

The Netherlands Central Economic Plan for 1947

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Early in October of this year the Central Planning Bureau of the Netherlands Government published a First Memorandum on the Central Economic Plan for 1947. This Plan had to serve as a basis to the parliamentary discussions on the government budget. It may be seen as a background to the government budget, indicating the chief features of the economic development of the country as a whole which the government hope to realise in 1947.

Although the Plan is published under the responsibility of the Central Planning Bureau, the government have, for the time being, accepted the chief figures for 1947 as a basis of their policy. These figures are those for imports and exports, consumption, investments and government requirements. The publication of the Central Planning Bureau gives a large number of further figures and informations, not only for 1947. Before going more thoroughly into the meaning and the background of those figures a word must be said about the nature of the Plan as a whole.

It is strongly emphasized that the Plan is of a *task-setting* nature. It is built on two bases:

- i) a forecast of the most probable development of the real «data» and
- ii) the results of the combined activities of all strata of the population and of the various government agencies.

The authors are aware of the necessity of a huge effort of the Netherlands people and their government to improve the economic situation. A pure extrapolation of the present data in a more or less mechanical way would not lead to an acceptable and consistent plan for reconstruction. There is still a fundamental gap between the requirements of consumption and investment at one side and the performances of production at the other side. At present this gap is filled by foreign credits, but everybody in Holland is aware of the necessity to stop foreign lending within a period of a few years. Clearly only an increasing home production together with a strong increase in exports is the way to get out of this difficulty.

The Central Planning Bureau tries to indicate along what lines this way-out may become a reality. It is the intention of this paper to give some idea of the main reasonings and calculations upon which the Plan is based.

The publication is divided into two parts: Part I, dealing with what is called the Frame Plan for 1946 to 1952; and Part II, dealing with the «Global Plan» for 1947. By a «Global Plan» a plan is meant dealing only with the broadest subdivisions of the national economy. Later on this Global Plan will be followed

by a detailed plan, giving figures for the separate industries, such as e. g. the fifteen main branches of manufacturing industry.

The *Frame Plan* intends to give a picture of the whole of the reconstruction period. It is assumed to be desirable and estimated to be possible that the pre-war level of productivity per head be reached by 1950 or 1952. At present the level of labour productivity seems to be about 75% for the economy as a whole and 70% for manufacturing industry (taking 1938 as a basis)¹. Comparing the task set with what happened after World War I, one finds that the projected increase in productivity is strong; after the first World War, however, the process of reconstruction was severely hampered by the crisis of 1920 to 1922. It is assumed that this time a forthcoming crisis will be less pronounced and more efficiently counteracted than formerly.

For the period 1946—1952 an estimate is made of:

- i) the «National resources», by which is meant the total of the national product and of foreign credits to be obtained, and
- ii) the «Total requirements» for:
 - a) consumption;
 - b) government activities and
 - c) investment.

The Central Planning Bureau assumes the possibility of completing the reconstruction process—with the exception of residential building—during this period and of increasing gradually the volume of *consumption*. At the present moment the volume of consumption is at about 75 % of the 1938 per capita figure. By 1952 a figure of 96 % may be obtained.

The total volume of *investments* necessary during this period consists of two main items, viz. i) the reconstruction of war-damaged equipment and ii) the new investments necessary in order to procure employment to the increasing population in those branches of industry susceptible to development; as such, chiefly manufacturing industry and to some extent trade and transport are considered. It is not assumed that the total of the arrears in house-building will already be met with during this period. This may take another five years.

Investments are considered separately for manufacturing industry, agriculture, trade, transportations, dwellings and the replenishment of stocks. For the period of 1946 to 1952 inclusive the following total is calculated (in milliards of guilders of 1947):

Manufacturing industry	4,1
Agriculture	1,3
Trade	0,6
Transportation	2,7
Dwellings	1,6
Replenishment of stocks	1,4
Total investment	11,7

¹ This article was written in October 1946; since that month productivity increased considerably.

The calculations for manufacturing industry are composed of two items, viz.:

Replacement of war-damaged assets	2,0
Investments for industrialisation	2,5
Total	4,5

Of this total, an amount of 0,4 milliards of guilders may be financed out of depreciation allowances, since in the beginning not all of these will be needed for replacement of worn-out capacity.

The total of *government requirements*, i. e. of the goods and services necessary for the performance of the government task, excluding state enterprises and the reconstruction of private property, is found by a number of assumptions on the tendency in the various main items. Among these tendencies the decrease in the rather high military expenditures is outstanding. Since there is no doubt about the rather high margin of uncertainty, necessarily existing in estimates like these, the figures must be considered as very rough approximations only. On the other hand, however, the publication shows, by the consideration of some alternatives, that there is not very much choice for the Netherlands people. Assuming lower productivity or higher consumption or larger foreign credits very soon leads to situations which are decidedly undesirable. This is shown by five alternative calculations, each of them reflecting a possible variation in one of the main items of the Frame Plan. The system of figures chosen runs as follows:

Frame Plan 1946—1952, in milliards of guilders

Table I: (Price level of 1947)

	1946	1947	1948	1949	1950	1951	1952
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
<i>Resources:</i>							
1. National product	7,4	8,3	9,2	9,8	10,2	10,6	11,0
2. Recuperation and reparations.	0,1	0,1	0,1	0,1	—	—	—
3. Foreign credits or liquidation of foreign investments	1,3	1,4	0,6	—	—	-0,1	-0,3
Total, resources	8,8	9,8	9,9	9,9	10,2	10,5	10,7
<i>Requirements:</i>							
1. Consumption (incl. taxes).	5,4	6,1	6,8	7,1	7,4	7,7	8,0
2. Consumption abroad.	0,1	0,1	0,1	0,1	0,1	0,1	0,1
3. Net investments	1,0	1,7	1,8	1,8	1,8	1,8	1,8
4. Public authorities	2,7	2,7	2,4	2,2	2,2	2,2	2,2
5. Subsidies	0,5	0,3	—	—	—	—	—
6. Deduct: cost raising taxes	-0,7	-0,9	-1,0	-1,1	-1,1	-1,1	-1,2
7. Sales by public authorities to business	-0,2	-0,2	-0,2	-0,2	-0,2	-0,2	-0,2
Total, requirements	8,8	9,8	9,9	9,9	10,2	10,5	10,7

The *alternatives* considered are the following:

I. *Labour productivity shows a smaller rate of increase.* It is shown that this would imply the necessity of a reduction of consumption or investment which is hardly tolerable.

II. *More foreign credits are taken up.* Although by so doing the country might consume or invest more, it would on the other hand have to pay larger amounts of amortization and interest and it is assumed that this increased burden cannot be accepted.

III. *Smaller amounts of foreign credits are taken up.* Here again the consequent reduction in consumption or in investment is considered to be unacceptable.

IV. *During the first years consumption is increased more than the original figures indicate.* This means that investment has to be reduced and consequently that the period of reconstruction will be prolonged. This alternative too is assumed to be less satisfactory.

V. *Higher military expenditures in the years after 1947.* Also here the period of reconstruction would have to be prolonged and the alternative is therefore less desirable. It might, however, be imposed by the circumstances.

After the exposition of the Frame Plan for the period 1946—1952, more details are given for the year 1947, although even for this year only a Global Plan is given, as was mentioned already.

This Global Plan for 1947 has been given the particular form of a system of *bookkeeping accounts*, describing together all the flows of goods and services passing from any group of households considered to any other group. In total, seven separate groups have been considered, indicated by the following headings:

- I. Family households;
- II. Collective income recipients;
- III. Enterprises (incl. of public enterprises and reconstruction of private properties):
 - A. Working costs account;
 - B. Capital account;
- IV. Public authorities (excl. of public enterprises and reconstruction of private properties);
- V. Foreign countries;
- VI. Capital market.

Together, these accounts are indicated as the «*social budget for 1947*», as distinguished from the state budget or the combined budget of all public authorities.

The method followed by the publication is that of double bookkeeping: for each group of households, a complete account of receipts and expenditures is given, meaning that each item (since it is at the same time a receipt and an expenditure) is shown twice. (Cf. Annex.) As has been pointed out by Prof. Goudriaan¹, also another method might have been followed. In his proposal

¹ *Economisch-Statistische Berichten*, p. 682, October 23, 1946.

a double-entry table is used, where both in the heading and in the first column the names of the households are mentioned. The households in the heading are those making an expenditure and those in the first column are the ones receiving the expenditure. Each item is only indicated once instead of twice.

The advantages of a system of bookkeeping accounts or «social accounts» are the following:

- i) One is compelled to consider exactly the relations between any two groups of households.
- ii) There is some guarantee of completeness in the fact that there must be equilibrium between expenditures and receipts for any group of households.

On the other hand one should not overlook the fact that social accounts do not tell the whole story about the functioning of the economy. If e. g. income decreases, one cannot read from the accounts by what amount consumption will decrease. This information can only be taken from further data, such as the marginal propensity to consume and other coefficients which may be brought together into equations. A complete description of a functioning of the economy can only be given by a so-called complete system of dynamic equations as described in my League of Nations study about business cycles in the USA.¹ It is also by such a complete system only that «flexible social budgets» may be established, showing what changes in budget will be necessary if any of the «data» changes. These flexible budgets are now being studied by the Central Planning Bureau.

The system of bookkeeping accounts represents only one type of equations, viz. the so-called balance equations. Moreover the social accounts given for the Dutch Plan 1947 are static: no account has been taken of items caused by:

- i) price changes;
- ii) time-lags between orders and payments;
- iii) changes in inventories, etc.

Refinements of this nature are also in preparation. They will be particularly important for purposes of business cycle policy, which the Central Planning Bureau considers as one of its future subjects.

The Global Plan is only the first half still of a real plan. In addition to it, more detailed figures on the proposed extent of production, imports, exports, consumption, etc., in the various branches of industry must be given. Those detailed figures have to fulfill the condition that account should be taken of all the technical connections between the various industries. Home sales of leather e. g. should be equal to the consumption of leather by the shoe industry and other leather consuming industries; consumptions of yarns should be equal to imports plus home production of yarns; the case being, increases or decreases in stocks should also be included; and so on and so forth.

¹ J. Tinbergen, *Business Cycles in the USA, 1919—1932*. Geneva 1939.

Even more than the Global Plan, this Detailed Plan is a big jig-saw puzzle. Although it is a useful organization of the work involved, first to establish the Global Plan and only afterwards the Detailed Plan, it is nevertheless not quite possible to draw up a Global Plan without some knowledge of the Detailed Plan. Such important data as the productive capacity of the various industries must have their influence also on the Global Plan. In many cases, however, it will be possible to use these data in the shape of general index numbers or averages. Far more than the Global Plan the Detailed Plan has to answer questions of priorities. The production in the various industries must in principle be such that the last units produced in each of them are of the same degree of urgency.

The general method followed by the Dutch Central Planning Bureau may be exemplified by the following special case of a determination of priorities.

In order to see to it that only commodities will be produced whose urgency surpasses a certain level, family budget statistics have been taken as a starting point after having been corrected in several ways. The general idea is that these statistics are an indication of what the population wants to consume at various levels of well-being. For the various possible income levels they indicate how much food, how much clothing, etc., is demanded, splitted up into subgroups and separate commodities. The increase in consumption of any commodity between an income of say 1000 guilders and 1200 guilders is less urgent than the quantities consumed at the 1000 guilders level; the increase observed between 1200 guilders and 1400 guilders is still less urgent, etc. In order to find out what consumption demands should first be satisfied, the average real income of the community has to be calculated and the consumption of the various goods to be read off from these budget statistics. This gives a guarantee that there is an equilibrium between the urgency of the various goods consumed.

This method, however, has to be corrected for various particular circumstances, characteristic for the post-war times. First of all, relative prices may have changed; secondly there is an accumulated demand for durable goods because of war damages and of the impossibility to replace worn-out goods during the war. Third, the consumption of a number of particular goods and services must not be reduced according to the figures found, because their consumption represents some social, hygienic or cultural interest, e. g. consumption of water, medical services, etc.

In accordance to the foregoing, the Central Planning Bureau made estimates on consumption splitted up into the categories:

- i) food, drinks and tobacco;
- ii) other non-durable goods and services and
- iii) durable goods.

Further a distinction is made between:

- a) war-damaged families;
- b) newly formed families and
- c) normal families.

It goes without saying that the requirements of the first and second group, as far as durable goods are concerned, are far higher than those of the third group. But even there the demand for durable goods is composed of two items, viz. normal replacements and new investments, now consisting chiefly of restoration of the arrears from the war-period. The estimates of the Bureau are based on two sources of information. From so-called inventory statistics it is known how the composition of the stock of durable goods for families of various income classes was. Given the number of years during which no replacement of the worn-out goods was possible, a rough estimate of the accumulated demand may be made. This estimate does not yet take account of a change in real income. For this change it has to be corrected. The real income itself can only be determined after the extra demand for durable goods is known. In principle this is a question of two unknowns and two equations for their determination.

As to the other goods, distinction is made between three types of goods:

The *first* type consists of goods and services, the consumption of which for some reason or another must not be restricted too much (for hygienic, cultural or social reasons).

The *second* type is formed by those goods which are subjected to rationing, chiefly food, and for which consumption has to depend on the production and import facilities.

The *third* type finally consists of goods and services without special features for which it is assumed that consumption will simply be adapted to the new real income level in the way as indicated by family budget statistics.

Roughly speaking, the total of the goods of the second type is also determined according to the same principle. For the details of the calculations the reader may be referred to a forthcoming publication¹ which forms a new contribution to market analysis for war-hit countries. As a matter of fact the demand for durable goods shows quite abnormal features in such countries. This is shown by some of the figures in table II, taken from the last-mentioned publication.

Consumption in 1938 and 1947 of durable consumers' goods

Table II: (in millions of guilders, at retail prices 1938)

Classes of goods	Expenditures in 1938	Expenditures in 1947	Expenditures in 1947 per head in pCt. of 1938
1. Clothes	278	187,3	63
2. Footwear	45	42,1	86
3. Consumers' furniture	89	34,2	36
4. Household textiles	80	71,2	83
5. Floor and wall covering	61	40,2	61
6. Kitchen and table utensils	44	25,9	56
7. Miscellaneous	149	68,1	43
Total	746	469,0	58

¹ *De Nederlandsche Consumptie in 1947, Centraal Planbureau i. o.*

By this example I hope to have made clear the type of considerations on which the figures of the Detailed Plan are based. Similar investigations are being made on the investment sector, in order to arrive at a general priority scheme in this field.

It goes without saying that the investigations by the Central Planning Bureau also refer to questions of price and wage policy and financial policy. Generally speaking, any subject for which the interconnections of the various sectors of the economy are of primordial importance, has in principle to be considered by the Bureau. By so doing it tries to perform its chief task, viz. «to advise the Government on the coordination of the policies of the various ministries in the economic, financial and social fields».

Annex

National Budget and National Income 1947

Table A

Confrontation of means and requirements for 1947 (in 1000 millions of Glds) ¹

Means	Amount	Requirements	Amount
1. Net national product at factor cost (1947 prices) (90 and 103)	8,3	5. Personal expenditure on consumers' goods and services, bought from enterprises (17 and 32)	6,1
2. Reparation supplies and recuperation (40 and 77)	0,1	6. Personal expenditure on consumers' goods and services, bought abroad (18 and 71)	0,1
3. Foreign credits and sale of foreign assets (76 and 81)	1,4	7. Expenditure of public authorities, exclusive of transferred incomes (62 plus 66 plus 69)	2,7
		8. Net capital formation of enterprises (53 b)	1,7
		9. Subsidies paid to enterprises (36, 67 and 94)	0,3
		10. a) less Cost-raising taxes (47 a, 57 a and 93)	— 0,9
		b) less Supplies from public authorities to enterprises (49 a)	— 0,2
4. Total available means (11)	9,8	11. Total requirements (4)	9,8

¹ Figures in brackets refer to corresponding items in following tables.

Table B

*Budget of Netherlands' Economy for 1947 (in 1000 millions of Glds)**I. Family households*

<i>Receipts</i>		<i>Expenditures</i>	
12. Productive incomes, paid by enterprises (44 and 96)	6,2	17. Consumers' goods and services, bought from enterprises (5 and 32)	6,1
13. Productive incomes, paid by public authorities (62 and 101)	1,3	18. Consumers' goods and services, bought abroad (6 and 71)	0,1
14. Transferred incomes (63)	0,8	19. Premiums (24)	0,2
15. Pensions (29)	0,3	20. Taxes (55)	1,3
		21. Payment of public services and repayment of consumers' credit (56)	0,1
		22. To be saved (79)	0,8
16. Total (23 and 86)	8,6	23. Total (16 and 86)	8,6

II. Collective income recipients

<i>Receipts</i>		<i>Expenditures</i>	
24. Premiums (19)	0,2	29. Pensions (15)	0,3
25. Contributions from enterprises (after deducting administration costs and profits) (45 and 97)	0,1	30. Net additions to reserves (80)	0,3
26. Contributions from public authorities (64)	0,1		
27. Interest paid by public authorities (65)	0,2		
28. Total (31)	0,6	31. Total (28)	0,6

*III. Enterprises (incl. of public enterprises and reconstruction of private properties)**A. Working costs account*

<i>Receipts</i>		<i>Expenditures</i>	
32. Supplies to family households (5 and 17)	6,1	44. Remuneration of productive agents (12 and 96)	6,2
33. Supplies to public authorities (66)	1,0	45. Contributions to pension funds (25 and 97)	0,1
34. Exports (in broad sense) (75)	1,4	46. Supplies from abroad (imports including recuperation) (72)	2,4
35. Supplies to other enterprises (53)	2,7	47. a) Cost-raising taxes (10 a, 57 a and 93)	0,9
36. Subsidies paid by public authorities (9, 67 and 94)	0,3	b) Equalization tax (57 b and 98)	0,2
37. Interest paid by public authorities (68)	0,1	48. Profit taxes (58)	0,2
		49. a) Supplies from public authorities (10 b and 59 a)	0,2
		b) Interest and profits paid to public authorities (59 b)	0,1
		50. Depreciation allowances (42, 53 a and 91)	1,0
		51. Internal financing of companies (41 and 99 less 48)	0,3
38. Total (52)	11,6	52. Total (38)	11,6

B. Capital account*Receipts*

39. Credits (83)	1,3
40. Reparation supplies and recuperation (2 and 77)	0,1
41. Internal financing of companies (51)	0,3
42. Depreciation allowances (50, 53a and 91)	1,0
43. Total (54)	2,7

Expenditures

53. Gross capital formation (35)	
a) Replacements (42, 50 and 91)	1,0
b) Net capital formation (8)	1,7
54. Total (43)	2,7

IV. Public authorities (excl. of public enterprises and reconstruction of private properties)*Receipts*

55. Taxes paid by family households (20)	1,3
56. Payment for public services and repayment of consumers' credit (21)	0,1
57. a) Cost-raising taxes (10 a, 47 a and 93)	0,9
b) Equalization tax (47 b and 98)	0,2
58. Profit taxes (48)	0,2
59. a) Supplies to enterprises (10 b and 49 a)	0,2
b) Interest and profits from public enterprises (49 b)	0,1
60. Loans (84)	1,2
61. Total (70)	4,2

Expenditures

62. Productive incomes (13 and 101)	1,3
63. Transferred incomes (14)	0,8
64. Contributions to pension funds (26)	0,1
65. Interest paid to collective income recipients (27)	0,2
66. Supplies from enterprises (33)	1,0
67. Subsidies paid to enterprises (9, 36 and 94)	0,3
68. Interest paid to enterprises (37)	0,1
69. Purchases abroad and interest (73)	0,4
70. Total (61)	4,2

V. Foreign countries*Receipts*

71. Consumption of family households (6 and 18)	0,1
72. Imports (including recuperation) (46)	2,4
73. Supplies to public authorities and interest (69)	0,4
74. Total (78)	2,9

Expenditures

75. Exports (in broad sense) (34)	1,4
76. Foreign credits and sale of foreign assets (3 and 81)	1,4
77. Reparation supplies and recuperation (2 and 40)	0,1
78. Total (74)	2,9

VI. Capital market*Receipts*

79. To be saved by family households (22)	0,8
80. Net additions to reserves of collective income recipients (30)	0,3
81. Foreign credits and sale of foreign assets (3 and 76)	1,4
82. Total (85)	2,5

Expenditures

83. Credits to enterprises (39)	1,3
84. Loans to public authorities (60)	1,2
85. Total (82)	2,5

Table C

**The National Income in 1947 (in 1000 millions of Glds)
computed by the "subjective" method**

Items	Amount
86. Personal income before tax (16)	8,6
87. Other private income before tax (undistributed profits of companies) (99)	0,5
88. Total private income before tax (86 plus 87)	9,1
89. Contributions to pension funds (by private and public employers) plus equalization tax less transferred incomes (paid to family households by public authorities and collective income recipients) (97 plus 98 plus 102 less 14 less 15)	—0,8
90. National income or net national product at factor cost (88 plus 89, 1 and 103)	8,3
91. Depreciation allowances (42, 50 and 53 a)	1,0
92. Gross national product at factor cost (90 plus 91)	9,3
93. Cost-raising taxes (10 a, 47 a and 57 a)	0,9
94. Less subsidies paid to enterprises (9, 36 and 67)	—0,3
95. Gross national product at market value (92 plus 93 plus 94)	9,9

Table D

**The National Income (in 1000 millions of Glds)
computed by the "objective" method**

Items	Amount
96. Remuneration of productive agents by enterprises (12 and 44)	6,2
97. Contributions to pension funds by enterprises (25 and 45)	0,1
98. Equalization tax (47 b and 57 b)	0,2
99. Undistributed profits of companies before tax (87)	0,5
100. Net production of enterprises (96 plus 97 plus 98 plus 99)	7,0
101. Remuneration of agents of production by public authorities (13 and 62)	1,3
102. Contributions to pension funds by public authorities (excl. of transferred incomes)	0,0
103. National income or net national product at factor cost (100 plus 101 plus 102, 1 and 90)	8,3