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The Netherlands

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THE STRUCTURE OF THE NETHERLANDS TAX SYSTEM SINCE THE SECOND WORLD WAR

Introduction: Characteristics of the Netherlands Tax System

The tax system of the Kingdom of the Netherlands is characterized by a high degree of centralization of tax powers in the hands of the state, and by its heavy reliance on direct taxes on income and property. Since the middle of the nineteenth century, the taxing powers of the local authorities (municipalities and provinces) have steadily shrunk so that today the taxes levied by these authorities are only of minor quantitative importance. Within the European Economic Community, the percentage of direct taxes is much higher in the Netherlands than in Italy and France, and is somewhat higher than in Western Germany. This is due primarily to the heavy emphasis given to personal income taxation in the Netherlands where, in 1959, 38.8 per cent of total tax revenue was derived from this source. The comparable ratios for Western Germany, Italy, and France were 23.0, 20.0, and 13.7 per cent respectively.

The explanation of the greater emphasis placed on personal income taxation in the Netherlands probably is found mainly in the systematic efforts that have been made in this country since the end of the nineteenth century to do as much justice as possible to the

NOTE: I am very much indebted to Mr. J. J. Hof, tax-counsellor at The Hague, who did much highly useful work in compiling the required material for the greater part of the first section and parts of other sections of this report. Moreover, I wish to acknowledge the kindness of the directors and the staff of the Central Planning Bureau of the Netherlands Government who wrote a note on the influence of tax reductions on investment which is added here as an appendix. All the opinions expressed in this paper are entirely my own.

For conversion purposes, 1 guilder = 27.6 U.S. cents, or f 3.62 = \$1.

principle of ability to pay by means of progressive tax rates. These efforts were successful, first, because of a relatively high level of education of both taxpayers and tax administrators, and second, because of the country's relatively high standard of tax morals. Tax fraud is certainly not unknown in the Netherlands, but it is committed on a much smaller scale and combatted far more effectively than in many other countries of the world.

It is highly probable, however, that in the near future the relative importance of direct taxation in the Netherlands will decline somewhat. It is becoming more and more clear that the great stress on the progressiveness of income tax rates could have harmful incentive effects and therefore could endanger economic growth. Furthermore, the necessary process of harmonization of the tax structure of the six EEC countries will probably cause the Netherlands to bring its tax structure more closely into line with those of its EEC partners.

One major point of difference between the tax system of the Netherlands and the systems of other European countries should be pointed out. By far the greater part of the social security provisions in the Netherlands are financed through social insurance systems, with premiums paid wholly or partly by the insured persons. The national social insurance system covers the risks of old age, widowhood, orphanage, unemployment, disablement, illness, expenses for medical assistance, and children's allowances. The social insurance premiums paid by households and employers to cover these risks amounted, in 1961, to 9 per cent of net national income at market prices (total tax revenue in the same year represented 26 per cent of NNP at market prices). Since the financing of these social security expenditures is generally effected outside the regular budget, and since the charges themselves are not considered as taxes, they are not discussed in this report.

Postwar Changes in the Netherlands Tax System

The Netherlands tax system underwent rather radical changes during the five years of German occupation, when the occupying forces tried to bring it more into line with the German one. Among the "German" levies introduced at this time were the *property tax*

on corporations, which amounted to 0.5 per cent of the net wealth of companies, and the *enterprise tax*, which amounted in most cases to 12 per cent of the net yield of the *enterprise levy*, a tax imposed at a 4.5 per cent rate on the amounts of wages paid by employers. Shortly after the liberation of the country in 1945, a series of extraordinary measures came into force, in part to make good important arrears in taxation, and in part to destroy excess liquidity. These measures included the tax on accretion of capital, which was enacted in September 1946, and the one-time capital levy, which was enacted in July 1947.

Soon after the end of the war, however, the government appeared to be aware of the growth aspects of taxation. The first postwar Minister of Finance, Dr. P. Liefstinck, announced a revision of the tax system, based on the consideration "that the taxes levied now on industry are so onerous that they hamper the expansion of business activity and notably the willingness to bear risks." Shortly thereafter the Tax Revision Act of 1947 reduced the rate of the company tax, abolished the property tax on corporations, and adjusted personal income tax rates in such a manner as to increase the burden on the higher income classes and to lighten the burden on the lower income classes. The setting aside of tax-free reserves from profits was also made possible for all taxes on profits and for all legal forms of enterprise. These reserves were allowed for the equalization of unequally distributed costs, for the covering of risks on one's own account, and for the covering of future losses. The general rate of the turnover tax was increased from 2 to 3 per cent, and the rates of death and gift taxes were increased, especially as to acquisitions by linear descendants. Also during this period, various "German elements" not fitting into the Dutch tax ideology were gradually eliminated.

Thanks to the rapid increase in production, Marshall Plan aid, and drastic internal measures to eliminate excess liquidity, both internal and external equilibrium could be considered to have been restored in 1950. Yet, in view of the rapid population increase which necessitated more job opportunities, and of the balance-of-payments problem created by the decline in foreign aid, there was a pressing need for more investment. The Tax Revision Act of 1950

TABLE 1
Review of Accelerated Write-Offs for Depreciation
as Allowed by Tax Laws

Means of Production	Assets Acquired, Improved, Ordered, or Contracted Out Since:					
	1/6/49	1/1/52	1/1/53	1/11/55	1/1/59	30/4/60
Built-on properties	33 $\frac{1}{3}$	10	10	10	10	6
New factories	33 $\frac{1}{3}$	33 $\frac{1}{3}$	33 $\frac{1}{3}$	10	16 $\frac{2}{3}$	6
Passenger motorcars	33 $\frac{1}{3}$	10	10	10	10	0
Office inventories	33 $\frac{1}{3}$	10	33 $\frac{1}{3}$	10	10	0
Nonmaterial assets	33 $\frac{1}{3}$	10	33 $\frac{1}{3}$	10	16 $\frac{2}{3}$	8 $\frac{1}{2}$
Other means of production	33 $\frac{1}{3}$	10	33 $\frac{1}{3}$	10	16 $\frac{2}{3}$	8 $\frac{1}{2}$

SOURCE: *Kluwers Fiscaal Zakboek*.

sought to bring this about mainly by granting more generous depreciation allowances. Write-offs for depreciation were permitted at the time of the placing of an order for a depreciable asset, and an initial allowance equal to one-third of the cost of the asset was granted. Since the total amount of depreciation that could be taken was not changed by these provisions, the effect was only one of tax postponement. The shift in the time of the tax obligation did, however, have an equalizing effect on profits, facilitated the financing of investments, and provided an interest advantage. These provisions for accelerated depreciation have since been maintained, although the precise amount of the initial allowance has been changed repeatedly, as is shown in Table 1.

The 1950 Act also permitted a once-only revaluation of certain instruments of production, the prices of which had risen substantially since the beginning of the Second World War. The book value of movables acquired before January 1, 1942, or ordered before May 10, 1940 and delivered at prices quoted before January 1, 1942, might be doubled. For improved properties a similar regulation came into force, which was only of importance for rather rapidly depreciating buildings. Later increases in replacement values have not been accepted for fiscal revaluation. Until now, the gov-

ernment has consistently rejected all proposals for write-offs on the basis of replacement value, and for the application of the "base-stock system" to durable means of production. The application of this system in the assessment of the value of stocks was, however, made possible in 1950 when the legal concept of profits was changed so as to prevent the taxation of "sham profits" resulting from inflationary movements in the book values of the "base" part of stocks. This action eliminated an obstacle to the financing of investment from profits during an era of creeping inflation. The 1950 Act also lengthened the loss-carryforward period from two to four years, and at the same time abolished the provision of tax-free reserves for the covering of future losses. Finally, the "German" enterprise tax was repealed, and the maximum rate of the company tax was raised to 36 per cent for the year 1949, and to 40 per cent for the year 1950.

Following the Korean crisis of 1950, the Netherlands, like other NATO countries, adopted and carried out a program for strengthening its military defenses. To pay for these additional military outlays, the maximum rate of the company tax was increased to 52 per cent, and the Minister of Finance, in concert with the Minister of Economic Affairs, was authorized to restrict the accelerated write-off for depreciation to 10 per cent. For the years 1951 and 1952, the personal income tax was increased by a temporary extra tax on business profits ranging from 5 to 7.5 per cent and, until 1955, the rate of the property tax was raised from 0.5 to 0.6 per cent.

A substantial improvement in the financial situation during the years 1952 and 1953 led to a new series of tax measures in 1953, the objective of which was to increase long-run employment, principally through further industrialization of the country. It was assumed by the government that a lightening of tax burdens would yield more revenue as a result of an accelerated expansion of production and income. An important new element was introduced into the personal income tax and the company tax: the possibility of investment rebates. For five successive years, 4 per cent of the total cost of acquiring or producing durable means of production could be deducted from profits before calculating the tax. These investment rebates did not reduce the taxpayers' basis for depreciation or acceler-

TABLE 2
 Frequency of Change in Law on Investment Rebates
 and Size of Deductions Allowed

Periods of Investment (ordering or production)	Number of Tax-Law Alterations	Percentage of Investment Deductible
April 1, 1953 to November 5, 1956	5	4
November 6, 1956 to May 20, 1958	0	0
May 21, 1958 to December 31, 1958	4	4
January 1, 1959 to April 29, 1960	2	8
Since April 30, 1960	2	5

NOTE: Special regulations were made for investments in ships and planes.

ated depreciation, and they were allowable in years of losses as well as in years of profits. The cost of acquiring good will, patents, and other rights were included in durable means of production and were eligible for investment rebates. These rebates were also applicable to investments for the replacement of old equipment, and for the purchase of second-hand equipment and machinery. Excluded were unimproved properties, dwellings, securities, and low-value assets suitable for immediate write-off.

Since 1953, the system of investment rebates has been altered frequently (Table 2).

While the system was intended to be of a "structural" long-term character, which would encourage long-term investment, the opportunity to vary this system of rebates has been made use of since 1953 as a most effective instrument of anticyclical tax policy. Notably in 1956, when internal inflationary forces had led to national overspending, the government used the temporary suspension of the investment rebates as a rather drastic anticyclical weapon. Otherwise, the practice of allowing investment rebates continues to serve as an instrument of growth policy.

The 1953 legislation also explicitly prolonged the possibility of accelerated depreciation, and extended the period of loss carryforwards from four to six years. Moreover, the offsetting of losses against prior year profits was made possible for the first time in

1954. Finally, in order to reduce risks for new enterprises, the offsetting of initial losses was made possible for enterprises established after 1953: the unsettled initial losses incurred during the first six fiscal years were made eligible for compensation without any restriction.

In order to encourage further industrialization, the income tax on capital gains resulting from the sale of securities and immovables was abolished, as was the temporary tax on business profits. Income tax rates were adjusted downward from 1954 on, with rather important decreases in the marginal rates for persons in the middle income groups. In the spring of 1955, the Minister of Finance introduced a new bill which aimed at a further lightening of personal tax burdens, the changes which came into effect in that year involving an estimated total revenue reduction of 500 to 550 million guilders. Personal exemptions were increased, and all bracket rates were reduced by 6 percentage points. At the same time, there was a slight reduction in company tax rates, with the maximum rate being set at 43 per cent from 1955 on.

The turnover tax acquired a new legal status by an act of 1954 which is still in force. The cascade system was maintained, although deliveries from traders to individuals are tax-free. Sales from manufacturers are generally taxed at a rate of 5 per cent; but when a manufacturer sells directly to individuals, the rate is 4 per cent. Sales by traders to other than individuals are subject to a 0.75 per cent tax. Services are taxed at a rate of 4 per cent, and sales of immovable and transport services at a 3 per cent rate. Imports are taxed by equalizing turnover taxes. In the case of exports—with the exception of exports of durable means of production—the turnover tax is remitted through drawbacks. The 1954 changes in the turnover tax rates reduced the revenue from this source by more than 140 million guilders.

Soon after these tax reductions became effective, it became clear that their income-increasing effects were coinciding with the stimulus being given to spending by important wage increases, as well as that resulting from sharp increases in investment by industrial concerns and local authorities. This coincidence led to a state of national "overspending," which was followed by a rapid deterioration

in the balance of payments. These developments made inevitable a national program of anti-inflationary measures, which was introduced in 1956.

This program, consisting of reductions in government outlays, tariff increases, and some increases in tax rates, improved the balance of payments situation during 1957. The company tax rates were increased by 4 percentage points, to 44-47 per cent, and investment rebates were temporarily suspended. The rates of some indirect taxes were also increased. The revenue effect of all of these changes was estimated to be an increase of about 250 million guilders.

As will be discussed in more detail later in this paper, the Cabinet which came into power after the elections of 1959 introduced for the first time a global program of long-term budgetary planning, involving as a fundamental rule that the rate of increase of the central government's expenditures ought to be smaller than the rate of increase of national income. In order to eliminate as much as possible of the negative incentive effects of direct taxes, recourse was had to more or less periodical cuts in the progressive rates of the income tax (including the wage tax as a prepayment).

Due to cyclical circumstances, however, notably the continuation of international boom conditions with a strong impact on the Netherlands economy, the 1959 Cabinet could carry out only a rather small part of its intended tax cuts during its four year term.

On January 1, 1960, the income tax for unmarried people was reduced. Later, the government announced an over-all cut in income tax rates for the middle of 1961, provided that cyclical circumstances would permit it to carry out this intention by that time. In fact, however, cyclical strains were increasing during 1961, partly as a result of an unexpected wave of cost-increasing reductions of working hours. Therefore, the intended tax cut was realized only in the middle of 1962. Exemptions were increased, and both average and marginal income tax rates were reduced for all income classes.

The termination of United States military aid interfered with the government's plans to reduce the company tax to its prewar level. In order to cover the cost of additional military outlays, the rates of the company tax had to be held at 42-45 per cent, and a

special import duty on mineral oils had to be introduced. A special reduction of the income tax on the incomes of married women was enacted in 1961. This change can be considered as a measure furthering growth, since it was intended to reduce the reluctance of many women to take outside jobs. Other changes in income and company taxes furthering growth have been projected in bills introduced into Parliament since 1958, but these bills have not yet been enacted.

Current Taxes and Tax Burdens

As was explained earlier in this paper, by far the greater part of the Netherlands tax revenue accrues to the central government; the taxes levied by the local authorities are of minor importance only.

The quantitative importance of the various taxes levied by the central government is shown by the revenue figures in Table 3.¹ The figures in this table are net figures; they show state revenues after deduction of the percentages of the revenues paid by the state to the Municipal Fund and the Provincial Fund. At present, from all taxes levied by the central government (with the exception of the motor vehicle tax and the state surtax on the estate tax), 12.7 per cent is paid to the Municipal Fund and 0.785 per cent to the Provincial Fund.

The continuing predominance of the personal income tax is evident from the fact that in 1962 this tax (together with the wage tax and the dividend tax, which are prepayments on the income tax) yielded a net revenue of 3,981 million guilders, or 40 per cent of the total net tax revenue for the state. The company tax yielded 15.2 per cent of the net total in 1962. In the sphere of cost-increasing taxes, the turnover tax is predominant, followed by import duties. In 1962, 18.7 per cent of the net total of state tax revenue was derived from the turnover tax and 10.7 per cent from import duties.

Some insight into present individual income tax burdens can be gained by a brief review of the trend of effective rates since 1948,

¹ The totals in this table differ from those in Table 9, in that they refer to revenues attributed to fiscal years, whereas the figures in Table 9 refer to cash receipts.

TABLE 3
 Revenue from Taxes Accruing to the State
 (million guilders)

Kind of Tax	1950	1953	1956	1959	1960	1961	1962
I. Taxes on income and property							
Income tax	776	945	1,300	1,638	1,825	1,990	2,185
Wage tax	601	596	796	1,106	1,309	1,517	1,666
Dividend tax	46	60	67	113	103	118	130
Property tax	74	84	92	127	156	163	143
Company tax	440	944	857	1,106	1,247	1,271	1,514
Tax on company directors	6	9	14	16	19	21	22
Extra div. tax and tax on fin. reorg.	0.1	0.4	—	—	—	—	—
Death and gift tax	68	77	107	109	133	149	160
Lottery tax	—	—	—	—	—	0.3	3
Subtotal	2,011	2,715	3,233	4,215	4,792	5,229	5,823
II. Cost-increasing taxes							
Equalization levy	233	240	363	—	—	—	—
Motor vehicle tax	47	83	91	136	151	173	190
Import duties	355	370	610	726	830	907	1,060
Statistics fee	7	—	—	—	—	—	—
Excise taxes	426	468	528	657	706	731	769
Turnover tax	870	1,005	1,090	1,326	1,554	1,635	1,860
Stamp duty	20	30	43	55	60	68	69
Registration fee	37	41	63	109	100	122	125
Real estate tax (sur-tax for the state)	—	—	—	—	38	38	38
Subtotal	1,995	2,237	2,788	3,009	3,439	3,674	4,111
Grand total	4,006	4,952	6,021	7,224	8,231	8,903	9,934

SOURCE: Ministry of Finance.

TABLE 4
Income Tax Liabilities for Married Couple with Two Children,
Selected Years, 1948-63
(guilders)

Income	1948	1951	1956	1960	1963
1,500	.80	—	—	—	—
2,000	35.40	—	—	—	—
2,500	87.10	18	—	—	—
3,000	157.50	66	—	—	—
3,500	231.50	123	44	—	—
4,000	314.50	198	105	105	22
6,000	796	572	390	390	279
9,000	1,720	1,314	976	976	796
12,000	2,817	2,325	1,752	1,752	1,488
18,000	5,448	4,792	3,909	3,909	3,421
25,000	9,004	8,337	7,114	7,114	6,427
40,000	17,748	17,074	15,214	15,214	14,238
60,000	30,684	30,005	27,316	27,316	26,098
120,000	73,845	73,155	67,857	67,857	66,029
200,000	133,832	133,142	124,290	124,290	122,340
Maximum marginal rate (per cent) ^a	75	75	70.5	70.5	70.5

SOURCE: Ministry of Finance.

^a Until 1962, applied to parts of income exceeding 135,000; from 1962 on, applied to parts of income exceeding 150,000.

the year in which statutory rates, as a whole, reached their highest level. The development of the individual income tax rate structure during this period is illustrated for a married couple with two children in Table 4 (this is more or less the standard family size in the Netherlands). As compared with the 1948 level, the 1963 income tax liabilities of these families would seem to have been reduced considerably. For example, the effective rate for a family with an income of f 3000 appears to have decreased from 5.25 per cent to nil, the rate for a family with an income of f 6000 to have declined from 13.27 per cent to 4.65 per cent, that for a family with f 18,000 from 30.27 per cent to 19 per cent, and that for one with an income of f 120,000 from 61.54 per cent to 55 per cent.

But in judging these tax cuts, the effect of inflation must be taken into consideration. The cost-of-living index rose by about 67 per cent from 1948 to 1963. Therefore, a 1948 income of f 3000 ought to be compared with a 1963 income of f 5000. Whereas in 1948 a married couple with two children had to pay a 5.25 per cent income tax on an income of f 3000, in 1963 the effective rate of tax on a comparable family income of f 5000 was 2.82 per cent. For a similar family with an income of f 6000 in 1948, as compared with one of f 10,000 in 1963, the effective rate decreased from 13.3 to 10 per cent. If we compare the families with incomes of f 18,000 and f 30,000 in 1948 and 1963, respectively, the rate appears to have decreased slightly from 30.3 per cent to 29.7 per cent. These figures show that over the whole fifteen-year period from 1948 to 1963 the cuts in income tax rates have somewhat outweighed the tax-progression influence of inflation on individual tax burdens in the lower and middle income classes. The lower income classes have benefited most. For the upper income classes, the burden of the income tax, as calculated on the basis of real income, appears to have remained almost unchanged. In 1948, for example, an income of f 120,000 earned by a family with two children, was taxed 61.5 per cent, whereas a comparable 1963 income of f 200,000 was taxed 61.2 per cent.

Although the property tax is a relatively minor source of revenue, it was used as an anti-inflationary instrument from 1958 to 1961, when the rate was temporarily raised from 0.5 to 0.6 per cent. Prior to that time, however, exemptions for unmarried persons had been increased from 7,500 to 22,500 guilders, and for married couples from 15,000 to 30,000 guilders, thus bringing about a slight decrease in tax burdens. Moreover, since 1955 an additional exemption of f 20,000 has been granted to taxpayers at the age of 65 years, and to disabled persons.

The company tax, which is currently imposed at a rate of 45 per cent on total profits if they exceed 50,000 guilders, has been adjusted a number of times since the end of the war, when the maximum rate was 33.3 per cent. Rates were raised in 1949 and 1950, following the repeal of the "German" enterprise tax, and ranged from 45

per cent on profits under 50,000 guilders to 52 per cent on profits in excess of 350,000 guilders during 1951 and 1952. By 1955, the company tax rates were down to 40-43 per cent. For the inflationary period, 1957-62, they were raised by 4 percentage points, and then reduced by 2 percentage points for 1963.

Under the influence of socialist ministers of finance, the rates of death and gift taxes were raised in 1947. The maximum rates for the various categories of beneficiaries (six groups, ranging from children and spouses to nonrelatives) were at that time increased from 7 to 17 per cent for the lowest group, and from 37 to 54 per cent for the highest one. From 1951 to 1955, even higher rates were applied.

The rates of import duties have always been rather low in the Netherlands, since free trade is one of the fundamental necessities for the economic expansion of a country which depends for its existence on a high level of imports and exports and on a great variety of transit activities. As a member of the customs union, first with Belgium and Luxemburg and later with the six EEC countries, the Netherlands has lost some of its autonomy in fixing import duties. But it continues to further all efforts to achieve drastic reductions in the level of the outer tariff of the six.

Excise taxes are levied at present on wine, spirits, beer, sugar, and tobacco. As previously noted, the rates of the turnover tax generally range from 4 to 5 per cent, although manufacturers' sales of "less necessary" goods are taxed at 10 per cent, and their sales of "luxuries" at 18 per cent. Moreover, a list of more or less necessary goods is exempt from all turnover taxes.

The motor vehicle tax, 45 per cent of which is paid by the state to the provinces, has undergone various changes of a more or less countercyclical character since the war. For motor cars the present rates vary from f 48 for the smallest cars to about f 12 per 100 kilograms for the biggest ones.

Since 1960, the state has levied a surtax on real estate. The basic real estate tax, although authorized by the central government, is a municipal levy, like the personal property tax which is based on the rental value of dwellings and on the value of furniture. The most

TABLE 5
Taxes and National Income
(million guilders)

Year	Net National Income at Market Prices	Central Government Taxes ^a		Total Tax Revenue ^b	
		Amount	Percentage of NNI	Amount	Percentage of NNI
1946	9,930	2,419	24.4	2,685	27.0
1947	12,070	3,223	26.7	3,425	28.4
1948	14,230	3,314	23.3	4,205	29.6
1949	15,970	3,707	23.2	4,510	28.2
1950	17,740	4,021	22.7	5,245	29.6
1951	19,600	4,778	24.4	5,545	28.3
1952	20,450	5,054	24.7	5,620	27.5
1953	21,840	4,995	22.9	5,775	26.4
1954	24,540	5,098	20.8	6,300	25.7
1955	27,540	5,719	20.8	6,875	25.0
1956	29,560	6,032	20.4	7,435	25.2
1957	32,000	6,574	20.5	7,765	24.3
1958	32,390	6,447	19.9	8,070	24.9
1959	34,690	7,190	20.7	8,775	25.3
1960	38,540	8,228	21.3	9,770	25.4
1961	40,190	8,902	22.1	10,545	26.2
1962	42,700	9,312	21.8	11,070 ^c	25.9 ^c
1963 ^c	45,800	9,768	21.3	11,540	25.2

SOURCE: Memoranda on the State Budget.

^a Net cash receipts.

^b Amounts to be imputed to the fiscal year, levied by the state and by local authorities.

^c Estimates.

important municipal taxes are, however, the pavage tax, with a legal maximum of 6 per cent of the estimated yield of built-on property and 3 per cent of that of unimproved property, and the entertainment tax, the rates of which vary considerably.

The postwar changes of the total tax burden, as measured by the ratio of tax revenues to national income, are shown by the figures in Table 5.

It appears that the over-all tax burden reached its peak in 1948,

when total tax revenue, influenced by the imposition of the extraordinary levies dealt with earlier in this section, amounted to 29.6 per cent of net national income at market prices. After that the tax burden decreased gradually until 1955. Since 1955 the total over-all tax burden has remained fairly constant, at a level fluctuating around 25 per cent of national income, notwithstanding attempts to lessen the burden of the personal income tax. Since 1959 the government has attempted to reduce the burden of direct taxes to such an extent as to lower gradually the total tax burden. The fact that the government has not yet succeeded in reaching this aim must be attributed to the necessity of anticyclical delays in tax cuts on the one hand, and to the necessity of financing additional expenditure resulting from the termination of U.S. military aid on the other. These matters will be dealt with more thoroughly later.

Some Distinctive Features of the Netherlands Tax System

TAXATION OF THE YIELD OF "CONSIDERABLE INTERESTS"

In order to prevent the owners of private companies, not paying dividends, from realizing untaxed profits through the sale of shares, a special provision was introduced into the income tax law in 1941. According to this statute, the taxable yield of (nonagrarian) enterprises includes profits from the sale of shares (or profit-sharing notes) of enterprises in which the seller had a "considerable interest", i.e., if he alone or with his relatives owned directly or indirectly more than one-fourth of the nominal paid-up capital of the enterprise during the course of the last five years. The profits acquired in cases of sales of shares from considerable interests may be taxed, by request, at the special rate (20-40 per cent) applicable to extraordinary earnings.

One of the main drawbacks of this regulation is that it hampers mergers of enterprises, because an exchange of shares in mergers would give rise to heavy tax obligations. In order to relieve such situations, the law provides that the regulation is applicable to cases of mergers only when resident companies acquire at least 90 per cent of the shares of another company by exchanging shares, and only when this is done in order to construct permanent finan-

cial and economic unity. In such cases, the sellers of shares have the option of immediate payment of 20 per cent income tax, or of passing on the taxable profit to the acquired shares.

FINANCIAL REORGANIZATION THROUGH REVALUATION OF CAPITAL

Since the Second World War, the government has twice sought to facilitate financial reorganizations through the enactment of special laws on the revaluation of capital.

Soon after the end of the war, it became clear that in many cases inflation had caused a great disparity between the nominal capital of companies and the net value of their invested capital. Revaluation of the capital was in such cases a prerequisite for new capital issues, especially for smaller companies having no access to official stock exchange quotations. Adjustment of the nominal value of the capital through the issue of bonus shares was, however, penalized under the tax law because the shareholders would be hit by the progressive income tax rates. In order to facilitate the attraction of capital in the market, through a preceding revaluation of capital, a law on revaluation of capital was enacted in 1951, applicable to financial reorganizations occurring prior to July 1, 1954. By this law it was made possible to limit the income tax on the acquisition of bonus shares to 20 per cent, at the request of the shareholders. This regulation was applicable only in so far as the revaluation of the capital of a company would not raise the nominal value of its paid-up capital to a higher level than two-thirds of its net asset value.

A second law on revaluation of capital was introduced in 1957, pending an inquiry into the desirability of a permanent regulation. The new law was applicable to reorganizations occurring prior to January 1, 1959. The regulation was for the most part the same as that of 1951, but there were some slight deviations. The nominal value of the paid-up capital might now be raised to 80 per cent of net asset value. In order to prevent abuses by transforming normal profit payments into the issue of bonus shares, it was now ruled that the capital had to be increased by at least 25 per cent in order for the limitation to apply.

The government appears to be of opinion that the gradual "undercapitalization" of companies is more or less of a continuing phenomenon in a growing economy. Hence, the still pending income tax bill of 1960 contains a permanent regulation concerning revaluations of capital.

TAX PROVISIONS FOR THE ENCOURAGEMENT OF SAVINGS

During the last few years steps have been taken to encourage small savings by means of special tax provisions. These include tax exemption for special premiums paid to small savers, and the removal of certain fiscal impediments to the formation of holding companies acting exclusively as investment trusts for low-income shareholders.

An act of 1961 concerning "premium savings regulations" and "profit-sharing savings regulations" for employees, grants tax-exemption for premiums not exceeding f 390 per year, on certain conditions. This act is intended to stimulate employers to further the propensity to save of their employees. The tax-free premium may not exceed 50 per cent of the savings held without interruption for four years. In cases of savings held over periods of at least seven or ten years, tax-free premiums can be granted to a maximum of 100 per cent or 200 per cent of the savings respectively. When profit-sharing regulations provide for saving of the profit shares of employees, the profit shares are tax-free.

These provisions also apply to the premium savings regulations of the government: a 1958 savings regulation for the youth (aged fifteen to twenty-five), a 1960 savings regulation for civil servants, a great number of analogous regulations from lower public bodies. A general premium savings bill for all people between twenty-five and sixty years, is under consideration by the government. For the time being, this law limits eligibility for tax-free premiums to persons with an annual income of not more than f 12,000. The savings will only be eligible for a premium in so far as they are held for four years. The premium will amount to 20 per cent and will be calculated on savings not exceeding annual amounts of f 250 (married couples: f 500). Savings for the purposes of the law will include: de-

posits at savings banks, purchases of securities, payments of life insurance premiums, redemptions of mortgage loans, and contributions to cooperative building societies.

A bill concerning tax relief for the purchase of securities, which also has not yet been enacted, includes the following provisions. Freedom from the company tax will be granted to limited liability companies, acting exclusively as investment trusts for shareholders (residents) with an income not exceeding an amount to be fixed by Royal Decree. These companies will also enjoy freedom from the dividend tax for their shareholders, freedom from registration fees, and freedom from stamp duties.

TAX POLICY AND ECONOMIC GROWTH IN THE NETHERLANDS SINCE THE SECOND WORLD WAR

General Background: Goals and Instruments of Economic Policy

The tax policy of the Netherlands government since the Second World War must be viewed in terms of the primary goals of general economic policy sought by the government. This is so because tax policy in recent years has come to be regarded by the government as one of its most important instruments for the realization of these goals.

In a sense, the balance growth of the whole national economy has been the principal aim of economic policy since the end of the war, especially since the end of the period of reconstruction which lasted about five years. However, until recently, actual policies have turned out to be inspired more by considerations of balancing the economy than by considerations of growth. In other words, short-run aims have been given precedence over long-run "structural" macroeconomic targets. It is true that the government has constantly been aware of the necessity to favor long-term development, especially by encouraging sufficient investment and by promoting the industrialization of more or less backward areas within the national territory. Nevertheless, in framing macroeconomic policy, stress thus far has

been laid primarily on anticyclical aims; the government has sought to prevent inflationary or deflationary disturbances by keeping the volume of national expenditures in balance with national resources. This it has been able to do with the help of fiscal and monetary policy, supported if necessary by wage and price policy. Up to now, no specific rate of growth of the national product has been adopted as an explicit target of economic policy. Instead, growth has been the more or less automatic result of an increasingly employed labor force combined with a rising productivity of labor.

The government's economic policy aims, as they have often been stated by the Social-Economic Council, reflect the stress on cyclical, short-run points of view. But they are similar to the aims currently being pursued by most governments of more developed countries, as well as by most international organizations for economic cooperation. They can be summarized under three main headings:

1. Maintenance of full employment, i.e., limitation of unemployment to the normal frictional level.
2. Maintenance of reasonable stability in the level of prices.
3. Maintenance of equilibrium in the balance of payments, on the understanding that the surplus on current account ought to be sufficient to cover not only capital exports but also a gradual increase in the level of foreign exchange reserves in proportion to the increase in the level of international payments.

As for the means to realize these policy aims, stress has been laid primarily on fiscal and monetary instruments: countercyclical alterations in the level of government expenditures and in tax rates and tax credits (notably investment credits), countercyclical changes in the central bank's credit policy, and countercyclical debt management policies especially aimed at skimming off excess liquidity in the capital market through the issue of more government loans than is necessary for the financing of the budget. As a supporting anti-inflationary instrument, government control of wages has been used systematically to prevent cost-push inflation. Moreover, when necessary, the government also has used price controls and even direct controls over private and public investment.

At the same time, the government has come more and more to

recognize that the above-mentioned triad of policy goals ought to be expanded to include at least two more goals, which already had in practice been given some implicit recognition: (1) a more equitable distribution of income, and (2) economic growth. The postwar extension of the social insurance system served the first purpose by increasing income transfers for the benefit of the economically weaker members of the society. As for the growth objective, an increasing interest in the long-run aspects of economic policy was becoming apparent in recent issues both of the Central Economic Plan and of the Budget Memorandum of the Minister of Finance.

A Central Economic Plan is drafted and published yearly by the Central Planning Bureau, a government agency set up soon after the war and responsible to the Minister of Economic Affairs. This plan is presented in the form of an annual survey of economic prospects. These are fitted into a consistent system of national accounts, based on alternative estimates of changes in the economic system as well as in the target variables and available instruments of economic policy. Because each Central Economic Plan is drafted for one year only, stress has been laid on the short-term aspects of economic development, although the Central Planning Bureau has been paying attention to long-term prospects and possibilities in other publications. Moreover, in recent years a certain rate of growth in GNP has been put forward in the Central Economic Plans not only as a possible, but also as a desirable, target for long-term economic policy. Up to now, the Central Economic Plan has not developed into a long-term plan for the whole national economy. But it is clear that the trend of thinking inside the Central Planning Bureau is moving in the direction of a system of planning more or less like the French, a system which would indicate the possibilities, for all private and public sectors of the economy, of a structurally balanced economic growth and of realizing specified growth rates.

As for the government itself, the main indication of growing long-term interest is to be found in the field of budgetary policy, the principles of which are annually set forth by the Minister of Finance in his Budget Memorandum. Since these principles bear heavily on the growth-furthering aspects of tax policy, they will be analyzed in the next section of this paper.

Long-Term Aspects of Budgetary Policy; the Structural Budget Margin

Long-term planning of the national budget was introduced in the Netherlands after the parliamentary elections of 1959. In the fall of 1959, Minister of Finance J. Zijlstra, in presenting his memorandum on the 1960 budget, set out the new Cabinet's views concerning the structure of long-term budget policy.

Up to now, the Netherlands government has not gone so far as to elaborate a detailed, general, long-term plan for the budget, but long-term plans for some sectors of governmental activity have been formulated. In some cases these plans were submitted to Parliament in the shape of authorization bills. The most striking example of such an authorization act is the "Delta Act," setting up a twenty-five year f 2.5 billion plan for the building of dams, dikes, etc., in the southwestern part of the country (as a result of the inundations of 1953). More often, however, long-term plans concerning defense, road building, reallocation, and education, have been discussed in Parliament on the basis of governmental notes.

The principle which explicitly underlies recent long-term budget policy was first adopted by the government in formulating the 1960 budget. It involves the determination, on the basis of estimates of the trend in the growth of real national income, of what is called the "structural budget margin." This margin being given, the Cabinet then decides whether to use it for increasing outlays or for decreasing tax burdens.

In determining the structural budget margin, a certain "structural," long-term rate of growth is accepted more or less as a datum, not as an explicit policy target. The basic rule, as formulated by Minister Zijlstra in his Budget Memorandum, may be stated as follows: the increase of the central government's expenditures and the decrease of the tax rates may jointly run into an amount equal to a percentage of the central government's revenue, based on the rate of growth in the trend of real national income. Assuming a constant annual increase of the total labor force of 1.5 to 2 per cent, and an annual increase of the productivity of labor of 2 to 2.5 per cent, the structural annual rate of growth of the real national income is esti-

mated by the Minister of Finance at 4 per cent. Owing to progressive tax rates, the annual structural increase of the central government's revenue exceeds a rate of 4 per cent per annum. The progression coefficient is roughly estimated at 1.33. On the basis of these assumptions, the annual structural budget margin is estimated as an amount equal to the potential structural increase of total revenue of about 5.33 per cent per annum.

This way of determining the structural budget margin assumes maintenance of the existing, very low level of deficit in the central government's total budget. In order to reach and maintain a high national savings ratio, the Minister of Finance is continuously trying to finance most of the central government's expenditures—on current account as well as on capital account—out of current income, mainly taxes. The issue of state loans for the financing of the budget is only of minor, or even marginal, importance. The structural budget margin, setting a limit to the expansion of expenditures and to the reduction of taxes, is so calculated as to depend only on the potential automatic increase of revenue which would result from the structural growth of national income. The implication of this is, clearly, that only tax-financed increases of outlays are deemed allowable, whereas no increase in the level of state loan issues for budgetary purposes, and therefore no shift from taxes to loans as a means of financing the budget, is intended. In this view, tax reductions are permissible only insofar as the potential automatic increase of tax revenue is not fully absorbed by increasing expenditures. For the time being, tax reductions, which would become possible if the government decided to finance a greater part of the budget through loans, are ruled out completely.

The importance of this assumption is clear. It appears to be the continuing aim of the Netherlands government to maintain a ratio of saving (and investment) to national income at a level as high as possible by means of a high level of "tax-forced savings" through the central government's budget. As Minister Zijlstra pointed out in his Memorandum on the Budget for 1963, a shift from tax-financed expenditures to loan-financed expenditures—labeled by him as a "change in the basic pattern of budgetary financing"—could become desirable in the future only if the level of private saving should in-

crease to such an extent as to exceed the sum of (1) private investment, (2) the desired surplus in the balance-of-payments' current account, and (3) the budget deficits of central and local governments. Until that situation is reached, and in view of the present uncertainty concerning the effect of an increasing per capita income on the average propensity to save, the government intends to stick to the principle that by far the greater part of the central government's expenditures ought to be covered from current revenue.

With constant progressive tax rates, the total burden of taxation—as measured by the ratio of total tax revenue to national income—would increase continuously during a period of economic growth characterized by rising per capita income. In that case, the entire structural budget margin would be available for a progressive expansion of government expenditures. Since 1959 the Netherlands government has, however, explicitly accepted as a fundamental rule for fiscal policy, that the rate of increase of the central government's expenditures ought to be smaller than the structural rate of increase of national income. This rule necessarily involves reductions in tax rates, notably in the progressive rates of the income tax and the wage tax, to a greater extent than would be necessary to eliminate only the progression effect on total tax revenue. It is clear that elimination of this progression effect by itself would require reductions in tax rates to the extent that only proportionality between total tax revenue and national income be maintained, enabling the central government's expenditures to rise proportionally with national income.

This preference for tax reductions to an extent exceeding the reductions necessary for elimination of the progression effect was based on the government's conviction that the individual burden of the progressive income and wage taxes, especially the burden on middle-class incomes, had become too heavy to be acceptable any longer either from the point of view of equity or from that of social efficiency. The rather high average tax rates on middle-class incomes, and especially the extremely high marginal rates, were viewed as penalties for extra productive efforts, which could endanger economic growth through harmful negative incentive effects. Thus, it appears that this fundamental rule for fiscal policy in the

Netherlands is mainly based on considerations of economic growth.

At the same time, however, this rule is considered by the government to be a contribution to stabilization policy. Neither windfall tax proceeds during booms nor incidental decreases of tax proceeds during recessions ought to influence the development of the government's outlays, so that the built-in stabilizing effect of the tax system is not weakened.

Meanwhile, the fact that boom conditions have prevailed since 1959 has induced the Minister of Finance to be very careful in carrying out his program for tax reductions based on the Cabinet's fundamental rule of fiscal policy. A rather substantial lowering of the rates of the income and wage taxes, planned for the middle of 1961, was put off until the middle of 1962 for reasons of anticyclical policy only.

The tax policy objectives which have resulted from the acceptance of this fundamental view of fiscal policy will be dealt with in more detail in the next section.

Central Economic Goals of Tax Policy

INCREASE OF THE NATIONAL SAVINGS RATIO

As was pointed out above, one of the main economic goals of tax policy in the Netherlands is to increase the national savings ratio (the ratio of total savings to national income) by financing most of the central government's budget through taxation.

The effort to reach and maintain a high level of national saving is motivated by the conviction that economic growth in a country like the Netherlands, with its very rapidly expanding labor force, necessitates a high level of investment in order to guarantee full employment and, at the same time, increase labor productivity as a basis for expanding real per capita income.

The rates of increase of the total population and the total labor force in the Netherlands are shown in Table 6. Relatively high birth rates (together with relatively low death rates) in the Netherlands account for the fact that the percentage increase of the total labor force per annum has remained high since the end of the war. Especially during the first postwar decade, the Netherlands govern-

TABLE 6

Total Population, Labor Force, and Unemployment in the Netherlands

Year	Total Population		Total Labor Force		Unemployment as Percentage of Potential Wage-Earners
	Average (thousands)	Percentage Increase	Man-Years (thousands)	Percentage Increase	
1947	9,632	2.35	3,594		1.9
1948	9,795	1.69	3,756	4.51	1.6
1949	9,949	1.57	3,853	2.58	2.2
1950	10,109	1.61	3,915	1.61	2.7
1951	10,264	1.53	3,951	0.92	3.1
1952	10,380	1.13	3,988	0.94	4.6
1953	10,490	1.06	4,031	1.08	3.3
1954	10,611	1.15	4,116	2.11	2.3
1955	10,749	1.30	4,178	1.50	1.6
1956	10,888	1.29	4,244	1.58	1.2
1957	11,022	1.23	4,300	1.32	1.5
1958	11,185	1.48	4,314	0.33	2.9
1959	11,347	1.45	4,347	0.76	2.2
1960	11,483	1.20	4,396	1.13	1.4
1961	11,637	1.34	4,455	1.34	1.0
1962	11,794	1.35	4,515	1.35	1.0

SOURCE: *National Accounts*, Central Bureau of Statistics.

ment tried to stimulate emigration. That these efforts were successful in years of economic recession is shown in Table 6, where it can be seen that the percentage increase of the total labor force was lowest in years of relatively high unemployment.

The fact remains, however, that the rate of growth of total population is much higher in the Netherlands than in any other EEC country (Table 7). It is generally expected that this high rate of population growth will continue for the present. Except for West Germany, where the labor force was increased very considerably after the war through the influx of refugees from East Germany, it appears also that the total labor force in the Netherlands is increasing more rapidly than in most other EEC countries.

In view of these demographic developments, it is not surprising

TABLE 7
Rates of Growth, Investment Ratios, Capital-Output-Ratios, and
Growth of Population in EEC Countries

	Nether- lands	West Germany	Belgium	France	Italy
Percentage rate of growth of GNP					
1950-55	31	54	18	24	34
1955-60	23	35	13	23	33
1950-60	61	108	33	53	78
1960-70 ^a	55	49	43	59	72
Percentage ratio of gross investment to GNP					
1950	22	19	18	16	17
1955	23	23	16	16	19
1960	24	24	18	17	22
Marginal capital-output ratio ^b					
1950-60 ^c	6.2	4.6	6.4	4.6	4.4
1960-65 ^a	4.15	3.9	3.5	2.4	2.6
1965-70 ^a	3.95	4.45	3.6	2.65	2.8
Percentage growth of population per annum					
Total population					
1950-60	1.2	1.1	0.6	0.9	0.5
1960-70 ^a	1.2	0.4	0.4	0.5	
Labor force					
1950-60	1.1	1.5	0.2	0.5	1.5
1960-70 ^a	1.4	0.0	0.3	0.7	

SOURCE: *The Prospects of the Economic Development of the EEC, 1960-1970*, Brussels, June 1962. OESO: *Manpower Statistics and Demographic Trends*.

^a EEC or OESO expectations.

^b Quotient of gross investment ratio and rate of growth of GNP per annum.

^c J. E. Andriessen, *De Economische Groei in Nederland* (Economic Growth in the Netherlands), 1962.

that the ratio of investment to GNP in the Netherlands is one of the highest in Western Europe. The necessity of high saving and investment ratios in the Netherlands is heightened by the fact that the capital-output ratio appears to be rather unfavorable (Table 7).

It would appear that the government's efforts to increase the national savings ratio by financing its outlays out of taxes ought to be more or less successful, because it seems reasonable to assume that the marginal burden of taxation will at least in part have a restrictive effect on consumption.

On the other hand, it is clear that this policy of using taxation as a means of attaining a high savings ratio is subject to certain limitations. In the first place, the burden of taxation must not be so heavy as to have important negative incentive effects. Otherwise, the high level of government savings through taxation would be bought at the price of hampering economic growth itself, with the result that the absolute level of national saving could become insufficient. Second, it is important to note that only the central government can pursue this kind of tax policy. Owing to the drastic limitations on the taxing powers of local authorities (mentioned earlier in this paper), it is almost impossible for the local authorities in the Netherlands to finance their capital outlays out of tax revenues. In fact, the local authorities are forced to stick to the classical rule of financing current expenditures from current revenue, while capital expenditures are financed through the issue of loans.

Thus, from the point of view of government savings, there is currently a substantial difference between the central government on the one hand and local governments on the other. As is shown in Table 8, the volume of saving through the state budget has been very considerable ever since the end of the war. For 1963, state savings are estimated at about 2.2 billion guilders, i.e., almost 24 per cent of the estimated total of national savings, amounting to about 9.2 billion guilders. This shows that the central government has been able to use tax proceeds in financing the greater part of its capital outlays. The local authorities, on the other hand, have been able to contribute to national savings only some tens of millions of guilders a year, an amount of negligible importance.

It should be noted, however, that the investment outlays of local authorities are not entirely financed through the issue of loans in the capital market (bonds and direct lump-sum loans). Some are financed through loans procured out of the central government's

TABLE 8
Saving and Investment by Sectors of the Economy
(million guilders)

Year	Saving by Sectors				Net Investment by Sectors				Surplus of Saving over Net Investment ^d			
	State	Local Govt.	Soc. Insur.	Enterprises ^a	Consumers ^b	State and Loc. Govt.		Enterprises ^a				
						Total	Invest. goods	Stocks ^c		Total		
1949	1,235	310	58	911	-800	1,714	480	1,212	334	1,546	2,026	-312
1950	1,377	239	75	980	-675	1,996	494	1,434	1,199	2,633	3,127	-1,131
1951	1,554	234	72	1,196	-269	2,787	576	1,392	1,088	2,480	3,056	-269
1952	2,058	154	130	803	87	3,232	546	1,247	-316	931	1,477	1,755
1953	1,516	151	179	1,227	703	3,776	934	1,679	-196	1,483	2,417	1,359
1954	1,003	205	208	1,535	1,453	4,404	839	2,332	999	3,331	4,170	234
1955	674	164	209	1,800	2,648	5,459	927	3,139	648	3,787	4,714	781
1956	1,001	115	272	1,500	2,221	5,109	1,066	4,070	723	4,793	5,859	-750
1957	1,187	144	438	1,750	2,554	6,073	1,295	4,462	910	5,372	6,667	-594
1958	789	-34	266	1,830	3,309	6,160	1,183	3,355	89	3,444	4,627	1,533
1959	1,673	-9	273	2,300	3,028	7,265	1,357	3,857	268	4,125	5,482	1,783
1960	2,090	20	240	2,250	4,040	8,640	1,490	4,550	1,400	5,950	7,440	1,200
1961	2,380	70	270	1,900	3,810	8,430	1,710	4,900	1,300	6,200	7,910	520
1962 ^e	2,180	50	190	1,860	4,070	8,350	1,930	5,220	700	5,920	7,850	500
1963 ^e	2,190	40	310	1,840	4,820	9,220	2,220	5,380	900	6,280	8,500	700

SOURCE: *National Accounts*, Central Bureau of Statistics.

^a Including government enterprises.

^b Including saving through life insurance companies, pension funds, and savings banks.

^c Including works under construction.

^d Equal to the balance-of-payments surplus on current account.

^e Estimates of Central Planning Bureau.

capital budget. By far the most important example of this method of financing local investments is to be found in the field of housing for lower income classes. The entire social housing program has been financed by the municipalities, either in the form of low-interest loans procured by them for the building societies, or in the form of construction loans for the municipalities' own account. During the period 1948-58 the municipalities had to depend exclusively on the capital market for the financing of this program; since 1958, the social housing program has been entirely financed through the making of long-term loans by the state to the municipalities.

This fundamental change in the method of financing social housing ought to be considered as an important contribution to the country's economic stability, because the municipalities are no longer forced to resort to inflationary methods of financing these investments in periods of boom and scarcity in the capital market. But at the same time, this change has also resulted in an increasing role for savings through the central government's budget. Since 1958, the state has succeeded in financing almost all of the loans to municipalities—amounting to 600 or 700 million guilders per annum—from the proceeds of taxes. This circumstance accounts in large part for the increase of the level of state saving since 1958.

The macroeconomic importance of "tax-forced saving" is illustrated in Table 9, showing the trend of saving and investment since 1950 by means of six-year moving averages. It can be seen that the total of national saving moved upward over the whole period under consideration. The quantitative importance of the government's contribution to national saving declined somewhat until 1958. Since that time, however, the state's promotion of saving by means of taxation has raised the percentage contribution of all government saving to the national total.

The difference between the financial behavior of the state on the one hand and of the local authorities on the other is further illustrated by the budgetary accounts shown in Table 10. Whereas the state budgets have shown considerable surpluses on current account since 1949, the municipal budgets reflect an effort to maintain a balance between current outlays and current revenue.

Tables 11 and 12, showing the cash budgets of the state and the

TABLE 9
 Saving and Net Investment in Percentages of Net National
 Income at Market Prices
 (six-year moving averages)

Six Year- Periods	Saving by Sectors			Net Investment by Sectors			Balance- of- Payments Surplus on Current Account ^c
	State and Local Author- ities	Enter- prises and Con- sumers ^a	Total	State and Local Author- ities	Enter- prises ^b	Total	
1950-55	7.1	9.1	16.2	3.2	11.2	14.4	1.8
1951-56	5.6	11.5	17.1	3.4	11.3	14.7	2.4
1952-57	4.7	13.2	17.9	3.5	12.0	15.5	2.4
1953-58	3.9	14.5	18.4	3.7	13.0	16.7	1.7
1954-59	3.9	15.1	19.0	3.6	13.9	17.5	1.5
1955-60	4.1	15.7	19.8	3.7	14.2	17.9	1.9
1956-61	4.5	15.5	20.0	3.9	14.4	18.3	1.7
1957-62	5.0	15.4	20.4	4.0	14.2	18.2	2.2
1958-63	5.3	15.2	20.5	4.1	13.7	17.8	2.7

SOURCE: Memoranda on the State Budget.

^a Including saving through government enterprises, social insurance funds, life insurance companies, pension funds, and savings banks.

^b Including investment in stocks and works under construction.

^c Saving minus net investment.

local authorities, as well as the way in which they were financed, illustrate particularly well the great difference between the loan policies of the state and of the local bodies. In most years since the war, the central government's loan activities have resulted in a "liquidity surplus." Through the issue of securities, the state absorbed more money than was necessary to finance its expenditures. For most years the total cash budget of the state showed a surplus; even so, the central government issued new loans on a rather large scale for the sole purpose of skimming off threatening excess liquidity, which was mainly a result of capital import through private sales of shares and bonds to foreigners.² The cash budgets of local authori-

² It should be noted that in the financial system of the Netherlands some loan financing of state outlays always takes place automatically, because all state

TABLE 10
 Budgetary Position of the State and Municipalities
 (million guilders)

Year	State ^a			Municipalities ^b		
	Balance on Current Account	Balance on Capital Account	Balance of Total Budget	Balance on Current Account	Balance on Capital Account	Balance of Total Budget
1946	-571	-344	-915	-178	139	-39
1947	-505	-547	-1,052	-175	37	-138
1948	-325	-338	-863	-47	-319	-366
1949	890	-251	639	-24	-513	-537
1950	950	-546	404	13	-634	-621
1951	1,289	-995	294	56	-515	-459
1952	1,999	-939	1,060	37	-318	-281
1953	684	-643	41	12	-797	-785
1954	773	-751	22	-5	-735	-740
1955	283	-573	-290	87	-1,036	-1,049
1956	493	-949	-456	48	-1,171	-1,123
1957	1,038	-857	181	18	-1,550	-1,532
1958	37	-713	-676	-28	-1,354	-1,382
1959	990	-1,888	-898	-26	-1,295	-1,321
1960	1,169	-1,189	-20	-24	-1,278	-1,302
1961	494	-1,824	-1,330			
1962	703	-1,883	-1,180			
1963 ^c	828	-1,767	-939			

SOURCE: Memoranda on the State Budget; and Central Bureau of Statistics.

^a 1946-59: closed accounts; 1960-62: probable accounts; 1963: budget estimates.

^b 1946-58: closed accounts; 1959-60: budget estimates.

^c Probably the total deficit will be increased by about 40 million guilders, mainly as a result of supplementary budgets for assistance to underdeveloped countries.

ties, on the other hand, produced rather sizable annual cash deficits. During 1951 and 1953-57 the local authorities were not able to cover their cash deficits with genuine savings raised in the capital market. They were therefore forced to issue floating debt and to

contributions to pension funds and social insurance funds, accounted for in the budget, have to be deposited by these funds in a special account with the Treasury, the so-called "pre-subscription account." All amounts in this account are earmarked exclusively for subscriptions to state loans.

TABLE 11
Cash Budget of the State
(million guilders)

Year	Cash Expendi- ture ^a		Budge- tary Cash Surplus (1-2) (3)	Net Loans ^b		Liquidity Surplus ^c (3+4+5) (6)
	Cash Revenue from Taxes (1)	Less Other Cash Revenue (2)		from Domestic Capital Market (4)	Net Loans from Abroad (5)	
1949	3,540	3,750	-210	290	200	280
1950	4,050	4,040	10	240	-150	100
1951	4,610	3,820	790	-260	-340	190
1952	5,130	4,180	950	-250	-330	370
1953	4,940	4,370	570	500	-370	700
1954	4,970	4,720	250	300	-490	60
1955	5,060	5,280	-220	640	-240	180
1956	6,030	5,880	270	240	-70	240
1957	6,640	6,370	250	60	-140	170
1958	6,420	6,950	-530	250	-200	-480
1959	6,910	6,890	220	720	-170	770
1960	7,900	7,630	270	630	-160	740
1961	8,960	9,120	-160	490	-140	190
1962	9,320	9,630	-310	240	-150	-220

SOURCE: Annual Reports of De Nederlandsche Bank N.V.

^a Excluding redemptions on loans.

^b Proceeds from long-term loans less redemptions.

^c Available for redemption of floating debt and increase of cash balances.

draw upon liquid reserves built up previously. From 1958 to 1961, however, when the local authorities were relieved of the necessity of financing social housing through the capital market, they succeeded in raising loans, through the market as well as through the state, to such an extent as to be able to consolidate a large part of their floating debt and to accumulate liquid reserves for the financing of future capital outlays. It is mainly as a result of these accumulations that the level of net long-term borrowing by the local bodies could fall short of their budgetary cash deficits in 1962.

TABLE 12
Total Cash Budgets of Local Authorities
(million guilders)

Year	Cash Revenue from Taxes Collected Through the State (1)	Cash ^a Expendi- tures ^a Less Other Cash Revenue (2)	Budgetary Cash Deficit (2-1) (3)	Net Long-Term Loans ^b (4)	Liquidity Surplus ^c (4-3) (5)
1950	580	990	410	460	50
1951	730	1,270	540	150	-390
1952	830	1,220	390	1,260	870
1953	890	1,560	670	540	-130
1954	1,040	1,920	880	740	-140
1955	1,150	2,210	1,060	820	-240
1956	1,250	2,470	1,220	730	-490
1957	1,330	2,860	1,530	570	-960
1958	1,270	2,470	1,200	1,610	410
1959	1,370	2,260	890	1,220	330
1960	1,300	1,950	650	1,300	650
1961	1,500	2,010	510	970	460
1962	1,560	2,630	1,070	450	-620

SOURCE: Annual Reports of De Nederlandsche Bank N.V.

^a Excluding redemptions on loans.

^b Proceeds from long-term loans less redemptions.

^c Available for redemption of floating debt and increase of cash balances.

It is not surprising, therefore, that there has been a remarkable difference between the development of the total debt of the state on the one hand and the local authorities on the other. As shown in Table 13, the total state debt in the Netherlands declined very considerably from 1947 until 1957, and has increased only gradually since then. This development is clearly due to the central government's practice of financing as great a part as possible of total outlays from the proceeds of current revenue. It is clear also that the necessity for the local authorities to finance their rapidly expanding capital expenditures by means of loans has resulted in a steady rise of their debts.

TABLE 13
 Debts of the State and Local Authorities
 (million guilders)

End of Year	State Debt				Debt of Local Authorities		
	Consoli- dated	Foreign	Floating	Total	Consoli- dated	Floating	Total
1945	5,767	1,039	17,475	24,281	2,854	519	3,373
1946	7,160	1,343	15,256	23,759	2,797	584	3,381
1947	7,099	2,143	19,197	28,301	3,111	481	3,592
1948	7,206	2,474	17,334	26,814	3,456	491	3,947
1949	7,732	3,659	16,191	27,296	3,928	545	4,473
1950	8,418	3,640	13,806	25,578	4,436	668	5,104
1951	8,763	3,513	12,654	24,646	4,466	1,161	5,627
1952	8,360	3,207	12,083	23,650	5,906	425	6,331
1953	8,785	2,793	11,372	22,950	6,515	348	6,863
1954	10,286	2,286	8,174	20,746	7,163	406	7,569
1955	10,987	2,013	6,584	19,584	7,810	488	8,298
1956	11,097	2,947	5,417	18,461	8,477	901	9,378
1957	10,826	2,084	5,322	18,232	8,649	2,315	10,964
1958	11,043	1,721	5,769	18,533	10,841	1,603	12,444
1959	11,539	1,662	5,480	18,681	12,539	1,259	13,798
1960	12,523	1,528	5,012	19,063	14,579	685	15,264
1961	12,748	974	5,717	19,439	15,899	583	16,482
1962	12,953	770	5,981	19,704	16,999	883	17,882

SOURCE: Annual reports on the state of the government debt; Central Bureau of Statistics.

There is, however, one recent development in the Netherlands' internal economy which may hamper the continuance of such a high level of saving. For many years the share of wages in the total national income remained fairly constant, but in 1961 and 1962 this wage share increased sharply for the first time since the war. This was the result of a rise in money wages which also brought down the level of profits rather considerably. The statistical "wage-earners share," as measured by the ratio of wages per wage-earner to income per income-earner, which for many years had remained at a level of 69 or 70 per cent, rather suddenly increased to 73 per cent during the years 1961 and 1962.

The most striking result of this shift in the distribution of national income is to be found in the decline of the central government's tax receipts. In particular, in 1962, the total proceeds of income and wage taxes remained rather considerably below the level expected when the state budget was framed. As a consequence, the central government's cash budget showed unexpectedly large deficits in 1961 and 1962.

It is still too early to draw definite conclusions as to the permanency of the recent shift in the distribution of income and as to its consequences for the development of the national savings ratio. But it is clear that, if this shift takes on a more or less permanent character, it will interfere with the central government's efforts to combine rate reductions in the field of income and wage taxes with the financing of most state outlays from current tax revenue.

DECREASE OF THE SUBJECTIVE BURDEN OF THE PROGRESSIVE INCOME AND WAGE TAXES

As mentioned earlier, it has become a fundamental rule of fiscal policy in the Netherlands that the rate of increase of the central government's expenditures should be smaller than the rate of increase of national income. This rule implies a strong preference for tax cuts, exceeding even the reductions needed to offset the progression effect on the total tax burden. Thus, it appears to be one of the central goals of tax policy in the Netherlands to lighten the subjective burden of the progressive income and wage taxes. It is feared, on good grounds, that the heavy marginal tax burden on middle-class incomes could endanger productivity and economic growth by penalizing extra productive efforts.

Economic growth itself is expected by the government to produce the means for growth-inducing tax cuts. In the first place, a rise in national income, which involves an over-all shift to higher income classes, results in a progressive increase in the yield of income and wage taxes (apart from possible counteracting effects of shifts in the distribution of the growing national income in favor of the lower income classes). This automatic progression effect on total tax revenue results in a rising objective tax burden as measured by the ratio of tax receipts to national income, and has to be offset by more or

less regular cuts in tax rates. Only if the government makes these "structural" tax cuts, is it possible to maintain proportionality between total tax proceeds and national income. But these more or less periodic tax reductions are considered by the Netherlands government to be only a minimum requirement.

Countercyclical policy considerations may influence the pace of the execution of this tax-cutting program. The destabilizing effects of purely nominal increases of incomes during the course of boom can, to some extent, be checked automatically by rate progression. This short-run, built-in stabilizing effect of progressive tax rates should, of course, not be eliminated.

But in the long run, growth of incomes, whether real or purely nominal, results in upward shifts to higher income classes, and can provide the basis for rather important tax cuts. Insofar as the increase in money incomes is due to a rise in productivity per head, economic growth itself provides the opportunity for growth-inducing tax reductions.

To achieve the objective of balanced economic growth, it is held that the total volume of government outlays must not rise proportionally with real national income. Therefore, it has been the government's policy to reduce the rates of income and wage taxes to a greater extent than would correspond with the minimum requirement. This means that an increasing part of the expected increase in real national income is earmarked for a rise in private spending and a decreasing part of it for the expansion of public spending. It is not surprising that in some circles in the Netherlands, notably the socialist and quasi-socialist circles, this last goal of fiscal policy is not considered justified.³

It should be pointed out that the explicit formulation and adop-

³ In January 1963, the scientific bureau (Dr. Wiardi Beckman Foundation) of the Dutch Labor Party published a report ("On the Quality of Existence") which was concerned with the desirable way of allocating the expected growth of the national income in the years 1963-70. The report argued in favor of a more than proportionate increase of public spending at the cost of a less than proportionate increase of private consumption, private investment having to increase somewhat more than national income, especially in housing. These recommendations were rejected by all nonsocialist parties, holding at present two-thirds of the seats in Parliament.

tion of these principles regarding a lightening of the individual as well as the over-all tax burden is only a rather recent development. This policy was adopted initially by the Cabinet that came into power in 1959, the first postwar Cabinet without members of the Labor Party. Earlier postwar cuts in income and wage tax rates were of a more incidental character. The first important move in the direction of systematic, more or less regular tax cuts was the rate reductions proposed in 1960 by the Minister of Finance for the middle of 1961, unless anticyclical considerations should require their postponement. Actually, these tax reductions were not put into effect until the middle of 1962, boom conditions having made necessary the one-year delay.

Despite this change in policy, Table 5 shows that there was no significant change in the ratio of total tax receipts to national income between 1959 and 1963. This was, of course, due in part to the delay in making the tax cuts and in part to the necessity of finding financial compensation for the cancellation of American military aid. It will be recalled that the compensation for American aid was provided by a special import duty on mineral oils (except petrol) and by reducing the company tax less than had previously been intended. It is too early, therefore, to say whether the new "structural" tax policy will achieve its intended goals.

THE USE OF TAXATION AS AN INSTRUMENT OF ANTICYCLICAL POLICY WITHOUT HAMPERING GROWTH

As was noted above, countercyclical considerations have played a prominent part in the macroeconomic policy of the Netherlands since the Second World War. These considerations increased markedly in importance after 1950. The immediate postwar difficulties of restoring internal and external equilibrium had been overcome with the help of a rather drastic "monetary purge," combined with a fiscal attack on excess liquidity through extraordinary levies, on the one hand, and attempts to sterilize as much as possible of the local currency countervalue of Marshall Plan aid on the other.

Since then, it has been a continuing aim of the Netherlands gov-

ernment to use taxation as one of the instruments of countercyclical policy, without hampering economic growth. Fundamentally, the attacks on cyclical fluctuations in economic activity have always been thought of in the Netherlands as involving a wide assortment of instruments which can be used harmoniously to regulate the different categories of national spending; these instruments include government expenditure and taxation.

It has become more and more clear that government expenditures are not well suited to anticyclical use: too great a part of government spending cannot sustain the delays required for anticyclical activity. Therefore, most stress in anticyclical fiscal policy has been laid on variations in tax rates and tax credits.

Only under circumstances of extreme cyclical strain has it appeared feasible to combine anticyclical changes in the level of government expenditures with tax rate changes that fit into a broad program involving a whole range of policy instruments. Since the end of the war, only twice (in 1950-51 and 1956-57) has it appeared necessary and possible to frame and execute a rather drastic program of anticyclical reduction of national spending in order to combat a rather dangerous process of national overspending.

The most flexible and perhaps also most effective anticyclical tax instrument that has so far been found is the alteration of the investment rebates of income and corporation taxes. To a lesser extent, advanced write-offs of depreciation have also been useful.

It would, however, be beyond the scope of this report to make a detailed, critical inquiry into the anticyclical aspects of tax policy in the Netherlands. Suffice it to say that the success of such policies has not always been complete; the dangers of incorrect timing and overdosing have not been entirely avoided. It could be added that an important automatic anticyclical effect is to be attributed to the pursuance of the fundamental long-term principles of budgetary policy requiring that cyclical movements in the proceeds of taxes should not be followed by movements of government expenditures in the same direction. Of most importance for this report, however, is the conclusion that up to now there has been no evidence of any harmful interference of anticyclical tax policy with economic growth.

MORE SPECIFIC GROWTH-INDUCING ELEMENTS IN THE
POSTWAR TAX POLICY OF THE NETHERLANDS

Besides the macroeconomic growth-furthering applications of tax policy which aim at an increase of the national savings ratio and a lightening of the total objective and subjective tax burdens, there are also more specific growth-furthering elements in the postwar tax policies of the Netherlands. As we have seen, they consist of a number of special tax measures that aim either at the elimination of certain bottlenecks for economic growth, e.g., bottlenecks to amalgamation of companies or to promoting various forms of saving and investment through tax-credits.

*THE IMPACT OF TAX POLICY ON ECONOMIC
GROWTH IN THE NETHERLANDS*

Introduction: Postwar Growth Rates

Since the end of the Second World War, all the relevant statistics point to the conclusion that the economic growth of the Netherlands has been satisfactory. From the indexes shown in Tables 14 and 15, it appears that rate of annual expansion of aggregate national product and income is about 4 per cent. This rate of growth is quite naturally somewhat below the immediate postwar rate of 5 per cent, which was greatly influenced by reconstruction efforts.

As was noted in the preceding part of this report, the present growth rate of about 4 per cent per annum has been taken to be the more or less normal rate, at least for the time being, by the Government, and especially by the Minister of Finance in framing his long-run budgetary policy. This view rests on the assumption that full employment can be maintained notwithstanding the relatively rapid expansion of the available labor force. It is further assumed that the annual increase of the labor force will remain at about 1.5 per cent and the annual increase of labor productivity at about 2.5 per cent.

Maintenance of a growth rate of 4 per cent requires, therefore,

TABLE 14
Indexes of Economic Growth
(1953 = 100)

Year	Volume of Gross National Product	Volume of Net National Income	Volume of Net National Income Per Head	Volume of Private Consumption	Volume of Gross Private Investment ^a	Productivity of Labor
1948	79	82	87	92	85	78
1949	85	87	92	95	90	84
1950	88	88	92	96	98	90
1951	90	89	92	94	94	91
1952	92	91	93	95	87	93
1953	100	100	100	100	100	100
1954	107	107	106	106	115	106
1955	115	116	114	113	134	111
1956	120	121	117	123	150	114
1957	123	123	117	123	157	117
1958	122	122	115	123	135	118
1959	128	129	121	130	150	123
1960	140	140	129	137	168	134
1961	143	144	131	143	177	135
1962	147	148	132	149	185	138
1963 ^b	154	154	136	156	186	142

SOURCE: *National Accounts*, Central Bureau of Statistics.

^a Excluding investment in stocks.

^b Estimates of Central Planning Bureau.

that the level of investment will continue to be sufficient to ensure enough jobs (and dwellings) for the increasing population. Given the comparatively unfavorable capital-output ratio in the Netherlands (see Table 7) this assumes a high saving and investment ratio. Until now, it has apparently been possible to maintain the necessary level of saving and investment (Table 9), with national saving exceeding net national investment to such an extent as to result in a balance-of-payments surplus on current account large enough to cover the needs for structural capital exports and a gradually increasing foreign-exchange reserve. Apparently, too, inducements to invest have been satisfactory so far, which could only be

TABLE 15
 Indexes of Trends in Economic Growth
 (six-year moving averages; 1948-53 = 100)

Six-Year Periods	Volume of Gross National Product	Volume of Net National Income	Volume of Net National Income Per Head	Volume of Private Consumption	Volume of Gross Private Investment ^a	Productivity of Labor
1948-53	100	100	100	100	100	100
1949-54	105	105	103	102	105	105
1950-55	111	110	107	106	113	110
1951-56	117	116	112	110	123	115
1952-57	123	123	116	115	134	120
1953-58	129	128	120	120	143	124
1954-59	134	134	124	126	152	129
1955-60	140	140	128	131	161	134
1956-61	145	145	131	136	169	138
1957-62	150	150	134	141	176	143
1958-63	156	156	138	144	181	147

SOURCE: Table 14.

^a Excluding investment in stocks.

possible if total effective demand was expanding at a sufficiently high rate.

It should be noted, in this connection, that the expansion of demand for the national product of the Netherlands depends to a very great extent on the development of foreign demand, exports of goods and services amounting to 50-55 per cent of national income at market prices. In a sense, therefore, the rate of growth of the Netherlands economy is dependent on the rates of growth in other countries (primarily other European countries which absorb more than three-quarters of total Netherlands exports). In order to maintain an adequate growth rate in the Netherlands, domestic prices and costs must be sufficiently competitive to permit a high rate of expansion of exports.

In order to maintain such a competitive level of wages and prices, the Netherlands has used a unique system of wage control, based on voluntary cooperation between the central organizations of employ-

ers and the central organizations of the trade unions. It is a remarkable fact that, during the entire postwar period, the trade unions in the Netherlands have given evidence of a wise self-restraint in setting their wage demands. The Netherlands trade unions can be considered as belonging to the category of "more-developed" unions, being no less "employment-minded" (notably "export-minded") than "wage-minded." The trade unions do not demand wage increases that could endanger the country's export position and result in more than normal unemployment. In principle, the setting of wages is left to deliberations between the employers' organizations and the trade unions, but the government has the final say. It is especially due to this system of wage control that the Netherlands has been able to benefit from a continuing favorable competitive position in its export markets, this being a prerequisite for maintenance of a satisfactory rate of economic growth.

In discussing the impact of government policy on economic growth in the Netherlands, therefore, one is justified in saying that in all likelihood the most important growth-promoting tool in the hands of the government, so far, has been the instrument of wage policy.

On the other hand, it is clear that income policy by itself cannot be sufficient to ensure a reasonable rate of growth. To a considerable extent it is possible to stimulate growth in a country like the Netherlands by controlling wages, since a strong competitive position in foreign markets can have a favorable influence on private investment. But wage policy by itself cannot guarantee that sufficient savings will come forth to finance economic growth. It is especially in this field—the furtherance of a high level of savings—that budgetary policy, and tax policy in particular, has to play an important, even decisive, part.

Balanced growth requires not only avoidance of "cyclical" imbalance, but also avoidance of "structural" imbalance. Insofar as the level of private saving is not sufficient to cover the necessary private investment as well as the necessary public investment, tax policy has to ensure that the level of national saving is increased so as to cover the public as well as the private investment necessary for a reasonable rate of growth. Moreover, for tax policy to fulfill its task of

furthering growth it must avoid as far as possible giving rise to any negative incentive effects on savings and economic activity.

As long as it appears possible in the Netherlands to guarantee a sufficient rate of expansion of demand for the national product by means of an income policy ensuring competitiveness, the main concern of tax policy, as regards economic growth, is not with inducements to invest but with furthering a high level of saving. Perhaps it will become more difficult for the Netherlands to maintain its degree of competitiveness in export markets when the process of European economic integration increases the degree of factor mobility and results in an equalization of European wage and price levels. But for the time being, the problem of ensuring growth in the Netherlands through means other than an income policy is more one of stimulating savings at full employment than one of stimulating investment out of savings. Nevertheless, tax policy should always be careful not to introduce growth-hampering disincentives and to use as much as possible devices with positive incentive effects, insofar as this is compatible with the requirements of equity.

The figures concerning economic growth in Tables 14 and 15 warrant only the negative conclusion that there is no evidence that economic growth has been hampered to any considerable extent by tax policy or by any other form of government policy. In order to reach more positive conclusions as to the impact of tax policy on economic growth, it is necessary to consider more closely the impact of taxation on the level of saving and the impact of taxation on incentives to economic activity.

The Impact of Taxation on Saving

It is hardly open to question that the influence exerted by the postwar tax policy on saving in the Netherlands must be attributed in large part to the explicit aim of the central government to finance as high a proportion as possible of total government outlays from tax revenue, thus greatly restricting the issue of loans for the financing of budgetary expenditures. As was shown earlier in this report, the contribution of tax-forced saving to total national saving has been very considerable (see Table 9). The central government's

budget surplus on current account generally exceeded the amount of its direct investment, and so could be used in part also to finance the social housing program, as executed by the municipalities together with cooperative building societies.

The impact of this budget policy cannot be determined exactly because not all of the tax-forced saving can be considered as additional saving. But it is certain that the diversion of private savings from private investment to direct and indirect government investment is much smaller when the government's investment funds are procured by means of taxation than when they have to be secured through the issue of government loans. Therefore, one is justified in saying that public saving in the Netherlands, amounting at present to about one-quarter of national saving, constitutes an investment- and growth-furthering element in the Netherlands economy, the importance of which from the standpoint of furthering a "structurally balanced" growth should not be underestimated.

Besides the level of taxation contributing to a high national saving ratio, the structure of the tax system can have an impact on savings too, either by influencing the capacity to save or by influencing the propensity to save. From this point of view especially, the rather heavy burden of direct taxation, notably the burden of the personal income tax, must be taken into consideration. As was shown earlier, income tax rates have undergone rather important cuts since 1948. But at the same time the real decrease in the subjective burden of the income tax was much smaller than it appeared to be because of the combined effects of price inflation and progression. Significant tax cuts have been realized only by the lower and lower-middle income classes. For the higher income classes there has been, on balance, no real tax cut at all, notwithstanding the seemingly important rate cuts. As a consequence of this, the burden of the income tax on upper middle class incomes, an important source of private savings, is at present not much less than it was shortly after the war. It cannot be determined exactly, to what extent the capacity to save has been increased by recent rate reductions, but it is clear—and the government has explicitly recognized this since 1959—that private saving could be further increased, if the government is willing to make use of part of the "structural

budget margin" in reducing personal income tax rates. This means that growth itself, by inducing progressively rising tax revenues, creates the possibilities for tax cuts which can increase the propensity to save.

An extra heavy burden is currently being imposed on income from investment in companies. This is especially true in the case of persons in the upper income classes whose investment incomes are taxed very heavily as a result of the cumulative effect of the company tax, the income tax on dividends, and the property tax. For the highest incomes it can be shown that income from company investment is taxed at not far from 100 per cent. During the last few years the tax flight of some well-to-do people from the Netherlands has been the result. In 1962 the Minister of Finance declared in a statement to Parliament that thirty-one persons with an income exceeding half a million guilders had emigrated to Switzerland, apparently for reasons connected with the heavy tax burden. But these symptoms of overtaxation are as yet not very disturbing.

One should, moreover, be somewhat critical of calculations concerning the extent of the tax burden on income from company investment. The possibility of shifting the burden of the company tax should be taken into account. Today most economists agree that a tax such as the company tax can often be shifted in a way similar to cost-increasing taxes. The macroeconomic shifting of both kinds of taxes is made possible by a monetary expansion induced by the taxes themselves (either through an increased recourse of enterprises to bank credits and liquid reserves or through an increase of the government's recourse to bank credits in anticipation of tax-receipts). This involves an over-all shift of demand curves as long as the enterprises remain competitive *vis-à-vis* foreign competitors. The present degree of elasticity of the monetary system makes it highly probable that in most cases the monetary conditions for the process of shifting are fulfilled. Moreover, as regards the Netherlands economy since the war, there is no reason to believe that some shifting of the company tax has to any great extent been hampered by considerations of competitiveness in foreign markets, especially in view of the rapid expansion all over Western Europe on the one hand and the cautious Netherlands wage policy on the other.

It cannot be denied, however, that the combination of the company tax, with high rates of the personal income tax, and the property tax could, to some extent, endanger investment activity in the Netherlands should the competitive position of industry deteriorate. This is one more reason to welcome future cuts in the rates of the personal income tax.

The Government has of course adopted or proposed various measures in the area of profits taxation (company tax, and income tax on enterprises not liable to the company tax), which aim at the furthering of savings from business profits. Investment rebates and accelerated write-offs for depreciation are probably the most important devices in this respect. It appears from data concerning the assessment of the company tax that investment rebates contribute substantially to retained earnings as a source of investment funds. Tax-free reserves can also be included in the category of savings-stimulating devices.

Under a 1960 bill not yet enacted, the government would reduce the company tax by 15 per cent on paid-out parts of company profits. In the government's opinion this stimulus to dividend payments would improve the functioning of the capital market by channeling savings to the most remunerative investments. This intention is often criticized. Indeed, one might question whether it would not be better to decrease the burden of the company tax in another way in order to eliminate the existing tax discrimination between the interest on bonds (considered as costs of the enterprise) and dividends (not deductible in the calculation of profits). By considering a "normal dividend" as a deductible cost of financing, it would be possible to do away with this discrimination; it could then be left to the companies to decide to what extent the tax cut could be made use of for the financing of investments or for paying more dividends.

It should be noted, in this connection, that since 1953 there has been no capital gains tax in the Netherlands. Until 1953, capital gains acquired by selling property within a year after purchase were considered as income and taxed under the income tax. Although in socialist circles there is some sympathy in favor of a restoration of some kind of capital gains tax, it is not probable that in the near future such a tax will be reintroduced. A capital gains tax is gener-

ally regarded in the Netherlands as a tax on savings and to have unfavorable influences on the national rate of saving.

As in all countries with heavy rates for death and gift taxes, these rates can be considered as having a negative effect on the national savings ratio, because the tax itself eats into the existing capital. It is poor consolation to know that the government uses the revenue for the financing of investments, when the tax is considered from the point of view of marginal government revenue. These government investments are not financed from current savings and the amount of the revenue cannot be considered as part of the net national savings brought forth by the government. Insofar as would be compatible with considerations of equity, therefore, a decrease in the rates of death and gift taxes would be welcome as a growth-furthering measure.

Positive influences on the ability and the propensity to save certainly result from some special provisions of the income tax.

First, premiums for pensions and life annuities are tax-exempt to a maximum of f 3,600 a year. There is no doubt that this facility has greatly contributed to the enormous expansion of life insurance and pension arrangements since the war. The enormous influx of savings to life insurance companies and pension funds even resulted, especially during the first postwar decade, in some fear that there would be an oversupply of savings available for "non-risk-bearing" investments (bonds, etc.) together with a shortage of supply in the market for shares. One seems justified in saying that these fears were not well-founded. On the one hand, there is such an enormous demand for money in the "nonrisk-bearing" sector of the capital market, e.g., for housing and local investment, that there has been no oversupply of funds in the market for bonds, mortgages, and other lump-sum loans. Moreover, the Netherlands life insurance companies and pension funds have been more or less conservative in their investment policy, as they usually do not invest more than about 5 per cent of their funds in shares and buildings. However, it is likely that if investment in nonrisk-bearing securities becomes more difficult, these investors would gradually increase their investments in shares, etc., to the levels now customary in Great Britain and the United States.

The second category of tax provisions for the furthering of sav-

ings is to be found in the special measures to further small private savings: freedom from taxation for investment trusts of small savers (to be allowed according to a bill of 1960, which has not yet been enacted), and tax freedom for special premiums on savings. The last-mentioned measure seems to be successful in that the various premium savings allowances which have come into force have already attracted many participants: that for youth, dating from 1958, has attracted some hundreds of thousands of young people; that for civil servants is made use of by about half the total number of civil servants; and those of private companies are gradually increasing in number. However, these allowances may not be expected to have any considerable macroeconomic effect on the total level of savings for the time being. It is even doubtful, whether any considerable part of the savings induced by these allowances are to be considered as additional savings. The main importance of these facilities is to be attributed to the educational effect they may have on the saving habits of the population.

The Impact of Taxation on Incentives

From the point of view of growth it is of special importance to gain some insight into the effects of tax policy on investment. Although the available material does not allow quantitative conclusions concerning the long-run impact of taxation on investments, on the basis of the annual model of the Netherlands economy, elaborated and applied by the Central Planning Bureau, it is possible to draft a quantitative picture of the short-run relations between various kinds of tax cuts and the level of investments. The Central Planning Bureau has been good enough to prepare a note on this short-run influence of tax reductions on investments in the Netherlands for this report. This note is added to the report as an appendix.

The note of the Central Planning Bureau makes it clear that the short-run effects of tax cuts on investments vary widely according to the categories of taxes under consideration. In comparing Tables 16, 17 and 18, it appears that the greatest impact on the volume of investment is to be attributed to tax reductions on what is called "other income," i.e., all income other than wage income. This is, of

course, mainly income from investments. Investment activity is much less influenced by reductions of the tax rates on wage income, whereas the indirect taxes on consumption take a medium position in this respect.

It is also evident from the estimates of the Central Planning Bureau that the impact of tax cuts on investment activity makes itself felt in various ways. A strong influence is exercised through an increase in the available income of entrepreneurs. This is significant because it means that investment activity is to a considerable extent determined by the level of retained profits available for the financing of expansion. From all available evidence it seems probable that the same relation also holds true in the long run.

A second way in which investment activity is influenced by tax policy is found in the effects of tax cuts on the level of consumption, and therefore on total demand. It might be expected that in the long run an increase in total demand will influence capital-widening investments. According to the findings of the Central Planning Bureau, however, the short-run effect of demand expansion on investment is mainly the tightening of the labor market, which stimulates labor saving (capital-deepening) investments. In the long run, it is probable that a rapid increase in total demand will increase the incentives for both capital-widening and capital-deepening investments, the latter depending mainly on the extent to which the labor market is influenced by the expansion of demand.

A third, generally minor influence on investment is exerted through the changes in the national liquidity position as it is influenced by the changes in the international balance of payments induced by tax reductions.

The quantitative importance of tax reductions on nonwage income is illustrated by the fact that a cut of f 100 million in these taxes results, in the second year after the tax cut, in an increase of f 55 million in the volume of gross investments of enterprises (see Table 17). A cut of f 100 million in indirect taxes on consumption results in the second year in an increase of f 40 million in gross investments of enterprises (see Table 18), whereas the result of a f 100 million cut of taxes on wage incomes results in an increase of only f 10 million in the second year (see Table 16).

Although these short-run figures must be interpreted with care in

considering the impact of taxation on economic growth, some conclusions seem to be justified. In the first place, these calculations suggest that economic growth in the Netherlands can be strongly stimulated by tax provisions which ensure a high level of retained profits, because the availability of retained profits for the financing of investments appears to be one of the strongest incentives for investment in durable means of production. This means that the stimulation of entrepreneurial savings by reducing taxes on investment income provides at the same time an important stimulus to investment activity. This conclusion is in full accord with the theories of those economists who contend that the propensity to invest is much more influenced by the availability of business savings than by the expectations of future profits. It may be assumed on good grounds—notably the effect of the expansion motive and the independence motive of entrepreneurs—that in the long run all business savings will be invested by the enterprises concerned. At least for the short run, the conclusion as to the predominance of the influence of business savings over the influence of profit expectations is strengthened by the experience that a rise in total demand influences investment activity more clearly through the effect of a tightening labor market on the propensity for capital-deepening than through increasing profit expectations.

A further conclusion based on the Bureau's findings is that probably the increase in investment activity in the Netherlands since the war has been influenced by various tax regulations favoring the use of retained profits for investment purposes. In particular, the regulations concerning investment rebates, accelerated write-offs for depreciation, and extended periods for offsetting losses against profits, are of importance in this respect. The possibility of compensating losses with profits weighs most heavily in the case of smaller firms, not taxed by the company tax but only by the progressive personal income tax. Figures showing the quantitative importance of investment rebates and loss offsets—the latter having also a direct incentive effect through their influence on estimates of risks of investments—are available only for limited liability companies subject to the company tax. Since a very large part of the Netherlands industry consists of rather small firms, often subject

only to the income tax, it is certain that the quantitative importance of these tax provisions is far greater than appears from the partial figures. The influence of the regulations concerning loss offsets is further enhanced as a result of the 1953 provision, under which initial losses incurred by newly established enterprises during the first six years of their existence are liable to compensation without any restriction.

To this summary of growth-furthering tax provisions which increase the availability of retained profits for investments, should be added the application of the "base-stock" system in the assessment of the value of stocks as well as the regulations concerning tax-free reserves. According to a bill proposed in 1960, in the future a tax-free replacement reserve will be made possible. Until now, experience has shown that especially in boom-periods when old productive equipment can be sold at a good profit, many entrepreneurs are anxious to find new assets eligible for write-offs and investment rebates. The future plans for tax-free replacement reserves may contribute to a more balanced process of expansion.

The intention of the government to stimulate dividend payments through a 15 per cent reduction in the company tax on profits paid out to shareholders appears to be less favourable from the point of view of growth. In the previous discussion of the existing discrimination between interest on bonds and dividends on shares, it was suggested that a better solution of this problem might be to consider a "normal" dividend as a deductible cost of financing. This conclusion is strengthened by the consideration that investment activity appears to be stimulated very strongly by an increased availability of retained profits.

In considering the total impact of taxation on incentives in the Netherlands, one finds no clear indication that the rather heavy individual income tax burdens have had a very strong adverse incentive effect. But this only means that, notwithstanding the heavy burden, the impact of taxation on incentives has not gone so far as to result in abortiveness of marginal taxation. Generally speaking, the negative incentive effects are probably not strong enough to bring about a situation where the last increments to the tax rates do not yield additional revenue.

It should not, however, be concluded that negative incentive effects of taxation are lacking in the Netherlands. During the early years of postwar reconstruction, the whole population was convinced of the absolute necessity of a high level of taxation. Since then, however, in a rapidly growing economy with real income surpassing prewar levels more and more, the attitude of the bulk of the population has changed. In particular, the degree of progressiveness of the personal income tax, including the wage tax, is often viewed as an unfair impediment to an increase of productive effort. There is much evidence of unwillingness to work overtime because of taxes. The high burden on income earned by married women, resulting from the addition of the incomes of both spouses in calculating the progressive income tax, has contributed to the great avoidance, by such women, of work outside the home.

It is too soon to judge the effect on work incentives of the special reduction in income tax for married women, which became effective in 1962. Moreover, there is other evidence of a shift in preferences from income to leisure amongst laborers. The rapid introduction, all over the country, of the free Saturday during 1961 reveals this shift in preferences to some extent, although it must be borne in mind that this phenomenon was not so much a massive demonstration of changed preferences, but was more or less of an epidemic character.

In view of the danger of increasing negative incentive effects from direct taxation, as individual welfare grows in an expanding economy, it is a wise view of the government that part of the "structural budget margin" is reserved for reducing the burden of taxation, notably the burden of the personal income tax. In this way growth itself creates the means to further growth. But how far it will be possible to realize these good intentions, will depend on the political choice between the enormous number of competing claims on the future budget-margin.

Conclusions

1. The most important contribution of postwar tax policy to the furthering of economic growth in the Netherlands is its impact on the level of national saving. This is due to the fact that by far the

greater part of state expenditure—inclusive of capital outlays—is financed by taxation.

2. Economic growth itself is consciously made use of to stimulate further economic growth in that the “structural budget margin,” resulting from the automatic increase of tax revenue with the growth of national income is partially earmarked for tax cuts. These cuts can significantly reduce direct tax burdens, thereby increasing private saving and strengthening incentives for productive effort.

3. When currency depreciation is taken into consideration, it appears that the postwar reductions in income tax rates have benefited mainly the lower income classes. The burden on middle class incomes has been reduced only slightly, and the burden on the upper income classes has not decreased at all.

4. Since 1959, the Netherlands government has shown a disposition to lessen the burden of direct taxation by means of more or less regular tax cuts during the course of economic expansion. This has been done to a somewhat greater extent than would have been necessary simply to undo the progression effect of rising income on total tax revenue. It was intended, therefore, to expand the total of state expenditures at a lower rate than the rate of growth of the national income. Up to the present time, the realization of this goal has been obstructed by anticyclical considerations, by unexpected additional budgetary outlays (because of the withdrawal of U.S. military aid), and by unexpected shifts in the distribution of income in favor of wage incomes at the cost of incomes from investment. Moreover, it is doubtful whether early realization will be possible in view of the many claims on the future “structural budget margin” staked out by various political parties and pressure groups. Insofar as political decisions result in increased budgetary outlays and thus prevent the “extra” tax cuts referred to above, the net effect on growth will depend on the possible growth-furthering effects of the government expenditures which are substituted for tax reductions.

5. Tax incentives to further private savings appear to be most effective in promoting economic growth when they influence the level of business savings. This is because the availability of retained profits has been shown to give the strongest impetus to business in-

vestment. This suggests that postwar investment activity, and therefore economic growth in the Netherlands has been positively influenced by a variety of tax regulations furthering the use of retained profits for investment purposes: investment rebates, accelerated write-offs for depreciation, extended periods for offsetting losses against profits, unlimited offsetting of initial losses of newly founded enterprises against future profits, application of the "base-stock" system in the assessment of the fiscal value of stocks, and tax-free reserves for various purposes.

6. Special income tax provisions designed to further personal savings, such as tax exemption for pension and life-annuity premiums have played an important part in the remarkable expansion of these categories of savings. Other special provisions, which were intended to promote small private savings, have probably had important long-term "educational" effects on the saving habits of the mass of the population, even though their effects on the level of national saving may have been fairly negligible up to the present time. These include tax exemption for small savers' investment trusts, and tax exemption for premiums on the basis of a series of private and public premium savings regulations.

7. Since there have been some signs of a shift in preferences from income to leisure as the working classes become increasingly well off, there is some danger that the present level of tax rates will have increasingly negative incentive effects. In view of this danger, the earmarking of a part of the future "structural budget margin" for cuts in the rates of direct taxes appears to be an imperative requirement for the maintenance of a sufficient rate of economic growth.

APPENDIX: INFLUENCE OF TAX REDUCTIONS ON INVESTMENT⁴

Introduction

The effects of tax cuts on investment have been calculated using the annual model of the Central Planning Bureau. The use of this

⁴ Prepared by the Central Planning Bureau, The Hague.

model means, of course, that the effects are those which might be expected to occur in the rather short run.

Three categories of taxes are distinguished: taxes on wage income, taxes on "other income," and indirect taxes. For each of these sets of taxes a reduction of f 100 million is assumed, and the effects on family consumption and gross investment are calculated. It appears that a reduction of taxes on "other income" has the most stimulating effect on investment, a reduction of taxes on wage income has the least stimulating effect, and a reduction of indirect taxes has an effect which falls in between.

The results differ according to the cyclical starting point selected. The following calculations are based on the year 1962. Unemployment was then at a very low level (1 per cent). If a higher level of unemployment had been assumed (e.g., 3 per cent), the investment stimulus would have been somewhat less. The propensity towards capital deepening is also somewhat less strong in this case. The differences, however, are not great.

The results are summarized below in simplified comparisons of variations in income and expenditures expressed both in real terms (volume) and in money terms (value). The figures for the second year measure the aggregate change after two years, or the sum of the changes occurring in the first and second years. The short explanation is focused on investment.

TAXES ON WAGE INCOME

The effects of a cut of f 100 million in taxes on wage income are summarized in Table 16.

A reduction of the taxes on wage income increases the available income of wage earners. Although the response of consumption lags somewhat behind, consumer spending does ultimately rise to a considerable degree in the first year. Depending on how fully domestic productive capacity is being employed, this increase of internal demand causes a decline of exports. Even with a tight labor market, however, as in 1962, this fall in exports does not offset the rise in consumption. On balance, therefore, an increase of demand will result. This has a stimulating influence on investment by tightening the labor market (capital deepening).

The increase of total demand induces additional imports. Owing to this rise in imports, as well as to the above-mentioned fall in exports, the balance of payments deteriorates. As a consequence of this, in the second year the effect of the increase of profits on investment is more than offset by a tightening of the liquidity position of enterprises. Since the tightening of the labor market does not continue, the result is a slight decrease of investment in the second year.

For both years together the influence of f 100 million on the volume of investment is extremely small.

TAXES ON "OTHER INCOME"

A reduction of taxes on "other income" increases in the first instance the available income of entrepreneurs. The effect of this on spending lags behind for the greater part, so that investment experiences only a moderate impetus from this side in the first year.

In the second year, the increase of available income has its full effect on investment. The same is true for consumption which, moreover, rises also through the indirect influence of increased production. In spite of the restrictive influence of rising internal demand on exports, total demand, and therefore production, increases considerably. Increased production, in turn, furthers investment because of the growing tightness of the labor market. Against these two positive impulses toward investment there is a small negative impulse as a result of the reduced liquidity during the previous year. This tightening was caused by the rather small increase of internal demand in the first year which checked exports and raised imports, and so resulted in liquid reserves flowing out to foreign countries.

INDIRECT TAXES ON CONSUMPTION

The reduction of the cost increasing taxes results in the first instance in a fall in prices. Because of this, there is a rise in consumption. Again the increase in internal demand exceeds the induced reduction of exports with the result that, on balance, total demand increases. The resulting tightening of the labor market gives a new impetus to investment.

TABLE 17
Effects of a Cut in "Other Income" Taxes of f 100 Million
(million guilders)

	1st Year		2nd Year		1st Year		2nd Year	
	Volume	Value	Volume	Value	Volume	Value	Volume	Value
Wage income	5	10	10	30	5	10	25	50
Other income		5		10	20	20	55	55
Cost-increasing taxes				5	5	5	20	20
Gross national product	5	15	10	45	30	35	100	125
Imports	15	15	55	55	-10	-5	-35	-25
Total	20	30	65	100	20	30	65	100

In the second year a considerable rise in consumption takes place, again mainly because the price cut is only then completely realized. From this increase of demand a further tightening of the labor market results. It is true that the stimulating influence on investment is counteracted by the deterioration of the liquidity position, but the net effect is a further increase of investment.

COMMENT

J. VAN HOORN, JR., INTERNATIONAL BUREAU
OF FISCAL DOCUMENTATION

Since I am not an economist but a lawyer, my remarks on economic measures and influences will be made from the viewpoint of practical legal experience. First of all, I consider the existence of specific tax incentives an important factor in deciding whether to locate a business in one country or another country, but a generally favorable tax climate may be equally important. The first time I was confronted with the question of the impact of tax policy on economic growth was when I was invited, together with Carl Shoup, to discuss Common Market tax problems at a special hearing before the Canadian Royal Commission on Taxation early this year. Afterward, during a lecture tour in this country, I realized that there is a general feeling in the United States that Europe's economic development is, to a large extent, the result of an active tax policy.

C. Goedhart has given a clear view of our government's tax policy and aims. His report would have been more complete, however, if he had pointed out some anomalies in this policy; some of these concern taxes and some do not. I agree with Goedhart that the tax policy of the Netherlands government is intended to promote public saving, but I wonder whether this policy is appropriate and consistent. When the public sector has to perform certain activities which are clearly in the interest of the over-all national economy and which cannot be carried on by private citizens, it is fully justifiable for the government to take all possible measures to finance such activities. This is generally the case, at least in my

country, for education, the construction of highways and other means of transportation, social security, public health, and similar things. The question arises, however, whether this is also justifiable if the government's policy tends to interfere—I use this last word in an absolutely neutral sense—in activities which can also be performed by private enterprise. This seems permissible only if there are strong reasons for doing so, for instance, because the government could do a particular thing in a more efficient way than private enterprise. Only then would it be justifiable to use taxation as a means to provide the government with more funds to follow its own policy.

My first point is, therefore, that if my country's government limits the citizens' possibilities for private saving by imposing high taxes, there must be sufficient proof that the citizens would not save at all, would save too little, or would use their savings for purposes which are not consistent with the government's policy.

It is beyond my competence to say whether my country's government follows the right policy and whether, for that purpose, it has to promote public saving rather than private saving. What I will try to do, however, is to point out a few inconsistencies in our present tax policy.

If saving is to serve economic growth, the funds saved should be invested. In my country, the personal income tax is rather high, as is clearly shown in Goedhart's paper. This acts as a disincentive to private investment. Indeed, it is difficult to find private capital for new business activities. Existing businesses, however, are granted all kinds of incentives which favor self-financing, although there is no guarantee that profits plowed back are used in an efficient way. It does not seem logical that our government's tax policy is directed toward private saving and reinvestment in existing businesses when there is no proof that a resulting expansion is economically sound, and that it is directed against other forms of private savings. This discriminatory policy is strengthened by a number of nontax factors, such as a strong system of credit limitations, all kinds of licenses, and an antitrust law that makes it difficult to effect mergers which, from the point of view of industrial development, might be very desirable.

The point I wanted to make here is that, if my country's government wishes to increase public savings by means of high taxes because it believes that this is the best policy to promote economic growth, it is not logical to maintain, or even introduce, tax measures which encourage specific forms of private savings, even though there is no guarantee that these will lead to the desired result. At the same time, it is not logical that there are all kinds of nontax measures that discourage people from undertaking new activities which may well promote the development of the national economy.

A policy which favors public saving should probably, at the same time, be directed against private consumption. One would expect, therefore, that specific tax measures would have been developed to keep consumption at the lowest possible level. Here too, however, there are a number of inconsistencies. On the one hand, our high progressive income tax rate structure takes away a large part of high incomes; that is to say, those taxpayers who may be supposed to be the best savers are taxed so heavily their ability to save diminishes. On the other hand, there is a strong tendency to create more purchasing power for the low income groups, i.e., the majority of people, who most probably will spend their increased income on consumption. I do not question whether this policy is necessary or justifiable for political or social reasons. I merely wish to point out that in the context of promoting saving and reducing consumption, the creation of more consumptive purchasing power is not logical. It is true that this policy of creating more purchasing power for low income groups lies mainly outside the tax field, but there are a few tax aspects which deserve brief mention. Under a tax policy directed toward reduced consumption, one would expect an increase in indirect taxes. There is, however, little, if any, government desire to do so, probably for political reasons. With a general increase in the income and wage levels, there is, on the contrary, a tendency to lower the income tax rates. For the middle and high income groups, a lowering of rates has been announced and will probably be enacted in 1964, but the government has already announced that it will not take effect until economic circumstances permit. This means that, with an increase in salaries, the relative tax burden will be higher for the time being because of the higher progressive rates of tax which will then apply. Under our present wage tax system,

which is comparable to the U.S. "pay-as-you-go" system, certain measures tend to lower the relative tax burden for the low income groups.

I shall not go into the technical details; what I have said is sufficient to show that the tax policy in this respect tends to lighten the burden for low incomes (with the result that consumption here will not be reduced) and to increase it for higher incomes. In addition, there is an increase in the compulsory old-age pension premiums, which means an increase in the burden for middle and higher incomes; this increase is relatively higher for those groups than for low income groups. Finally, I would mention that for some specific groups of workers, e.g., those in housing construction, the government has considered exempting overtime work from tax income. Although this may mean that work in this field becomes more attractive and thus a positive contribution is made to solving the housing shortage, such a policy may easily create tensions in other industries whose workers will ask for similar benefits. The result can only be a general increase in wage and price levels, which is not consistent with the government's policy as indicated in Goedhart's paper and is also contrary to any country's competitive position vis à vis the neighboring countries.

In this connection another point should be raised. There is a tendency to protect certain economic activities through tax measures. In the Netherlands a few such measures exist in favor of the textile and cigar industries. In other countries specific measures exist for agriculture. It can hardly be said that such measures contribute to economic growth. On the contrary, they often help to conceal the fact that the enterprises to which they apply are in a marginal position and that they have to be supported by what can be called artificial means. This point is of particular interest in the context of European integration where a free movement of goods, capital, and persons should create the most favorable conditions for an economically sound division of labor and production. Much more could be said in this respect, especially on the subject of whether in the Common Market a country is entirely free to choose its own economic and tax policy. Certainly others are in a better position to develop this point than I am.

In concluding, I would like to say that in my opinion tax mea-

asures have only a slight influence on economic activities. I often have the feeling that if a businessman is really active and wants to start a new venture, he will do so, even if he is not encouraged. Of course, there are certain limitations to this proposition. It should not be made artificially difficult for him, either by high tax burdens or other obstacles. But if taxes are at a reasonable level, compared with the general functioning of the public sector, the businessman will certainly start something without a special incentive. As I have already said, special tax incentives may be important to a businessman looking for a country in which to start a new activity. If all circumstances are equal, he may choose the country with the most favorable tax climate. My country has undoubtedly benefited in this respect from a number of tax incentives, but I have the impression that the effect is only temporary.

A. J. VAN DEN TEMPEL, UNIVERSITY OF AMSTERDAM

The central theme of the paper of my colleague Goedhart is how to promote a high level of savings. For the time being, he considers that the best means of encouraging economic growth in the Netherlands other than by income policy is to stimulate savings at full employment rather than to stimulate investments out of savings. He mentions the investment rebates and accelerated write-offs for depreciation as measures aimed at promoting savings from the business profits.

In this connection, I would like to make two remarks. The first is that Goedhart gives foundation, justification, to these measures other than the grounds on which they were proposed and adopted in Parliament. They were very explicitly adopted as measures to promote investment, to stimulate the propensity to invest. This can be seen from several characteristics, for example, the conditions under which they are to be applied and the exclusion of certain kinds of investments which are not essential to our industrial development. The measures were meant to influence the choice of entrepreneurs about the use of available savings, the choice between investment consumption and investment. This was done by subsi-

dizing new investments by taxes and increasing the charges on their rentability.

Now, disregarding for the time being the question of whether this end has been attained, I only want to point out that in a democratic state the grounds on which a measure has been adopted are not without significance. I doubt even whether in my country these measures would have been adopted if the general opinion had been that the importance of these measures lay in what they added to private savings and that they would not have an effect on investments exceeding the amount of the tax losses involved. At the very least, their effect on savings would have been compared with the effects of other means of adding to national savings.

If this were true at the moment of their adoption, the same is true now. The infringements on tax are accepted by the public because they are considered not as giving free subsidies to certain taxpayers but as influencing the use of already available savings to ends which are in the common interest. And in general, I believe, a special measure aimed at a specific objective and tied to the fulfillment of certain conditions is more acceptable to public opinion than, for example, a general reduction in the rate of the corporation tax. This makes directed measures attractive to the legislature.

I now come to my second remark. In considering what circumstances may have hampered economic growth in the Netherlands my colleague gives almost sole attention to the amount of savings available for investment. I believe this view of the matter needs some qualification, which may be of some importance to our subject. I do not deny the probability of his view for the years after 1953 when selling was easy and prospects were good. For small businesses, moreover, self-financing has always been nearly the only way of financing. But in the years before 1953, there was still much uncertainty among businessmen in the Netherlands about future possibilities and a hesitancy to venture large investments. There were few demands for risk-taking capital on the market, and these were easily met. I believe that in these circumstances the tax measures were, indeed, significant as incentives, and not only because they increased the possibilities of self-financing.

In recent years, the situation has again differed from that in the later 1950's. The level of savings is high now. And this explains why the government has now ventured to propose a differentiated rate of corporation tax. A lower rate for distributed profits should, while reducing savings, ameliorate the allocation of resources. The real bottleneck in recent years has been a scarcity of labor. Our wage policy since the war has given us, as Goedhart says, a continuing competitive position in export markets and an almost complete absence of strikes. It has, however, had the disadvantage of giving no incentive to labor-saving investments and stimulating capital-widening investment too much. The consequence has been an extremely tight labor market and, in recent months, a considerable rise in wages.

The government has not hesitated to maintain the special tax measures favoring private investments, although their volume has remained very high. I believe this is right, as rising wages will, although with a certain time lag, discourage capital-intensive investment.

A point on which I cannot fully agree with Goedhart is the importance he repeatedly attaches to the 1959 adoption by the Dutch government of the principle of long-term reduction of public expenditure and of taxation in the relation to national income. To my mind, Goedhart overstresses this point. First, the actual development was quite different. As can be seen from Table 5, up until 1959 the objective tax burden decreased slowly. Since 1959, when the new policy was adopted, it has been increasing. And there are many signs which portend a further increase.

The contradiction, however, between theory and practice of old and new governments is not my main point. I only mention it because it confirms my experience that changes in governments in this respect have a smaller significance than voters expect. My main objection to the stress laid on the government thesis is that, although it is couched in economic language, it is based on political rather than economic considerations. It would, to my mind, be equally meaningless from an economic viewpoint to say, in general, that expenditure and the tax burden should rise in proportion to income tax or even quicker.

The only economic argument that I can see is the disincentive effect of high income tax. Now, in my experience in the Netherlands, this disincentive effect is only apparent to some extent in the case of overtime work and women's labor. High-level workers are in general overburdened and their reward is high progression and manager's disease. But relief to the lower incomes would only make the progression steeper.

Enterprises of some importance can, for that matter, avoid the progression by switching over to the legal form of a company. Our corporation tax is relatively low, and the concept of taxable profit is more favorable than in any other country in the Common Market.

Over the years, I have become more skeptical about tax incentives. Certainly, they complicate the tax law considerably. I, nevertheless, believe that in special circumstances they are a powerful instrument, and not only by their direct effect on economic quantities.

I would like to call your attention to the influence of all law, which creates a certain tendency to conform. A businessman is often uncertain about the course to follow and unable to get a long-term view of prospects. In that position, the implied advice of the government, surrounded by its advisors and experts and using the persuasive argument of less tax, is not without effect. And indeed, we might say that the legislator binds himself in a certain measure and takes part of the responsibility, a heavy responsibility, which is a good reason to be chary of these measures. Maybe such psychological and sociological influences were stronger in the disintegrated economy which existed in several countries after the war than they are now. Nevertheless, they may be important even today.

I shall close by saying that I have limited myself to criticizing or qualifying some points in the Goedhart paper. I believe the main part of the report of my eminent colleague has no need of my remarks.

