Why the Dutch disease is contagious

ADRIAN HAMILTON reports from Holland

FEARS that a stronger pound may damage industry and accelerate manufacturing decline worried British Ministers last week. In Holland, where a properly constituted Government has still not been formed by acting Premier, Joop den Uyl, anxiety is growing about the uncompetitiveness behind the outwardly strong Dutch currency.

The British call it the 'Dutch disease' — the deleterious impact of energy resources on competitiveness and financial discipline. The Dutch are half-inclined to associate it with the creeping 'English disease'—poor productivity, overbearing union power and a tendency to consume too much and invest too little.

Either way, the economic impact on Holland in the 1970s of vast gas production vividly illustrates the problems as well as benefits Britain may face with the North Sea.

The example is a close one. The discovery in 1959 of Holland's Groningen field—one of the world's largest gas fields — set off the North Sea's Klondyke.

Development of this and other fields has helped maintain a balance of payments surplus of between £1,000 and £1,500 million over the past five years. Government revenues have benefited by £2,000 million this year alone and considerable investment has been made.

Yet here are the Dutch discussing how to curb the growth in public spending, promote sagging investment rates, aid lame-duck industries and restrain wages—for all the world as if they were in bad old Britain.

The Netherlands certainly has problems with its gas. Groningen was developed early when fears of competition from nuclear power were strong and the Finance Ministry was obsessed with the balance of payments.

A resulting drive for gas export sales has left the country with half its output going abroad at contract prices well below those being paid by its own industries. Production from current reserves is due to go into decline within four or five years, and rising energy use has already led to expensive imports.

'That,' says a leading Dutch parliamentarian sourly, 'is what we call being a trading nation.'

Meanwhile, the rapid build-up of revenues has encouraged the Government to increase public spending to a level of more than 60 per cent of national income. Most welfare benefits have been indexed against wages. Wages have been linked to inflation. Profits and investment have been continuously squeezed.

This, in turn, has worsened exchange rate problems. Industry's international competitiveness has fallen sharply as gas exports have kept the current account in balance, and held up the currency while domestic costs have steadily risen.

The Netherlands, once one of the lowest wage-cost countries in Europe, is now one of the highest.

Since 1971, when major gas benefits were first felt, the guilder has appreciated by nearly 10 per cent in real terms against the Deutsche Mark and by more than three times this against the dollar. Its share of slow-moving world trade has suffered accordingly. The underlying balance of payments has been in decline and could reach actual imbalance by 1979.

Yet the strong guilder has also helped reduce the cost of inflation through imports and hold back the rate of index-linked wage increases. Pull down the currency's value and exports will become more competitive—but wages and public spending will rise even more sharply.

Whitehall observers draw the lesson that you shouldn't maintain your currency at a higher level than competitiveness would suggest and that you must stop the benefits being frittered away in consumption.

The Dutch Government at least believes that, by negotiating higher export prices for gas, pushing back sales into the 1990s and conserving energy at home, the benefits of gas can be sustained through the mid-eighties without too serious a decline.

It has acted on the exchange problem by discouraging inward flows of capital and encouraging firms to invest abroad. Last week, it began discussing a package aimed at reflating demand through public works and reducing some of the social security dues on individuals and employers.

Critics call for far more urgent action—for greater reflation and a withdrawal from the present currency band with the Germans.

Business, as in Britain, wants drastic cut-backs in public spending, reduction of company taxes and social charges, and smaller wage rises.

Many trends which worry the Dutch predated gas finds. Low investment rates, high structural unemployment and declining industries such as textiles and shipbuilding are common to most industrialised nations.

The Dutch worry more about the state of the German economy, which buys over 50 per cent of their exports. So long as Germany grows, so does Holland—which still foresees growth, inflation and productivity rates well above the UK's.

'For us,' says a senior Government official in The Hague, 'the problems associated with gas have come at a time when we need to adjust our economy to new circumstances. But these are problems of adjustment on a basically healthy country, not revolutions. For you, the North Sea is coming when your industry is in decline, your inflation rates are higher than your competitors' and you have difficulties with productivity.'

The Dutch, after all, have maintained a strong currency through nearly eight months of no properly constituted Government at all. They may have their problems. But would that the British could inspire the same international confidence.

Caretaker Dutch Premier Joop den Uyl