

MR SCHOLAR

Prime Minister

①

For lunch tomorrow.

ms 1/3

ms

THE NETHERLANDS

The Netherlands has gone from being a low to a high unemployment country - from average to high in terms of its public deficit.

Output has declined consistently since 1980 and is likely to fall further this year.

Unemployment is still increasing and the unemployment rate will be 14% this year - about three-quarters of a million people (it was 4.5% in 1979). But there is a great deal of hidden unemployment and if that were included, the OECD concluded that "the unemployment rate would be the highest in the industrialised countries."

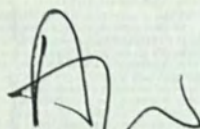
The market sector is very hard-pressed to finance large numbers of unemployed, pensioners, disabled and public employees. Employment in the market sector currently amounts to only 45% of the total number of income claimants. Government expenditure in Holland in 1980 was 62.5% of GDP, compared with an average of 40% for all OECD countries. (The social security system provides for a guaranteed minimum income of about £500 a month.)

Profitability in the non-energy sector is the worst level of OECD. Consequently, business-fixed investment has been at the lowest level of OECD.

Unfortunately, the Government cannot cut the public deficit and business taxation, in order to increase profitability, simultaneously; but most analysts believe that they should give priority to reducing the deficit to establish credibility for their policy in the medium term.

Another important ingredient in the Dutch decline is thought to be the policy of the Dutch economic planners in deliberately constraining gas production and the expansion of markets at a time when they were buoyant. The economic planners insisted that gas output be limited for fear of exhausting the known reserves too quickly.

The highly depressed state of the Dutch economy, however, has given rise to a balance of payments surplus on current account. This has given rise to the rather absurd suggestion by Helmut Schmidt that Holland, along with Japan, Britain and Switzerland, should embark on an expansionist policy!!



ALAN WALTERS