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Recent Economic Developments in the Netherlands,
July-September 1964

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Recent Economic Developments in the Netherlands
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Summary

Developments in the Dutch economy during the period under review suggest that some progress is being made in bringing to an end the disequilibrium resulting from the decision in the fall of 1963 to move to a substantially higher level of wages and prices in that country.[1/] The narrowing of the trade gap during the past few months culminated in August with exports (f.o.b.) equivalent to 85 per cent of imports (c.i.f.), the level required to achieve a payments balance on current account. At the same time, the initial impulses of the wage increases upon the levels of prices and of demand appear to be working themselves out. Even though domestic demand continues to expand, the rate of price level rise--and of growth in output--seems to be slowing down. But the absence of any relaxation of tension in the labor market raises serious questions whether the attempts by the authorities to hold the line on contract wages for 1965 can realistically be expected to be successful. Output continues to be hampered by severe labor shortages--unemployment has remained at the structural minimum of about 25,000 for the past summer--but domestic output has been augmented by rapidly rising imports which have helped to slow down the pace of price advances. For the first eight months, the trade deficit was $1,020 million in 1964 compared with $684 million in 1963.

Despite rising costs, Dutch exports continue to expand. Exporters seem to have kept their prices competitive: export prices

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1/ See "Recent Economic Developments in the Netherlands: April-July 1964" dated September 9, 1964.

rose only 1 per cent in the second quarter and only 3 per cent since the end of 1963. Apparently, Dutch exporters so far have been absorbing a large part of the cost increases in labor and raw materials which have occurred during 1964.

The deterioration in the trade balance produced, for the first six months, an over-all balance of payments deficit of fl 1,082 million ($299 million) in 1964 compared with a small surplus of fl 79 million ($22 million) in 1963. However, official reserves rose substantially during the third quarter, largely reflecting capital inflows produced by the tight money policy in effect: the Netherlands Bank added $174 million to its foreign exchange holdings during the third quarter compared with a reduction of $113 million in the first half of 1964.

The capital inflows represented to a large extent the reflux of funds held abroad by the Dutch commercial banks in response to tightened credit conditions at home. Interest rates continued to climb to new highs making domestic yields increasingly attractive. At the same time, foreign investors have moved into Dutch financial markets now that yields of newly-issued Dutch fixed-interest securities at 6 per cent (compared with about 4½ per cent two years ago) have become competitive with those in neighboring countries.

Bank credit expansion continued to exceed the levels permitted by the Netherlands Bank, but the foreign-exchange inflows helped ease the stringency in Dutch financial markets. As a result, upward pressures on interest rates have relaxed slightly although the yields remain at very high levels for the Netherlands. In October, in an effort to offset

[illegible]

the inflow of liquidity and to keep rates high to discourage credit expansion, the Dutch authorities floated a fl 200 million government bond at a rate slightly above prevailing market yields: this amount is at least fl 100 million more than the Treasury will require by the year end.

Looking to the future, Dutch officials (in the Budget Memorandum and the 1965 estimates of the Central Planning Bureau) anticipate a continued need for restrictive monetary and fiscal efforts during 1965. In the official view, the foundation for a return to equilibrium (both external and domestic) has been laid; but they stress the need for wage increases to remain under control in 1965.

Surprisingly, in the light of existing labor market conditions, the estimates of the Central Planning Bureau are based on the following two alternative wage assumptions for 1965: (a) no increase in contract wages; and (b) a 2 per cent rise. Critics consider these assumptions to be rather unrealistic, and labor representatives have termed what they consider a virtual wage freeze for 1965 to be unacceptable. With continuing labor market tension, the incidence of "black" wages, which has diminished considerably during this year, may once again become more prevalent if increases in contract wages are as limited as in the official estimates.

These considerations help to explain why the Planning Bureau estimates are in terms of only 2.5 per cent rise in real GNP in 1965 compared with a 5.5 per cent growth in 1964. The wage and growth estimates are predicated on virtual balance in the current account of foreign transactions in 1965.

Output and demand continue to expand

Business activity continued to advance during the summer months, but the pace was a little slower than earlier in the year. On a year-to-year basis, industrial production was 5.8 per cent higher in May-July as compared with a growth rate of well above 8 per cent in January-April. (See Table 1.) Part of the year-to-year difference was undoubtedly due to the relatively low level of output in early 1963 because of the severe 1963 winter, but the recent slowdown may also reflect both some levelling off in the growth in demand and the limits on production expansion set by the continuing tightness of the labor market.

Table 1. Netherlands: Industrial Production, 1963-July 1964[a/]
(index numbers, 1958=100 and percentage changes)

		Index	Percentage Change from preceding year			Index	Percentage Change from preceding year
1963	Year	139	+ 4.5				
1963	Jan.	132	+ 0.8	1963	Oct.	159	+ 6.7
	Feb.	123	+ 0.8		Nov.	151	+ 3.4
	Mar.	135	+ 0.7		Dec.	144	+11.6
	Apr.	138	+10.4	1964	Jan.	144	+ 9.1
	May	145	+ 5.8		Feb.	135	+ 8.9
	June	132	+ 0.8		Mar.	147	+ 8.8
	July	140	+ 9.4		Apr.	149	+ 8.0
	Aug.	134	+ 1.5		May	142	- 2.1
	Sept.	138	+ 7.8		June	152	+15.2
					July	147	+ 5.0

a/ The industrial production index has been revised; seasonally adjusted data have not yet been released.

Source: Centraal Bureau voor de Statistiek.

Order inflows from domestic and foreign customers to industry have continued to be judged satisfactory, although they apparently have been rising somewhat more slowly than output. Consequently, order backlogs, according to a sample survey conducted by the Central Bureau of Statistics, have recently been reduced slightly.

Some indications also suggest that domestic consumption is not rising as fast as it did earlier in the year. During the last few months of 1963 and the first months of 1964 consumer demand, as measured by retail sales, jumped in response to additions to spendable income from the large wage increases. There was also a certain amount of anticipatory buying in expectation of price rises following the wage increases. But by March these special impulses appeared to have worked themselves out and retail sales, after seasonal adjustment, have since remained virtually stable (at a level about 12 per cent above the preceding year).

On the other hand, recent official statements in connection with the release of the second quarter balance of payments figures reflected concern that the restrictive monetary measures had done little or nothing so far to damp down private investment demand.

<u>Labor shortage continues</u>

Any slowdown in the growth of aggregate demand would help to relieve the pressures upon productive capacity emanating from the extreme tightness of the labor market. The adjustment process to the higher wage and price levels so far appears to have had no effect upon labor market tensions. Unemployment has remained at what are considered structural minimum levels and vacancies rose from a ratio of 4.1 for each person unemployed in the fall of 1963 to 4.6 in July-August, 1964 (See Table 2).

Table 2. Netherlands: Labor Market 1963-Aug. 1964
(in thousands, monthly averages, seasonally adjusted)

		Unemployment	Vacancies	Ratio of Vacancies to Unemployment
1963				
	I	37	115	3.1
	II	31	121	3.9
	III	30	123	4.1
	IV	28	126	4.5
1964	I	27	128	4.7
	II	28	130	4.6
	June	27	133	4.9
	July	29	133	4.6
	Aug.	29	133	4.6

Source: OECD

This further tightening of the labor market occurred despite the fact that the number of foreign workers--which at 45,000 constituted almost 1 per cent of the labor force in June 1964--had about doubled between mid-1963 and mid-1964. Efforts to bring in even more foreign labor were hampered by competition from other countries also experiencing labor shortages and by the depletion of labor reserves in Southern Europe.

Although the substantial wage increases have apparently stopped the drain of workers into Germany, it was reported that only a negligible number of the approximately 60,000 Dutchmen employed in Germany have returned to the Netherlands.

Wage and price pressures continue

Even though inflationary pressures continue to prevail in the Dutch economy, wage and price indicators are moving up somewhat more slowly (See Table 3). Hourly wage rates rose by 5.9 per cent in the second quarter of 1964, largely because of the effects of processing in April the remainder of contracts still outstanding from the agreements concluded in October 1963. This brought the increase in wage rates since October 1963 to 16.5 per cent.

In July there was a further 1.3 per cent increase in wage rates as the previously scheduled rent increase, and with it the 1.3 per cent wage compensation, became effective. During August wage rates remained stable, but in September the Government granted a lump sum representing 3.5 per cent of annual salaries to civil servants in order to bring their wage increase in line with those granted in the private sector. For the same reason, government salaries will be permanently increased by 4.2 per cent on January 1, 1965.

Price increases have slowed down somewhat since the first quarter of the year. Wholesale prices, which had risen by 2 per cent in January, were stable until June, when they rose another 2 per cent, to 9 per cent above the June 1963 level. But prices for manufactured products remained stable throughout the second quarter; most of the

Table 3. Netherlands: Selected Price and Wage Indicators, 1963-August 1964
(Index numbers, 1958=100, monthly averages and month)

	Hourly Wage Rates	Wholesale Prices	Manufactured Product Prices	Cost of Living	Export Prices	Import Prices
1963						
I	137	100	102	112	100	94
II	138	99	102	114	99	95
III	139	100	103	112	99	96
IV	140	104	105	115	99	96
1964						
I	153	106	108	116	101	99
II	162	107	109	120	102	99
Apr.	162	106	109	122	101	99
May	162	106	109	119	102	99
June	162	108	109	119	102	98
July	164	n.a.	n.a.	119	102	98
Aug.	164	n.a.	n.a.	119	n.a.	n.a.

n.a.--not available

Source: Centraal Bureau voor de Statistiek; OECD recent upward impetus of the general price level has been coming from price increases for foodstuffs. As a result, manufactured product prices up only 6 per cent between June 1963 and June 1964 have risen less than the general price index.

Export prices remained stable between May and July and were up only 4 per cent over July 1963; exporters seem to be pricing their products competitively and apparently are absorbing a large part of their wage cost increases.

Consumer prices also remained stable between May and August, but this is normally a period of some seasonal decline. The usual seasonal decreases were probably offset by the 10-12.5 per cent rent increase which became effective in July. In August consumer prices were 7 per cent above August 1963. That a good part of the additional purchasing power becoming available through the wage increases had been absorbed by price increases is seen in the fact that the consumption index published by the Central Bureau of Statistics was up 10 per cent in value but only 2.4 per cent in volume between June 1963 and June 1964.

Trade balance slightly improved

A major stabilizing influence on the domestic situation was the large increase in imports which accompanied the expansion of domestic demand. Imports for the first eight months of 1964 were 20.2 per cent, or $786 million, above the corresponding period of 1963: a large part of this rise was directly related to the industrial expansion, especially the heavier imports of raw materials and semi-finished goods. The large increase in domestic investment demand also spread to foreign suppliers and imports of producer goods rose substantially; but a considerable part of the latter increase was connected with imports for the construction of the pipeline system for the natural gas deposits now being exploited in the North of the country. Increased disposable incomes led to higher imports of consumer goods, particularly cars and textiles. But since April imports have leveled off (See Table 4).

Exports on the other hand have continued to grow steadily, indicating that Dutch goods remained competitive on world markets. There was a particularly large increase in industrial exports--21 per cent for January-June 1964 as compared with January-June 1963--while agricultural exports grew at a steady rate of 3 per cent. For the first eight months of 1964, over-all exports rose by 14.1 per cent as compared with the corresponding period of 1963.

With imports growing faster than exports, however, the January-August trade deficit increased from $684 million in 1963 to $1,020 million in 1964. But the trade gap has been narrowing since April and the percentage coverage of exports over imports rose from 77.2 per cent in April to 84.6 per cent in August. Press reports state that this improvement has continued into September.

Large balance of payments deficit in first half of 1964

With import payments continuing to outpace export receipts there was a further deterioration in the Dutch trade balance on a cash basis in the second quarter of 1964 (See Table 5). Any improvement in the trade results based on customs figures was not yet apparent in the

Table 4. Netherlands: Merchandise Trade, 1962-August 1964
(Millions of U.S. dollars, monthly averages, seasonally adjusted)

	Exports f.o.b.	Imports c.i.f.	Balance	Exports as % of Imports
1962				
III	379	452	- 73	83.8
IV	388	440	- 53	88.2
1963				
I	389	462	- 73	84.2
II	432	492	- 60	87.8
III	424	508	- 84	83.5
IV	420	537	-117	78.2
1964				
I	453	563	-110	80.5
II	478	595	-117	80.3
Apr.	468	606	-139	77.2
May	477	580	-103	82.2
June	489	599	-111	81.6
July	496	619	-123	80.1
Aug. 1/	445	526	- 81	84.6

1/ Estimated

Source: OECD

cash flows on which the balance of payments figures are based. This may in part be owing to the fact that the increase in short-term trade credits associated with the rise in imports in the first quarter may have led to heavier cash payments in the second quarter giving rise to a greater deterioration of the trade balance than reflected by the customs figures.

Compared with the first half of 1963, the trade deficit rose by fl 1,162 million ($321 million) and this deterioration was the major factor in the swing from an over-all balance of payments surplus of fl 79 million ($22 million) recorded during the first half of 1963 to the fl 1,082 million ($299 million) deficit registered in the first half of 1964.

The current account balance showed a deficit of fl 895 million ($247 million) in the first half of the year as compared with a surplus of fl 192 million ($53 million) in the preceding year. (See Table 5.)

The capital account on balance showed comparatively little change between the first half of 1963 and the first half of 1964. But there were several important shifts within the account. Private capital transactions produced a net outflow of fl 64 million during the first half of 1964, while there had been an inflow of fl 402 million in 1963. The main factor in this change was that in 1963 nonresidents had bought Dutch securities while in early 1964 they were selling them.

The capital transactions of the commercial banks resulted in a net outflow during the first quarter but an inflow of bank funds occurred in the second quarter with the tightening of conditions in the domestic money market. Official capital movements were little changed between the first half of 1963 and the corresponding period of 1964.

The over-all balance of payments deficit of fl 1,082 million ($299 million) incurred in the first six months of 1964 was reflected in a

Table 5. Netherlands: Balance of Payments, 1963 to Second Quarter 1964
(in millions of Dutch guilders)

	First half 1963	First half 1964 a/	1963 III	1963 IV	1964 I	1964 II a/
Goods and Services						
Merchandise	-528	-1,690	-267	-389	-792	-898
Investment income	59	60	229	338	195	-135
Other Services	661	735	391	430	298	437
Total	192	-895	353	379	-299	-596
Private Capital						
Transactions in domestic securities	393	-18	163	-40	-62	44
Transactions in foreign securities	-51	-20	-74	-73	-36	16
Direct investment	-137	-171	-13	-91	-139	-32
Long-term credits	15	225	-90	-26	158	67
Other	182	-80	55	-160	14	-94
Total	402	-64	41	-390	-65	1
Commerical Banks Capital						
Long-term	-57	10	8	32	-18	28
Short-term	-380	-74	79	165	-92	18
Total	-437	-64	87	197	-110	46
Official Payments						
Debt repayments	-28	-21	-1	-20	-1	-20
Other	-50	-38	64	-32	-8	-30
Total	-78	-59	63	-52	-9	-50
Surplus or Deficit (-)	79	-1,082	544	134	-483	-599
Financed by:						
Special transactions						
Debt prepayments	--	--	-253	--	--	--
Commercial banks						
Foreign exchange, net (increase-)	233	756	-247	114	261	495
Central bank						
Drawing rights on IMF (increase-)	18	-72	-18	--	-72	--
Consolidated credits (receipts-)	5	4	5	2	2	2
Gold & foreign exchange (increase-)	-355	394	-31	-250	292	102
Total			-44	-248	223	104
Total financing	-79	1,082	-544	-134	483	599

1/ Data are shown on a cash rather than a transactions basis. This affects primarily the current account balance and the commercial banks' capital flows.

a/ Preliminary

Source: Netherlands Ministry of Finance

fl 756 million ($209 million) decline in commercial banks' foreign exchange assets and a fl 394 million ($109 million) reduction in the foreign exchange holdings of the Netherlands Bank. On the other hand, the decline in official reserves was not quite so large because drawing rights on the IMF increased by fl 72 million ($20 million) over the period.

Official Reserves Rise in Third Quarter

The Netherlands Bank's holdings of foreign exchange increased appreciably during the third quarter and exceeded the losses registered during the first half of the year. The third quarter rise is estimated to have amounted to $174 million (See Table 6) and the flow of foreign currency to the Netherlands Bank is reported to have continued in October.

Three major factors are responsible for this swing from an outflow to substantial inflows into official reserves:

a) the tightening of the domestic financial markets owing to the balance of payments deficit and the restrictive measures of the monetary authorities caused commercial banks to repatriate funds from abroad;

b) the upward movement of Dutch interest rates has made investment in Dutch fixed interest securities attractive to foreigners and there have been some flows of foreign funds into Dutch 6 per cent bonds;

c) the balance of payments situation is improving relative to the first half of the year, mainly because of usual seasonal factors, but also because the trade deficit probably is no longer widening.

The official reserve accruals were reflected in a strengthening of the Dutch guilder in foreign exchange markets. The Dutch guilder rate had weakened through the first half of 1964 with the outflows of foreign exchange connected with the deterioration on the balance of payments. But demand for the guilder strengthened in July and the rate rose from 27.596 U.S. cents at the end of June to 27.786 U.S. cents on October 16 (See Table 7).

Table 6. Netherlands: Changes in Official Reserves 1962-September 1964
(in millions of U.S. dollars, end of period figures)

		Gold	Foreign Exchange	Total
Annual Change:				
1962		--	28	28
1963		20	136	156
Quarterly Change:				
1963	I	--	7	7
	II	--	88	88
	III	--	15	15
	IV	20	26	46
1964	I	--	- 66	- 66
	II	--	- 47	- 47
	III 1/	--	174	174
Monthly Change:				
1964	July	--	83	83
	Aug. 1/	--	10	10
	Sept. 1/	--	81	81

1/ Estimated

Source: International Financial Statistics; Netherlands Bank.

Table 7. Netherlands: Exchange Rate in U.S. Cents per Guilder[1/]
July 1963-October 1964

Par Value 27.624 Lower Limit 27.42 Upper Limit 27.84

Monthly Average			End of Week		
1963	July	27.755	August	7	27.680
	October	27.749		14	27.678
1964	January	27.753		21	27.678
	April	27.711		28	27.678
	May	27.681	September	4	27.692
	June	27.627		11	27.700
	July	27.657		18	27.726
	August	27.674		25	27.732
	September	27.712	October	2	27.739
				9	27.754
				16	27.786

1/ Noon buying rates.

Source: Federal Reserve Board

Interest rates remain high

The drain of liquid assets associated with the deterioration of the current account balance and the restrictive policies of the Netherlands Bank [1/] combined to produce an appreciable tightening in Dutch financial markets by midyear. Short-term rates in July approached the levels which had prevailed in 1957 when bank rate was raised to 5 per cent, and long-term rates reached all-time highs. The official call money rate in mid-July was briefly at 4 per cent while in July 1963 it had been just below 2 per cent. The three-month Treasury bill rate moved to 4.38 per cent (from 2.21 in July 1963) and the yield on nonredeemable Government bonds was up to 5.06 per cent (from 4.5 per cent in July 1963).

Since July upward pressures on the interest structure have relaxed slightly except for a brief period toward the end of September when the big corporate tax date combined with end-of-quarter requirements resulted in a seasonal tightening of the money market.

The slight relaxation of pressures in the financial markets in August and September was primarily due to continued repatriation of foreign exchange assets by the commercial banks, partly in preparation for the September tax date and partly because yields in domestic markets had become increasingly attractive. In addition technical factors helped to relax tensions slightly, especially in July when the Treasury made its

1/ Including an increase in the discount rate in June and measures to restrict commercial banks' foreign borrowing in July. For details see "Recent Economic Developments in the Netherlands: April - July 1964" dated September 9, 1964, p.14 - 15.

large quarterly payment of fl 475 million to the local authorities at the end of the month. This payment depleted the Treasury balances at the Central Bank; in fact the Treasury had to draw on its credit line with the Netherlands Bank for the first time since 1958. As a result, the commercial banks found that their balances at the Netherlands Bank were about twice the amount they were required to keep in interest-free penalty deposits because credit extensions had exceeded the permissible limites.

With the slightly easier conditions call-money rates moved down from 4 per cent in mid-July to 2 per cent at the beginning of August (See Table 8). The rate then remained stable until the end of September when money market conditions tigthened because of the tax date and call-money rates momentarily moved to 3 per cent. By October 9, the rate was down again to 2.5 per cent. Treasury bill rates also moved down and, at 3.81 per cent on October 9 yields were 47 basis points below the July high.

Capital market issues help absorb liquidity

The capital market also became somewhat easier in the third quarter when conditions eased in the money market. The high yields - for the Netherlands a six per cent rate is considered a traditional maximum - proved very attractive and issues coming to the market since July have been heavily oversubscribed. This was in contrast with the relatively unsuccessful placement of a $200 million Government issue in July, which was only 93 per cent subscribed. The European Investment Bank came to the market on August 14 with a fl 30 million 5 3/4 per cent bond priced to yield about 6 per cent, the National Investment Bank issued a fl 50 million 6 per cent loan at par, the Coal and Steel Community placed

Table 8. Netherlands: Selected Interest Rates, September 1963-October 1964
(per cent per year)

Monthly Average		Official Call Money Rate	Three Month Treasury Bill Rate	Government Bond Yield
1963	September	1.24	1.89	4.33
	December	1.56	2.25	4.77
1964	January	1.67	2.31	4.83
	April	2.42	3.00	4.71
	May	2.78	3.10	4.78
	June	2.05	3.81	4.87
	July	3.55	4.26	5.02
Week ending				
	Aug. 7	2.00	4.00	5.00
	14	2.00	3.75	5.00
	21	2.00	3.50	4.96
	28	2.00	3.63	4.95
	Sept. 4	2.00	3.63	4.90
	11	2.00	3.75	4.79
	18	2.00	3.75	4.73
	25	2.50	3.75	4.69
	Oct. 2	3.00	3.81	4.76
	9	2.50	3.81	4.81

Source: Netherlands Bank

a fl 25 million 5 3/4 per cent issue at par and the Bank for Netherlands Municipalities issued two loans totaling fl 125 million with an effective yield of 5.86 per cent and 5.49 per cent, respectively. All these loans were readily absorbed by the market. In addition there was a lively demand for mortgage bonds at the 6 per cent rate, so much so that the mortgage banks in mid-September stopped issuing 6 per cent bonds and currently are issuing bonds at lower rates.

The Netherlands Bank apparently welcomed the flotation of the issues by the European Investment Bank and the Coal and Steel Community since they might serve to neutralize some of the foreign funds attracted by the now competitive yields in the Dutch capital market. The Finance Minister, Mr. Witteveen, estimated recently that the influx of foreign funds had amounted to about fl 100 million. Early this month the authorities decided to float a fl 200 million bond issue with a 5 1/4 per cent coupon priced to yield 5.46 per cent. This was the highest yield on any state loan since the war and came at a time when market rates were easing. Thus the pricing of the issue was interpreted as an effort to keep rates high. Since the total amount of the issue was about fl 100 million in excess of Treasury cash needs up to the end of the year, it seems clear that this issue is designed to absorb liquidity arising from the capital inflows.

The Netherlands Bank has agreed with the commercial banks that the volume of credit expansion in the last four months of 1964 will be permitted to exceed the first half 1963 level by 5 per cent. This indicates that total credit expansion for 1964 permitted by the monetary authorities should amount to about 10 per cent. But banks have continually exceeded the limits set by the Netherlands Bank, and penalty deposits reached a high of fl 204 million in September. However, for the period mid-October to mid-November the total of penalty deposits to be maintained were slightly lower for the first time in six months: they were reduced from fl 204 million to fl 163 million.

Government policies for 1965

The Government assesses the current situation as one in which a basis for movement towards equilibrium has been laid. The Budget presented to Parliament in September and the estimates of the Central Planning Bureau for 1964 and 1965 - which this year are cautiously called a "reconnaissance" rather than a "Plan" - see a continuing need for a basically restrictive fiscal and monetary policy. But, given these policies, it should be possible to achieve internal and external balance by the end of 1965 provided that wage developments during the next year remain under control.

Under its assumption, the Central Planning Bureau estimates that Gross National Product in real terms will grow by 2.5 per cent in 1965 as compared with 5.5 per cent in 1964 (See Table 9). The 1965 figures provide two alternative results - one based on no change in contract wage during 1965, e.g., a wage freeze, (which still would imply a 4 per cent rise in wage rates because of wage drift, spill-over from 1964, etc.) and one based on a 2 per cent increase in contract rates (implying a total increase of 6 per cent in wage rates).

Table 9. Netherlands: Changes in Gross National Product
and Selected Components 1963-1965
(in real terms, per cent change from preceding year)

	1963	1964	1965 Estimate A	1965 Estimate B
Private consumption	7.1	6.0	0.5	1.5
Public consumption	5.5	--	3.0	3.0
Gross fixed investment				
Private	4.0	13.0	--	- 0.5
Public	3.5	15.0	2.5	2.5
Exports of goods	6.5	11.0	13.0	12.0
Imports of goods	10.1	15.5	5.5	6.0
Total GNP	3.8	5.5	2.5	2.5

Estimate A -- based on assumption that contract wage rates remain unchanged.

Estimate B -- based on assumption that contract wage rates will rise by 2 per cent.

Source: Central Planning Bureau: Macro-economische Verkenning van 1964 en 1965; Miljoenennota 1965.

The differences between the two estimates are found in the external balance, private investment and consumption, and the price level. A 2 per cent rise in contract wage rates as compared with no increase, according to the Central Planning Bureau, would produce a reduction in the growth of exports from 13 to 12 per cent, an increase in imports from 5.5 to 6 per cent, a reduction in private fixed investment from nil to minus 0.5 per cent, an increase in private consumption from 0.5 per cent to 1.5 per cent and a price increase of about 0.5 per cent. Under either assumption the current balance of foreign transactions would approach near balance.

The budget document reiterates the need for restrictive policies in order to bring demand and supply availabilities into better balance. The projected budget deficit for 1965, at fl 916 million, is below both the budgeted 1964 deficit of fl 1,628 million and the estimated 1964 outcome of fl 1,023 million. Expenditures are estimated to rise by about fl 1 billion above 1964, but revenues, because of the steep progression factor at the lower end of the income tax scale, are expected to rise slightly more than expenditures. The deficit is to be financed primarily through loans from the social security funds. The Treasury plans to borrow only about fl 200 million in the capital market, while through debt redemption the Government will make available about fl 550 million to the capital market for investment in other sectors. These financing prospects appear to be somewhat at odds with the current fl 200 million Government loan flotation which was issued in October to withdraw funds from the capital market.

Both the Budget Memorandum and the Central Planning Bureau's estimates have been received with considerable scepticism. The assumption that labor will agree to a tacit wage freeze, or even to increases of only 2 per cent, is considered to be entirely unrealistic. The Government itself has since announced a wage increase for civil servants, although this was explained to represent only an adjustment to private sector levels.

The Central Planning Bureau estimated that without any increase in wage rates in 1965 both the price level and wages per worker, would rise by 4 per cent. This would mean that no increase in real wages would take place in 1965. And labor so far has expressed increasing dissatisfaction with the fact that, because of price increases and the progression in income taxes, the real wage increase in 1964 has been very much less than the 15 per cent nominal increase. The Minister of Economics recently stated that he believed the rise in the price level for 1964 could be held to 6 per cent, which would leave a 9 per cent increase in real wages before taxes.

In view of the tightness of the labor market and the negative response of labor leaders to the pleas for wage restraint, it appears highly unlikely that labor will settle for anything less than what it considers a full share in the projected growth in real output in 1965. Labor has repeatedly been pointing out that exports have increased considerably despite the increase in wage costs and that other factors, such as excessive investment, were contributing to the external imbalance. So far, no concrete percentages have been mentioned as to what labor would consider an acceptable wage increase for 1965, but there was some talk that 6 per cent would be considered equitable if price rises were to be held down to 5 per cent.

In any event, Government persistence in talking about token increases might again raise the problem of black wages. So far elimination of black wages - one of the major objectives in the recent wage operation - has been progressing satisfactorily. The Director of the Wage-Technical Service stated on September 24 that the percentage of black wage payments in the total wage sum, which had been estimated at 7.8 per cent in 1963, had fallen to 5 per cent by the first quarter of 1964. In the second quarter it had been reduced to 4 per cent and in the third quarter it probably amounted to 3.5 per cent. This reduction had been possible particularly because of the forceful efforts made in the construction industry - except in Amsterdam - to eliminate black wages; however, it was thought that it would not be possible to push the percentage much further below the 3.5 per cent level. If the Government does allow for a sufficient increase in contract wage rates, the incidence of black wages might well become more prevalent again.

The possibility that the Government might advance the date of the proposed income tax cut to mid-1965 in lieu of wage increases now appears to have been eliminated. The budget estimates do not provide for an early tax cut and the Finance Minister has stated that an advance of the date could only be considered if inflationary pressures had abated sufficiently.