Macroeconomic developments 1969–2005

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Explanation of symbols

.	= data not available
*	= provisional figure
x	= publication prohibited (confidential figure)
–	= nil or less than half of unit concerned
–	= (between two figures) inclusive
0 (0,0)	= less than half of unit concerned
blank	= not applicable
2005-2006	= 2005 to 2006 inclusive
2005/2006	= average of 2005 up to and including 2006
2005/'06	= crop year, financial year, school year etc. beginning in 2005 and ending in 2006
2003/'04–2005/'06	= crop year, financial year, etc. 2003/'04 to 2005/'06 inclusive

Due to rounding, some totals may not correspond with the sum of the separate figures.

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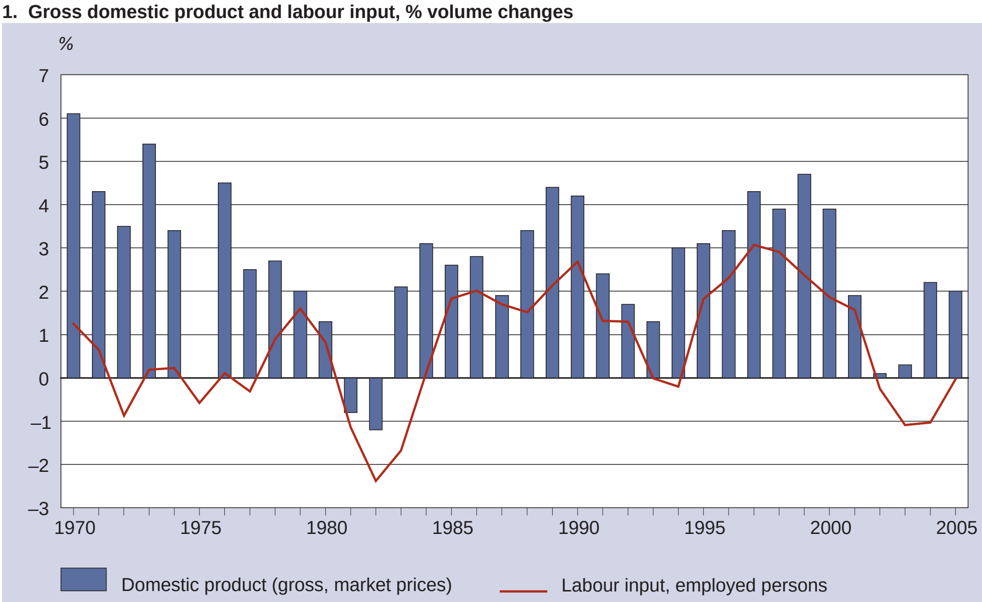
1. Introduction

With the publication of revised national accounts data for the years 1969–2005, it is now possible to describe the development of the Dutch economy on the basis of fully comparable figures according to the most recent statistical views. This chapter describes the Dutch economy between 1969 and 2005 on the basis of a number of main economic indicators.

2. GDP and labour input

The growth of both GDP and labour input experienced various peaks and troughs between 1969 and 2005, see graph 1. In the early seventies the Netherlands underwent a period of economic boom; economic growth in 1970 was more than 6 percent. Shortly after this peak year the economy started to stagnate. To begin with unemployment started to increase, but the number of new claims for incapacity benefit also rose steadily. As the persistent strong increase in productivity initially resulted in high GDP growth, this period was characterised by a jobless growth. As a consequence of the first and second oil crises (in 1973 and 1979 respectively), a crisis on the housing market and a high inflation, economic growth dropped to a low point of –1.2 percent in 1982. In addition to this, increasing benefit claims were putting public finances under increasing pressure. In order to get out of this recession, the government changed its policy rigorously.

1. Gross domestic product and labour input, % volume changes



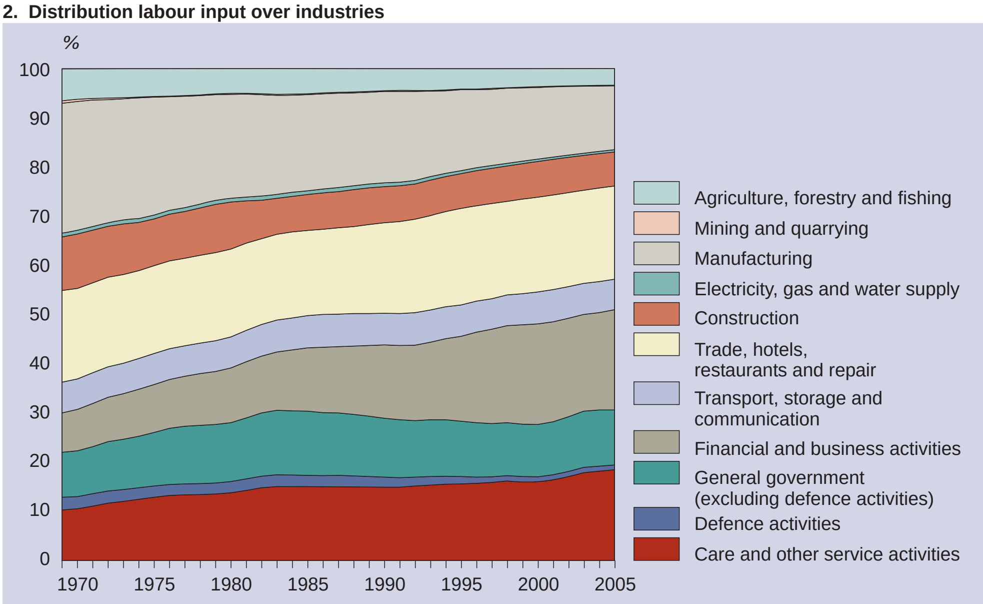
The Wassenaar Agreement (1982), in which representatives of employers and employees agreed on lower wages in exchange for shorter working hours, was an initial step towards this change. The subsequent wage restraint resulted in a smaller labour share in enterprise income with a positive effect on the reserves of the enterprises.
In 1983 the economy started to grow again. At first this growth was prompted by an increase in productivity, but the increase in labour input soon became more important. The increased labour participation was almost entirely accounted for by women.
As GDP continued to grow in the late nineties, overheating the labour market in several sectors, it became impossible to constrain wages, and they shot up. Wage rises were larger than the increases in productivity. The burst of the dotcom bubble in combination with instability on the international share markets had enormous consequences for the global

economy, and thus also for the Dutch economy. This time, however, the consequences were not as far-reaching as in the early eighties, as public finances in the Netherlands were in a much better state as a consequence of European Union (EU) policy and other factors, and the increase in unemployment remained limited. Moreover, private sector financial reserves were much higher than at the end of the eighties. The Dutch economy managed to get back on its feet again in a relatively short time.

3. Industries

The structure of the Dutch economy has changed drastically in the course of the last forty years. In 1969 manufacturing accounted for more than 26 percent of labour input, see graph 2. By 2005 this figure had dropped to barely 13 percent. In the meantime the financial and business activities had become the largest source of employment. In the space of thirty-five years their contribution to labour input increased from 8 to 20 percent. The contribution of care activities has also increased strongly. Demographic developments partly underlie this increase, as the population continues to age, but technological progress (more illnesses can be treated) and socio-economic factors (such as more crèches) have also played a part.

2. Distribution labour input over industries



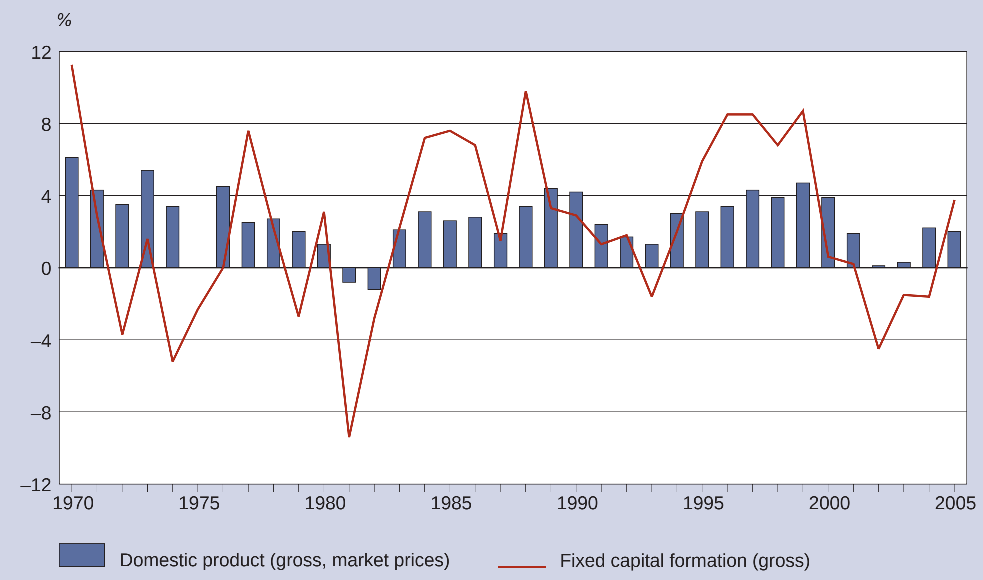
4. Fixed capital formation

Fixed capital formation has undergone strong fluctuations in the course of time. In 1970, for example, it grew strongly - by more than 11 percent - while in 1981 growth dropped to –9.4 percent. Graph 3 shows that although growth of fixed capital formation correlates strongly with GDP growth, fluctuations may be much more extreme. In almost all years there is a positive relation between the growth of fixed capital formation and GDP growth.

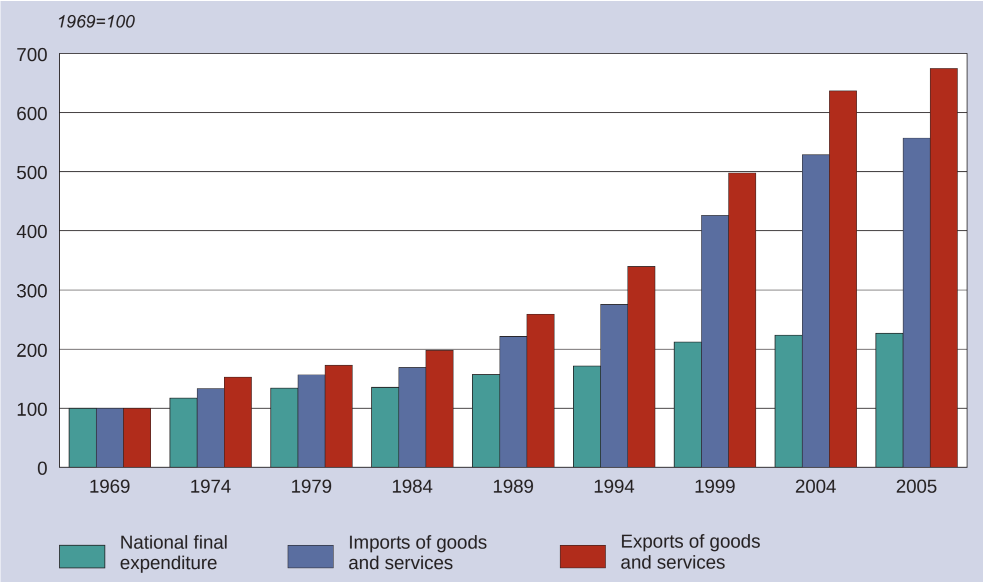
5. International trade

Increasing globalisation in combination with the opening of internal borders and the enlargement of the European Union have had a great influence on Dutch imports and exports. In the period 1969–2005 both imports and exports increased sixfold, while national final expenditure only increased by a factor of two-and-a-half, see graph 4.

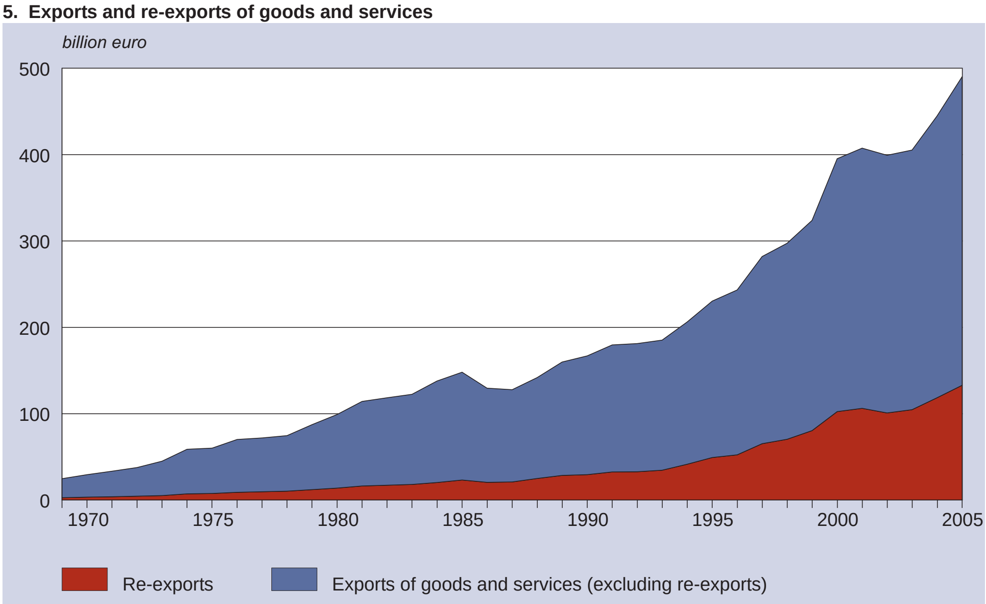
3. Growth of GDP and fixed capital formation



4. Imports and exports of goods and services and national final expenditure, volume indices (1969=100)



5. Exports and re-exports of goods and services



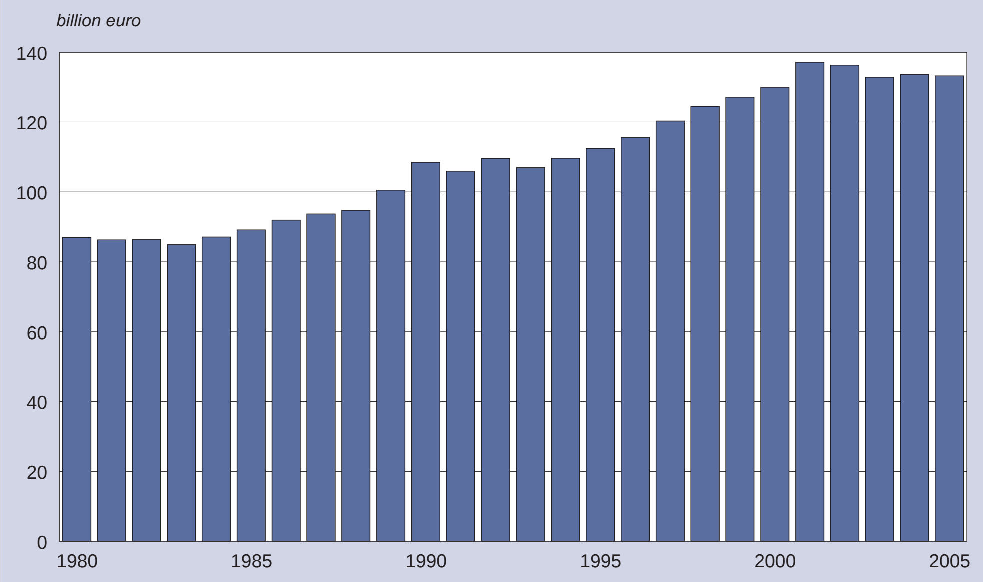
Graph 5 shows that re-exports have become an increasingly important part of imports and exports. Over the years the Netherlands has developed more and more into a gateway to other EU countries. Many products are imported from China and other countries in Asia and - after minor processing - traded further, mostly to other EU countries.

6. Households

The real disposable income of households (including non-profit institutions serving households) increased by no less than 53 percent in the period 1980–2005, see graph 6. In other words, the purchasing power of households in 2005 was about one and a half times as high as in 1980.

The development of real disposable income shows considerable fluctuations. The years 1989 and 1990 are immediately noticeable by high growth rates (more than 6 percent), and the second half of the 1990s also shows higher growth, with a peak of almost 6 percent in 2001. The first half of both the 1980s and 1990s, in particular, was a weaker period. The same holds for the years 2003 up to and including 2005, the growth of wages was very low in those years.

6. Real disposable income of households, at prices of 1980

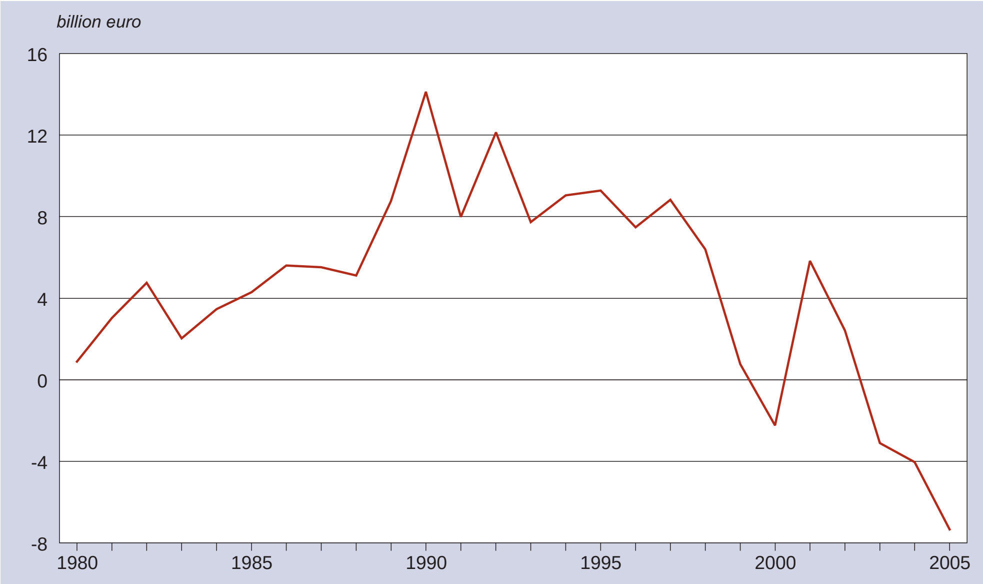


The development of real disposable income correlates largely with the growth of wages and salaries, the main components of disposable income. Income from wealth is also an important contributor: households receive interest on savings and interest-bearing securities, as well as dividends on their shares. On the other hand households are paying increasingly higher amounts of interest on loans, especially house mortgages. In addition, taxes on income and wealth and social contributions (and social benefits) are taken into account in the disposable income. The strong increase in contributions to pension schemes had a substantial effect on disposable income in 2003.
Obviously, inflation also plays a role, with peaks of over 6 percent in 1980 and 1981, and more than 4 percent in 2001. In the latter year, the growth of wages and salaries was above average and the reduction in the burden affected the payment of social contributions (revision of the tax system in 2001).

Graph 7 shows the development of the withdrawable savings, that means savings exclusive of savings on pension funds and life insurance companies. Withdrawable savings of households showed a clear upward trend in the 1980s, peaking at just over 14 billion euro in

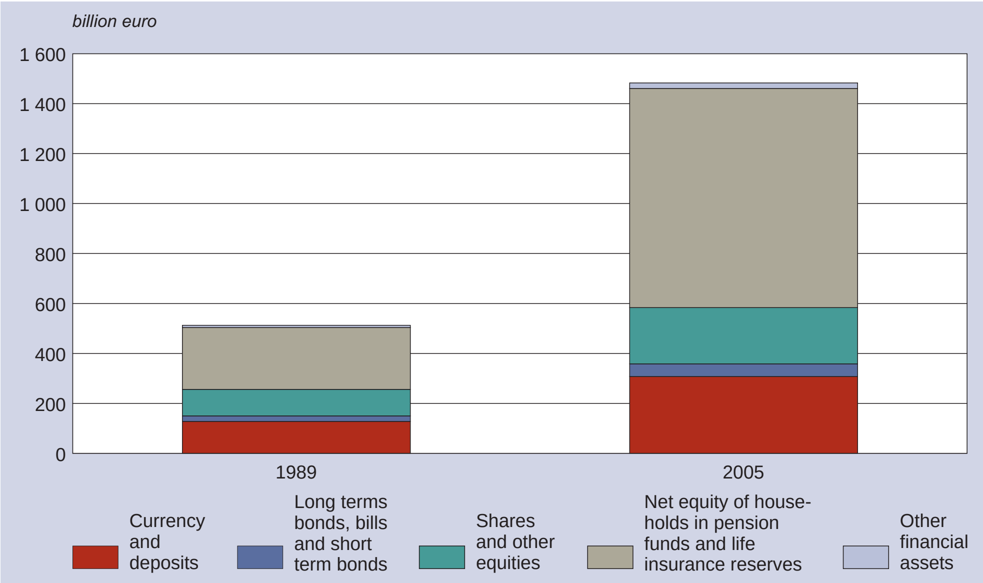
1990. This was followed by a period of stabilisation to the end of 1997, with yearly savings of about 8 billion euro. After that the total amount saved dropped quickly, falling to a net total withdrawal of 2.2 billion euro in 2000. This total net withdrawal increased further in 2003 and afterwards. This means that part of final consumption expenditure was financed from other means than income, such as second mortgages, consumer credit and share profits. In the last years of the last century not much seemed to be left of the traditional Dutch frugality, and the principle of not spending more than you've got.

7. Withdrawable savings of households

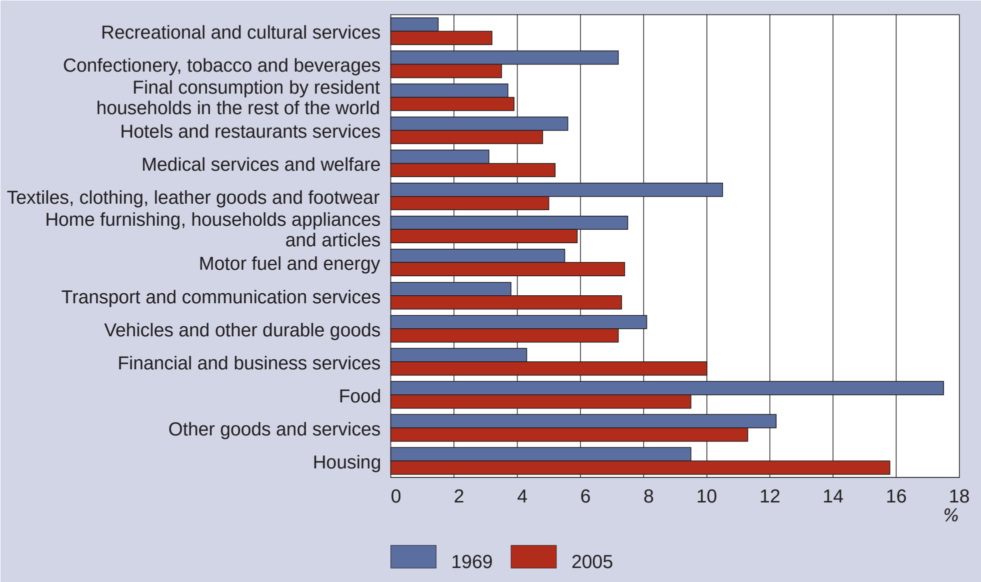


The wealth position of households has also improved strongly in the last 15 years. The value of owner-occupied dwellings has increased strongly, although this is offset by a strongly increasing debt. The total debt of households, mainly home mortgages and consumer credit, increased from 111.6 billion euro at the end of 1989 to no less than 585.7 billion euro at the end of 2005, and is thus more than the level of GDP. Financial assets of households also increased strongly in this period, from 510 billion euro at the end of 1989 to 1,483 billion euro at the end of 2005, see graph 8. Savings and the securities more than doubled in this period, while net equity of households in pension funds reserves and saving in the form of life insurance even tripled. There is thus a substantial nest egg for old age.

8. Financial assets of households, 1989 and 2005



9. Consumption distribution, 1969 and 2005



Not only did the consumption of goods and services increase, the pattern of consumption also changed considerably, see graph 9. In 2005 the largest portion of the household budget in relative terms was spent on housing: almost 16 percent, an increase of more than 6 percentage points from 1969. Households now also spend substantially more on financial and business services: 10 percent in 2005, an increase of more than 5 percentage points since 1969.

In 1969 food and clothing accounted for the largest amounts in the household budget: 28 percent together, almost twice as much as in 2005. What is also noticeable is that spending on cars, other durable consumer goods and foreign travel has hardly changed in relative terms. Relative spending on confectionery, tobacco and beverages has more than halved, whereas spending on transport and communication services, and on medical services and welfare has increased considerably. The latter increases are mainly the result of strongly increased costs for health care and welfare and the advent of the Internet and mobile telephony.

7. General government

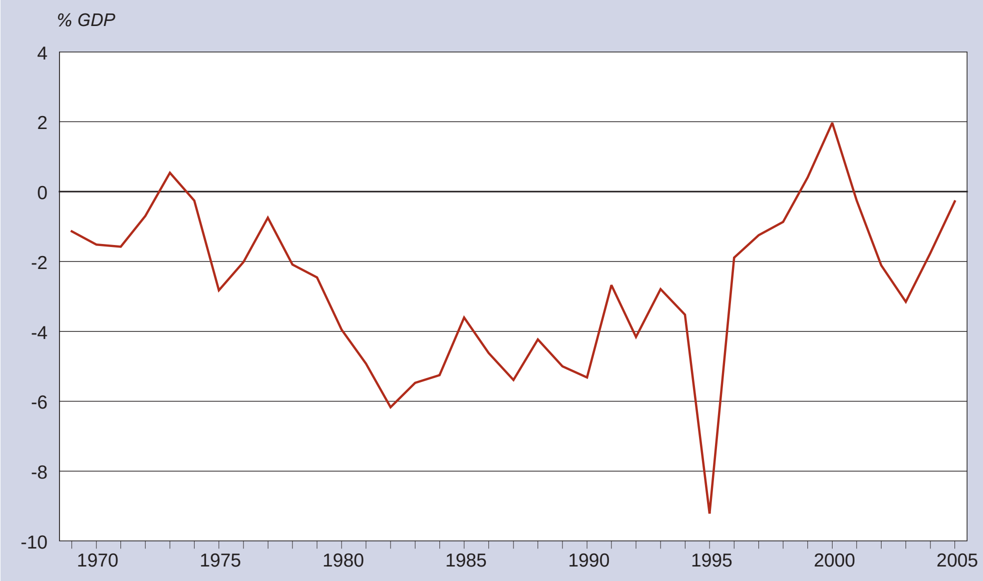
Government deficit and government debt are two important pillars of European monetary policy. The Stability and Growth Pact of the countries in the Economic and Monetary Union (EMU) formulates criteria which may not be exceeded. The yearly government deficit (EDP deficit) must be below 3 percent of GDP and the government debt (EDP debt) has to show a decreasing trend so that in the long term, it will fall to below 60 percent.

Government deficit

The strict European rules together with the very favourable economic developments and the accompanying tax revenues resulted in a budget surplus in 1999.
Graph 10 shows the net lending/net borrowing of the general government for the years up to and including 1989 and the EDP deficit for the years 1990–2005. This deficit is calculated from 1990 onwards. In 1995 the EDP deficit was once-only strongly negatively influenced by the redemption of specific long-term liabilities towards housing corporations. Apart from 1999, the government deficit showed a surplus in only two other years. In 1973 a strong increase in natural gas revenues contributed to the surplus, and in 2000 government revenues rose substantially as a result of the one-off sale of UMTS frequency licences.

The sharp drop on the general government budget after the first oil crisis in 1973 is immediately noticeable in the graph. The deficit shot up and in 1975 nearly reached the later 3 percent norm of GDP. The second oil crisis in 1979 had a much worse effect on the economy than the first crisis: economic standstill, unemployment and again a sharp rise government deficit. In 1982 the government deficit even rose to an alarming 6 percent. Although this was followed by an upward tendency, after 2000 the deficit increased again to 3.1 percent in 2003, which means that the Netherlands exceeded the European criterion for the budget deficit.

10. Net lending/net borrowing / EDP deficit



Government debt

Government deficits are generally financed by the issue of public loans. The government debt as a percentage of GDP (the debt quota) decreased from about 50 percent in 1969 to just over 35 percent in 1977. This decrease was the result of economic growth on the one hand - GDP grew faster than the debt - and of tapping new sources of income, such as natural gas, on the other. After 1977 the government debt increased quickly as collective spending rose sharply with the increasing pressure of social benefit claims. The government debt reached its peak in 1993, at a level of almost 80 percent of GDP. Afterwards the debt quota decreased, partly because revenues from the privatisation of government enterprises were used in repayment.