Serie Research Memoranda

Financial government policy, 1940-1990

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by J. Barendregt,
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1. Introduction

The 1940s - war and reconstruction - are an interlude in the financial history of the Netherlands. The financial consequences of the German occupation require special attention, especially the ballooning State debt and money supply (section 2), as well as the way these major financial problems have been handled after liberation (section 3).

When the reconstruction had been completed in the beginning of the 1950s, the new Keynesian ideas on government spending as an instrument for economic policies could be put into effect. Successive governments aimed at stabilizing the economy by means of the budget but, partly due to lengthy procedures, this policy proved to intensify cyclical swings instead (section 4). Moreover, the building up of a welfare state and a weakened position in the Cabinet of the Minister of Finance undermined budget discipline, so that large deficits developed which led to a dominating role of the government on financial markets as a borrowing party (section 5). Yet, the growth of semi-private or collective savings enabled the state to cover its deficits entirely on the Dutch market (section 6).

2. War (1940-1945)

As in other countries, one of the conditions of surrender to Nazi Germany was the acceptance of German occupation money, the so-called Reichskreditkassenscheine. The Dutch monetary authorities (Ministry of Finance and Central Bank) feared the effects of a mixed circulation. They therefore agreed to provide the German troops and civil service in the Netherlands
with Dutch money. Thus the Germans could finance their expenditure at least on the same footing as before the agreement.\footnote{Their demands, though, became stiffer and stiffer (special tributes to the war included). Eventually, the payments reached the total sum of \( f 9 \) billion.}

Next, there were government expenses caused by the war, such as the organization of food distribution, evacuation costs, the compensation of war damage\footnote{and even expenses for extra policemen and the 'Nederlandse Landwacht', a police force set up to fight against the resistance movement. All in all, expenditure solely caused by the occupation amounted to \( f 11 \) billion at the end of the war in May 1945.} and expenses for extra policemen and the 'Nederlandse Landwacht', a police force set up to fight against the resistance movement. All in all, expenditure solely caused by the occupation amounted to \( f 11 \) billion at the end of the war in May 1945.

Considering the fact that total State expenditure had not exceeded \( f 1 \) billion in 1939 - even if this was a year with increasing defense expenditure because of growing international tension - we notice that the occupation had a ballooning effect on State budget and State debt. Increasing expenses forced the State to borrow about \( f 10 \) billion, although State income covered normal expenditure (see Table 1). It issued five long-term loans to the tune of \( f 3.5 \) billion. And it financed the remainder with short-term debt.\footnote{As from Autumn 1944 the private sector did not want to lend to the State anymore. Henceforth the administration had to rely on the Central Bank. Despite all the lending to the State, the liquidity of the private sector had increased tremendously. The administration had spent all its}  

<table>
<thead>
<tr>
<th>Year</th>
<th>State expenditure caused by the German occupation</th>
<th>Rest State income</th>
<th>State deficit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1939</td>
<td>1051</td>
<td>1051</td>
<td>867</td>
</tr>
<tr>
<td>1940</td>
<td>1748</td>
<td>737</td>
<td>101</td>
</tr>
<tr>
<td>1941</td>
<td>3574</td>
<td>2323</td>
<td>1011</td>
</tr>
<tr>
<td>1942</td>
<td>3827</td>
<td>2196</td>
<td>1531</td>
</tr>
<tr>
<td>1943</td>
<td>3769</td>
<td>2368</td>
<td>1401</td>
</tr>
<tr>
<td>1944</td>
<td>4418</td>
<td>2746</td>
<td>1672</td>
</tr>
<tr>
<td>1st half of 1945</td>
<td>1876</td>
<td>700</td>
<td>1176</td>
</tr>
<tr>
<td>Total since 1940</td>
<td>11070</td>
<td>8141</td>
<td>9051</td>
</tr>
</tbody>
</table>

Source: J. Barendregt, Ch. 2.
borrowed money. Moreover, the possession of floating debt had given a huge (potential) lending power to the Dutch financial institutions.

Full financial integration of the Dutch economy into the German economy occurred on the 1st of April 1941, when the German authorities lifted the exchange controls between the two countries. The Dutch guilder virtually had become a German mark now, with a value of 1,327 reichsmarks. In this sense the Netherlands were put at a disadvantage vis-à-vis countries such as Belgium and France where the German (military) authorities put up a stronger resistance against the wishes of the Reich. Consequently, the exchange controls between Germany and these countries had not been abolished. Now reichsmarks flooded into the Netherlands, because German balance of payments deficits with the Netherlands could not be controlled any longer by the Dutch authorities. A huge transfer of reichsmark assets into guilder assets also started, because national governments and international investors distrusted the reichsmark. Belgium, for instance, tried to pay the Dutch with reichsmarks, but it refused to accept reichsmarks from them. In that way it wanted to minimize its reichsmark possessions and burdened the Dutch with ever larger amounts of this currency (Trip, 47-48). At the end of the war the German balance of payments debt to the Netherlands had grown to f 6.7 billion. This debt accumulated at the Central Bank. In total the purchasing power of the Dutch private sector increased by f 8.3 billion to f 10.9 billion in 1940-1945 (Lieftinck 1946, 11). Recent, adapted figures show less growth, but it is still an alarming growth (see Table 2).

However, at the production side the quantity and quality of goods and services offered to the Dutch population declined. Many causes can be mentioned for this. We shall name a few. The Allies blocked Dutch sea harbours, so that sea trade was only possible with Northern and Eastern Europe. Production declined mostly due to forced migration of many Dutch labourers to Germany and elsewhere, and deportations of Jews and others. German confiscations of animals, stocks, transport material and other means of production and an increasing production for the Reich further decreased production. The growing scarcity of goods meant that soon after the invasion purchasing power could not find its way to the market completely. Thus a money overhang developed. The export surplus with Germany and the increasing State debt stimulated this development.

The money overhang clearly manifested itself in the financial sector. The credit accounts of the banks, for instance, more than doubled during the occupation - they increased by nearly Dfl 4 billion - and mortgages
fell by Dfl 200 to 300 million. In addition, life insurance premiums rose by Dfl 0.7 billion - they increased from Dfl 156 million (1940) to Dfl 381 million (1944). State loans became an advantageous investment for the money overhang, especially since the closing of the Stock Exchange. Private individuals lent approximately f 3 billion to the State. The Central Bank, private banks and Giro banks lent f 4.5 billion (De Roos, Wieringa, 217; De Jong, 240-241; CBS 1989, 145; Herstelbank, 49).

Due to the money overhang price rises could be expected. Therefore, the authorities took several countermeasures. First of all they controlled prices. Nevertheless, a black market developed. Especially to hit the black marketeers, who were supposed to accumulate their wealth in the highest denominations, the f 1000,- and f 500,- bills were taken out of circulation in March 1943.

As from the beginning of 1944 the increasing supply of reichsmarks and State debt started to become a problem for the Dutch central bank. Bank note reserves of the Central Bank had fallen to f 180 million, whereas the bank note circulation itself had amounted to f 3.5 billion. Thus, the national-socialist president Rost van Tonningen proposed to the German civil service in the Netherlands either to have Dutch money printed abroad or introduce the reichsmark as the official currency in the Netherlands (Barendregt, Ch. 2). Later, there were serious fuel problems for the printers of paper money. Distribution also became critical after a major strike in the transport sector (railways). The paper supply became critical as well. Municipalities of cities such as Rotterdam and The Hague already had printed their own emergency money, in case of financial straits. Rost van Tonningen warned the head of the German civil service, Seyss-Inquart, that he feared a complete monetary disorganization would erupt early Summer 1945 (Barendregt, Ch. 2). The Central Bank probably would have had to decide to overprint the old bank notes with zeros in order to increase their value and local currencies would have been issued indeed, if the still occupied Northern and Western parts of the Netherlands had not been liberated in May 1945.

3. Peace (1945-1950)

One of the first measures taken by the new Minister of Finance Lieftinck was to defuse the highly explosive monetary situation. He drastically decreased the money supply in July and September/October 1945 by
simply blocking most of it (money purge). The increase of national production would determine the pace of deblocking of the blocked money. As a touchstone Lief tinck applied a 50%-ratio of money supply (cash and demand deposits) to nominal net national income at market prices (NNImp), which in his view would more or less ensure monetary equilibrium. This equilibrium means that the amount of money in circulation corresponds with the value of the demand for goods and services, so that the money sphere does not influence absolute prices. The 1938 ratio had been 46%. Recent, adapted figures (new definitions) indicate an adapted ratio of about 39%. If we adapt Lief tinck's touchstone to the recent figures, then he aimed at a 42% ratio. With this target in mind, the Ministry of Finance sort of directed the allocation of de blocked money through a permit system. Part of the blocked money flowed to the State due to tax arrears. The government also raised wealth taxes (ultimately amounting to f 3.2 billion) to finance post-war reconstruction. And a large part of the blocked accounts was consolidated. The government ‘froze’ f 2 billion through long-term government bonds and 5-year savings certificates and it ‘captured’ f 1.6 billion through long-term investment certificates. The last blocked money was released in June 1952.

The money purge was a necessary step towards economic recovery, but it was far from a sufficient one. Most important of all was the restoration of national production and exports. This implied the buying of fuel, raw materials and capital goods, mostly from foreign sellers. Thus, foreign exchange became the most important bottleneck for recovery. The Dutch government therefore tried to control the allocation of foreign currency. By that it wanted to safeguard that the scarce foreign assets were employed in the way it thought was the best. For all that, the balance of payments situation remained critical. Foreign credit, the sale of gold and Dutch-owned foreign assets hardly sufficed in 1946 and 1947 to finance the deficits, mainly dollar shortages. The pressure increased because of the war expenses in Indonesia that cost f 500 million of foreign currency out of a total balance of payments deficit of f 3.7 billion in the two years (Van Zanden, Griffiths, p. 193). The deficits partly drained the fast increasing money supply, though (see Table 2).

In 1948 Marshall Aid provided room for manoeuvre. A new industrialization offensive started to increase the pace of recovery. Dutch competitiveness improved by a 30%-devaluation of the guilder in 1949, especially vis-à-vis the United States. The German market further opened up in the same year. Table 2 shows the increase of national production.
Table 2 - Ratio of money supply (M; yearly average) to net national income at market prices (NNImp); balance of payments (B; current account)

<table>
<thead>
<tr>
<th></th>
<th>M (mln f)</th>
<th>NNImp (mln f)</th>
<th>M/NNImp</th>
<th>B (mln f)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1938</td>
<td>2089</td>
<td>5399</td>
<td>38.7</td>
<td>+ 97</td>
</tr>
<tr>
<td>April 1945</td>
<td>8720</td>
<td>3000</td>
<td>290.6</td>
<td></td>
</tr>
<tr>
<td>Dec. 1945</td>
<td>3704</td>
<td>7490</td>
<td>49.5</td>
<td></td>
</tr>
<tr>
<td>1946</td>
<td>5274</td>
<td>9928</td>
<td>53.1</td>
<td>-1312</td>
</tr>
<tr>
<td>1947</td>
<td>7100</td>
<td>12066</td>
<td>58.8</td>
<td>-1667</td>
</tr>
<tr>
<td>1948</td>
<td>7372</td>
<td>13306</td>
<td>55.4</td>
<td>-1139</td>
</tr>
<tr>
<td>1949</td>
<td>7338</td>
<td>15181</td>
<td>48.3</td>
<td>-222</td>
</tr>
<tr>
<td>1950</td>
<td>7044</td>
<td>16900</td>
<td>41.7</td>
<td>-1066</td>
</tr>
<tr>
<td>1951</td>
<td>6922</td>
<td>19279</td>
<td>35.9</td>
<td>-90</td>
</tr>
<tr>
<td>1952</td>
<td>7402</td>
<td>20092</td>
<td>36.8</td>
<td>+1870</td>
</tr>
</tbody>
</table>

Sources: J. Barendregt, Ch. 10; for balance of payments: Centraal Bureau voor de Statistiek (CBS) 1955, 304.

Domestically the State controlled prices, wages, dividends, house and ground rents, and it regulated scarcity through rationing. It also had control over deblockings. Nevertheless, a new money overhang developed. Table 2 shows that the ratio of money supply to national income exceeded the 1938-level for several years. This was mainly due to two reasons. First, money was hoarded. The limitations imposed on consumption and investment hindered the spending of income, at least until 1948/49. Then the increased supply of goods more than absorbed the increase of the money supply for the first time since the occupation (see Table 2). This absorption made possible the alleviation of rationing and the decrease of price subsidies. Furthermore, there probably was some distrust against demand deposits. The fact that bank secrecy had been abolished, as well as the fact that the tax authorities had been given much liberty to locate tax arrears and wealth increases accumulated during the occupation will have stimulated this. Money kept at home could not easily be controlled by the fiscal authorities. Consequently, much money in circulation did not really circulate within the economy. Furthermore, not all branches of industry had started off at the same time and at the same pace. This also necessitated continued deblocking, while other branches possessed more free money than they were able to spend.

Secondly and most importantly, the State had serious budget deficits,
especially in 1945 and 1946. On the income side, State income stagnated due to low national income and because of the disorganization of the tax collecting system. State expenses, by contrast, were high due reconstruction and the war in Indonesia. To give one example, the price subsidies alone required as much funds as pre-war annual State income (Lieftinck 1946, 225). The Dutch governments had to finance their deficits in an inflationary way by increasing the money supply. By that, they created a new money overhang.

The disastrous financial position of the State is made very clear if we realize that domestic long-term lending and Marshall Aid provided the government with many additional resources. Minister of Finance Lieftinck tried to keep State expenditure low. Bilateral personal talks with his colleagues in the Cabinet frequently lasted through the night. Many ministers, exhausted as they were, had to give in. Lieftinck also wanted to keep the debt service as low as possible. He only reluctantly consolidated short-term debt and forced a decrease of the short-term and long-term interest. By that he annoyed especially the institutional investors. The continued prolongation of short-term Treasury paper in itself was the main instrument of this ‘cheap money’ policy, though. Thus, the financial institutions were in large possession of short-term Treasury paper. This effectively precluded the application of traditional pre-war quantitative monetary instruments by the Central Bank, such as discount policy.

Because Lieftinck had only reluctantly consolidated State debt a large supply of quasi money was available. These so-called secondary liquidities could easily be transferred into primary liquidities, i.e. cash and demand deposits, by simply not renewing after maturity. And indeed, this happened during the Korea boom in 1950. Trade liberalization in 1950 first led to increased imports in an effort by the private sector to restore commercial supplies and assortments. Later in 1950, the war in Korea stimulated imports growth in anticipation of shortages and expected new rationing and import hindrances. Part of this import was speculative demand (Nederlandse regering 1951, III-2). Bank credit (ƒ 450 million), deblocking (ƒ 90 million), redemption of Treasury paper, and cash and deposit reserves provided the private non-financial sector with the resources. This resulted in a huge balance of payments deficit on the current account of ƒ 1066 million. In 1949 it had only been ƒ 222 million (see Table 2). Consequently, the Central Bank resumed its policy of using the discount rate for the first time since the war. By that it wanted to inform
the financial institutions about its feelings about the monetary situation. In this case it thought bank credit had increased too much. The new policy by the Central Bank sort of symbolized that the economic situation was about to become normal again.

4. State budget as macro economic instrument (1950-1990)

The economic events during the Interbellum proved that markets did not function as smoothly as Neo-classical economists would have wanted the politicians to believe. Of course, protective market restraints in the international economy and inflexibilities in various national markets had also crippled the effects of the economic tools of (Neo-)Classical economists. After the miseries of the economic crisis and the Second World War a strong desire had emerged in leading political circles of many countries to build a new society in a new way. Assisted by the bureaucracies set up during the war, Western European governments began to plan, nationalize and invest in order to reconstruct the national economies. Programs for the redistribution of wealth and income were started. They allowed labourers and the elderly a fairer share in national income: social security improved and taxes were made more progressive. The new economic theory developed by John Maynard Keynes with its emphasis on demand management fitted in perfectly with the desire for State intervention. In a way Keynesianism became the post-war legitimization of State action, although Keynes himself did not 'prescribe' the control systems that were initially applied during the first years of reconstruction. In the Netherlands many elements of this control system were abolished in the fifties (see the next section). State intervention, though, continued.

Theoretically most promising was the Keynesian policy of demand management to try and neutralize cyclical economic developments. The two main political parties in power, the KVP (catholics) and PvdA (social democrats), which between them held 59% to 66% of the parliamentary seats when they were governing (1945-1958), agreed on this issue. The protestant and liberal parties (27% to 30% of the seats) initially opposed this kind of policy, because they preferred the pre-war budget policy. However, there were also major differences of opinion between KVP and PvdA. The social-democrats wanted to use periods of cyclical upswing to create reserves for recession periods (Ter Heide, 272-3, 292).
The idea of a reserve fund was introduced in 1949 by a non-political committee under the chairmanship of Jan Tinbergen and vice-chairmanship of Witteveen (both working at the Central Planning Bureau). The committee proposed to create a State-controlled tax free capital fund, financed with private investment money. By that it wanted to prevent overinvestment during periods of cyclical upswing and recession. This proposition had clear resemblances with the deblocking measures of the money purge and probably originated from Sweden where it had some success.¹⁰ The social democrats in Parliament propagated a State fund financed with tax revenues. In 1953, a period of cyclical upswing, their spokesman Hofstra supported early redemption of State debt. He warned against pro-cyclical government proposals that reduced tax rates, especially because they had a general character. Nevertheless, the government in which the social democrats participated decided to do so. It gave priority to a general stimulus of structural development, i.e. industrial growth. The same happened during the next cyclical upward movement when new tax rate reductions stimulated recession. The following period of cyclical upswing gave the same clash of insight. This time the Cabinet and especially its Minister of Finance Hofstra wished to anticipate future cyclical developments. He wanted to continue depressing demand for 1959 and 1960 through tax rates. However, the right-wing majority in Parliament (KVP-members included) only authorized the government for one year. Hofstra and his social democrat colleagues were angry and left Cabinet (Ter Heide, 318-321; Zijlstra, 74). This government crisis more or less proved that it was virtually impossible for governments to create a buffer for recession periods. Another attempt was made by the liberal Witteveen in 1970, then Minister of Finance. As a policy instrument against cyclical economic developments he introduced the so-called wiebeltax (swing tax). This tax implied a temporary change of tax rates to a maximum of 5%, combined with reductions or increases of government expenditure that amounted to at least 20% of the changes in tax revenues. The government implemented the wiebeltax in 1971 and 1972 during a period of cyclical upswing. Following Cabinets did not use the wiebeltax because of disadvantageous effects in other fields of government concern. The left-wing dominated Den Uyl Cabinet (1973-1977), for instance, stressed the global and undesired effects of the wiebeltax on income distribution during the period of recession it felt the economy was in (Koopmans, Wellink, 35, note 1).

Demand management during periods of economic recession encounte-
red different problems than during upswings. Especially in the 1950s Cabinets took serious policy measures to neutralize a temporary downward movement of economic activity. However, the measures appeared to be ill-timed, due to lags in the three stages of policy implementation. It was difficult to recognize the stage the cycle was in. If, let us say, a downward economic movement was noticed (first stage), then countermeasures had to be formulated (second stage). They needed parliamentary approval and sometimes they only could be implemented on 1 January of the following year due to fiscal reasons (third stage). More often than not, the whole operation took more than a year and the policy effects then turned out to be pro-cyclical. This happened for instance in 1951-52 when real wage reductions, cuts in government expenditure, early tax collection and tax rate increases stimulated an economic recession after the Korea-boom. Although acting vigorously, it took Hofstra ten months to formulate counter-cyclical measures in 1956/7 and get these through Parliament. Effects, therefore, were only visible in 1958 when the economy was in recession again.

Research reports concerning the 1960s, when cyclical developments were more moderate, do not mention better results. Thus, we conclude that countercyclical government policies have been implemented too late during boom periods and have not been implemented at all during upward economic swings.

The 1970s were unstable again, although in a more structural way than the 1950s. During the first years of the decade world prices of basics increased due to a worldwide economic upswing. By that, they stimulated world inflation that was already there in the guise of high wage and price rises, fuelled by high money growth (De Nederlandsche Bank 1975, 11-12, 19-21). Valued in American dollars, though, the price rise of industrial products was higher. The OPEC oil-cartel reacted with oil price increases that created deflationary pressure within the world economy. The OPEC-countries were not able to spend their newly acquired capital in the short run. The Den Uyl Cabinet decided to increase State deficits so that the Netherlands would help in preventing a serious international recession. After a while it reduced the deficit again. It succeeded in doing this through an increase of State income from taxes (see Table 3), and from non-taxes which rose from 2.4% of NNIm (1973) to 4.9% (1977). This last source of income was influenced by revenues from the production of natural gas. They had been linked with the oil price. The policy of the Den Uyl Cabinet may be classified as the last conscious effort to direct
economic developments with a Keynesian set of instruments, using the State deficit as the tool.

According to Keynesian theory the whole budget itself is an economic instrument. Growing budgets (or debts) increase national spending. If the State absorbs this increase completely through increases of taxes and social security premiums, there still remains an impulse of increased spending with multiplicator effects (Haavelmo-effect). This implies that the high government deficits in the 1980s still had a Keynesian effect (see Table 3).

However, the deficits had become so high in the beginning of the 1980s that it was impossible to counteract any further downward economic movement in a more expansive way. Since the 1960s real wages had increased at the expense of profits. Investments to replace labour also became more expensive due to increasing interest rates in the late 1970s and the early 1980s. Thus, reorganizations and bankrupties in the private sector were ever more occurring. In itself the resulting increase of unemployment and a flight into disablement allowances boosted public spending since the mid 1970s (see Table 3). Furthermore, the State consumed its resources (increasing the number of civil servants and increasing the allowances). In addition, the State started to subsidize stagnating economic sectors and enterprises, and it tried to stimulate investments with tax incentives. As a consequence, State investments itself decreased. Develop-
ments in the world economy, labour union demands and an increased tax burden further deteriorated profits in the private sector. Consequently, investments declined and economic growth almost stopped. The State, therefore, could not use economic growth to finance its growing needs, as it had done before. Due to high interest rates and a growing State debt the public sector experienced self-sustained growth. Interest payments ballooned (see Table 4). In a way Haavelmo-effects had been inverted due to a deterioration of profits.  

Since the beginning of the 1980s a reduction of the government budget deficit is the central economic theme, irrespective of economic developments. Some successes have been scored, as we can see in Table 3. We will come back to this issue in the next section.

Table 4 - Interest payments by the Dutch State (in bln f (1), and as % of NNImp (2) and of State expenses (3))

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>(1)</td>
<td>0.5</td>
<td>0.6</td>
<td>0.8</td>
<td>1.7</td>
<td>2.9</td>
<td>6.9</td>
<td>14.5</td>
<td>19.6</td>
<td>23.0</td>
</tr>
<tr>
<td>(2)</td>
<td>2.9</td>
<td>1.6</td>
<td>1.3</td>
<td>1.6</td>
<td>1.5</td>
<td>2.3</td>
<td>4.2</td>
<td>5.2</td>
<td>6.3</td>
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<tr>
<td>(3)</td>
<td>10.1</td>
<td>6.6</td>
<td>4.9</td>
<td>5.2</td>
<td>4.0</td>
<td>5.3</td>
<td>9.4</td>
<td>11.9</td>
<td>11.0</td>
</tr>
</tbody>
</table>

Sources: W.L. Moerman, J. Vuchelen 1985, 28; Staten-Generaal, 15/6. ad (3) Sociaal-Economische Raad, 7; Nederlandse regering 1992, 278, 293, 300; Centraal Planbureau 1991, 107.

5. Causes of exploding State expenditure and income

Before the Second World War the State had organized social security of the Dutchmen in a poor manner. From way back, society had organized social security, in a modest way though. The State, therefore, had created basic provisions (poor relief, disablement benefits and pensions). But the allowances had been low and many people could not afford to pay the premiums. After the Second World War, all kinds of insurance provisions (accident, medical, disability and pension insurances), health care, education and housing became priorities. The State often offered them at prices below cost or even for free (merit goods). Social security
benefits rose sharply from 10% of national income in 1950 to 33% in 1985. The share of education, housing and health care increased from 12% to 32% (Van Zanden, Griffiths, 70). Table 3 indicates in what way this growth of the public sector (State and social security) was financed: mostly by increasing the share of social premiums. Taxes only moderately increased if expressed in % NNImp, which was mainly due to growing non-tax income (gas production) and increasing deficits. Also, if we look at the tax and social premium burden expressed in daily wages (et al), then we notice a regular growth, due to social premiums - the tax burden even decreased (see Table 5). Obviously, the total sum of wages (et al) has risen faster than national income. Prime cost increasing taxes expressed in daily wages also showed a tendency to fall, except in the 1980s, but they had a remarkably constant share in total tax income (± 42% in 1946-1990; average per 10 years). All in all, State expenses could not sufficiently be covered from income, especially since the 1970s. Net State debt ultimately had grown to 67% of national income in 1990 (NNImp1990 = f 454 billion).

Table 5 - Tax and social premium burden expressed in daily wages (number of days)

<table>
<thead>
<tr>
<th>Year</th>
<th>Tax on wages, salaries and soc. benefits (a)</th>
<th>social total</th>
<th>prime cost increasing taxes</th>
<th>total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1951</td>
<td>75</td>
<td>9</td>
<td>84</td>
<td>108</td>
</tr>
<tr>
<td>1960</td>
<td>66</td>
<td>32</td>
<td>98</td>
<td>72</td>
</tr>
<tr>
<td>1970</td>
<td>66</td>
<td>47</td>
<td>113</td>
<td>67</td>
</tr>
<tr>
<td>1980</td>
<td>65</td>
<td>50</td>
<td>115</td>
<td>60</td>
</tr>
<tr>
<td>1988</td>
<td>57</td>
<td>66</td>
<td>123</td>
<td>69</td>
</tr>
</tbody>
</table>


A second important cause of State budget growth was the way the Ministers of Finance were able to control public expenditure. Changes in the mechanism of this control to a large extent made government expenditure uncontrollable. Economic problems in the 1980s aggravated this.
During the reconstruction period Minister Lieftinck (1945-1952) kept a close watch on every cent that the Cabinet spent. He carefully screened ministerial budgets. In fact, one could say that Lieftinck's bilateral discussions with the other ministers determined the budget. He had the backing of his Prime Ministers, who turned a deaf ear on complaints by the spending ministers. The Council of Ministers only seldom discussed individual budget items. In 1952 State expenditure had been reduced from more than 47% of National income in 1946 to well under 30% (Nederlandse regering 1958, 20). Since the beginning of the 1960s the share of the State sector only rose.

In the 1950s bilateral preparation lost importance more and more. The Council of Ministers took more decisions then. This created the possibility of mutual support between ministers that undermined the position of the Minister of Finance. Minister A now could successfully claim resources and minister B would not protest if A would not protest against claims from B.\textsuperscript{14} The same mechanism functioned within political parties: parliamentary specialists could mutually act in the same way as ministers did in the Council of Ministers. This was, by the way, a climate pressure groups could flourish in, so that budget claims increased further.

The introduction in 1961 of the so-called \textit{structural budget policy} was another measure that undermined the position of the Minister of Finance.\textsuperscript{15} Minister of Finance Zijlstra wanted to create a touchstone for (future) government expenditure instead of the ever changing budget policies due to cyclical economic movements. He wished to fit the pattern of government expenses into a medium term growth path of the national economy.\textsuperscript{16} In the longer run the budget balance (i.e., deficits) should be reconciled with the structural relation of saving and investment in the private sector of which the current account of the balance of payments is one expression. Then demand would keep pace with production capacity.\textsuperscript{17} If necessary, countercyclical measures could be carried out, such as the delay of planned tax rate reductions in 1961 that could be put into practice any moment (Zijlstra, 124). There was also a built-in countercyclical component, because decreases of tax income or even budget deficits due to recession did not matter as long as the State based its spending on the medium term growth path. For the same reason increases of tax income and budget surpluses during periods of economic upswing did not matter either. The Zijlstra-touchstone for budget deficits gave more freedom to his colleagues in the Cabinet, because he let them decide how to divide the money available within the expenditure norm. Economic
growth now by definition implied that there was more government money to spend. Because national income increased tremendously, government expenditure did so too. In addition, the climate of growth of course did not stimulate the evaluation of the necessity of expenditure, nor did it lead to a decreasing burden for the taxpayer.

One other important change in the budget technique was the introduction in 1966/7 of long-term estimates of budget items which made possible the discovery of so-called camel noses. However, again this created the possibility for ministers to claim 'their share', as determined in the past by the long-range estimates.

The decreasing growth of national income in the 1970s therefore created difficulties. Thus, Ministers of Finance took countermeasures to limit the growth of government expenditure. They wanted ministries to compensate overspending within their own budget and ended the use of the structural budget policy. They also stressed the importance of bilateral negotiations. Other means were periodical evaluations of budget spending and government programs that formulated targets to reduce the budget deficits. Nevertheless, ministers found many ways to undermine or even evade cuts in their departmental budget. By that they defended their position vis-à-vis their civil service and pressure groups. They used for instance windfalls to limit reductions needed in their budgets. Setbacks, on the other hand, they seldom compensated. And there were many more methods to avoid budget cuts (Toirkens, 21-23). During the 1980s State income suddenly increased more than expected due to a cyclical upswing since 1983. Slowly the government deficit was reduced. One could argue, though, that deficits still had not been reduced in a structural, non-cyclical way (Sterks et al., 619).

The 1970s and 1980s also led to a crisis in the belief that the State could freely manipulate the economy, correcting the flaws of the private sector. Keynesianism could not give a satisfying answer to the economic problems that arose. There was economic stagnation combined with inflation (stagflation) and the public sector could not be expanded any further to neutralize this. In the Netherlands the high burden for the taxpayer (taxes and social premiums) combined with the catching up with international wages in the 1960s had made labour expensive vis-à-vis capital in the 1970s. The large public sector had undermined competitiveness of the Dutch economy. This resulted in a high number of redundancies and a ballooning number of persons on unemployment and disability
benefits. In such a climate economic theorists who believed in the ineffec-
tiveness of State intervention became influential (Monetarists and Neo-
classicists), as well as theorists who stressed the importance of supply
instead of demand (Supply-siders). The classic adage of a State that only
assists the private sector in the way that this sector can operate freely
(apart from corrections of major flaws) returned. In the Netherlands the
government gave up all kinds of intervention, such as wage and price
policy. It tried to simplify the fiscal system and reduced individual social
allowances. The governments played competitiveness on foreign markets
as the trump card for economic recovery. Low wage demands by trade
unions, caused by the economic recession in the beginning of the 1980s,
and low inflation rates indeed had their positive effects when the interna-
tional economic situation improved. Due to high profits the private sector
was mostly back on its feet again. By way of support the State tried to
decrease the burden on the taxpayer, but it was not really successful in
doing this, as the data in Table 3 indicate. The reduction of government
budget deficits was the primary concern.

6. Capital market

The Dutch state generally financed its budget deficits on the Dutch
capital market. This market supplied sufficient amounts of money, due to
the growth of savings, especially the semi-private or collective savings
(pension, social insurance and private insurance funds; see Table 6).19

<table>
<thead>
<tr>
<th>Year</th>
<th>Investment by pension and private insurance funds (f)</th>
<th>Savings at banks (f)</th>
<th>Investment by investment funds (f)</th>
<th>Total (f)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1951</td>
<td>8 40</td>
<td>4 20</td>
<td>0 0</td>
<td>60</td>
</tr>
<tr>
<td>1986</td>
<td>240 120</td>
<td>150 40</td>
<td>37 10</td>
<td>170</td>
</tr>
</tbody>
</table>

Source: CBS 1899-1989, 145, 149.

Consequently, the State has only rarely raised loans expressed in foreign
currency. Particularly the role of the pension funds is important in this respect. Their investments have grown from 18% of NNLmp in 1951 to 83% in 1986, and they invested large amounts of capital in State debt, partly compelled by regulations imposed by the State (the large State pension fund ABP) and partly voluntarily. The other institutional investors (i.e., savings banks) also invested in low-risk long-term assets expressed in Dutch currency, primarily State debt and loans to local administrations, partly due to regulations made by the Central Bank (see below). Foreign investors and other private investors tended to take more risks and invest in shares relatively more (P.A. van de Paverd, 46). Besides, the strong guilder was an extra reason for foreign investors to buy Dutch securities, because it increased their profit margin if expressed in currencies that tend to depreciate vis-à-vis the Dutch guilder. A change in the loan conditions has also encouraged long-term lending to the State by private investors and banks (see Table 7). First of all, the interest rates increased because of growing inflation, increasing uncertainty and tight money policies by central banks. Furthermore, growing State debt enabled investors to negotiate more favourable conditions, which resulted in shorter redemption periods, so that they could respond better to changing circumstances (De Kam et al., 64). Table 7 shows the ownership of government bonds in 1938-1987.

Table 7 - Owners of consolidated State debt (in %), and the debt itself (in bln f)

<table>
<thead>
<tr>
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<tr>
<td>Institutional investors (a)</td>
<td>44</td>
<td>63</td>
<td>30</td>
<td>52</td>
<td>63</td>
<td>50</td>
</tr>
<tr>
<td>Banks (b)</td>
<td></td>
<td>22</td>
<td>15</td>
<td>11</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td>Foreign invest. (c)</td>
<td>56</td>
<td>37</td>
<td></td>
<td>11</td>
<td>12</td>
<td></td>
</tr>
<tr>
<td>Private invest.</td>
<td></td>
<td>48</td>
<td>33</td>
<td>14</td>
<td>18</td>
<td></td>
</tr>
<tr>
<td>Consolidated State debt</td>
<td>3.2</td>
<td>8.4</td>
<td>12.5</td>
<td>23.5</td>
<td>78.1</td>
<td>234.5</td>
</tr>
</tbody>
</table>

Sources: Herstelbank, 245, 260 (for 1938 and 1952); F. de Kam et al., 64 (for 1960-1987); CBS 1899-1989, 168 (for consolidated State debt)

(a) for 1938 and 1952: including savings banks;
(b) for 1960-1987: including savings banks;
(c) remainder.
Because of their money-creating effects monetary authorities (State and Central Bank) have been critical of short-term loans most of time in the period under consideration. Nonetheless, in the 1940s - when long-term State borrowing had been stopped - in 1968-1971, and in 1976-1983 short-term financing of State deficits increased, until an agreement between Central Bank and the government put an end to most inflationary State borrowing. Since 1982, the overall effect of the fiscal policy on the (broad) money supply (i.e., primary and secondary liquidity) has been deflationary, however, there still were some inflationary effects in 1986, 1987 and 1989 (De Nederlandsche Bank, appendices).

Notes

1. The author acknowledges Professor Hans Visser for his comments.

2. The Dutch central bank requested the banks and other financial institutions to hand in the Kas-
senscheine in exchange for Dutch guilders or deposits (see L.J.A. Trip, 5-10).

3. Most war damage compensations had been registered in the so-called Grootboek voor de Wederopbouw. They had not been paid out, because building activities during the war had been slender, at least those in the civilian sector.

4. The State also amortized f 1 billion during the war.

5. In Berlin f 2 billion was subtracted as payment for war tributes.

6. New industrial activity had to absorb the fast growing Dutch population. The mostly indicative stimulance of industrialization was aimed at changing the dominant position of basics and food in exports.

7. A first devaluation had been implemented in 1944.

8. In 1952 the rationing was ended when the free sale of coffee was allowed again. In 1954 the last producers ration (fuel) was cancelled.

9. In order to combat inflation Dutch governments tried to control prices. As one of the instruments they applied price subsidies to compensate for the difference between import prices and domestic prices.

10. The investment money had to be blocked on accounts at the Central Bank on a voluntary basis. It would only be released after approval by the government concerning the right time and the minimum amount (in order to guarantee the desired cyclical effects). To prevent tax evasion only withdrawals from the fund for additional investment - i.e. investment not financed in the usual way by write offs - had to be allowed (see W.B. Reynen). In Sweden an investment funds system had been introduced in 1938. It played a role of importance as from 1955 (see A. Lindbeck, 97-102).
11. With the assumption of a marginal consumption quote of net available income that is below 1 (see H. Visser 1980, 226).

12. See also A. Knoester 1991.

13. If we include the other public authorities, then we come to 83%.

14. In periods of budget cuts this non-intervention mechanism probably does not work, because every minister wants the others to decrease their budget so that his or her budget cuts need not be so high (see S.J. Toirkens, 27-31).

15. Structural implied ‘following the medium-term growth rate of national income’.

16. This was meant as an analogy with the monetary policy of the Central Bank under president Holtrop that tried to match the growth of the supply of primary and secondary liquidity with the growth path of real national income. Statement from Zijlstra in Het sociaal-economisch beleid in de tweede helft van de twintigste eeuw, 388/9.

17. See H. Burger, 330. The basic period had to be one of full use of productive capacity, full employment, and the economic data had to be without cyclical and incidental influences.

18. Camel noses are plans that cost little money in the beginning but much money in the future.

19. Briefly some comments on the matter of ‘crowding out’ of private demand on the capital market due to State demand. The share of State demand vis-à-vis supply has gradually decreased over the period under consideration. In the 1950s (1952-1959) it was 55% (1952: 82%, 1958: 48%), in the 1960s the percentage was 38%, and in the 1970s it had fallen to 27%. In the 1980s (1980-1990) the State's share has increased again to 52% (1980: 37%, 1982-1984: 68%, 1990: back to 40%). Due to tight money policies carried out abroad, the interest rate the government had to allow rose whereas its share on the capital market was relatively low (1979: 24%, 1980: 37%). Then, interest rates fell whereas State borrowing ballooned (1982-1984: 68%). Moreover, there was also a net export of capital. Thus, at the moment we should expect 'crowding out' there was a net capital export! Obviously, the liberation of international capital movements has changed the scenery. Therefore, it has become more difficult to assess whether there has been 'crowding out' in the 1980s or not, i.e., whether borrowing by the State has increased interest rates. The sources for the data were Visser (1978 and 1983) and De Nederlandsche Bank, Jaarverslagen, Bijlagen 7 and 11.

20. During the first post-war years the government borrowed foreign currency to finance reconstruction through imports. The redemption of foreign debt was completed in 1976.
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