.1	34.6 (89)
Current receipts	% of GDP	1990	35.1	46.7	49.5	41.6	56.1	41.2	46.5	43.4	34.7	34.9	43.7 (87)	42.1	34.6	52.9 (86)	49.5	..	56.2	37.6	36.3 (88)	63.9	34.2	..	40	31.8 (89)
Net official development assistance	Mill US $	1990	0.34	0.25	0.45	0.44	0.93	0.64	0.79	0.42	0.07	0.03	0.16	0.32	0.31	0.29	0.94	0.22	1.17	0.23	0.16	0.9	0.31	..	0.27	0.21
Indicators of living standards																										
Private consumption per capita using current PPP's[3]	US $	1990	9 441	9 154	10 119	11 323	8 639	8 602	10 482	9 841	5 298	9 824	5 886	9 866	10 122	11 017	9 241	8 475	8 174	5 278	7 326	8 748	11 933	1992	10 051	14 465
Passenger cars per 1 000 inhabitants	Number	1989	570	416	416	613	370	439	494	526	234	488 (85)	278	458	455	546	399	549	459	181	347	462	479	37	449	748
Telephones per 1 000 inhabitants	Number	1989	550 (85)	540	500 (88)	780 (88)	880 (88)	620 (85)	610 (85)	680 (88)	360 (88)	525 (83)	265 (85)	510 (88)	555 (85)	413 (85)	660 (88)	720 (88)	622 (84)	220 (88)	396 (87)	889 (83)	880 (88)	120 (88)	524 (84)	650 (84)
Television sets per 1 000 inhabitants	Number	1988	217	484 (89)	255	586	526	486	399	379	175	306	260	419	589	250	478	296	350	160	380	395	408	172	435	812
Doctors per 1 000 inhabitants	Number	1990	2.3	2.1	3.4	2.2	2.7 (87)	1.9	2.6 (89)	3 (89)	3.3 (89)	2.8 (89)	1.5 (88)	1.3 (89)	1.6 (88)	1.9 (88)	2.5	1.9 (89)	3.1	2.9	3.7 (89)	3.1 (89)	2.9 (89)	0.9	1.4 (89)	2.3
Infant mortality per 1 000 live births	Number	1990	8.2	7.8	7.9	7.2 (89)	7.5 (89)	6.1 (89)	7.2	7.5 (89)	9.1 (89)	5.9	7.6 (89)	8.5	4.6 (89)	9.9	6.9	8.3	7.9 (89)	11	7.8 (89)	5.9	7.3	6.5 (89)	7.9	9.2
Wages and prices (average annual increase over previous 5 years)																										
Wages (earnings or rates according to availability)	%	1990	5.6	5	3	4.3	6	8.2	3.7	4.2	16	..	5.6	6.1	3.7	..	1.7	8.1	8.7	..	8.2	8.2	..	..	8.5	2.6
Consumer prices	%	1990	7.9	2.2	2.1	4.5	3.9	5	3.1	1.4	17.4	20.2	3.3	5.7	1.3	1.7	0.7	9.4	6.2	11.3	6.5	6.2	2.5	53.7	5.9	4
Foreign trade																										
Exports of goods, fob*	Mill US $	1990	39 813	40 985	118 291[7]	127 334	34 988	26 583	216 157	409 620	8 014	1 589	23 796	170 330	287 358	..[8]	131 778	9 533	33 905	16 338	55 289	57 422	63 847	12 836	185 710	393 812
As % of GDP	%		13.5	26	61.5	22.3	27.1	19.4	18.2	27.5	12.2	27.1	56	15.6	9.8	..	47.2	21.7	32.1	27.4	11.3	25.2	28.4	11.8	19	7.3
Average annual increase over previous 5 years	%		11.9	19.1	17.1	7.8	15.6	14.3	16.5	17.6	11.8	14.2	18.1	16.6	10.2	..	14	10.6	11.2	23.5	18	13.7	18.4	9.9	12.9	13.1
Imports of goods, cif*	Mill US $	1990	38 907	48 914	120 330[7]	116 561	31 647	26 950	225 260	344 454	19 831	1 648	20 687	181 863	235 407	..	126 215	9 458	27 218	24 874	87 373	54 659	69 811	22 224	225 327	494 842
As % of GDP	%		13.2	31.1	62.5	20.4	24.5	19.6	18.9	23.1	30.1	28.1	48.7	16.7	8	..	45.2	21.5	25.7	41.7	17.8	24	31	20.5	23.1	9.2
Average annual increase over previous 5 years	%		11	18.6	16.5	8.8	11.8	15.3	16.8	16.9	14.1	12.7	15.7	14.8	12.6	..	14.1	9.6	11.9	26.5	24	14	17.8	14.2	15.5	7.4
Total official reserves[6]	Mill SDR's	1990	11 432	6 591	8 541[7]	12 544	7 445	6 779	25 851	47 729	2 398	307	3 672	44 232	55 179	..	12 289	2 902	10 777	10 182	36 008	12 644	20 541	4 252	25 201	50 791
As ratio of average monthly imports of goods	ratio		3.5	1.6	0.9	1.3	2.8	3	1.4	1.7	1.5	2.2	2.1	2.9	2.8	..	1.2	3.7	4.8	4.9	4.9	2.8	3.5	2.3	1.3	1.2

* 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.
10. Federal Government Statistics.

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, 1992

EMPLOYMENT OPPORTUNITIES

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The Economics Department of the OECD offers challenging and rewarding opportunities to economists interested in applied policy analysis in an international environment. The Department's concerns extend across the entire field of economic policy analysis, both macro-economic and micro-economic. Its main task is to provide, for discussion by committees of senior officials from Member countries, documents and papers dealing with current policy concerns. Within this programme of work, three major responsibilities are:

- 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 theOECD as a whole, and to a lesser extent for the non-OECD countries.

The documents prepared for these purposes, together with much of the Department's other economic work, appear in published form in the *OECD Economic Outlook, OECD Economic Surveys, OECD Economic Studies* and the Department's *Working Papers* series.

The Department maintains a world econometric model, INTERLINK, which plays an important role in the preparation of the policy analyses and twice-yearly projections. The availability of extensive cross-country data bases and good computer resources facilitates comparative empirical analysis, much of which is incorporated into the model.

The Department is made up of about 75 professional economists from a variety of backgrounds and Member countries. Most projects are carried out by small teams and last from four to eighteen months. Within the Department, ideas and points of view are widely discussed; there is a lively professional interchange, and all professional staff have the opportunity to contribute actively to the programme of work.

Skills the Economics Department is looking for:

a) Solid competence in using the tools of both micro-economic and macro-economic theory to answer policy questions. Experience indicates that this normally requires the equivalent of a PH.D. in economics or substantial relevant professional experience to compensate for a lower degree.

b) Solid knowledge of economic statistics and quantitative methods; this includes how to identify data, estimate structural relationships, apply basic techniques of time series analysis, and test hypotheses. It is essential to be able to interpret results sensibly in an economic policy context.

c) A keen interest in and knowledge of policy issues, economic developments and their political/social contexts.

d) Interest and experience in analysing questions posed by policy-makers and presenting the results to them effectively and judiciously. Thus, work experience in government agencies or policy research institutions is an advantage.

e) The ability to write clearly, effectively, and to the point. The OECD is a bilingual organisation with French and English as the official languages. Candidates must have excellent knowledge of one of these languages, and some knowledge of the other. Knowledge of other languages might also be an advantage for certain posts.

f) For some posts, expertise in a particular area may be important, but a successful candidate is expected to be able to work on a broader range of topics relevant to the work of the Department. Thus, except in rare cases, the Department does not recruit narrow specialists.

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 cultural and professional backgrounds, to supervise junior staff, and to produce work on time is important.

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The salary for recruits depends on educational and professional background. Positions carry a basic salary from FF 262 512 or FF 323 916 for Administrators (economists) and from FF 375 708 for Principal Administrators (senior economists). This may be supplemented by expatriation and/or family allowances, depending on nationality, residence and family situation. Initial appointments are for a fixed term of two to three years.

Vacancies are open to candidates from OECD Member countries. The Organisation seeks to maintain an appropriate balance between female and male staff and among nationals from Member countries.

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