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RFD 408

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Division of International Finance

REVIEW OF FOREIGN DEVELOPMENTS

February 26, 1963

Recent Economic Developments in the Netherlands
October 1962 to January 1963

16 pages

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Summary

The Netherlands economy continued to expand but strains on resources eased somewhat during the second half of 1962. Credit creation virtually stopped, pressures in the labor market lessened and the tendency to reduce the work week was diminished. The trade balance improved as exports grew more rapidly than imports.

In this environment, the Netherlands authorities were able further to ease credit conditions. They reduced the discount rate from 4 to 3-1/2 per cent on January 8, 1963 and suspended specific ceilings to bank credit expansion which had been in effect since July 1961.

In accordance with an earlier political commitment, the Government announced a major change in wage policy in November 1962 in a move away from the tight control over wage negotiations formerly in effect.

The Economic Plan for 1963 (published this month by the Central Planning Bureau) envisages some acceleration in economic expansion during 1963. Real gross national product is expected to advance by 4.5 per cent as compared with 3 per cent in 1962 and 2.7 per cent in 1961. Domestic prices are expected to rise moderately but export prices may actually be slightly lower. (See Table 1.)

Although both foreign demand and domestic consumption are expected to rise at least as much as in 1962, strains in the economy should ease further. Investment demand is expected to grow only slightly and demand for plant and equipment may actually fall somewhat. In addition, larger increases in the labor force (from repatriates from New Guinea and from the postwar baby bulge) are expected to make possible the projected 4.5 per cent increase in output and still allow a rise in

Table 1: Netherlands: Selected Economic Indicators 1961-1963

<u>Volume:</u>		<u>1961</u>	<u>1962</u>	<u>1963</u>
Gross national product	1962=100	97.0	100	104.5
Private consumption	1962=100	95.5	100	104.0
Gross private investment	1962=100	96.0	100	101.0
Exports	1962=100	95.0	100	106.0
Imports	1962=100	97.0	100	104.5
Prices:				
Consumer prices	1962=100	97.5	100	102.5
Investment goods	1962=100	97.5	100	103.0
Exports	1962=100	101.0	100	99.5
Productivity	1962=100	98.0	100	103.0
Current surplus balance				
of payments	billion gld.	.52	.50	.70
Inventory change	billion gld.	1.30	.70	.90

Note: Figures for 1962 are partially estimated and figures for 1963 are projections made by the Central Planning Bureau.

Source: Economic Plan for 1963, Central Planning Bureau

unemployment from 35,000 workers in 1962 to about 50,000 workers or about 1.5 per cent of the labor force in 1963. The payments surplus on current account is expected to be modestly larger than in the past two years.

Output and demand continued to move up in 1962

Industrial production increased by 3.5 per cent as compared with 2 per cent in 1961. Reductions in the workweek on a scale comparable to hourly productivity gains, which held back gains in output in 1961, materially slackened in 1962. Most of the rise in industrial production came in the second half of the year, the seasonally adjusted production index rising by 4.3 per cent between July and November 1962. (See Table 2.) The November figure, at 170 (1953=100) was 5.6 per cent higher than a year ago. The chemical industry was especially buoyant with output rising by 9 per cent between 1961 and 1962.

Table 2. Netherlands: Industrial Production 1961-1962
(Index numbers, 1953=100, seasonally adjusted)

1961:	I	163	1962:	July	163
	II	160		Aug.	163
	III	155		Sept.	164
	IV	162		Oct.	170
1962:	I	166		Nov.	170
	II	165			

Source: OECD

Consumption and foreign demand were the strongest expansionary factors in 1962, increasing in real terms, by 4.5 per cent and 5 per cent respectively. Investment demand for plant and equipment, on the other hand, hardly increased. Consequently, order backlogs were reduced throughout the year, except for an upturn in the fourth

quarter owing to government orders. In consumer goods industries orders on hand also declined, but at a lesser rate than for investment goods. (See Table 3.)

The extremely tight labor situation eased very slightly during the second half of 1962. Unemployment was virtually unchanged; the number of unfilled vacancies fell a little (see Table 4) but still was almost four times as large as the labor reserve.

Table 4. Netherlands: Labor Market, 1961-1962
(in thousands, seasonally adjusted)

		<u>Unemployment</u>	<u>Vacancies</u>
1961:	I	32	109
	II	31	118
	III	32	122
	IV	30	121
1962:	I	28	123
	II	30	125
	July	32	124
	Aug.	33	121
	Sept.	33	118
	Oct.	32	118
	Nov.	33	116
	Dec.	31	118

Source: OECD

Wage and price relations in 1962

Even though hourly wage rates continued to increase in the fourth quarter of 1962, prices remained stable. Between 1961 and 1962, the hourly wage rate advanced by 8.5 per cent, and total wages by about 8 per cent. Since the increase in productivity is estimated at 2 per cent, labor costs rose by roughly 6 per cent

Table 3: Netherlands: Order Backlog 1961-1962^{1/}
 Orders in terms of months of production
 (January 1961=100)

<u>End of month</u>	<u>All industries excl. chemical industry</u>		<u>Consumer goods sector</u>		<u>Investment goods sector and all other</u>	
	<u>1961</u>	<u>1962</u>	<u>1961</u>	<u>1962</u>	<u>1961</u>	<u>1962</u>
March	96	95	94	93	97	95
June	100	92	99	95	101	92
July	102	91	94	94	104	90
August	99	90	92	89	100	90
September	98	89	93	93	99	88
October	98	95	98	95	98	95
November	97	93	103	99	96	92
December	97	90	99	95	96	89

^{1/} Based on a sample survey.

Source: Centraal Bureau voor de Statistiek: Conjunctuurtest, January 1963.

during the year. But the cost of living rose only 2.5 per cent and wholesale prices fell very slightly. (See Table 5.)

Lower prices on imported raw materials and the competitive pressures which induced producers to accept lower profit margins seem to account for the limited advance in prices in the face of rising labor costs. The Central Planning Bureau estimates that higher labor costs accounted for only about half of the rise in the consumer price index. The other half resulted from (a) the E.E.C. tariff changes for agricultural products, which came into effect in July 1962, (b) a general rent increase, which was part of the program to eliminate housing subsidies, and (c) price increases for certain agricultural products because of the bad weather conditions early in 1962. Since September, when the rent increase entered in the index, consumer prices have remained stable. The decline in wholesale prices and export prices since mid-1962 was primarily the result of lower import prices for raw materials.

Wage policy completely overhauled

The current government, on taking office, committed itself to alter wage policy so as to give labor and management more freedom in collective wage bargaining. Until late 1962, however, the government continued to exercise tight control over wage negotiations. In November 1962, the government announced a new wage policy which leaves labor and management free to arrive at individual wage contracts. These collective wage agreements are to be reviewed by a labor-management body for consistency with the average over-all standard for wage increases set by joint consultations of this body and the government. The government will retain mainly supervisory powers, although the ultimate decision still rests with the government, since any wage agreement can be nullified.

Table 5. Netherlands: Selected Wage and Price Indices
(1958=100)

		<u>Hourly Wage Rates</u>	<u>Wholesale Prices</u>	<u>Cost of Living</u>	<u>Export Prices</u>	<u>Import Prices</u>
1961	I	115	98	104	100	98
	II	117	97	104	98	96
	III	119	98	105	98	95
	IV	121	98	106	97	96
1962	I	124	98	107	98	95
	II	127	101	108	100	95
	III	129	97	109	96	94
	IV	n.a.	n.a.	n.a.	98	94
	Oct.	133	97	109	97	94
	Nov.	133	n.a.	109	98	93
	Dec.	n.a.	n.a.	n.a.	98	94

Source: International Financial Statistics.

Wage policy change in 1959. In 1959 the practice of identical across-the-board increases for all industries ^{1/} was abandoned and a system was adopted in which wage increases were tied to productivity increases in the particular industry for which the contract was being negotiated. The government, through its Board of Mediators, had complete control over wage rates since the Board's approval was required before any contract could become effective.

But this system could not prevent wages from increasing appreciably in excess of over-all productivity in 1960 and 1961. In the tight labor market, wage drift and reductions in work hours added to the effects of the negotiated wage increases. In November 1961, the government, concerned about the inflationary effects of the higher labor costs and the resulting deterioration of the competitive position of the Netherlands in world markets, agreed with the Labor Foundation, a nongovernmental body representing labor and management, upon a temporary change in wage policy. For 1962 wage increases were to be tied to both the growth in long-run productivity in the particular branch of industry concerned and the over-all productivity increase anticipated for 1962. ^{2/}

Study of new wage arrangements. During 1962, the Social Economic Council was to develop recommendations for an entirely new wage policy. On July 6, 1962, the Council presented its recommendations. These proposals, which were largely accepted by the government and the Labor Foundation on November 24, 1962, constitute a complete departure from the wage arrangements previously in effect. First, no

^{1/} These increases were based on the relationship between the total wage bill and national income.

^{2/} A formula was developed which gave the long-run growth in productivity in each industry three times the weight of the over-all 1962 productivity increase. Thus the allowable increase for wages in a particular industry was set at $\frac{3a+b}{4}$ where "a" represented the industry's average annual long-run productivity increase and "b" the anticipated increase in over-all productivity for the year 1962.

single criterion (such as the relationship between total wages and national income or the growth in productivity) is to be the determinant of the allowable size of wage increases. Secondly, labor and management are given appreciably more independence and responsibility to negotiate wage contracts. The decisive role played by the Board of Mediators will be taken over by the Labor Foundation.

At the same time, the Government and the Labor Foundation are to agree on an acceptable average increase in wages on basis of semi-annual reports on the economic situation prepared by the Social Economic Council. These reports will be based on (macro-) economic assumptions supplied by the Central Planning Bureau. Once the standard has been set, the Labor Foundation becomes responsible for the testing of individual wage agreements against the over-all agreed norm. The Board of Mediators is to have only supervisory powers, and the government can intervene only in the case of open disagreement between the Labor Foundation and the Board of Mediators. In such a disagreement, the Minister of Social Affairs (upon the recommendation of the Board of Mediators) can declare the agreement null and void. In addition, the government can impose a wage freeze of up to two months while further negotiations are held.

On October 26, 1962, the Social Economic Council, at the special request of the Minister of Social Affairs, prepared its first report on economic conditions to establish wage norms for 1963. The recommendations of the Council, which have in the meantime been accepted as guidelines for 1963 wage agreements by the Government and the Labor Foundation, provide for an average increase of 2.7 per cent for contracts up for renegotiation in 1963. The 1963 increase in the total wage bill would amount to 7.5 per cent broken down as follows:

Spill-over from 1962 increases	2.0%
Uncontrolled increases	2.0%
Social insurance contributions	1.8%
Renegotiation contracts	<u>1.7%</u>
Total	7.5%

The Central Planning Bureau estimates that labor productivity in 1963 will increase by 3 per cent, 1 percentage point more than in 1962. Accordingly, labor costs would rise about 4.5 per cent in 1963 as over against an estimated 3.5 per cent labor cost increase in the countries which are the Netherlands main competitors in foreign markets. The impact on balance of payments equilibrium and on continued high employment in the Netherlands resulting from this differential is expected to remain within acceptable limits.

Government measures--fiscal and monetary policies

According to the budget estimates published in September 1962 the government plans to spend f 11.7 billion in 1963, an increase of f 500 million due to higher outlays for defense and education. The proportion of government demand for goods and services in the gross national product for 1963 is estimated to be 19.4 per cent, as compared with 19.2 per cent in 1962.

Government revenues are to rise somewhat less than in the preceding year, because income tax reductions became effective July 1, 1962. These reductions had been postponed from the original effective date of January 1, 1961 because of the inflationary pressures then existing in the economy. As of January 1, 1963, the corporate tax rate was lowered by 2 points.

The cash budget deficit of f 1,050 million incurred in 1962 was financed without strain on the capital market. Actual requirements amounted only to about f 850 million, since the total included a net amount of noncash transactions of about f 200 million. The pre-subscription account, which draws primarily upon resources of the Civil Pensions Fund, made available f 550 million and a further f 300 million was raised in a public issue of 4 per cent government bonds in the spring of 1962.

The budgetary deficit for 1963, estimated at f 939 million, should

again require only limited recourse to the capital market. The pre-subscription account will make available f 600 million, and what financing remains to be done in the capital market will be more than offset by the f 450 million in debt repayments which are to be made in 1963. Since the beginning of 1962, the Treasury has pursued a policy of timing short-term debt due dates to coincide with tax payments due dates, which has greatly helped to reduce liquidity strains in the money market.

The monetary authorities continued relaxation of the restrictive policies which had prevailed through mid-1962. Required cash reserves of commercial banks have been gradually reduced from 8 per cent in August to 4 per cent at year end. After the seasonal year-end requirements had been taken care of the cash ratio was raised again to 5 per cent for the period from January 22nd to February 21st, 1963.

On January 8, 1963, the discount rate was reduced from 4 per cent to 3.5 per cent, the level which had prevailed before April 25, 1962, and the specific ceilings on the expansion of bank credit, which had been in effect since July 1961 were suspended. Dr. Holtrop, President of the Netherlands Bank, explained these measures by pointing out that since August 1962 bank credit had remained below the level at which banks would have to hold interest free penalty deposits with the Netherlands Bank. Between July and November 1962 the volume of bank credits remained virtually unchanged, while it had expanded by f 200 million during the comparable 1961 period. The over-all economic situation, according to Dr. Holtrop, was one of "high level stagnation," which called for a neutral monetary policy. An additional reason for the reduction in the discount rate was the similar cuts made in other countries and the Bank's desire to discourage the inflow of hot money.

Reduced foreign trade deficit

Even though Netherlands exports in the fourth quarter of 1962 did not rise

above the second quarter peak, the trade deficit for the third and fourth quarters of 1962 remained well below the high levels experienced between October 1961 and March 1962. (See Table 6.) Fourth quarter imports were lower than in the earlier period. Comparing 1961 with 1962 as a whole, the proportion of imports covered by exports rose from 84.2 per cent to 85.4 per cent; during the last quarter of the year, the ratio, on basis of seasonally adjusted trade figures rose to 87.6 per cent. (See Table 6.)

Part of the favorable trade development was undoubtedly due to the stability, and even slight downward tendency, of Netherlands export prices, which reflected the willingness of exporters to absorb higher labor costs. The higher export demand came primarily from other Common Market countries. During the first ten months of 1962, exports to EEC countries rose by 10 per cent as compared with an over-all export rise of 6.4 per cent. During this period, 48.7 per cent of total exports went to EEC countries as compared with 47.1 per cent during the comparable 1961 period. Imports from EEC countries rose at an about equal rate as those from other countries, with just 50 per cent of all imports being supplied by the other EEC countries.

Current account surplus declines in 1962

During the first three quarters of 1962 the Netherlands had a balance of payments deficit of f 165 million as compared with a deficit of f 514 million during the corresponding 1961 period. (See Table 7.) The current account, on a cash basis, recorded a f 52 million surplus as over against a f 686 million surplus in 1961. This was the result of a widening of the trade deficit and a narrowing of the service balance surplus combined with a considerable decrease in net investment income.

The deficit on private capital account, including commercial banks, narrowed from f 863 million during the first nine months of 1961 to f 80 million for

Table 6. Netherlands: Foreign Trade, 1961-62
(In millions of dollars; seasonally adjusted monthly average)

	<u>1961</u>	<u>1962</u>	<u>1961</u>		<u>1962</u>			
			<u>III</u>	<u>IV</u>	<u>I</u>	<u>II</u>	<u>III</u>	<u>IV</u>
Exports fob	359	381	366	357	375	390	379	387
Imports cif	426	446	420	440	453	442	449	442
Balance	-69	-65	-54	-83	-78	-52	-70	-55
Exports as a percentage of exports	84.3	85.4	87.1	81.1	82.8	88.2	84.4	87.6

Source: OECD

Table 7: Netherlands Balance of Payments^{1/}
(million Dutch guilders)

	1961		1962	
	<u>Jan.- June</u>	<u>July- Sept.</u>	<u>Jan.- June</u>	<u>July- Sept.</u>
<u>1. Goods and Services</u>				
Merchandise	-607	-278	-801	-312
Investment income	179	230	- 38	182
Other services	<u>809</u>	<u>353</u>	<u>670</u>	<u>351</u>
Total	381	305	-169	221
<u>2. Private Capital</u>				
Transactions in domestic securities	431	78	426	221
Transactions in foreign securities	-324	-274	-100	-162
Direct investment	-115	- 24	25	- 81
Long-term credits	-118	39	-134	- 65
Other	<u>95</u>	<u>72</u>	<u>52</u>	<u>23</u>
Total	- 31	-109	269	- 64
<u>3. Commercial Banks Capital</u>				
Long-term	-182	- 59	- 2	-102
Short-term	<u>-505</u>	<u>23</u>	<u>- 79</u>	<u>-102</u>
Total	-687	- 36	- 81	-204
<u>4. Official Payments</u>				
Debt repayments	-240	- 7	- 57	- 11
Other	<u>- 76</u>	<u>- 14</u>	<u>- 55</u>	<u>- 14</u>
Total	-316	- 21	-112	- 25
<u>Surplus or Deficit (-)</u>	<u>-653</u>	<u>139</u>	<u>- 93</u>	<u>- 72</u>
<u>Financed by:</u>				
Change in IMF position (increase-)	- 55	-344	54	91
Change in net EPU credits (increase-)	-163	111	8	9
Increase or decrease (+)				
gold stock	- 51	-425	- 4	3
foreign exchange central bank	250	378	-271	27
foreign exchange commercial banks	<u>672</u>	<u>141</u>	<u>306</u>	<u>- 58</u>
Total	<u>653</u>	<u>-139</u>	<u>93</u>	<u>72</u>

^{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.

Source: Netherlands Ministry of Finance.

the first three quarters of 1962. The inflow of capital resulting from transactions in domestic securities rose from f 509 million to f 647 million mainly because of foreign subscriptions to a Philips Lamp issue floated in the second quarter of 1962. Transactions in foreign securities resulted in an outflow of f 262 million, f 336 million less than in 1961, because the monetary authorities allowed fewer foreign issues on the Netherlands capital market. Extension of credit to foreigners by commercial banks during the first nine months compared with the corresponding period of 1961 fell from f 723 million to f 285 million. This reduction may well reflect the restrictive monetary policy which prevailed during the first half of 1962.

Debt repayments by the government were reduced by f 189 million as no advance payments were made during the first nine months of 1962. In October, however, an advance payment was made to Canada amounting to f 117 million (\$32.1 million).

Gold and foreign exchange reserves of the Central Bank increased by f 245 million during the first nine months of 1962, while foreign exchange holdings of the commercial banks decreased by f 248 million. The Netherlands net IMF position was reduced by f 145 million as the United Kingdom and Australia repaid guilders drawn in 1961. These repurchases were partly offset by guilder drawings by Argentina and Canada in the second quarter of 1962.

The favorable external position was reflected by the stability, well above parity, of the guilder in foreign exchange markets, where it was traded at or just below 27.78 cents through the middle of February 1963.

Indebtedness to the U. S. Government

Debts owed by the Netherlands to the U. S. Government were reduced by \$7.8 million in the first half of 1962. This was considerably less than the \$46.2 million reduction which took place in the first half of 1961 when the Netherlands prepaid some of their debt.

Table 8. Netherlands: Indebtedness to the U. S. Government
(In millions of U. S. dollars)

Debt outstanding as of:	<u>Dec. 1960</u>	<u>June 1961</u>	<u>Dec. 1961</u>	<u>June 1962</u>
Export-Import Bank Loans	41.9	24.4	23.6	22.8
"American Aid" Country Program Loans <u>1/</u>	139.8	119.1	117.9	116.7
Grants converted into Credits	19.5	14.7	10.7	5.1
Other	<u>4.1</u>	<u>1.0</u>	<u>1.0</u>	<u>.8</u>
Total	<u>205.4</u>	<u>159.2</u>	<u>153.2</u>	<u>145.4</u>

1/ Formerly known as Mutual Security Program

Source: U. S. Department of Commerce

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