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Fiscal Policy in the Smaller Industrial Countries, 1972-82: A Comparative Analysis 1/

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1/ This paper constitutes part of a more extensive study of fiscal policy in the smaller industrial countries over this period. The other part, which deals with institutional arrangements and fiscal developments in individual countries, provides background material for the comparative analysis. In this paper it is referred to as Part II; because of its length it is not suitable for distribution in the form of a departmental memorandum.

* The author is grateful to Vito Tanzi for constructive comments on an earlier draft and for encouragement throughout. Thanks are also due to Klaus-Walter Riechel for helpful comments on the comparative part of the study and to a number of his colleagues in the European Department who commented in detail on individual country sections in Part II from which this paper benefited. Ziba Farhadian rendered competent research assistance. Responsibility for views expressed and any remaining errors obviously rests with the author.

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I. Introduction

This study was undertaken to provide information and analysis of the state of the public finances and their developments in the smaller industrial countries over the decade 1972-82. It also reflects the evolving pattern of work in the Fiscal Affairs Department toward following fiscal developments in groups of member countries. At the same time, the study is intended to partially meet recent requests of the Executive Board for international comparison and analysis of various aspects of fiscal developments and policies. The choice of countries was made on the basis of, first, the availability of statistical and other sources suitable for comparative purposes and, second, the fact that there is a considerable gap in the literature on comparative fiscal policies in these countries, much more so than in the major industrial countries--the only other homogeneous group of member countries that meets the first criterion. Although the period chosen was dictated by the availability of comparable statistics, it covers the most turbulent years of the postwar period for the world economy; a period that posed an exceptionally strong challenge to fiscal policy. It should be stressed, however, that in some countries in the group the orientation of fiscal policy has changed in the most recent years and the paper does not take account of developments in that period.

Basic sources used in Part II, and therefore reflected in this paper, are various Fund documents and OECD country surveys. Other sources are quoted separately as appropriate. Statistical data on consolidated central government finances are derived from the 1983 Government Finance Statistics Yearbook (GFS), which provides statistics that are consistent over time and comparable across countries. GFS data may differ from those conventionally used by national authorities owing to different conceptual interpretation. According to the GFS definition, consolidated central government includes social security funds and may cover other entities that in some countries are not usually attributed to central government. Also, net lending is grouped with expenditure in the GFS. Ratios of revenue and expenditure to gross domestic product (GDP), for example, may for these reasons tend to be larger than those derived from national sources, and measurements of fiscal balances may also differ. The source for GDP statistics is the 1983 International Financial Statistics Yearbook (IFS) and subsequent updates. For countries where fiscal years do not coincide with calendar years the GDP data have been adjusted to fiscal years.

The paper is organized as follows. Section II sets forth some major economic characteristics of this group of countries, their implications for the pursuit of fiscal policy, and the role played in that respect by the central government to which the analysis is confined. The section concludes by reviewing the main aims of fiscal policy over the period. Section III accounts for the growth of expenditure and revenue and the implications for the fiscal balance and debt accumulation. Section IV provides a broad account of fiscal policies pursued by these countries over the period and examines how changes in economic circumstances, like the impact of the two oil crises, affected the policy stance. Section V considers major obstacles encountered by most countries in the group in their endeavors to bring about targeted fiscal adjustments, and Section VI goes on to analyze implications of past fiscal developments and policies for overall economic performance. Section VII summarizes the main findings and draws some conclusions.

II. The Smaller Industrial Countries

1. Some economic characteristics

A revised classification of countries was adopted by the Fund in December 1979 for the purpose of statistical presentation and economic analysis and was first utilized in the March 1980 issue of IFS. Subsequently, this classification was used in other Fund documents such as the Annual Report and the World Economic Outlook. The countries included in the present study belong to the subgroup of industrial countries identified as the smaller industrial countries, or other industrial countries, as distinct from the seven major industrial countries. They include Australia, Austria, Belgium, Denmark, Finland, Iceland, Ireland, Luxembourg, Netherlands, New Zealand, Norway, Spain, and Sweden. Switzerland, which also belongs to this group of countries, is not a member of the Fund and, owing to lack of satisfactory background information was not included.

The smaller industrial countries share certain economic features, and some of these have an important bearing on the conduct of fiscal policy. Although they are small in population size and economic weight compared with the major industrial countries, their stage of industrial development is advanced by any standard where the word "industrial" is taken to imply "the predominance of relatively sophisticated technology throughout the country's economy," as defined in the relevant Fund document. In other respects the countries differ substantially among themselves. Spain, for example, has a population of 38 million; Australia and Netherlands follow next with 15 and 14 million each, while Iceland and Luxembourg have the smallest population of 231,000 and 366,000, respectively (Table 1). Population density also differs

Table 1: The Smaller Industrial Countries: Selected Basic Statistics

	Population (thousands) 1/	Inhabitants Per Sq. Km. 1/	GDP Per Capita (U.S. dollars) 2/	Foreign Trade as a Percentage of GDP 3/ Exports of goods	Imports of goods
Australia	14,293	2	10,763	14.0	15.3
Austria	7,508	89	8,842	23.6	29.1
Belgium	9,852	323	9,651	60.6 4/	66.9 4/
Denmark	5,122	119	11,350	27.2	29.9
Finland	4,800	14	10,328	26.9	27.6
Iceland	231	2	12,791	26.3	36.5
Ireland	3,443	49	4,855	46.2	55.3
Luxembourg	366	141	10,566	--	--
Netherlands	14,247	418	9,861	48.3	45.6
New Zealand	3,176	12	7,957	23.3 5/	23.5 5/
Norway	4,100	13	13,937	31.3	27.6
Spain	37,654	75	4,938	11.5	17.7
Sweden	8,324	19	13,505	27.3	28.2

Source: OECD Economic Surveys.

1/ Mid-1981.
2/ 1981 at current prices and exchange rates.
3/ 1982.
4/ Including Luxembourg.
5/ 1980.

markedly. The Netherlands, with 418 inhabitants per square kilometer ranks among the most densely populated countries in the world, while Australia and Iceland, with only 2 inhabitants per square kilometer, are among the most sparsely populated countries. There might appear to be good a priori argument that this last feature would imply special fiscal burdens because of the cost of providing adequate infrastructure and other services as economies of scale were limited. However, the rather scanty studies available on this subject seem fairly inconclusive and the statistical evidence does not seem to support this argument, except perhaps in the case of national defense. 1/ Nevertheless, in the two countries concerned, evidence does not seem to bear this out as their expenditure/GDP ratios are among the lowest in the group and the adequacy of infrastructure and public services apparently is not inferior. Perhaps the relatively high per capita income explains part of this phenomenon.

A corollary of an advanced stage of industrial development is a high standard of living of the population. Per capita GDP figures indicate that by and large the smaller industrial countries rank highly on this scale and exhibit per capita income in the neighborhood of or exceeding US$10,000, based on 1981 statistics. Only in Ireland and Spain is per capita income substantially lower, around US$5,000 in each country.

For this study, the most significant economic characteristic of these countries is the openness of their economies. Measured by the commodity export and import ratios to GDP, the Benelux countries and Ireland have the largest foreign trade sectors of nearly 50 percent or over. In most other countries in the group foreign trade amounts to more than 25 percent of GDP, and only in Australia and Spain is this ratio considerably lower, some 15 percent on average in each country. For some countries the criterion of openness is substantially enlarged when services are included. This applies, in particular, to Austria, tourism, Iceland, air transport, Luxembourg, international banking, Norway, shipping, and Spain, tourism. This economic openness made the smaller industrial countries especially vulnerable to external impulses caused by the oil crises of 1973-74 and 1979-80 and the ensuing world recessionary conditions. Another implication of large external sectors is that the effects of measures designed to stimulate activity and employment tended to be weakened by leakages into imports. The small values of fiscal multipliers thus restricted the effectiveness of fiscal measures and frequently aggravated the balance of payments problems most of the countries had to cope with over the period. These issues are considered further in Section IV below.

1/ See, for example, E.A.C. Robinson, ed., Economic Consequences of the Size of Nations, Proceedings of a conference held by the International Economic Association (London, 1960).

2. Role of the central government

An analysis of fiscal policy should ideally comprise the public sector as a whole, as significant activities are carried out by local governments and in some countries by other public entities. But lack of statistical data prevents any detailed examination of the public sector, so the analysis is confined mostly to the central government. This approach should not be too misleading because the nature and national character of the central government's activities and the sheer size of its operations within the public sector allow it to dominate fiscal policy. This would appear to be particularly relevant in the context of stabilization policy, an aspect of fiscal policy that assumed a heightened role in most countries during this turbulent period. However, because the role of local authorities and other public entities in the pursuit of fiscal policy cannot be totally disregarded, this section considers some of the relevant relationships.

The size of the public sector in relation to total economic activity, and especially the relative size of the central government sector, determines in large measure the framework for using the public finances as a tool of economic management. The higher the ratio of government expenditure to GDP the greater the leverage of fiscal policy. Chart I demonstrates these relationships in each country in 1981 except where otherwise indicated. Sweden has the highest general government expenditure/GDP ratio, 66 percent, and Spain the lowest, 31 percent. But when the relative size of the central government is taken into account, Netherlands has the highest ratio, 57 percent, and Spain and Australia almost tie with the lowest ratio, 29 percent and 28 percent, respectively.

The chart shows that the relative size of the local government sector differs substantially among these countries. The Nordic countries--with the exception of Iceland--and Austria have the largest local governments in terms of expenditure/GDP ratios, while Spain's local government sector by comparison is the smallest. Although there is not, in principle, a causal link between relative size and the financial autonomy of local governments, experience in these countries nonetheless indicates a certain degree of correlation. Where local governments are largest, the degree of financial autonomy tends to be highest. For example, in Denmark, Finland, and Sweden, local governments enjoy a high degree of autonomy, as their ability to raise revenue from major sources such as local income or property taxes demonstrates. The economic significance of the local government sector in these countries has made it necessary to develop procedures that would coordinate fiscal policy with high priority objectives, such as the maintenance of employment, containment of public expenditure growth, and limitation of revenue raising measures that would affect the price level. Such coordination ordinarily takes place through negotiations between central and local authorities. In Denmark these procedures have led to the presentation of an annual public sector budget. Similar arrangements were established in Austria in the early 1970s when local authorities undertook to pursue a restrictive expenditure policy and refrain from raising fees and charges. Also in Austria local government shares in federal taxes were temporarily frozen as special deposits in the central bank to be used for countercyclical purposes. In Australia, where the local government sector is next in size, five-year agreements are made about commonwealth government financial assistance to the states. However, even in countries with the largest local government sectors, the central government usually can influence their activity through transfers from the budget and through controlling some of their revenues.

In countries with the smallest local government sectors, the financial autonomy of local authorities tends to be the most restricted. In Iceland, Luxembourg, and Spain, for example, the central government dominates public sector activity and exerts influence on local authorities through cost or revenue sharing arrangements. Local authorities in these countries also have very limited revenue raising and borrowing authority; their dependence on central government transfers and other commitments made each year in the budget is significant. It is also common for the central government in these countries, and indeed in others with larger local government sectors, to command the most productive and elastic revenue sources.

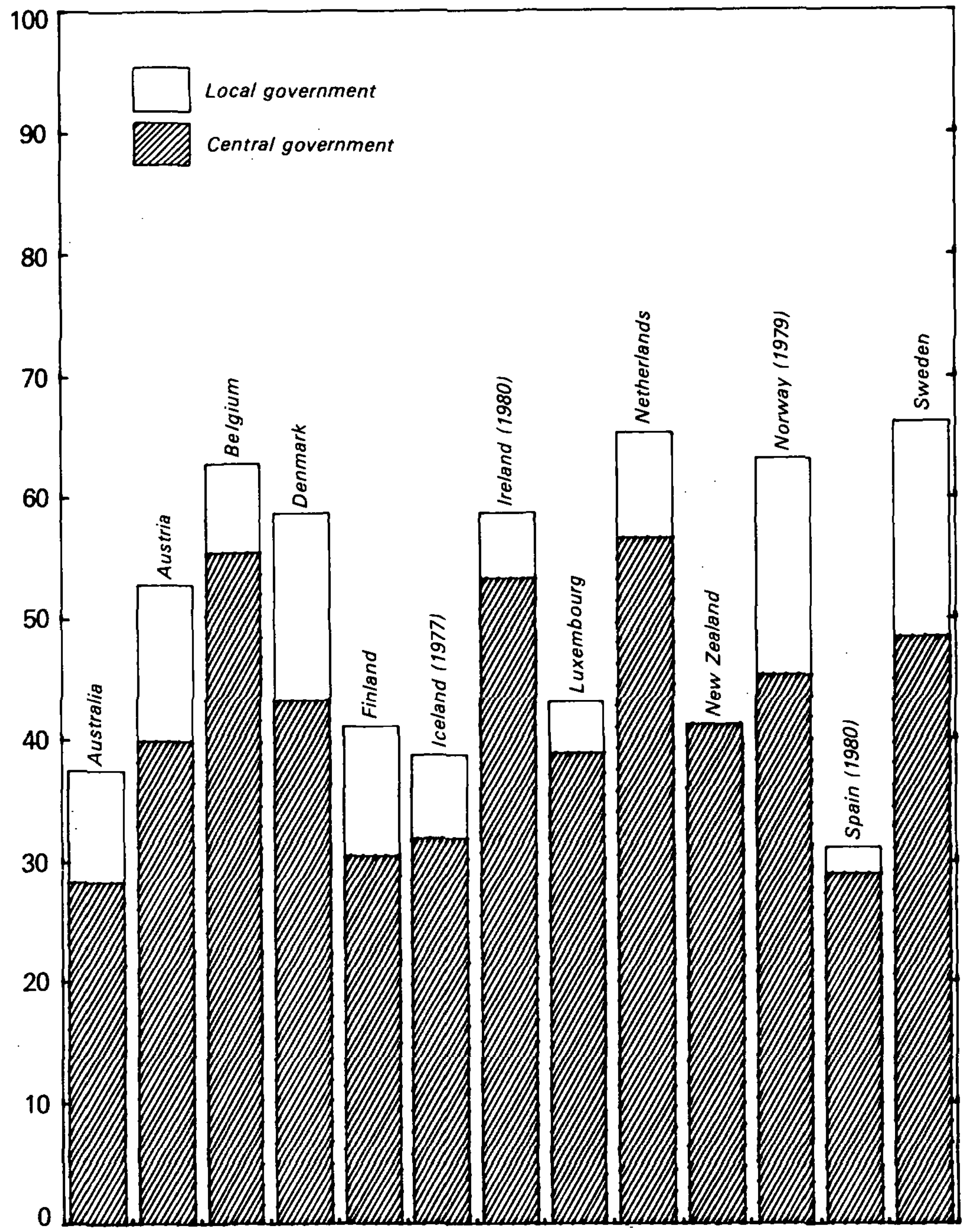
In some countries in the group local governments are required, in principle, to observe budgetary balance as an operational rule, at least as far as current revenue and expenditure is concerned. Borrowing for investment is frequently controlled or supervised by the central government or by commissions or boards where central government representation is marked as in, for example, Australia, Netherlands, New Zealand, Norway, and Spain. Balanced local government budget is not a rule without exception. In such countries as Australia and Belgium deficits in local government finances have been substantial in recent years. In Belgium the authorities have responded by imposing balanced budgets on the local authorities by law as from 1988.

In addition to the varying degrees of influence on local government activity, the central government in some countries in the group uses other public entities in the pursuit of fiscal objectives. In Austria, for example, the central government has relied on the nationalized industries to promote the high priority aim of sustaining employment during recessions; in Norway, the state banks play a significant role in financing projects that are specifically conceived as an instrument of employment support, and part of their lending is financed by direct government loans; in Ireland, the Government has encouraged capital expenditure by semipublic bodies to sustain employment; and in Spain,

CHART 1

SIZE OF THE GENERAL GOVERNMENT SECTOR EXPENDITURE AS A RATIO TO GDP

(1981 unless otherwise indicated)



Note: Transfers to local governments are counted at the central level. Data on general government for Belgium and the Netherlands are based on national sources and may not be fully comparable with those for other countries.
Data on general government for New Zealand are not available.

funds obtained from the banking sector through captive arrangement are channeled to official credit institutions through the budget to finance priority investments in line with official policy. Similar arrangements outside ordinary budgetary channels are practiced in some other countries in the group, although perhaps not to the same degree.

3. Main objectives of fiscal policy

This section provides a broad indication of major objectives of fiscal policy. These objectives may be taken as fairly representative for the group as a whole over the period covered, although there are differences in degree in individual cases. Measures to attain these objectives and the implications of these measures are dealt with in Sections IV and VI.

While in all countries in the group the maintenance of a high level of employment was declared a special aim of economic policy, some placed this objective at the very top of the priority list and held that preference throughout the period. Cases in point are Austria, Luxembourg, New Zealand, and the five Nordic countries. In most instances fiscal policy played an instrumental role although approaches differed among countries. A notable exception to fiscal policy involvement is Iceland, where other policy approaches sustained a high level of employment.

Inflation has remained a cause for concern in most of the countries, and this problem has on occasion called for action on the fiscal front. Ordinarily this took the form of endeavors to shift the fiscal stance in a restrictive direction to affect the price level through demand management. However, a number of countries preferred measures that sought to attack inflation through the cost side and for this purpose adopted various kinds of incomes policy approaches. Countries where the central government has been closely involved in incomes policy include Austria, Netherlands, and the five Nordic countries. In other countries in the group, attempts at moderating wage settlements through fiscal means have been less marked, and in one case, Ireland, the failure of one attempt in this direction led to the abandonment of the approach.

In all countries in the group the promotion of social welfare schemes has been a high priority objective of fiscal policy. A special impetus emanated from the recession in the mid-1970s when stimulatory measures relied heavily on increases in social expenditure as a means of mitigating the adverse impact on living standards. In some countries special efforts were made to preserve or improve already high living standards by increasing benefits in real terms and extending their coverage. However, the extent of this policy response differed significantly among the countries. The automatic impact of the recession on budgetary expenditure was accentuated in some countries by schemes that had been laid down in the more prosperous 1960s, or earlier, when expectations of continuing high rates of economic growth enhanced the generosity of the schemes. In countries where governments were closely involved in incomes policy, fiscal measures designed to dampen wage demands frequently took the form of increased social security benefits.

The social security measures, whether taken independently or in the context of incomes policy, had as an underlying aim the redistribution of income in favor of lower income groups. The objective of income redistribution was given an especially high priority in Spain in the post-1976 period when comprehensive reviews of the tax and social security systems were announced and partially implemented, specifically to favor lower income groups. Other countries have taken tax measures for the same purpose, often as a fiscal contribution to incomes policy and usually in the form of reductions in personal income tax rates and indexation of tax scales.

The policy response to the first oil crisis and the ensuing world recession was generally to shift the fiscal stance in a highly expansionary direction. This posture was commonly intended to be temporary because the recession was expected to be short lived. However, as recession persisted both internal and external imbalances emerged and became a growing cause for concern to the authorities. A fairly general response by the authorities was to give aid in various forms to industries facing structural adjustment problems and grant incentives for transferring resources to sectors exposed to foreign competition. In some cases, aid of this kind was attached to the government's employment policy in that assistance was made contingent upon the preservation of employment in the industries concerned.

As the period progressed, fiscal imbalances assumed increased proportions, and fiscal policy was increasingly directed at the containment of these imbalances. This implied a restrictive posture of policy that attempted to contain or reduce the large scale absorption of resources by the public sector, which in many instances was seen as having an adverse long-term impact on economic performance. This stands in vivid contrast to the situation in the early 1970s when public sector expansion was not generally perceived as detrimental to the growth of the economy. On the contrary, in at least two countries in the group, Australia and Luxembourg, the governments declared it a special objective of fiscal policy to enlarge the role of the public sector in the economy. An increasing number of countries in the group have adopted the approach to set specific targets to contain or reduce the ratio of certain fiscal aggregates to GDP over a given period of time. Most usual are targets relating to the deficit/GDP ratio, but similar targets for total revenue or expenditure, or a combination of two or all three, have been officially announced in some countries.

As will be demonstrated in the following section, limited success has materialized in reducing fiscal imbalances despite growing efforts to this end. There are various potential reasons for this failure and these will be considered in Section V.

III. Growth of the Government Sector

The sharp increase in the proportion of community output appropriated by the state is among the most outstanding changes in industrial economies during this century. Studies of this phenomenon have revealed a certain historical pattern where periods of social upheavals, such as two world wars and the depression of the 1930s, were associated with abrupt upward shifts in the public expenditure/GDP ratio. Although the expenditure level generally subsided after the upheavals, a level appreciably above the one prevailing before the disturbance was established. This pattern has been explained in terms of a displacement effect hypothesis advanced in a study of long-term public expenditure growth in the United Kingdom. 1/ In essence the hypothesis emphasizes the role of social disturbances in changing taxpayers' perceptions of tolerable tax burdens. Relaxation of these financial stringencies enables governments that are under constant pressure for increased public spending to maintain expenditure after the disturbance at a level substantially above the earlier level. The Peacock-Wiseman study was followed by a number of similar studies in other countries that appeared to lend support to this hypothesis.

Although the severity of the two oil crises in the 1970s and the associated worldwide recession hardly matches that of the social upheavals earlier in the century, the explosive growth of expenditure/GDP ratios in some of the smaller industrial countries during the 1970s and early 1980s falls into a pattern that might conform with the displacement effect hypothesis. However, the role of notions of tax burdens as a check on expenditure growth evidently lost much of what might have been its previous strength with the result that deficits of a magnitude and perseverance not experienced before are now a fairly common fiscal feature. While this line of analysis is an interesting subject, it will not be pursued any further here as the focus is rather on the economic implications of the expansion of the government sector. To set the stage, this section accounts for major changes in fiscal aggregates during 1972-82 with emphasis on total change over the period. The time pattern of change in each country is demonstrated in Charts 2, 3, and 4 in this section and is discussed in some detail in Part II.

1/ A.T. Peacock and J. Wiseman, The Growth of Public Expenditure in the United Kingdom (London: National Bureau of Economic Research, 1961).

1. Expenditure

Total expenditure of the consolidated central government rose as a proportion of GDP in all countries in the group over the period covered (Table 2 and Chart 2). However, the expansion differed markedly among individual countries. From 1972 to 1981 two countries, Ireland (1972-80) and Belgium, experienced the sharpest increase in this ratio, 16 1/2 and 15 1/2 percentage points, respectively. Next is Sweden and the Netherlands (1973-82) with a 13 percentage point rise each, followed by Denmark and New Zealand with an increase of 11 and 10 percentage, respectively. Countries whose expenditure/GDP ratios expanded between 5 and 10 percentage points over this period are Spain, Austria, and Luxembourg; Finland's and Australia's shares rose moderately by 4 1/2 and 3 1/2 percentage points, respectively. By far the smallest expansion of the government sector took place in Iceland and Norway, 1 1/2 percentage points in each country over this ten-year period.

Expenditure on goods and services, for a large part wages and salaries, absorbed a declining proportion of budgetary resources over the period in all countries in the group except Iceland where its proportion of total expenditure, as well as its share in GDP, rose substantially 1/ (Table 3). The ratio of expenditure in this category to total expenditure is highest in Spain, 42 percent, and lowest in the Netherlands and Sweden, 15 percent.

A comparison of individual categories with total expenditure and changes therein over time is of limited explanatory value, however, as it essentially reflects different relative sizes of the government sector in the various countries and changes in other expenditure categories in each country. A sounder basis for comparison is GDP, which is also shown in Table 3. This criterion reveals greater similarity and a more stable pattern of change. Spain, Belgium, and New Zealand have the highest ratios at about 12 percent, while Australia and Finland exhibit the lowest ratios at around 6 percent. In all countries except Denmark, and to a lesser extent Norway, Australia, and Sweden, the ratio of expenditure on goods and services to GDP increased over the period, the largest increases were registered in Spain, over 3 percentage points, and Austria, Belgium, Ireland, New Zealand, and Iceland, each about 2 percentage points. To a certain extent these percentages show an increased government absorption of labor in line with official employment policies, although not in every case. Measures to stimulate employment frequently took other forms, such as increased capital expenditure and lending operations, or were carried out in the same form by other public entities, such as local governments, in Denmark and Sweden, and the nationalized industries in Austria that received increased central government transfers to compensate for higher costs of creating additional employment.

1/ The increase resulted in part from a change in definition.

CHART 2

CONSOLIDATED CENTRAL GOVERNMENT EXPENDITURE

(As a percentage of GDP)

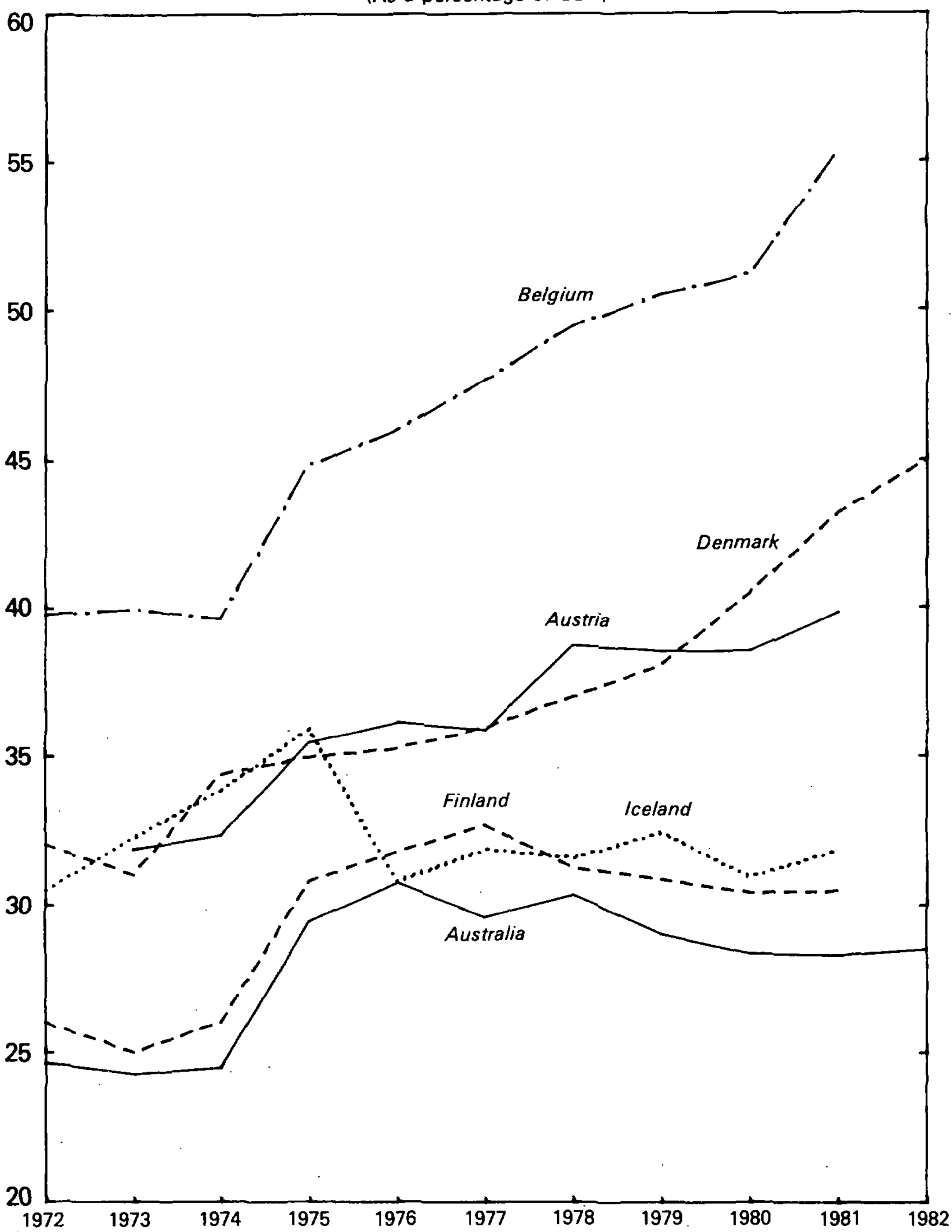


CHART 2

(Continued)

CONSOLIDATED CENTRAL GOVERNMENT EXPENDITURE

(As a percentage of GDP)

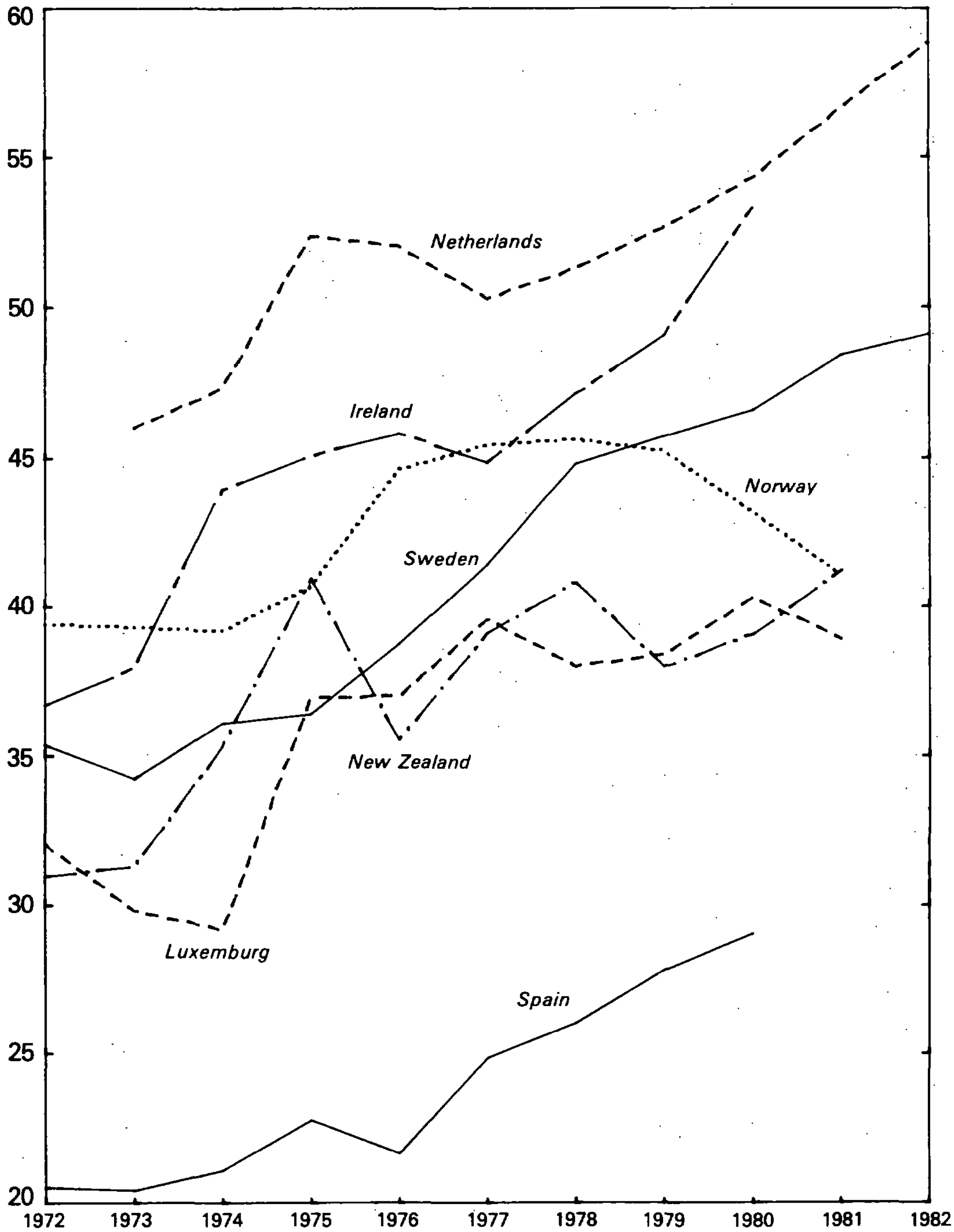


Table 2. Total Expenditure as a Percentage of GDP

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Australia	24.6	24.3	24.5	29.4	30.8	29.6	30.4	29.0	28.4	28.3	28.5
Austria	...	31.9	32.3	35.4	36.1	35.9	38.7	38.5	38.5	39.9	...
Belgium	39.8	39.9	39.6	44.8	46.0	47.7	49.5	50.5	51.2	55.4	...
Denmark	32.0	31.0	34.4	35.0	35.2	36.0	37.0	38.1	40.5	43.2	45.0
Finland	26.0	25.0	26.0	30.8	31.8	32.7	31.3	30.9	30.4	30.5	...
Iceland	30.5	32.3	33.8	35.9	30.8	31.9	31.6	32.4	30.9	31.9	...
Ireland	36.7	37.9	43.9	45.1	45.8	44.8	47.1	49.1	53.3	...	...
Luxembourg	32.1	29.8	29.2	36.9	37.0	39.5	38.0	38.3	40.3	38.9	...
Netherlands	...	46.0	47.3	52.4	52.1	50.3	51.3	52.6	54.3	56.6	58.9
New Zealand	31.0	31.3	35.3	40.9	35.5	39.0	40.8	37.9	39.0	41.2	...
Norway	39.4	39.3	39.1	40.7	44.6	45.4	45.6	45.2	43.1	41.0	...
Spain	20.5	20.4	21.1	22.7	21.6	24.9	26.0	27.8	29.0	...	...
Sweden	35.4	34.2	36.1	36.4	38.7	41.3	44.8	45.7	46.5	48.4	49.1

Source: International Monetary Fund, Government Finance Statistics Yearbook, 1983.

Table 3. Expenditure on Goods and Services

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
<u>Ratio to GDP</u>											
Australia	6.2	5.9	5.7	6.1	6.0	6.0	6.1	5.8	5.8	6.0	6.2
Austria	...	8.2	8.5	9.6	9.8	9.7	10.1	9.9	9.9	10.2	...
Belgium	9.9	9.8	9.8	11.1	11.0	11.2	11.5	11.4	11.4	11.9	...
Denmark	10.4	8.9	9.7	9.8	9.1	8.8	8.6	8.4	8.6	8.9	9.0
Finland	5.9	5.6	5.5	6.2	6.3	6.2	6.2	6.1	6.2	6.2	...
Iceland	9.3	9.5	10.2	10.2	10.0	10.2	11.0	11.1	11.2	11.4	...
Ireland	7.4	7.4	8.0	8.8	8.6	8.2	8.2	8.8	9.4	...	...
Luxembourg	7.3	6.9	7.0	8.5	8.2	8.5	8.4	8.5	8.9	8.5	...
Netherlands	...	8.0	8.0	8.7	8.5	8.3	8.1	8.4	8.4	8.5	8.5
New Zealand	9.5	9.3	9.2	10.1	9.4	9.6	10.0	9.7	10.6	11.7	...
Norway	7.6	7.4	7.3	7.6	7.7	7.6	7.5	7.2	6.9	7.3	...
Spain	8.9	9.1	9.1	9.5	9.9	10.5	11.2	10.3	12.2	...	...
Sweden	7.3	7.3	7.3	7.2	7.0	7.1	7.3	7.4	7.4	7.2	6.9
<u>Share in Total Expenditure</u>											
Australia	25.1	24.1	23.4	20.6	19.5	20.1	20.1	20.0	20.4	21.0	21.7
Austria	...	25.8	26.2	27.1	27.1	27.0	26.0	25.8	25.6	25.7	...
Belgium	24.9	24.6	24.8	24.7	24.0	23.4	23.2	22.6	22.2	21.5	...
Denmark	32.5	28.8	28.1	28.1	25.7	24.4	23.3	22.2	21.3	20.7	20.0
Finland	22.7	22.4	21.2	20.2	19.7	18.9	19.9	19.7	20.5	20.2	...
Iceland	30.7	29.3	30.2	28.3	32.4	32.0	34.8	34.1	36.3	35.8	...
Ireland	20.1	19.5	18.2	19.6	18.7	18.2	17.5	17.9	17.6	...	...
Luxembourg	22.7	23.2	24.0	23.1	22.1	21.5	22.1	22.1	22.1	22.0	...
Netherlands	...	17.4	16.9	16.7	16.3	16.4	15.9	15.9	15.4	14.9	14.5
New Zealand	30.8	29.8	26.2	24.8	26.4	24.7	24.5	25.7	27.2	28.3	...
Norway	19.2	18.8	18.8	18.7	17.3	16.8	16.5	16.0	16.0	17.9	...
Spain	43.3	44.8	43.0	42.0	45.6	42.1	42.8	37.2	42.1	...	...
Sweden	20.8	21.2	20.1	19.8	18.2	17.2	16.3	16.2	15.8	14.9	14.0

Source: International Monetary Fund, <u>Government Finance Statistics Yearbook</u>, 1983.

Interest payments on government debt rose as a proportion of both total expenditure and GDP in all countries except two (Table 4): Luxembourg, where the government finances registered surpluses for most of the period, and Spain, where continuous surpluses in the 1960s partially absorbed persistent fiscal deficits over the period covered as did an erosion of outstanding debt brought about by inflation. In five countries, Belgium, Denmark, Ireland, New Zealand, and Sweden, interest payments absorbed a substantial proportion of budgetary resources--between 8 1/2 and 13 percent of total government expenditure based on 1980/81 figures; evidence shows that these ratios will increase markedly in the next few years. Interest payments rose abruptly over the period in these countries although in 1972 the ratios were already quite high in Ireland and New Zealand, 9 1/2 and 7 1/2 percent, respectively. In Ireland and Belgium, interest payments are equivalent to 6 1/2-7 percent of GDP, and in Sweden and New Zealand similar ratios are in the 4-5 percent range. At the lower end are Finland, Luxembourg, and Spain with ratios of less than 1 percent.

Large and widening fiscal deficits were the main cause of the mounting budgetary burden of interest payments in most countries in the group. It was also the result of rising interest rates over the period; other factors tended to increase the debt-servicing burden. Among those were the growing size of the external component of government debt, which was protected against the erosion of domestic inflation in the long run, and could have added to the budgetary burden in high inflation countries like Iceland, Ireland, and New Zealand where fiscal deficits were increasingly financed by external sources. Also, in a number of countries interest rates were determined with regard to international rates for balance of payments reasons rather than to domestic market conditions and this tended to put upward pressure on interest rates over the period. However, where financial markets were not well developed and inflation was only partially reflected in interest rates, inflation eroded the stock of outstanding debt in real terms and lessened the budgetary burden of interest payments. Indexation of financial assets, as practiced in Finland in the early part of the period and in Iceland over the whole period, reduced this erosion but only partially, as not all financial assets were indexed.

Subsidies and other current transfers form the largest expenditure category in all countries in the group. It includes such items as social security benefits, aid to ailing industries--both of which played a major role in efforts to cushion the recessionary impact--and transfers to other levels of government and to public enterprises. By the end of the period this category accounted for one half to two thirds of total expenditure in all countries except Spain and Iceland where the ratios were 42 1/2 percent and 36 1/2 percent, respectively (Table 5). Generally this category increased faster than total expenditure, thus implying

Table 4. Interest Payments

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Ratio to GDP											
Australia	1.6	1.6	1.4	1.4	1.3	1.7	1.8	1.9	1.9	2.0	1.9
Austria	...	0.6	0.6	0.8	1.1	1.3	1.6	1.7	1.8	2.0	...
Belgium	2.6	2.6	2.7	2.7	2.9	3.2	3.6	4.1	5.0	6.6	...
Denmark	0.4	0.5	0.5	0.5	0.7	1.1	1.3	2.3	2.7	3.7	4.5
Finland	0.5	0.4	0.3	0.3	0.2	0.3	0.4	0.6	0.6	0.7	...
Iceland	0.8	1.0	1.1	2.0	1.6	1.7	2.2	2.4	1.8	2.0	...
Ireland	3.5	3.6	3.7	4.4	5.0	5.4	5.9	6.3	6.8	...	...
Luxembourg	1.0	0.8	0.7	0.7	0.7	0.7	0.8	0.8	0.7	0.7	...
Netherlands	...	1.3	1.3	1.3	1.5	1.5	1.6	1.7	2.0	2.5	3.2
New Zealand	2.3	2.2	2.2	2.4	2.7	3.1	3.4	3.6	3.7	4.2	...
Norway	1.0	1.0	1.1	0.9	1.6	1.9	2.2	2.6	2.7	2.6	...
Spain	0.5	0.5	0.4	0.4	0.3	0.4	0.5	0.5	0.5	...	...
Sweden	1.0	1.1	1.1	1.3	1.3	1.5	1.8	2.0	2.9	4.3	4.6
Share in Total Expenditure											
Australia	6.6	6.4	5.6	4.9	4.3	5.7	6.0	6.7	6.8	6.9	6.8
Austria	...	1.9	1.9	2.2	3.1	3.6	4.1	4.3	4.6	4.9	...
Belgium	6.6	6.6	6.9	6.1	6.2	6.7	7.2	8.1	9.8	11.8	...
Denmark	1.3	1.5	1.4	1.5	1.9	3.1	3.4	6.1	6.6	8.6	10.1
Finland	1.9	1.7	1.1	0.8	0.8	1.1	1.4	1.9	2.1	2.4	...
Iceland	2.6	3.1	3.2	5.6	5.0	5.2	6.9	7.4	5.7	6.2	...
Ireland	9.5	9.4	8.5	9.7	11.0	12.0	12.6	12.9	12.7	...	...
Luxembourg	3.1	2.8	2.4	1.9	1.8	1.9	2.0	2.0	1.8	1.8	...
Netherlands	...	2.8	2.7	2.5	2.8	2.9	3.1	3.2	3.7	4.4	5.4
New Zealand	7.6	7.0	6.2	5.7	7.5	7.8	8.3	9.5	9.5	10.1	...
Norway	2.5	2.5	2.8	2.3	3.6	4.1	4.8	5.7	6.4	6.3	...
Spain	2.3	2.7	2.0	1.7	1.6	1.6	1.7	1.8	1.9	...	...
Sweden	2.9	3.1	3.1	3.7	3.3	3.7	4.0	4.4	6.3	9.0	9.5

Source: International Monetary Fund, Government Finance Statistics Yearbook, 1983.

Table 5. Subsidies and Other Current Transfers

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
<u>Ratio to GDP</u>											
Australia	11.7	12.1	12.3	14.5	17.3	17.4	18.5	18.2	18.0	17.9	18.0
Austria	...	17.9	18.8	20.8	21.2	21.4	23.3	23.0	22.8	23.4	...
Belgium	22.3	23.1	23.0	26.8	27.7	28.8	29.5	30.3	29.6	31.7	...
Denmark	18.7	19.3	21.7	22.0	22.6	23.8	24.9	25.4	27.0	28.1	28.8
Finland	14.2	13.8	15.0	17.8	18.9	19.5	19.4	19.6	18.7	19.2	...
Iceland	12.1	11.2	12.8	13.0	10.2	10.2	11.0	12.3	11.5	11.7	...
Ireland	18.8	19.0	21.3	24.5	24.6	24.0	25.2	26.0	27.9	...	...
Luxembourg	18.9	17.1	16.7	22.6	22.8	24.8	23.8	23.8	24.2	23.8	...
Netherlands	...	30.4	32.9	36.4	36.9	36.1	37.4	37.9	38.2	39.1	41.1
New Zealand	13.4	14.2	15.8	18.0	16.3	19.0	20.7	19.6	20.1	20.6	...
Norway	24.4	24.4	24.3	25.0	26.6	27.2	28.5	28.0	26.0	25.6	...
Spain	7.2	7.4	7.7	8.3	8.0	9.4	11.2	13.3	12.4	...	...
Sweden	17.8	18.2	20.1	20.9	23.3	25.8	28.5	30.1	30.0	31.3	32.4
<u>Share in Total Expenditure</u>											
Australia	47.6	49.8	50.2	49.1	56.2	58.7	61.0	62.8	63.4	63.2	63.2
Austria	...	56.2	58.0	58.6	58.6	59.6	60.0	59.7	59.1	58.7	...
Belgium	56.0	58.0	57.9	59.9	60.1	60.5	59.7	60.1	57.7	57.1	...
Denmark	58.3	62.2	63.1	62.9	64.2	66.3	67.3	66.7	66.7	64.9	64.0
Finland	54.6	55.1	57.8	57.7	59.3	59.5	62.2	63.5	61.5	63.1	...
Iceland	39.7	34.6	37.7	36.1	33.2	32.1	34.8	37.9	37.1	36.6	...
Ireland	51.2	50.1	48.4	54.3	53.7	53.5	53.5	53.0	52.3	...	...
Luxembourg	58.9	57.5	57.3	61.1	61.6	62.8	62.7	62.1	60.2	61.2	...
Netherlands	...	66.1	69.5	69.5	70.9	71.7	72.9	72.0	70.4	69.1	69.9
New Zealand	43.2	45.3	44.8	44.1	45.9	48.8	50.7	51.7	51.6	50.0	...
Norway	61.9	62.2	62.2	61.4	59.6	59.8	62.4	61.9	60.4	62.6	...
Spain	35.3	36.3	36.3	36.4	37.0	37.6	42.9	47.8	42.6	...	...
Sweden	50.2	53.2	55.6	57.5	60.1	62.4	63.7	65.8	64.5	64.6	66.0

Source: International Monetary Fund, <u>Government Finance Statistics Yearbook</u>, 1983.

a still faster growth relatively in its ratio to GDP. The largest increases in this ratio occurred in Sweden, Belgium, Denmark, Ireland, and the Netherlands; the smallest increases took place in Iceland, Norway, Luxembourg, and Finland. Not unexpectedly, this significant expenditure category was a major determinant of the total expansion of the government sector. By comparing the relative increases in total expenditure and in subsidies and other current transfers in relation to GDP, it emerges that in nine countries between one half and four fifths of the total expansion is accounted for by this category, and in three countries, Australia, Finland, and Sweden, the category accounts for more than the total expansion--implying that the share of other expenditure categories shrank over the period. Only in Iceland did the ratio of subsidies and other current transfers to GDP decline over the period, but this is in part due to a change in definition of the category as noted above, and it is also explained by negligible expenditure on unemployment compensations.

As discussed further in the following two sections, the abrupt relative increase in subsidies and other current transfers in most countries in the group stems in part from endeavors to mitigate the adverse impact of the recession on living standards and on employment and activity in the sectors hardest hit. The types of expenditure involved are mainly social security benefits, industrial assistance, and, in some cases, transfers to other levels of government and to public enterprises.

As far as social security expenditure is concerned measures commonly taken over the period include adjustments for inflation or wage increases often through automatic mechanisms, increases in real benefits and extension of their coverage, and, in some instances, relaxation of qualifying criteria such as reduction of the retirement age in Belgium, Denmark, Luxembourg, and Sweden, the introduction of a flexible retirement option in Sweden, and more generous disability schemes in the Netherlands. Demographic factors also contributed to the increase in social security outlays in some countries, the most notable cases are the aging structure of the population, for example in Belgium, the Netherlands, and Sweden, a rising female participation rate in Denmark and New Zealand, and reversal of net emigration patterns in Ireland and of migratory flows of the labor force in Spain. A reverse development took place in a host country like Luxembourg. Unemployment compensations rose markedly in most countries and the recessionary conditions also reduced social security contributions from both employers and employees that in some countries called for increased central government grants. In countries with close government involvement in income determination, increases in various social security benefits were often decided in the context of incomes policy.

Most countries in the group engaged in some form of industrial support to aid industries hardest hit by the recession and by structural change brought about by changed relative prices, cost structures, and demand patterns. In Norway the rapid development of the oil sector accentuated the need for structural adjustment. Generally, measures taken were selective, depending on the particular circumstances in each case, and were directed at such objectives as the transfer of resources to the export- or import-competing sectors (Denmark, New Zealand, and Sweden) and the preservation of regional balance in terms of employment opportunities (Austria, Finland, and Norway). Only a part of this kind of assistance is reflected in this expenditure category, however, as other measures such as tax incentives and loan finance frequently were involved.

A prominent item under this category is in some countries transfers to other levels of government and to public enterprises. Increase in transfers to other levels of government sometimes stemmed from obligations assumed by the authorities concerned in carrying out tasks in line with official employment policies, as was the case in Denmark and Sweden; in other countries, such as Australia and Spain, growing transfers reflected official policy to enhance the role of local governments. Similarly, increased transfers to public enterprises in countries such as Austria and Spain were partly the result of the role imposed on the enterprises in pursuing employment and anti-inflation policies, respectively.

Capital expenditure and net lending taken together are those expenditure categories most directly involved in policies to stimulate employment and activity, but they were at the same time the types of expenditure most easily reduced when the stance of fiscal policy shifted in a restrictive direction. For this reason and also because of the nature of expenditure involved, the time pattern of change over the period was rather irregular. By the end of the period Iceland, Ireland, Spain, Finland, and Norway devoted relatively the largest portion of budgetary resources to these categories, ranging from 13 1/2 percent in Norway to 21 1/2 percent in Iceland (Table 6). Ireland and Iceland also had the highest ratios to GDP, 9 1/2 percent and 7 percent, respectively. By contrast Denmark, 6 percent, and Australia, 9 percent, had the lowest ratios to total expenditure and also the lowest ratios to GDP, 2 1/2 percent each. The highest ratios reflect heavy central government involvement in the provision of infrastructure (Luxembourg, Ireland), or a large role played by the government in financial intermediation (Iceland, Norway, Spain). In most countries the ratio of capital expenditure and net lending to GDP declined over the period or remained approximately constant. In four countries, however, this ratio expanded, by 1 percentage point in Luxembourg and Spain, by 1 1/2 percentage points in Iceland, and by almost 2 1/2 percentage points in Ireland. As already indicated, this comparison between end-years conceals significant changes within the period as may be seen in Table 6.

Table 6. Capital Expenditure and Net Lending

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Ratio to GDP											
Australia	5.1	4.8	5.1	7.5	6.1	4.6	3.9	3.1	2.6	2.5	2.4
Austria	...	5.1	4.5	4.3	4.0	3.5	3.8	3.9	4.1	4.2	...
Belgium	5.0	4.3	4.1	4.2	4.4	4.5	4.9	4.6	5.2	5.3	...
Denmark	2.5	2.4	2.5	2.6	2.9	2.2	2.2	1.9	2.1	2.5	2.7
Finland	5.4	5.2	5.2	6.6	6.4	6.7	5.1	4.6	4.9	4.3	...
Iceland	8.2	10.6	9.8	10.8	9.0	9.8	7.4	6.7	6.5	6.8	...
Ireland	7.0	8.0	10.9	7.4	7.6	7.3	7.7	7.9	9.3	...	...
Luxembourg	4.9	4.9	4.8	5.1	5.3	5.5	5.0	5.3	6.4	5.9	...
Netherlands	...	6.3	5.1	5.9	5.2	4.5	4.2	4.7	5.7	6.6	6.0
New Zealand	5.7	5.6	8.0	10.4	7.2	7.3	6.8	5.0	4.6	4.7	...
Norway	6.5	6.5	6.4	7.1	8.7	8.8	7.4	7.4	7.4	5.4	...
Spain	3.8	3.4	4.0	4.8	3.4	5.3	4.4	4.4	4.8	...	...
Sweden	9.2	7.7	7.6	6.9	7.1	6.9	7.2	6.2	6.2	5.6	5.2
Share in Total Expenditure											
Australia	20.7	19.7	20.8	25.5	20.0	15.4	12.9	10.6	9.3	8.8	8.3
Austria	...	16.1	13.8	12.1	11.2	9.9	9.9	10.2	10.7	10.6	...
Belgium	12.6	10.9	10.4	9.4	9.6	9.3	9.9	9.2	10.2	9.6	...
Denmark	7.9	7.6	7.4	7.5	8.1	6.2	6.0	5.1	5.3	5.7	5.9
Finland	20.8	20.8	19.9	21.3	20.3	20.6	16.5	14.8	16.0	14.3	...
Iceland	27.0	33.0	28.9	30.1	29.3	30.7	23.5	20.5	20.9	21.4	...
Ireland	19.1	21.0	24.8	16.4	16.6	16.3	16.4	16.2	17.4	...	...
Luxembourg	15.4	16.5	16.3	13.9	14.5	13.9	13.1	13.9	15.9	15.1	...
Netherlands	...	13.7	10.8	11.3	9.9	8.9	8.2	8.9	10.5	11.6	10.2
New Zealand	18.5	17.9	22.8	25.3	20.2	18.8	16.6	13.1	11.8	11.5	...
Norway	16.4	16.5	16.3	17.6	19.5	19.3	16.3	16.4	17.3	13.3	...
Spain	18.4	16.6	18.8	21.0	15.7	21.2	16.8	15.7	16.5	...	...
Sweden	26.1	22.5	21.2	19.0	18.4	16.8	16.1	13.6	13.3	11.5	10.6

Source: International Monetary Fund, Government Finance Statistics Yearbook, 1983.

2. Revenue

Total revenue and grants expressed as a ratio to GDP, increased in all countries in the group over the period (Table 7 and Chart 3). While the rate of increase differed markedly among individual countries, it was much more evenly spread than the rate of growth of expenditure. The largest increases were experienced in Belgium and Ireland, 8 1/2 percentage points each, followed by Austria and New Zealand, about 6 1/2 percentage points each. The lowest rate of growth on this scale occurred in Finland, just over 2 percentage points; Australia and Iceland were next, each with about 3 percentage points. A comparison of rates of growth of revenue and expenditure reveals that in all countries except two expenditure grew faster, and in a few cases substantially faster than revenue. In Norway and Iceland revenue grew faster than expenditure between 1972 and 1981--in Norway, because of rapidly growing oil revenue, and in Iceland, because of a renewed effort in the latter half of the period to observe the traditional rule of a balanced budget. Here again, it should be noted that a comparison of end-year ratios in some instances conceals important changes within the period as discussed in some detail in Part II of the study. Countries that experienced the greatest disparity in revenue and expenditure growth were Denmark, Ireland, Sweden, Netherlands, and Belgium, where the difference in terms of ratios to GDP ranged between 7 and 9 percentage points. This implies a sharp deterioration in the fiscal position in these countries--an aspect that is examined further in the following subsection.

Income taxes at the central level differ significantly in relative importance among individual countries. Their weight in total revenue is largest in New Zealand and Australia, 67 percent and 62 percent, respectively (Table 8). This type of tax is also highest in relation to GDP in these countries, 22 1/2 percent in New Zealand and 17 percent in Australia. These high ratios are explained in part by the absence of social security contributions in both countries and the consequent financing of social security expenditure by general taxation. Income tax at the central level is lowest in Iceland and Sweden, 10 1/2 percent and 16 percent of total revenue and 3 1/2 percent and 6 percent of GDP, respectively. 1/ On the whole, personal income tax is the main source of revenue in this category, except in Norway where, because of the oil industry, the corporate income tax is the most important. In 9 out of the 13 countries revenue from the income tax grew faster than GDP; the highest rates of growth, as a ratio to GDP, were in New Zealand and Belgium, 5-6 percentage points, and in Ireland and Norway, between 4 and 4 1/2 percentage points. This happened despite a series of reductions over the period as the progressivity of rates secured a still faster growth of revenue yield. However, tax cuts reduced tax elasticities with respect to income to such an extent in Sweden, Iceland, Denmark, and the Netherlands that the ratio fell in the range of 2.9-0.7 percentage points.

1/ In both countries, and especially in Sweden, the income tax is a major revenue source at the local government level.

Table 7. Total Revenue as a Percentage of GDP

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Australia	24.3	22.6	24.0	25.4	25.8	26.3	26.7	25.7	26.6	27.5	28.2
Austria	...	30.2	30.8	31.5	31.5	32.3	34.6	34.9	35.3	37.0	...
Belgium	35.4	36.5	37.4	40.1	40.4	41.7	42.6	42.9	43.5	44.0	...
Denmark	34.6	34.5	35.0	33.0	34.9	34.7	36.7	37.4	37.7	37.1	36.7
Finland	27.3	27.9	26.8	28.5	31.8	31.3	29.3	28.3	28.3	29.5	...
Iceland	27.9	29.2	29.2	29.7	28.3	27.4	29.0	30.2	29.6	31.1	...
Ireland	31.1	31.1	32.0	32.4	35.6	35.2	35.2	36.5	39.6	...	...
Luxembourg	33.5	32.3	33.1	37.9	37.2	40.1	40.7	38.2	39.3	37.5	...
Netherlands	...	46.0	47.3	49.6	49.8	48.4	48.4	48.6	49.9	50.5	51.4
New Zealand	27.2	28.8	31.2	30.5	31.1	33.9	32.2	32.6	32.6	33.8	...
Norway	37.9	38.4	37.8	37.5	38.7	38.6	38.8	38.9	41.3	43.0	...
Spain	20.0	20.2	19.9	21.0	20.7	22.7	23.7	24.3	24.8	...	...
Sweden	34.1	32.8	32.8	33.7	38.3	39.6	39.5	38.1	37.8	39.0	39.2

Source: International Monetary Fund, Government Finance Statistics Yearbook, 1983.

CHART 3
CONSOLIDATED CENTRAL GOVERNMENT REVENUE
(As a percentage of GDP)

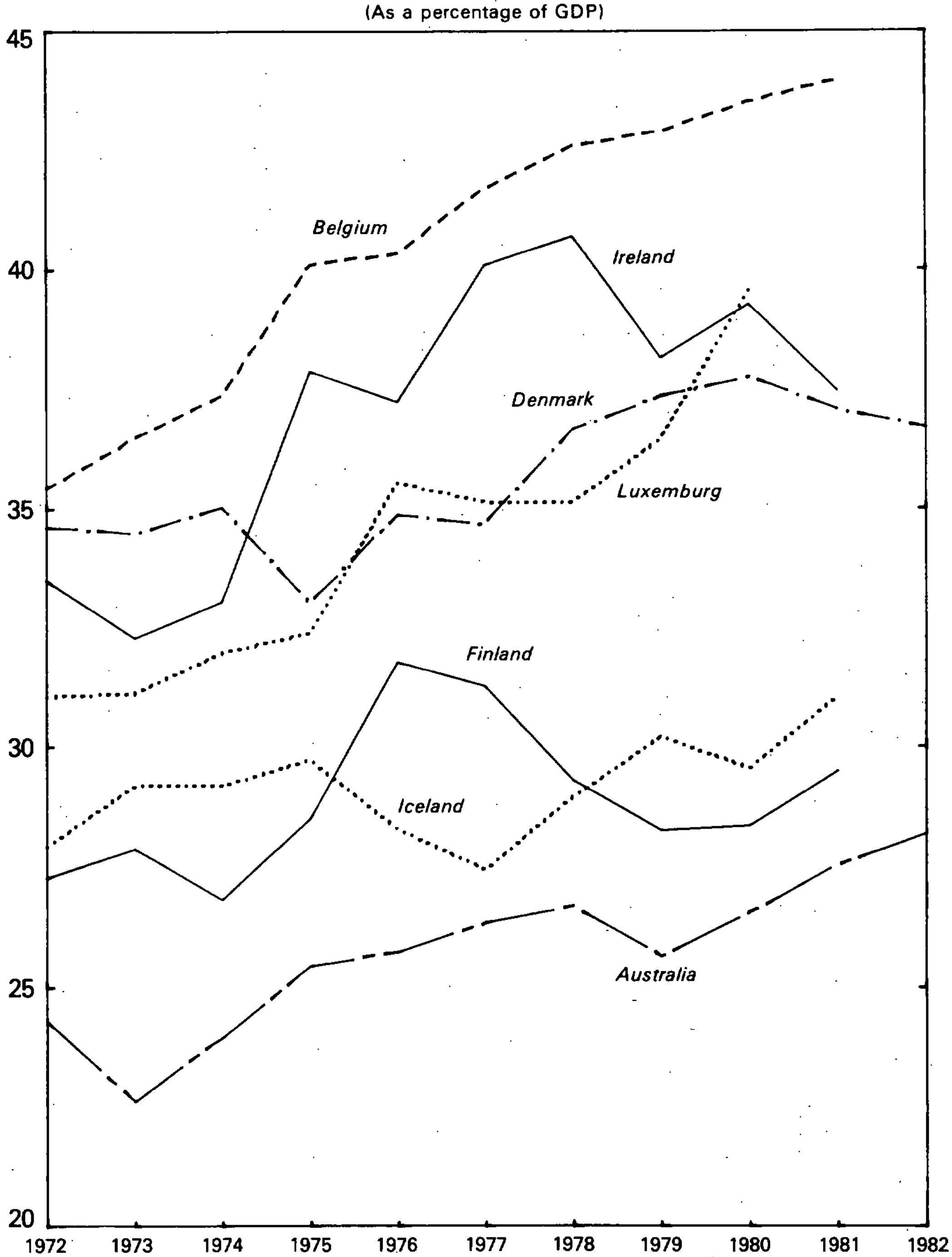


CHART 3

CONSOLIDATED CENTRAL GOVERNMENT REVENUE

(As a percentage of GDP)

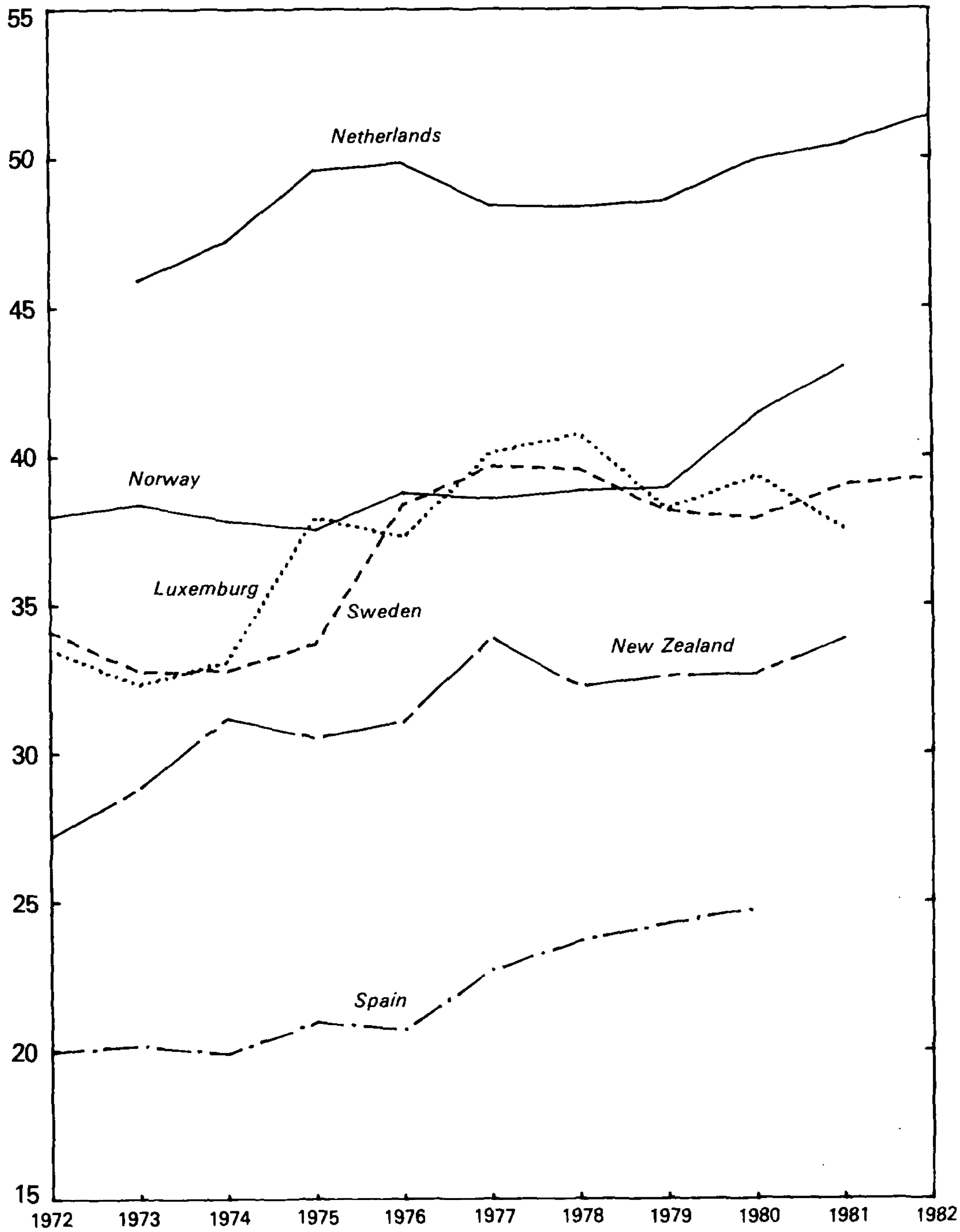


Table 8. Income Taxes

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Ratio to GDP											
Australia	14.1	13.3	14.6	16.4	16.3	16.8	17.0	15.6	16.2	17.1	17.9
Austria	...	5.9	6.6	6.4	6.1	6.3	7.4	7.2	7.3	7.5	...
Belgium	11.0	12.0	12.9	14.8	14.5	15.6	16.5	17.0	16.6	16.4	...
Denmark	13.6	14.4	15.9	13.4	13.0	12.2	12.7	12.5	12.7	12.5	12.4
Finland	8.0	8.6	8.9	9.3	11.2	10.0	7.9	7.2	7.9	8.8	...
Iceland	4.8	5.0	3.6	2.6	2.6	2.2	2.8	3.7	3.2	3.3	...
Ireland	8.7	9.0	9.3	9.6	10.7	10.9	11.1	11.7	13.1	13.8	...
Luxembourg	11.4	11.9	13.5	14.0	13.6	15.8	16.7	14.6	14.3	13.1	...
Netherlands	...	14.9	15.3	15.9	15.5	15.0	14.7	14.7	14.8	14.2	14.1
New Zealand	16.7	18.6	21.3	20.0	20.5	22.9	20.8	21.3	22.0	22.6	...
Norway	8.2	6.1	6.5	6.2	6.7	6.8	7.0	8.0	11.2	12.2	...
Spain	3.2	3.3	3.4	3.8	4.2	4.3	4.9	5.3	5.9	...	...
Sweden	9.1	7.4	7.1	7.2	9.6	9.3	7.4	7.0	6.8	6.2	6.1
Share in Total Revenue and Grants											
Australia	57.9	58.6	61.1	64.5	63.1	63.6	63.6	60.6	60.8	62.0	63.5
Austria	...	19.7	21.3	20.2	19.4	19.7	21.2	20.6	20.6	20.4	...
Belgium	31.2	33.0	34.6	36.8	35.8	37.3	38.8	39.6	38.2	37.3	...
Denmark	39.3	41.6	45.4	40.6	37.2	35.2	34.6	33.4	33.5	33.7	33.8
Finland	29.4	30.8	33.3	32.6	35.1	32.0	27.0	25.3	28.0	30.0	...
Iceland	17.3	17.2	12.2	8.8	9.3	8.0	9.8	12.3	10.7	10.6	...
Ireland	28.1	29.0	29.0	29.7	30.1	31.1	31.6	32.2	33.2	...	...
Luxembourg	33.9	36.7	40.7	37.0	36.5	39.3	40.9	38.4	36.3	35.0	...
Netherlands	...	32.3	32.3	32.1	31.1	31.0	30.3	30.3	29.7	28.2	27.4
New Zealand	61.2	64.5	68.4	65.6	66.0	67.6	64.7	65.4	67.3	66.8	...
Norway	21.7	16.0	17.2	16.5	17.3	17.6	18.0	20.6	27.2	28.5	...
Spain	15.8	16.4	17.3	18.1	20.1	18.8	20.8	21.9	23.9	...	...
Sweden	26.8	22.7	21.6	21.4	25.1	23.5	18.7	18.3	18.1	15.9	15.5

Source: International Monetary Fund, Government Finance Statistics Yearbook, 1983.

Most countries in the group introduced measures over the period to reduce the personal income tax, although the extent of cuts varied according to, inter alia, the rate of inflation. The stated objectives included a reduction or elimination of fiscal drag which, although in some cases began on an ad hoc basis, tended to become regular, periodic adjustments and for most countries in the group ended in the setting up of an automatic or a semi-automatic indexation mechanism. In some countries, such as Austria, Denmark, Finland, Netherlands, Norway and Sweden, reduction of the tax burden was a stated aim of policy, either to reduce disincentives, stimulate private sector demand, or, in certain instances, redistribute income in favor of lower income groups (Spain, Norway). As indicated earlier, a number of countries in the group reduced the personal income tax with the aim of moderating wage settlements.

The corporate income tax was also reduced in several countries to stimulate investment, employment, and activity in the private sector. The measures commonly took the form of rate reductions, increased or accelerated depreciation allowances, and in two countries at least, Denmark and Iceland, depreciation allowances and other deductions were price-indexed for corporate income tax purposes.

Social security contributions range from 0-47 percent of total revenue in the smaller industrial countries (Table 9). These contributions are highest in Spain, 47 percent, and were nonexistent in Australia and New Zealand. In five other countries, Sweden, the Netherlands, Austria, Belgium, and Luxembourg, social security contributions range between 30 percent and 40 percent of total revenue, while in Denmark and Iceland they account for only about 2 1/2 percent of the total; Iceland has no such taxes on employees. In relation to GDP, social security contributions are highest in the Netherlands, almost 19 percent, followed by Sweden, Belgium, and Austria, about 13 percent each. The fastest increase in relation to GDP over the 1972-81 period took place in Sweden, some 7 1/2 percentage points, followed by Austria, about 3 1/2 percentage points, while Iceland was the only country in which this ratio fell appreciably, by 0.5 percentage point over the period.

In countries where the relevant social security schemes were self-financing in nature, the rapid growth of expenditure pulled up contribution rates and in some instances special transfers to the social security system from the central budget were called for. As the period progressed, however, and higher rates imposed a mounting burden on labor costs, an increasing number of countries implemented a series of reductions in contribution rates. The declared objectives were to stimulate activity and employment in the private sector and in countries like Norway rates were differentiated by regions to promote regional employment policy. In Finland and Norway cuts in contribution rates were at times associated with incomes policy, and in Spain--a country

Table 9. Social Security Contributions

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Ratio to GDP											
Australia	—	—	—	—	—	—	—	—	—	—	—
Austria	...	9.2	9.5	10.3	10.4	10.8	12.2	12.1	12.4	12.9	...
Belgium	11.4	11.7	11.9	13.0	13.0	13.1	13.1	13.1	13.2	13.4	...
Denmark	1.7	0.6	0.6	0.5	0.5	0.6	0.6	0.7	0.8	1.0	1.3
Finland	2.9	3.2	3.1	3.6	4.1	3.9	3.5	3.1	2.8	2.8	...
Iceland	1.3	1.0	1.0	1.2	0.8	1.1	1.2	1.4	1.3	0.8	...
Ireland	2.8	3.0	3.7	4.4	4.7	4.7	4.5	4.7	5.1	5.3	...
Luxembourg	9.3	8.6	9.0	11.1	11.4	11.8	11.3	10.8	11.2	11.2	...
Netherlands	...	16.8	17.9	18.4	17.9	17.0	17.3	17.8	18.2	18.8	19.9
New Zealand	—	—	—	—	—	—	—	—	—	—	—
Norway	7.5	10.4	10.2	10.2	9.9	9.9	10.0	9.9	9.1	9.4	...
Spain	7.7	8.0	8.2	9.3	8.9	10.7	11.3	11.7	11.6	...	...
Sweden	7.3	7.2	7.8	9.0	10.4	11.6	13.2	13.4	13.6	15.0	14.5
Share in Total Revenue and Grants											
Australia	—	—	—	—	—	—	—	—	—	—	—
Austria	...	30.5	30.8	32.7	33.0	33.6	35.2	34.7	35.3	34.9	...
Belgium	32.2	32.1	31.8	32.3	32.2	31.5	30.6	30.6	30.4	30.5	...
Denmark	5.0	1.6	1.6	1.7	1.6	1.7	1.6	1.8	2.2	2.6	3.4
Finland	10.5	11.4	11.4	12.6	13.0	12.6	11.9	10.9	9.8	9.6	...
Iceland	4.8	3.5	3.5	4.0	3.0	3.8	4.3	4.5	4.2	2.7	...
Ireland	8.9	9.6	11.5	13.6	13.2	13.2	12.9	12.9	13.0	...	...
Luxembourg	27.7	26.6	27.1	29.3	30.7	29.5	27.8	28.3	28.5	29.8	...
Netherlands	...	36.5	37.8	37.1	36.0	35.2	35.8	36.7	36.4	37.3	38.7
New Zealand	—	—	—	—	—	—	—	—	—	—	—
Norway	19.8	27.2	26.9	27.2	25.5	25.6	25.7	25.5	22.1	21.8	...
Spain	38.8	39.7	41.2	44.5	43.0	47.4	47.9	48.2	47.0	...	...
Sweden	21.5	22.1	23.8	26.9	27.1	29.2	33.3	35.3	35.9	38.5	37.0

Source: International Monetary Fund, Government Finance Statistics Yearbook, 1983.

with a serious unemployment problem--the Government committed itself toward the end of the period to reverse the trend of constantly increasing burden of social security contributions on labor costs. In Sweden where these contributions have grown fastest and represent the second highest ratio to GDP, after the Netherlands, an increasing proportion has been borne by employers with the result that the overall ratio of contributions to the total payroll is about 35 percent.

Taxes on goods and services are for a large part value-added or sales taxes and various excise duties and levies. They range between 17 and 48 percent of total revenue and grants, Spain having the lowest ratio and Finland and Iceland the highest (Table 10). In most countries this ratio declined over the period, although an increase was experienced in Australia, Denmark, Finland, and Iceland. In Australia, the rise was accounted for by a levy on domestic crude oil that was gradually equated with import prices. In the other three countries, value-added or sales taxes were raised to curb private sector demand and to compensate for revenue loss resulting from cuts in the income tax. In terms of GDP ratios, this tax category rose or remained constant in most countries in the group; the largest increases were in Iceland and Denmark, 5 and 2 percentage points, respectively. In four countries, Ireland, Netherlands, Norway, and Spain, the ratio to GDP declined over the period, most in Norway by just over 1 percentage point.

Other tax and nontax revenue and grants include payroll taxes, property taxes, taxes on international trade, other taxes and nontax revenue and grants. This heterogeneous category accounts for 7-39 percent of total revenue and grants (Table 11). It is lowest in Belgium and highest in Iceland, where taxes on foreign trade are a significant, albeit declining, revenue source. Expressed as a ratio to GDP the category ranges between 3 percent in Spain and Belgium and 12 percent in Iceland. On the whole, this rate rose slightly or remained constant over the period, the most notable exception was the Netherlands, where because of vastly increased revenue from the sale of natural gas, it increased by almost 4 percentage points. Because of their membership in or agreements with the European Community or the European Free Trade Association, most countries in the group experienced a relative decline in taxes on international trade in relation to GDP over the period. Only in Australia and New Zealand, which are not members of either organization, did this ratio remain roughly constant.

3. Fiscal balance, financing and debt accumulation

The period covered witnessed persistent and in most instances widening fiscal deficits (Table 12). Of the 13 countries, 8 incurred a deficit in every year of the period; another three experienced a deficit in every year after 1974; one country, Norway, realized its only surplus

Table 10. Taxes on Goods and Services

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
<u>Ratio to GDP</u>											
Australia	5.3	5.0	5.2	4.8	5.3	5.1	5.2	5.7	6.2	6.3	6.2
Austria	...	8.9	8.6	8.5	8.7	8.7	8.9	8.9	8.8	9.2	...
Belgium	10.2	10.0	9.9	9.8	10.3	10.3	10.4	9.9	10.6	10.9	...
Denmark	14.3	14.3	13.4	13.2	14.3	15.3	16.3	16.9	16.7	16.4	16.0
Finland	12.8	12.4	11.4	11.7	12.2	13.1	13.7	13.8	13.7	13.9	...
Iceland	9.6	9.4	11.8	13.8	13.6	13.1	13.0	13.1	13.9	14.8	...
Ireland	10.1	10.3	9.9	9.7	10.7	10.5	10.5	9.7	9.5	9.5	...
Luxembourg	7.0	6.6	5.8	7.5	6.9	6.9	6.9	6.5	7.2	6.9	...
Netherlands	...	10.2	9.6	10.0	10.1	10.3	10.4	9.9	10.0	9.6	9.4
New Zealand	5.4	5.2	5.2	5.9	5.6	5.9	6.0	5.9	5.8	6.2	...
Norway	17.5	16.8	15.9	16.3	17.1	17.8	17.2	16.3	16.2	16.3	...
Spain	4.7	4.7	3.8	3.7	3.3	3.0	3.3	3.3	4.1	...	...
Sweden	11.5	11.3	10.8	10.1	10.5	10.9	11.4	11.3	11.0	11.5	11.5
<u>Share in Total Revenue and Grants</u>											
Australia	21.7	21.9	21.5	19.1	20.5	19.5	19.5	22.3	23.4	23.0	22.0
Austria	...	29.6	28.0	27.0	27.8	26.9	25.6	25.6	25.0	24.8	...
Belgium	28.7	27.5	26.5	24.4	25.4	24.6	24.5	23.2	24.5	24.9	...
Denmark	41.4	41.5	38.2	40.0	41.1	44.2	44.3	45.4	44.2	44.3	43.6
Finland	46.8	44.5	42.4	40.9	38.3	42.0	46.8	49.0	48.2	47.2	...
Iceland	34.3	32.0	40.3	46.4	48.1	47.9	44.8	43.2	46.9	47.5	...
Ireland	32.5	33.0	31.0	29.9	30.1	30.0	29.8	26.6	24.0	...	...
Luxembourg	21.0	20.4	17.5	19.7	18.5	17.2	17.0	17.2	18.3	18.3	...
Netherlands	...	22.2	20.4	20.1	20.4	21.3	21.5	20.5	20.1	19.0	18.3
New Zealand	19.9	18.2	16.5	19.5	18.0	17.3	18.8	18.0	17.9	18.4	...
Norway	46.1	43.8	42.1	43.5	44.2	46.1	44.3	41.9	39.3	37.9	...
Spain	23.3	23.5	19.3	17.8	15.8	13.3	13.8	13.4	16.7	...	...
Sweden	33.8	34.5	32.8	29.9	27.5	27.5	28.8	29.8	29.0	29.6	29.4

Source: International Monetary Fund, <u>Government Finance Statistics Yearbook</u>, 1983.

Table 11. Other Tax and Nontax Revenue and Grants

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Ratio to GDP											
Australia	4.9	4.4	4.2	4.2	4.2	4.4	4.5	4.4	4.2	4.1	4.1
Austria	...	6.1	6.1	6.3	6.2	6.4	6.2	6.6	6.7	7.3	...
Belgium	2.8	2.7	2.7	2.6	2.7	2.7	2.6	2.8	3.0	3.2	...
Denmark	4.9	5.3	5.2	5.9	7.0	6.6	7.2	7.3	7.6	7.2	7.1
Finland	3.6	3.7	3.5	4.0	4.3	4.2	4.2	4.2	4.0	3.9	...
Iceland	12.2	13.8	12.8	12.1	11.2	11.1	11.9	12.1	11.3	12.2	...
Ireland	9.5	8.8	9.1	8.7	9.4	9.0	9.0	10.3	11.8	...	...
Luxembourg	5.8	5.3	4.9	5.3	5.3	5.6	5.8	6.2	6.6	6.3	...
Netherlands	...	4.1	4.5	5.3	6.3	6.1	6.0	6.1	6.9	7.8	8.0
New Zealand	5.1	5.0	4.7	4.6	5.0	5.1	5.3	5.4	4.8	5.0	...
Norway	4.7	5.0	5.2	4.8	5.1	4.1	4.7	4.7	4.7	5.1	...
Spain	4.4	4.1	4.4	4.1	4.4	4.7	4.1	4.0	3.1	...	...
Sweden	6.1	6.8	7.1	7.3	7.8	7.8	7.6	6.4	6.4	6.2	7.1
Share in Total Revenue and Grants											
Australia	20.3	19.4	17.4	16.4	16.3	16.91	17.0	1.0	15.8	15.0	14.6
Austria	...	20.3	19.8	20.0	19.8	19.9	17.9	19.1	19.1	19.8	...
Belgium	7.9	7.5	7.2	6.5	6.6	6.6	6.1	6.6	7.0	7.4	...
Denmark	14.3	15.3	14.9	17.8	20.1	18.9	19.5	19.5	20.1	19.4	19.2
Finland	13.2	13.3	13.0	13.9	13.5	13.5	14.3	14.8	14.0	13.3	...
Iceland	43.6	47.3	44.0	40.7	39.7	40.3	41.1	40.0	38.1	39.2	...
Ireland	30.5	28.4	28.4	26.7	26.5	25.6	25.7	28.3	29.9	...	...
Luxembourg	17.4	16.3	14.8	14.0	14.3	14.0	14.3	16.2	16.8	16.9	...
Netherlands	...	9.0	9.5	10.7	12.6	12.6	12.4	12.6	13.8	15.5	15.7
New Zealand	18.8	17.3	15.1	15.0	16.0	15.1	16.5	16.5	14.8	14.8	...
Norway	12.4	13.0	13.8	12.8	13.0	10.7	12.0	12.0	11.5	11.9	...
Spain	22.1	20.4	22.2	19.6	21.1	20.6	17.5	16.5	12.4	...	...
Sweden	17.8	20.6	21.8	21.8	20.3	19.8	19.2	16.7	17.0	16.0	18.1

Source: International Monetary Fund, Government Finance Statistics Yearbook, 1983.

Table 12. Deficit/Surplus as a Percentage of GDP

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Australia	-0.3	-1.7	-0.5	-4.0	-5.0	-3.3	-3.7	-3.4	-1.8	-0.8	-0.3
Austria	...	-1.7	-1.5	-4.0	-4.7	-3.6	-4.1	-3.6	-3.3	-2.9	...
Belgium	-4.3	-3.5	-2.2	-4.7	-5.6	-5.9	-6.9	-7.6	-7.7	-11.4	...
Denmark	2.6	3.5	0.7	-1.9	-0.4	-1.3	-0.3	-0.7	-2.7	-6.1	-8.3
Finland	1.2	2.9	0.8	-2.3	—	-1.4	-1.9	-2.6	-2.1	-1.0	...
Iceland	-2.6	-3.1	-4.6	-6.2	-2.5	-4.4	-2.6	-2.2	-1.4	-0.8	...
Ireland	-5.6	-6.8	-11.9	-12.7	-10.3	-9.7	-11.9	-12.6	-13.7	...	...
Luxembourg	1.4	2.5	3.9	1.0	0.3	0.6	2.7	-0.2	-1.0	-1.4	...
Netherlands	...	—	—	-3.0	-2.6	-3.0	-3.1	-4.6	-4.6	-6.5	-7.6
New Zealand	-3.8	-2.5	-4.1	-10.4	-4.5	-5.2	-8.6	-5.4	-6.4	-7.4	...
Norway	-1.5	-0.9	-1.4	-3.2	-5.9	-6.9	-6.8	-6.3	-1.8	2.0	...
Spain	-0.5	-0.3	-1.2	-1.8	-0.9	-2.2	-2.4	-3.5	-4.3	...	...
Sweden	-1.3	-1.5	-3.3	-2.7	-0.4	-1.7	-5.2	-7.6	-8.7	-9.4	-9.9

Source: International Monetary Fund, Government Finance Statistics Yearbook, 1983.

in 1982; and only in Luxembourg was there a positive balance in central government finances over the period as a whole--surpluses in 1972-78 and deficits in the remaining years. The time pattern of the fiscal balance is demonstrated in Chart 4, which reveals generally a sharp deterioration in fiscal positions in the period 1974-75 as a result of an expansionary policy response to the recession in the wake of the first oil price shock. A partial recovery followed in 1976 and 1977 when growing internal and external imbalances, especially accelerating rates of inflation and widening current external deficits, induced governments to shift the stance of fiscal policy in a restrictive direction. Belgium and, to a lesser extent, Norway, where deficits continued to widen, are notable exceptions. After 1977, the results were mixed, but in 1979 and 1980, the years of the second oil crisis, most countries experienced a renewed increase in deficits that in some cases continued over the rest of the period. However, in five countries, Australia, Austria, Finland, Iceland, and Norway, the 1980-82 period witnessed an improvement in fiscal positions, especially in Norway where oil revenue soared.

The countries that experienced the sharpest deterioration in their government finances relied increasingly on foreign financing of the deficits and a number of these countries have similarly, and in growing measure, had recourse to domestic monetary financing to meet the borrowing requirement. These aspects are discussed in some detail under individual country sections in Part II.

As a consequence of mounting fiscal deficits, government indebtedness increased in most of the smaller industrial countries over the period (Table 13). Expressed as a ratio to GDP government debt was in 1982 the highest in Ireland, 109 percent. Other countries where the government was highly indebted are Belgium, 77 percent, and Denmark and New Zealand, almost 60 percent each. There is evidence that these ratios have since expanded. By contrast, Finland's government debt was a moderate 10 1/2 percent of GDP in 1981, and in Luxembourg government debt was negligible on this scale. The rate of debt accumulation by the central government has been most rapid in Denmark and Ireland, 61 and 56 percentage points, respectively, while in Belgium and Sweden the rate of expansion has also been high at approximately 30 percentage points for each country. In Australia, on the other hand, the ratio of government debt to GDP declined by 12 percentage points from 1973 to 1982. As already indicated the external component of government debt grew over the period in most countries in the group. The fastest relative increase occurred in the same countries as those that experienced the fastest expansion of total debt, with the addition of New Zealand and Finland where the external component grew at an unusually fast rate toward the end of the period. The external component is relatively largest in Finland and Iceland, 60 and 55 percent, respectively, of total government debt, followed by New Zealand and Ireland, 40 percent each but the Netherlands and Luxembourg have no foreign debt at the central government level.

CHART 4
SMALLER INDUSTRIAL COUNTRIES: FISCAL BALANCES
(As a percentage of GDP)

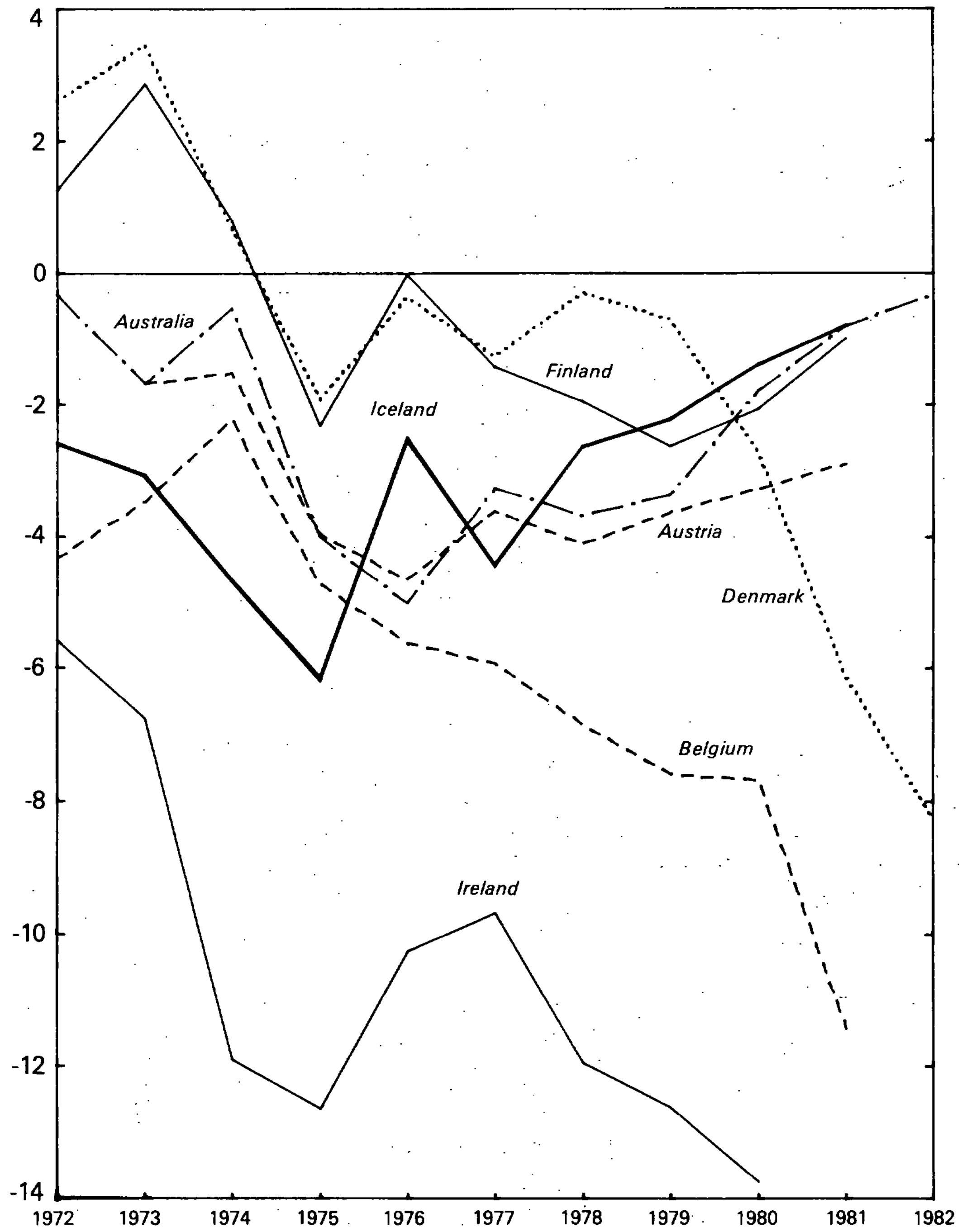


CHART 4

(Continued)

SMALLER INDUSTRIAL COUNTRIES: FISCAL BALANCES

(As a percentage of GDP)

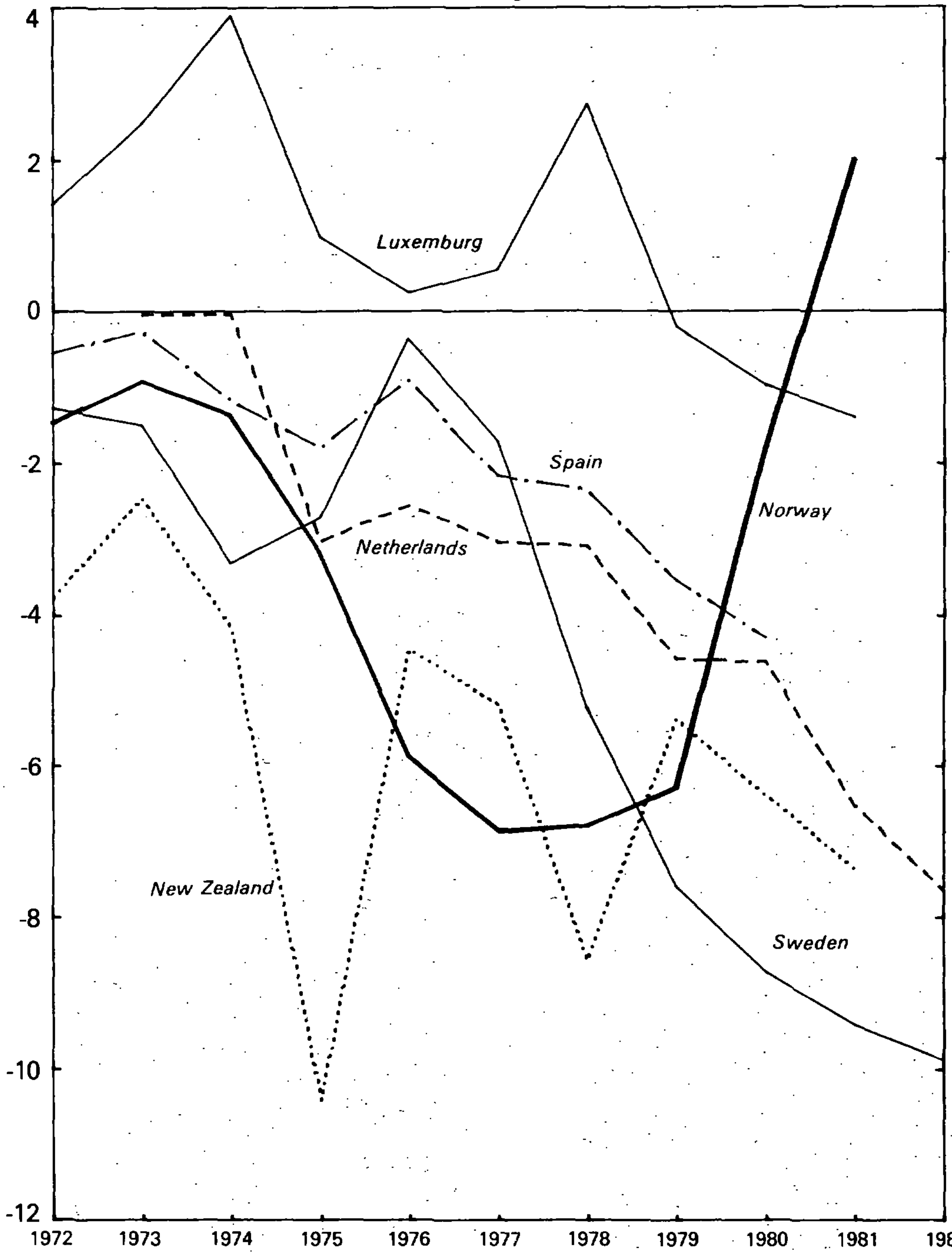


Table 13. Central Government Outstanding Debt

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Ratio to GDP											
Australia	...	34.4	29.8	28.8	27.9	28.0	29.8	30.4	28.6	24.9	22.7
Austria	...	10.4	9.9	15.3	18.5	20.7	23.6	25.0	26.2	28.1	...
Belgium	45.0	42.5	39.0	40.0	40.3	43.2	46.1	49.7	54.7	65.2	77.0
Denmark	-1.6	-3.6	-1.7	4.5	8.4	13.2	18.2	24.7	33.7	45.9	59.2
Finland	6.7	4.6	3.1	3.6	4.0	5.3	8.7	9.4	9.6	10.4	...
Iceland	15.8	12.5	13.4	18.1	18.9	20.7	22.4	23.9	26.4	23.6	...
Ireland	52.3	59.7	65.0	73.4	79.2	77.9	82.1	89.5	91.4	99.3	108.7
Luxembourg	...	...	...	...	...	....	...	...	...	...	...
Netherlands	...	22.1	21.0	22.1	22.4	22.5	23.8	25.7	29.1	33.5	39.4
New Zealand	44.6	41.2	42.2	48.6	45.7	49.3	50.4	49.5	48.2	50.0	59.1
Norway	28.1	26.8	24.8	25.7	27.8	33.1	38.4	42.1	37.0	32.0	...
Spain	15.6	13.2	11.8	12.1	13.0	15.3	14.3	15.4	17.2	...	...
Sweden	16.6	16.7	18.3	18.9	17.0	18.3	21.3	25.7	32.3	38.9	45.7
Foreign Debt as a Percentage of Total Debt											
Australia	...	8.6	6.7	6.7	6.5	8.0	13.5	16.9	16.5	14.2	15.9
Austria	...	16.0	22.1	31.9	26.1	28.8	30.1	27.6	27.8	32.0	...
Belgium	1.7	1.1	0.8	0.8	0.6	0.5	1.4	3.9	8.1	15.8	21.2
Denmark	...	...	...	...	...	...	....	...	...	...	...
Finland	39.5	43.7	42.4	44.3	48.6	54.8	60.2	58.9	57.5	60.3	...
Iceland	66.6	65.4	70.2	61.9	61.3	64.6	69.1	62.7	58.1	54.7	...
Ireland	8.9	10.3	15.9	20.7	28.8	24.6	20.6	23.6	28.0	37.2	41.2
Luxembourg	...	...	...	...	...	...	....	...	...	...	...
Netherlands	...	0.1	0.1	—	—	—	—	—	—	—	—
New Zealand	16.0	12.4	20.4	26.2	29.0	32.6	33.0	34.4	36.4	38.5	...
Norway	5.9	4.3	3.7	14.6	20.5	26.3	34.1	32.0	28.4	24.9	...
Spain	5.4	4.8	5.1	4.7	7.3	14.3	8.9	7.1	4.6	...	...
Sweden	—	—	0.1	0.2	0.3	7.8	13.4	13.3	20.1	21.9	22.9

Source: International Monetary fund, Government Finance Statistics Yearbook, 1983; national sources; and Fund staff estimates.

IV. Fiscal Policy 1972-82--An Overview

This section contains a broad account of the pursuit of fiscal policy over a decade that witnessed the largest economic imbalances experienced on a global basis in the postwar period. While the sheer magnitude of the external shocks emanating from the two oil crises and the ensuing world recession had a broadly similar impact on the smaller industrial countries, there are differences in individual circumstances that caused deviations from the more general policy reactions. As this paper is an analysis that emphasizes the general aspects of fiscal policy, events peculiar to individual countries are given very limited coverage. Therefore, certain policy actions, although significant in such a narrow context, may be neglected in this section. Some of these are contained in Part II, which deals with individual countries in some detail.

1. Economic setting and the fiscal stance in the early 1970s

The first two years of the period under review witnessed a continuation of the strong growth performance that most countries in the group had achieved during the 1960s. Expansion of economic activity in the latter half of 1972 and the first half of 1973, in particular, was accompanied by a marked acceleration of inflation rates that had been on the rise in most industrial countries since the mid-1960s. Concern over the inflation problem induced governments in a number of countries to tighten policies of financial restraint. Partly as a result of the stricter stance of fiscal and monetary policies there were signs of a slowdown of output expansion even before the abrupt oil price increases late in 1973. Although levels of unemployment differed substantially among the countries--Ireland suffered the highest rate at around 6 percent--the employment situation was not a problem and most countries in the group actually experienced a fall in the unemployment rate in 1973. Similarly, the current external balances were in these years not a matter of great concern generally, although there were exceptions such as Denmark whose balance of payments problem had been persistent. In fact 7 of the 13 countries had current account surpluses in both 1972 and 1973, that is, Australia, Belgium, Luxembourg, the Netherlands, New Zealand, Spain, and Sweden.

As indicated, inflation was a growing problem in the early years of the period, even before the first oil price explosion. All countries in the group experienced acceleration of price increases in 1973 and in some countries inflation was regarded as the dominant problem of economic policy. The rates of inflation differed markedly among the countries, however, with Iceland experiencing the highest rates, 10 percent in 1972 and 20 percent in 1973, and Luxembourg the lowest, 5 and 6 percent, respectively, in 1972 and 1973. The policy response on the fiscal front in most countries was to tighten the stance, usually as part of a more general approach to overall demand management. About half the number of countries in the group succeeded in improving their fiscal positions from 1972 to 1973 (Table 12 and Chart 4), and in a few additional countries the balance remained approximately constant. Only in three countries, Australia, Iceland, and Ireland, was there a marked increase in the fiscal deficit in 1973. In Australia this was the result of a conscious policy of fiscal expansion; in Ireland a higher priority was assigned to the stimulation of activity through increased public spending; and in Iceland incomes policy oriented tax and expenditure measures entailed fiscal deterioration.

Although most countries in the group incurred fiscal deficits in 1972 and 1973 (Table 12) their size was generally small compared with subsequent developments. Exceptions were Denmark, Finland, and Luxembourg, all of which realized surpluses in both these years. Deficit financing did not pose problems at this time, however. External financing was nonexistent in most countries, the only exceptions being Iceland and Ireland who financed part of their public investment by foreign borrowing. Similarly, domestic monetary financing was in most instances not resorted to in any significant measure. On the contrary, a number of countries pursued active open market operations in support of monetary policy. Thus, in Australia, Belgium, the Netherlands, and Spain more was borrowed from the nonbank private sector than needed to finance the deficit in order to reduce liquidity in the economy that in these years stemmed in large part from capital inflows. The proceeds were used to reduce external debt or to repay short-term domestic debt. Subsequent years witnessed a reversal of the role of fiscal policy in this regard.

The fair amount of success in improving fiscal positions, which contributed to general demand management to counter inflationary pressures, doubtless has many explanations, both economic and political. An important one may be attributed to a relatively broad scope for pursuing flexible fiscal policies in these years compared with the situation later after a period of growing rigidities in fiscal systems. In the early 1970s expenditure levels and tax burdens were substantially lower than the present ones; automaticity in significant expenditure categories was much less pronounced, as were inflation-adjustment mechanisms on the revenue side. Public finances had generally been in much better balance than was later experienced, and interest payments did not constitute an overly heavy claim on budgetary resources in most instances. Moreover, tax reforms had been recently, or were being, undertaken at the beginning of the period in a number of countries, notably the introduction of value-added taxes in countries connected with the EC. It was a widely held view at this time that these tax reforms would substantially improve the fiscal armory for both allocation and stabilization purposes.

Not all actions around this time favored flexibility in fiscal policy, however. Thus foundations previously laid for generous social entitlement programs were being strengthened and in a number of countries social security expenditure had been increasing at a rapid pace since the 1960s. This development was to prove a major element in subsequent difficulties in controlling public expenditure growth.

2. Policy response to the first oil crisis

The abrupt increase in energy prices late in 1973 and in 1974 as well as the ensuing world recession affected the smaller industrial countries profoundly because on the whole their economies were highly open and susceptible to external impulses and most of them were not endowed with rich domestic energy sources. In a number of these countries fiscal policy was at this time the major instrument of economic stabilization, and the policy response was generally to shift the fiscal stance in a highly expansionary direction. The view was widespread that this policy was a proper reaction to the recession as it was believed to be short lived. Growth would soon pick up globally and a more normal stance of policy could then be resumed.

The impact of this perception on the strength of the policy reaction naturally differed among individual countries, and domestic policies already in place affected that reaction. As indicated above output expansion had started to slow down in some countries before the oil price explosion and for this reason a number of countries had already introduced expansionary fiscal policies to counteract emerging slack in labor market conditions. Among these were energy rich countries such as Australia, the Netherlands, and Norway, which might be expected to have been less severely affected by the oil crisis than other countries in the group. Similarly, domestic policies in Australia and, to a lesser extent, in Spain--the two countries in the group with the smallest foreign trade sectors--were actively directed at an expansion of social benefits and in Australia at a general expansion of public sector absorption of resources in line with the Government's policy at the time. A policy toward an enlarged role of the public sector in the economy was also pursued in Luxembourg during 1974-75.

When the recession deepened and it became clear around and after the mid-1970s that the adverse impact of the oil crisis would extend to output and employment as well as to prices, the expansionary stance of fiscal policy was strengthened in almost all countries in the group, especially with the sharp deterioration in employment in 1975. Generally, the highest priority of economic policy had by that time been assigned to the sustainment of employment instead of inflation, which had been regarded as the main problem in the preceding years. Although the type of expansionary measures differed in individual countries these frequently included both expenditure increases and tax reductions and entailed a very sharp deterioration in the fiscal positions of all the countries except Sweden, which managed to contain the deficit until 1978.

Typical expenditure measures in these years were increases in employment oriented outlays, such as public investment, in some cases through increased advances to states and local governments and subsidies to enterprises. Some countries, including Denmark, Luxembourg, the Netherlands, and Sweden introduced special employment policies that were implemented through schemes either to increase public employment or to compensate private sector enterprises for increasing or maintaining the number of employees. Also, the objective of maintaining living standards through improvements in social benefits was given a special boost in the recessionary conditions. Countries that pursued this policy with special vigor were Australia, Belgium, the Netherlands, Spain, and most of the Nordic countries. Examples of more specific measures in 1974 and 1975 include activation of contingency budgets and release of frozen funds of local governments in Austria, relaxation of ceilings on local government investment and subsidization of interest costs on loans for residential construction in Denmark, and the setting up of special credit facilities for enterprises in the Netherlands.

In addition to expenditure measures a number of countries implemented tax reductions to stimulate the economy. A common form was the lowering of personal income tax rates and a number of tax incentives for private sector investment, such as rate reductions and, more often, special depreciation allowances. In Austria and the Netherlands the high tax burden motivated a reduction in income taxes; this was also true in Denmark in 1975 where great political controversies regarding the high marginal rates of the income tax led to a substantial reduction in personal income tax. Also in Denmark, a large reduction in the value-added tax in 1975 was part of the revenue measures to stimulate demand; likewise in Ireland, items were exempted from the value-added tax. Several countries introduced special tax incentives, originally on a temporary basis, to encourage transfer of resources into the export sector. The fiscal measures thus usually aimed at the stimulation of both investment and private consumption. Norway is the one notable exception. Investment levels were already high in Norway so the authorities decided instead to stimulate private consumption, with improvements in social security benefits and income tax reductions playing a significant role.

3. Shift in fiscal stance after the mid-1970s and changes in policy approach

Shortly after the mid-1970s it was becoming widely recognized that the strength and duration of the recession had been underestimated. While economic activity had picked up in most countries in the group in

1976 and the unemployment situation had stabilized in a few countries, these did not prove to be lasting improvements. Insofar as two years of highly expansionary fiscal policies had contributed to the temporary improvement, it was nonetheless clear that these policies had at the same time entailed accelerating rates of inflation and widening current external deficits. These developments were of grave concern to governments in the smaller industrial countries, which generally responded by endeavoring to redirect the stance of fiscal policy in a restrictive direction.

The economic imbalances, which in a number of countries had reached unprecedented proportions in the postwar period and were increasingly assuming a structural character, brought about a shift in policy approaches in many countries. There was growing recognition that the imbalances could not be eliminated in the short term, and a few countries including Finland, Ireland, and Spain adopted medium-term overall economic policies to address the problem. To reinforce their political resolution in restoring fiscal balance an increasing number of countries publicly announced specific medium-term fiscal targets for the containment or reduction of fiscal deficits, tax burdens, or public expenditure/GDP ratios, or all of these. Another, and perhaps more fundamental, change in approach emanated from a growing doubt as to the appropriateness of traditional demand management policies in dealing with economic imbalances of this magnitude. Such policies were seen as liable to cause still higher rates of unemployment. Views of this kind were expressed at different times, for example, in Australia, Ireland, the Netherlands, and New Zealand. Preference was expressed for measures that would be directed at the cost side by attacking the wage-price spiral or for measures that directed resources into the export sector. Of course, certain countries in the group already had long experience with measures of this kind, notably incomes policy measures, but selective measures tended to assume an enhanced role in the following years.

While there was growing awareness of the need to improve fiscal positions, most governments nonetheless remained committed to the objective of stimulating employment and activity and to preserving living standards. This set of objectives posed an acute dilemma for fiscal policy and frequently led to inconsistencies in the pursuit of policy as discussed in the following section. A number of countries addressed the problem by adopting strategies that sought to maintain a restrictive overall stance of fiscal policy while at the same time introducing selective measures of stimulus that would not impart undue pressure on prices and the current external position. Several countries adapted their fiscal policies toward this general orientation, and the approach was perhaps most clearly spelled out in the so-called dual strategy followed in Austria in these years.

The results of these changes in approach were mixed, however, as fiscal deficits did not generally decline in subsequent years, although in many instances they tended to stabilize. But with a few exceptions, levels of expenditure continued to rise in relation to GDP, and so did tax burdens. The commitment of governments to cushion the adverse impact of the recessionary conditions on the economy and living standards meant the maintenance and in several cases intensification of selective measures from the preceding period of fiscal expansion and the introduction of new ones.

The selective measures taken at this time and in subsequent years included various public investment programs, special employment promoting schemes, personal income tax reductions, and selective tax incentives for investment including tax credit for special types of investment. Social benefits remained in many countries the underlying force of expenditure growth because of demographic factors, rate increases, extension of coverage, and the automatic effects of the depressed state of economic activity on unemployment compensations. Indexation mechanisms relating to personal income taxation as well as significant expenditure categories proliferated over the period. In some countries, fiscal measures to support incomes policies were pursued vigorously and commonly entailed both increased spending and revenue loss. As the decade progressed and structural problems became more pronounced, selective measures increasingly took the form of industrial support including transfer of resources into the export sector, interest cost subsidies, assumption of loan obligations, and the granting of loan guarantees.

To counteract an undue expansionary impact of the measures mentioned above a common response was to increase indirect taxes, such as the value-added tax and in some cases taxes on energy use. Indirect tax increases were especially pronounced in Austria, Denmark, Iceland, Ireland, and the Netherlands. Also, in certain countries including Austria, Belgium, the Netherlands, and especially Spain and Sweden, social security contributions rose rapidly, sometimes with adverse repercussions on business activity and employment. Australia, the Netherlands, and Norway benefited from a large increase in revenue from oil and natural gas in the later years of the period. However, the protracted recessionary conditions generally retarded revenue growth. Most countries made efforts to contain overall expenditure growth from 1976 onward, but few were able to demonstrate success.

Although some countries had initial success in improving their fiscal positions, it soon became clear that notwithstanding public policy announcements of fiscal restraint several obstacles blocked restoration of fiscal balance, and the record shows that for the rest of the period most countries had severe difficulties in this area.

4. Policy response to the second oil crisis and the fiscal situation and prospects in the early 1980s

The second oil price explosion in 1979 contributed to a renewed slowdown in economic activity, upsurge in prices, and widening current external deficits. These events proved to be a major obstacle to fiscal improvement. Mindful of the disappointing experience with expansionary fiscal policies in the wake of the first oil crisis, governments generally reacted cautiously, and initially the battle against inflation was assigned priority. In contrast to the policy stance during 1974-75 fiscal policy remained tight for a time, as far as discretionary action was concerned. Apart from the need for fiscal adjustment that had grown continuously in preceding years the tight fiscal stance was required to support the policy of preventing the impact of the oil price increase from causing a domestic wage-price spiral.

As already mentioned, the practice had been growing to state policy objectives in quantitative terms and by this time more than half the countries in the group had announced specific fiscal targets for restoring balance over a specified period. The second oil crisis upset basic assumptions underlying such plans with the result that countries found it necessary to phase reduction of the deficit over a longer period of time. There was a certain tendency to view an improvement in external conditions as a prerequisite for fiscal adjustment. Additional factors contributed to the fact that slippages in the tight fiscal stance soon emerged in a number of countries. Thus as a result of deteriorating employment, governments in some countries intensified employment-supporting measures, including wage-cost subsidies. In other instances, social security expenditure and support to industries facing difficult structural adjustment problems were increased. In addition to slippages in the stance of policy, fiscal adjustment after the second oil crisis was rendered all the more difficult by the working of automatic stabilizers in the recessionary conditions and by a markedly reduced scope for fiscal action on account of growing rigidities in fiscal systems over the period. These issues are considered in the following section.

The plans for fiscal adjustment which have been announced in many of the smaller individual countries and expressed as specific medium-term fiscal targets are in some cases supplemented with programs in specific areas. Some of these programs have already been formulated with a considerable degree of precision and are even in different stages of implementation; others are still under consideration. In still other instances, there is general awareness of an urgent need to undertake a fundamental restructuring of the public finances, but political controversies have hampered progress. To conclude this section some major programs of this kind will be mentioned.

In Austria, Belgium, and Spain reforms or reviews of the social security system are being undertaken. In Austria a contemplated review would pay particular attention to the pension system. In Belgium where the financial position of the system has deteriorated rapidly, measures have been taken to limit the increase in benefits and a comprehensive review is being worked out that would improve efficiency with respect to income redistribution and work effort. Also under consideration is a new means of financing the system that would cease to distort the cost of labor relative to other domestic factor costs. In Spain the process has been longer. Although the 1977 economic program aimed at improvement of the social security system, progress has been slow. Renewed efforts are being made, however, to reduce anomalies in the present system with special emphasis on its negative impact on labor costs. In Denmark and Iceland measures have been taken to reduce automaticity in expenditure decisions by suspending indexation mechanisms. The permanency of this arrangement remains to be seen however. And last, on the expenditure side, although not intended as a fiscal adjustment, it may be mentioned that in Luxembourg substantial new and temporary budgetary outlays to restructure the steel industry were largely financed by increased taxation probably of more permanent nature, and in Sweden there was a growing tendency in recent years to render industrial support conditional upon restructuring.

Programs relating to the revenue side are more equity and efficiency oriented, although revenue raising objectives are also involved. In New Zealand a tax reform was initiated in 1982 with the aim of reducing progressivity in the income tax to reduce its adverse impact on work effort and initiative, tax compliance, and resource allocation. Extension of the sales tax or the introduction of a value-added tax is under consideration. In Norway progression of personal income taxes at the lower income levels and heavier taxation of higher incomes is contemplated, as well as an enlarged share of indirect taxes. And in Sweden, where marginal income tax rates are among the highest in industrial countries, the adverse impact on work incentives, in particular, induced the authorities to prepare a reform of the personal income tax system for implementation in 1985, whereby the marginal rates would be reduced substantially and the revenue loss met, inter alia, by reduction in the indexation of tax brackets and a ceiling on interest deductibility. Finally, several countries have in recent years implemented a series of reductions of social security contributions to lessen the cost of labor.

V. Obstacles to Fiscal Improvement

Apart from the external shocks discussed in the preceding section obstacles to fiscal improvement encountered by most of the smaller industrial countries since the mid-1970s are diverse and include elements of both economic and political nature. This section deals with those issues which relate to the working of automatic stabilizers in recessionary conditions, growing rigidities in fiscal systems that restricted the scope for fiscal policy action, and ineffectiveness of multiyear budgeting combined with a potential upward pressure on public spending generated by certain forecasting practices. Moreover, although politics usually poses a complicated and controversial problem, an applied study of fiscal policy would suffer severely from a total omission of this important issue. Therefore, on the basis of experience over this period certain aspects of fiscal politics are considered.

1. Recession and the working of automatic fiscal stabilizers

The protracted recessionary conditions strained government finances through both sides of the budget. Sluggish economic growth slowed down the growth of revenue and on the expenditure side social security schemes in particular triggered increased spending. Experience indicates that automatic stabilizers steadily weakened fiscal positions over the period and constituted an especially strong obstacle to fiscal improvement in the wake of the second oil crisis when governments endeavored to maintain a tight fiscal stance.

On the revenue side the practice of reducing personal income taxes was already common in a few countries at the beginning of the period. To counteract fiscal drag caused by accelerating inflation, adjustments of tax brackets and standard deductions to price indexes were widely used. While these practices had usually been initiated on an ad hoc basis, a growing tendency arose to adopt indexation mechanisms that automatically adjusted rates and deductions for inflation. Also, a growing number of countries reduced real rates in order to stimulate private sector demand and to lower the tax burden, especially on low- and middle-income groups. In countries where government interference in income formation was customary income tax reductions were frequently determined in the context of incomes policy. Although a number of countries granted tax relief of various kinds to the enterprise sector to stimulate investment and activity, the personal income tax reductions were generally most instrumental in weakening automatic stabilizers on the revenue side through eroding the impact of the progressive rate structure. It should be noted, however, that this was not a uniform experience in all countries in the group. In Belgium, for example, the tax system remained highly elastic with respect to GDP because for most of the period the progressive income taxes were only partially adjusted for the impact of inflation. Also, in New Zealand, the highly progressive personal income tax rates continued to produce sharply increased revenue yields in the inflationary conditions despite a series of tax reductions.

An outstanding feature of fiscal development over the period was an explosive growth of social security expenditure. In the present context it is significant that underlying this development are various schemes that provide for automatic compensations when specified criteria are met, including certain age limits, employment status, degree of disability, and in some cases family size and income level. In most countries in the group these criteria underwent a series of changes over the period that normally implied improvement in benefits, both increases in real benefits and extension of their coverage; it became a widespread practice to incorporate indexation mechanisms in the various schemes. A number of countries, including Belgium, Denmark, Ireland, Luxembourg, and Sweden, introduced early retirement schemes, usually in connection with employment policies with the aim of withdrawing wage earners from the labor force. The impact of these measures was felt with growing force in budgets as was the impact of increasingly generous benefits of other types, including relaxed qualification criteria for unemployment and disability compensations.

The budgetary burden of the various social security schemes was aggravated by demographic factors which over the period broadened the basis on which automatic stabilizers work. The most important of such factors is the aging structure of the population whose impact on pensions and health care costs was especially strong in Belgium, Finland, the Netherlands, and Sweden. The rising ratio of pension receivers to the work force that contributes entailed growing budgetary transfers to pension funds. Increased female participation rates enlarged the size of the labor force and implied higher unemployment compensation costs, most notably in Denmark and New Zealand. A similar impact emanated from migratory flows of the labor force from abroad and from agriculture in Ireland and Spain.

2. <u>Narrowed scope for fiscal policy action</u>

A fairly widespread development in these countries over the past decade is a growing tendency to determine expenditure by specific legislation rather than in the annual budget and thus provide for present and future expenditure commitments. The budgetary burden of such commitments is frequently aggravated by linking the relevant expenditure categories to a price index. As noted in the preceding section various social security schemes are typical of such commitments, but other expenditure categories are also based on specific legislation or contracts with similar long-term implications. While legislation and contracts can be amended, such action is subject to cumbersome parliamentary processes or lengthy renegotiations that imply an element of inflexibility in fiscal policy. Rigidities in fiscal systems have in growing measure restricted the scope for applying fiscal policy in endeavors to implement needed fiscal adjustment in several countries in the group.

Persistent fiscal deficits in most of the smaller industrial countries have entailed a mounting debt-servicing burden. For example, taking the interest component of the debt-servicing requirement, five countries in the group by the end of the period had to devote 8 1/2 to 13 percent of total expenditure to interest payments on the government debt. There is evidence that in several instances the debt-servicing burden will increase sharply over the next several years thus absorbing an increasing proportion of budgetary resources. This feature of fiscal development over the period is in some countries in the group the major cause for growing inflexibility in future fiscal policy.

A precise measure of rigidities in fiscal systems is not available for most countries in the group, but information on this subject in three of the countries will throw some light on the issue although the data may not be comparable across countries. In Denmark major expenditure categories, notably transfers to persons and to local governments, are based on law and, at the central level, such categories accounted for approximately 50 percent of total government expenditure at the beginning of the period. 1/ In Iceland it has been estimated that about 70 percent of total expenditure is "uncontrollable" in that this portion of central government expenditure cannot be affected except by amending laws and contracts. 2/ And in Sweden it is estimated that 80 percent of central government spending is determined automatically owing to indexation and previous spending commitments and that 50 percent of expenditure is automatically indexed. 3/ As indicated, the percentages quoted above refer to different years within the period and have most likely risen since the calculations were made.

As already noted a widely used device to cushion the adverse impact of external impulses and the recessionary conditions on economic activity and living standards was to reduce income taxes. As fiscal positions deteriorated an increasing number of countries sought to compensate for the revenue loss by raising indirect taxes, such as value-added or sales taxes, excise duties, and energy taxes. However, this policy soon

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1/ The Danish Budgetary System, Ministry of Economic Affairs and the Budget (Copenhagen, 1972).

2/ G. Blöndal, "Balancing the Budget: Budgeting Practices and Fiscal Policy Issues in Iceland," Public Finance and Budgeting (Summer 1983).

3/ Bjorn Eriksson, "Sweden's Budget System in a Changing World," Public Budgeting and Finance (Autumn 1983).

encountered difficulties as increases in indirect taxes were reflected in the price level and further price increases tended to be generated through indexation mechanisms or indirectly through higher wage claims. In several countries, governments thus found themselves severely restricted in improving their fiscal positions by raising indirect taxes owing to the inflationary implications of such actions.

3. The role of medium-term planning and budgetary forecasting

Most countries in the group have a tradition of multiyear planning or budgeting. The forms and procedures differ considerably from one country to another with respect to coverage, relation between the plans and annual budgeting, and degree of sophistication in forecasting techniques. Only two countries, Austria and Iceland, have relied entirely on annual budgeting. The arrangements and procedures in individual countries are further considered in Part II.

Multiyear budgeting serves to enhance rational choice by viewing the implications of past and present decisions in a longer-term perspective. In principle, the emphasis is on improved resource allocation and on ensuring a sustainable long-term balance between expenditure and the availability of financial resources. With rising future expenditure commitments and a growing need for efficient financial management, the case for medium-term budgeting might have been expected to strengthen, but evidence indicates no such development. On the contrary, given publicly announced commitments to curb expenditure growth and to contain or reduce fiscal deficits, it is surprising that multiyear budgeting was so ineffective in pursuing these official policy objectives.

It is inherently difficult to appraise the actual policy relevance of long-term budgeting and other forecasting techniques, because political decision making in budgetary matters rarely emerges in a tangible form. However, it is important to note that multiyear budgets in these countries do not constitute future commitments on the part of governments but are viewed as an aid to fiscal decision making. The noncommittal nature of multiyear budgeting is generally intended to preserve flexibility in fiscal policy and to prevent undue future growth in expenditure. During the period under review it would appear, however, that lack of commitment presented in a systematic and legal form contributed to the failure of this approach to act as a brake on political pressures for increased spending and weakened governments' resolve to observe self-imposed spending limits.

The limited effectiveness of medium-term budgeting may also be explained by the disturbing impact of external developments on the small and open economies that tended to grossly upset basic assumptions of medium-term forecasts and resulted in a loss of confidence in such exercises. Toward the end of the period, countries such as Norway and the Netherlands, both of which have a long history of sophisticated budgeting techniques, moved away from the longer-term approach. Norway ceased to prepare the traditional medium-term programs, while the Netherlands abandoned the structural approach to fiscal policy as growing imbalances in the economy obscured the distinction between cyclical and structural factors and external uncertainties complicated the projection of medium-term trends in the economy. In Denmark long-term planning and public discussion did not prevent an explosive growth of public expenditure and a sharp deterioration in the fiscal position.

Tendencies to make unrealistic assumptions about the growth potential of the economy are known to have led to the setting of overambitious goals of fiscal policy with adverse implications for the budgetary position. Such tendencies were pronounced in Dutch budgetary forecasting, notably in the latter half of the period. Ireland had a similar experience in the 1978 national economic planning exercise that was subsequently abandoned because of the disturbing effects of the second oil crisis. In the Netherlands the impact on expenditure growth was strengthened as, contrary to intentions, multiyear expenditure estimates were in fact widely regarded as minimum commitments on the part of the Government. Overoptimistic assumptions in medium-term budgeting thus introduced upward pressure on government spending and although only two countries in the group are quoted in this context the phenomenon is likely to be more widespread.

Lastly, it may be noted that, somewhat ironically, the two countries in the group that did not resort to multiyear budgeting over the period in question appear to have fared relatively well in overall fiscal performance. Thus, Austria managed to contain expenditure growth well below the average for these countries and the fiscal deficit, while persistent, widened less than in most other countries. Iceland experienced the smallest relative increase in expenditure of all the countries.

4. Fiscal politics

A major problem in public finance derives from the interdependence of the general aims of fiscal policy. Improvement of resource allocation to strengthen the basis for long-term growth of the economy, change in the distribution of income, and promotion of economic stability are objectives ordinarily sought implicitly or explicitly in each year's budget, but measures designed to obtain one objective are liable to affect one or more of the others. As the effects tend to be mutually adverse, an efficient fiscal policy would have to take this interdependence into account. This in turn implies a requirement on the part of governments to establish a clear order of priorities among the different objectives and to follow a reasonably steady and resolute course of policy implementation.

There is ample evidence of how lack of either requirement or both contributed to inconsistent policy actions over the period. Conflict of objectives not only arises between the general aims of fiscal policy mentioned above but may also arise within the same broad objective. In this period of pronounced economic imbalances stabilization measures in different areas provide the clearest evidence of such inconsistencies. As already noted, major stabilization measures were designed to stimulate employment and activity, combat inflation, and improve the current external position. While the latter two objectives would generally be sought through a tightening of the fiscal stance, the first would be served by expansionary measures. The analysis so far shows that on several occasions during the period all these measures tended to be introduced at the same time or in rapid succession without being based on a clear priority ordering of objectives or changes therein. The impact of restrictive measures to counteract rising prices and widening deficits on external current account frequently was reduced or more than outweighed by measures to promote employment, economic growth, and social welfare objectives. Attempts to solve this dilemma by selective measures of stimulus that would not impart undue pressure on prices and the external current account position appear not to have been very successful.

The frequent changes in the stance of fiscal policy in several countries over the period are not necessarily a sign of inconsistency, as these may in part reflect a response to changes in underlying economic conditions. However, the evidence strongly suggests that such changes also resulted from political considerations that took limited notice of economic circumstances or attempted to achieve short-term gains that often were at the expense of longer-term performance of the economy.

The problem of inconsistent policies may in part be explained by the political structure of the countries. The smaller industrial countries all have a system of political democracy, which in many instances is characterized by a number of relatively small political parties that necessitate coalitions for the formation of government. Also, in some of the countries minority governments are not uncommon. As a result the formation of strong governments with consistent and clearly defined objectives is rare and changes of government tend to be frequent. The political environment thus is not generally conducive to the formulation of consistent long-term policies, and the frequent changes of government, in particular, are liable to weaken effective resistance to pressures for increased public spending. This may be the result of different priorities in particular areas which usually lead to new expenditures with new governments without outweighing reductions being made in existing areas, or it may be caused by different political ideologies on a broad basis, which then may work both ways as far as the impact on expenditure is concerned. A case in point is Australia where the government in office during 1972-75 pursued the policy of increasing the public sectors' absorption of resources and thereby change the social fabric over a short period of time. The Government that took office at the end of 1975, by contrast, regarded the sharply enlarged role and relative size of the public sector as a major cause of depressed private sector activity and for most of the remaining years of the period managed to reduce the ratio of government expenditure to GDP.

The significance of the political element in the formulation of fiscal policy in these countries is thus fairly obvious. It has also been indicated how imperfections in the political system, from an economic viewpoint, have contributed to difficulties in achieving desired fiscal adjustments. The precise manner in which political decision making influences the formulation of fiscal and economic policy is beyond the scope of this study. However, the above observations would appear to lend support to the hypotheses advanced in terms of political behavior functions that separate self-preservation of governments as a major objective. In the present context it would appear plausible that "governments may be more interested in stabilizing votes in the short run than the economy in the somewhat longer perspective." 1/

VI. Implications of Past Fiscal Developments and Policies

For the purpose of this section linking movements in the fiscal data presented in Section III to indicators of economic performance would have been a desirable method of analysis; however, such an approach was not possible for a number of reasons. First, the period for which comparable data were available was too short to permit meaningful conclusions to be drawn. Second, the available statistics were not detailed enough to enable identification of expenditures that match the separate schemes dealt with below, such as unemployment compensations, pensions, employment support, and incomes policy oriented schemes. Third, the issue of causation referred to below would in any case have rendered such an analysis inconclusive. The following analysis is, therefore, based largely on separate studies as quoted, while reference is made to the statistical data in particular contexts.

1. Enlarged public sector

The growing size of the public sector and poor economic performance over the past several years have lent support to the opinion that an inverse relationship exists between the two. The sharp increase in public expenditure relative to GDP and a concomitant increase in tax burdens and fiscal deficits is seen as a major cause of the difficulties

1/ Assar Lindbeck, "Stabilization Policy in Open Economies with Endogenous Politicians," The American Economic Review (May 1976).

many countries are facing in terms of sluggish economic growth, high rates of unemployment, and rapid price increases. Implicit in this hypothesis is the view that an effective way to cure the economic malaise is to reduce the relative size of the public sector and government interference in the market mechanism. While public sector size is commonly interpreted as total public expenditure in relation to GDP, it has been a cause for some confusion that the argument against large government relies more on the financing of expenditure by stressing the adverse impact of heavy tax burdens and deficit financing on economic performance. A similar impact is seen as emanating from separate expenditure schemes rather than from expenditure at the aggregate level. Although these items are obviously closely interdependent it is useful to consider them separately, beginning with aggregate expenditure.

The contention that large and growing government affects economic performance adversely appears to rest on assumptions that relate to a mixture of economic criteria and ideological persuasion. Among the former is the doctrine that as the public sector grows beyond some unspecified limit, resources are diverted from more productive use in the private sector and economic growth suffers. Moreover, the beneficial impact of increased expenditure on growth in conditions of less than full capacity utilization in line with traditional Keynesian multiplier analysis has come under growing critical scrutiny owing to the analytical weakness of disregarding the financial stringencies of taxation and deficit financing. Also, public sector growth is allegedly associated with growing government interference in the market mechanism which distorts optimum resource allocation with adverse repercussions on the long-term growth performance of the economy. Regarding price performance the size and rate of growth of the public sector may, depending on the degree of capacity utilization, affect the rate of inflation through the traditional Keynesian aggregate demand influences. A causal relationship between public sector size and unemployment may be expected to be largely indirect, however, through the impact of slower economic growth. Unemployment is, indeed, more likely to expand the public sector in terms of increased outlays both to compensate the unemployed and to stimulate employment through discretionary action.

The argument against large government has been challenged on the ground that it rests on assumptions that indirectly imply certain ideological persuasion and political value judgments rather than economic logic. It is argued that faith in the efficacy of the invisible hand and superiority of freely functioning markets is an underlying assumption adopted by the antilarge-government school of thought. From that doctrine rather than from verifiable evidence, so the argument runs, emanates many of the alleged harmful consequences of large government, such as lower productivity than in the private sector, inherent inefficiency, and diminished freedom. The central role attached to the market mechanism is further challenged by sympathizers of large government on the ground that such an attitude largely disregards egalitarian values which, of course, removes the issue from the realm of economic analysis. 1/

Whatever the attitude is toward the size of the public sector, it is generally recognized that public expenditure generates economic and social benefits. The question is whether there is a point beyond which expenditure growth begins to exert a harmful impact on economic performance. Considering the prominence of this issue in public debate in recent years it is surprising that the subject has been given only limited coverage in the literature. However, a recent OECD study attempted to put the hypothesis of inverse relationship between public sector size and economic performance to a statistical test. 2/ The study sets out to answer the questions whether the enlarged role of government has weakened the "dynamism and resilience" of OECD market economies, and whether reduced public sector size and curtailment of state intervention in the market might improve the current weakness afflicting most OECD economies. Broadly expressed the study reaches the conclusion, not surprisingly, that there is no simple way to determine the extent to which public intervention in the "free" market mechanism is responsible for poor economic performance. The economic gains and losses identified in the analysis are associated with specific aspects and the impact of overall government intervention is found to be indeterminate.

Analyzing the economic consequences of the size and growth of the public sector immediately focuses attention on the composition of expenditure since it is generally accepted that separate expenditure categories affect the economy differently. This throws some doubt on the usefulness of analyzing expenditure at the aggregate level, not least if the emphasis is on comparison over time or across countries. If the composition has changed sharply over time or if it is substantially different in individual countries, the economic impact may be markedly different even though the relative size of the public sector were unchanged over time or the same in different countries. An additional problem is posed by the issue of causation as factors outside the realm of public finance influence economic performance and their impact is not separable from that of fiscal factors. These are serious limitations from an analytical point of view that stress the need to exercise caution in interpreting the implications of expenditure at the aggregate level, or the size and growth of the public sector, for economic performance.

1/ For a thorough examination of these issues, see David Heald, Public Expenditure, Its Defence and Reform, Oxford, 1983.

2/ Working Party No. 1 of the Economic Policy Committee, "Consequences of Public Sector Size and Growth," CPE/WPI (83)8.

The analytical ground is firmer with respect to separate taxes and expenditure schemes, and these aspects, together with fiscal deficits, are considered in the remainder of this section.

2. Increased tax burdens

Generally, the ratio of total revenue and grants to GDP rose during the period, although the rate of expansion differed markedly among individual countries in the group as noted in Section III.2. While few would support the argument that tax burdens had not risen enough, it was nonetheless the experience that expenditure growth was in most cases substantially faster. This disparity in growth rates therefore entailed large and, in most cases, widening fiscal deficits with adverse economic implications as considered in the following subsection.

Most countries in the group have a progressive tax structure and an otherwise responsive tax system, although these features differ from one country to another. Despite prolonged recessionary conditions high rates of inflation were widely experienced so that even in the absence of discretionary revenue raising measures, rising nominal incomes and turnover might have been expected to produce revenue yields that were more in line with expenditure growth. Also, three energy rich countries in the group--Australia, the Netherlands, and Norway--benefited from an upsurge in revenue from oil and natural gas. However, policy objectives to cushion the adverse impact of external impulses on the economy and to preserve living standards resulted in a series of tax reductions over the period which contributed significantly to the slowdown of revenue growth. The ways in which tax cuts were intended to counteract the recessionary impulses were manifold and included reduction of disincentive effects of high marginal income tax rates, containment of tax burdens, redistribution of income in favor of lower income groups, stimulation of private sector demand, investment and employment, and moderation of wage settlements.

The general economic impact of high tax burdens is not easily determined and, as is the case with expenditure at the aggregate level, much depends on the composition of the various types of tax and other revenue sources. 1/ Attempts have been made at establishing specific limits beyond which the tax burden begins to exert an adverse impact on the economy. The best known is probably Clark's celebrated thesis, first published in 1945, that the safe limit of taxation is 25 percent of net national income and as soon as total taxation exceeds that limit

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1/ For a discussion of this issue, see, e.g., Vito Tanzi, The Individual Income Tax and Economic Growth, An International Comparison (The Johns Hopkins University Press, 1969).

inflation pressures are generated. 1/ Although this proposition has been refuted by the empirical evidence, it is easily conceded that there are some limits at which taxation at the aggregate level becomes excessive. However, due to the complexity of this issue, including its interdependence with the relative size and composition of expenditure, the implications of high taxation are more easily dealt with in terms of individual taxes.

The tax reductions mentioned above related largely, though not exclusively, to direct taxation, notably personal and corporate income taxes and social security contributions. However, in certain countries the progressiveness of personal income tax rates and a self-financing nature of the social security system caused a substantial increase in these two types of tax which in many countries are the principal revenue sources at the central level. The increased burden of these particular taxes had detrimental economic implications, and to indicate their nature examples from selected countries are provided below.

In Belgium the progressive income tax rates were for most of the period only partially adjusted for inflation with the result that their burden rose markedly over the period. A major concern over this development is the potential encouragement to the underground economy and tax evasion. In New Zealand, the significance of the personal income tax is a striking feature of the tax system and this tax accounted for the entire relative increase in revenue over the period--7 percentage points of GDP. It is a commonly held view that the steep progressivity of the personal income tax rates has adversely affected work effort and initiative, encouraged tax avoidance and evasion, and contributed to wage-push pressures and distortions in resource allocation. In Norway income tax progression is quite steep with marginal rates ranging between 30 and 70 percent and about one third of taxpayers facing marginal tax of 50 percent or more. The adverse impact on work effort, savings, and income distribution is considered to be specially marked. In Sweden, despite a series of reductions, the personal income tax rates are still among the highest in industrial countries with the highest marginal rate reaching 85 percent. This has caused serious concern to the authorities, not least is the detrimental impact on work effort. 2/

1/ Colin Clark, "Public Finance and Changes in the Value of Money," Economic Journal (December 1945). For a restatement of this proposition see his article, "The Scope for, and Limits of, Taxation" in the State of Taxation, by A. R. Prest, and others (London: Institute of Economic Affairs, 1977).

2/ The relationship between personal income tax structures and economic growth in six major industrial countries is analyzed in Tanzi, op. cit. The study concludes that there is a significant negative relationship; that is, the growth rates are lower for countries that rely most heavily on the individual income tax as a source of revenue.

Turning to social security contributions the importance of this tax is especially marked in the Netherlands where it is equivalent to 19 percent of GDP and is the most important single revenue source of the central government. Employers bear about one half of this tax which has grown over the period in relation to both total revenue and GDP and has seriously aggravated the cost position of a depressed enterprise sector. In Spain social security contributions are by far the largest revenue source accounting for almost one half of total central government revenue and grants. About 80 percent of this tax is borne by employers. It has grown sharply with a concomitant increase in wage costs. By 1980 these contributions were about 25 percent of the total wage bill, having risen from 16 percent in 1973. As a result factor costs are distorted against labor which is especially detrimental in a country facing a serious unemployment problem. In Sweden revenue developments over the period were characterized by a rapid increase in social security contributions. These have been borne increasingly by employers and amounted in recent years to some 35 percent of the total payroll compared with 14 percent in 1970. This has intensified the strains on private sector activity.

Finally, it would seem appropriate to reiterate in this context that although the revenue loss resulting from cuts in direct taxes was partially offset in some countries by increases in indirect taxes, most countries had difficulty in taking this course of action. It was a fairly general experience that a shift toward indirect taxation was complicated by the significance of specific rather than ad valorem taxes and duties. An even greater obstacle was the concern over the impact on costs and prices. Despite cuts in direct taxes and widening fiscal deficits the authorities were thus generally reluctant to raise indirect taxes because of the inflationary implications of such a move.

3. Fiscal deficits and debt accumulation

The implications of sustained fiscal deficits for economic performance have received a great deal of attention and aroused controversy over the past several years. The subject is well known and will not be reviewed here at any length. However, a brief overview of the main issues involved will be a useful background against which to view experiences in individual countries in the group in this regard.

The most obvious implication of large and sustained fiscal deficits is the associated debt accumulation and the resulting claims on present and future budgetary resources. As seen in Section III.3, the debt burden rose in most of the smaller industrial countries over the period and in certain instances quite substantially. For some countries in the group a continuation of this trend is foreseen over the next several years unless drastic counteractive measures are introduced. This is true, in particular, where the fiscal deficit has assumed a structural character in the sense that it would persist even if cyclical conditions returned to normal. Those countries which experienced the largest debt accumulations over the period, such as Ireland, Belgium, Denmark, New Zealand, and Sweden, will thus be facing difficult fiscal adjustment problems over the next several years. Sustained deficits have pre-empted a growing proportion of budgetary resources, imposed burdens on future generations, and, from the point of view of economic management, implied growing inflexibility in fiscal systems and restrictions on the scope for pursuing fiscal policy in an efficient manner. Although in certain instances, like Iceland, Ireland, and New Zealand, the debt-servicing burden was somewhat lessened as inflation eroded the stock of outstanding debt, this development is likely to have had undesirable consequences from the point of view of equity.

Another implication of fiscal deficits is the effect on the price level and balance of payments. Fiscal deficits may, depending on the method of financing, add to inflationary pressures via direct cost and demand impact or through the monetary repercussions and exert pressure on the current account of the balance of payments. Such influences characterized fiscal developments in most countries in the group and the problems tended to intensify as the period progressed. This is not only because large deficits persisted and in several cases widened, but also because of a growing tendency to finance the deficit by external borrowing or by domestic monetary sources. Although most countries in the group had to struggle with this problem, it was a particular cause for concern in a country like Australia, where inflation has been the major economic problem. It was aggravated by the monetary implications of a persistent large public sector deficit and the inflationary expectations it generated. The deficits have also through their liquidity impact severely complicated the task of monetary management in a number of countries, including Finland, Iceland, Ireland, New Zealand, Norway, Spain, and Sweden. In Spain the problem assumed an added significance as monetary policy is the major instrument of short-term demand management.

While fiscal deficits added to inflationary pressures in a number of countries, inflation in turn affected the budgetary outcome in different ways, and it may be of interest to note the experiences of three countries in the group for which information on the subject is available. In Belgium in the mid-1970s inflation itself rendered expenditure restraint difficult, not only because of indexation of significant expenditure components, but also because the responsive tax system made it easier to finance new expenditures. In Denmark expenditure was more affected by inflation than revenue. Because of the indexation of expenditure components, the importance of specific excise and other taxes, and the indexation of tax scales and deductions, the fiscal position thus tended to deteriorate as a result of inflation. In Iceland, by contrast, inflation automatically influenced revenue more than expenditure in the early part of the period owing to a responsive tax system that relied on ad valorem indirect taxes. However, a proliferation of indexation mechanisms has since eroded this stabilizing feature of the fiscal system.

It is relevant here to consider the effectiveness of deficit-creating fiscal stimulus which over the period was a typical policy response to increased slack in economic activity. The impact of such measures is reduced through counteracting leakages into imports or increases in private savings. In the former case much of the fiscal stimulus to the domestic economy will be neutralized as part of the added demand will be directed at imports. It has been estimated that for a typical European country that takes such action alone about 40 percent of the potential output generating effect is absorbed by imports. 1/ The smaller industrial countries are characterized by relatively large external sectors and because of the small value of the domestic multipliers fiscal stimulus is presumably still more restricted than in a typical European case. Private savings might increase as a result of a fiscal stimulus leading to or increasing deficits, if private households equate government spending with their own consumption. Then private consumption would be cut accordingly and savings increased. Considerations of future needs for increased taxation necessitated by sustained fiscal deficits might also induce increased personal household savings. It must be said, however, that these propositions do not rest on very firm foundations and the impact of fiscal stimulus on private savings is fairly indeterminate.

The impact of fiscal deficits on economic activity are commonly analyzed in terms of crowding out effects of which there are two kinds--real and financial crowding out. 2/ Real crowding out may occur when government action pre-empts real resources, such as manpower and materials, but this need not necessarily be associated with deficit financing. Financial crowding out is widely believed to be a major cause for limited effectiveness of fiscal policy in stimulating economic activity. The argument relies essentially on the perceived effect of noninflationary deficit financing on interest rates and the curtailing repercussions on private sector investment. Although fiscal stimulus may under certain conditions lead to higher overall domestic demand, private borrowers may nonetheless be "crowded out" of the capital market through higher cost of borrowing. Under conditions of high capital mobility and floating exchange rates the higher rate of return to investors is also likely to

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1/ OECD Occasional Studies, "Public Sector Deficits: Problems and Policy Implications" (June 1983).

2/ The counteracting impact of leakages into imports and increases in private savings discussed above is sometimes defined as crowding-out effect. See OECD, op. cit.

have an adverse impact on the international competitiveness of the economy in question. This would be brought about through the impact of capital inflows on the exchange rate that would tend to appreciate. As a consequence, activity in the export- and import-competing sectors would contract. If increased government spending were financed by money creation it is argued that this would lead to an upward revision of inflationary expectations as households would attempt to maintain their real money balances. This would result in an upward pressure on interest rates with detrimental impact on private sector investment.

The above considerations have set out some of the mechanisms through which crowding out might be expected to take place. There are numerous other versions of such mechanisms, however, and some of these would produce different results. 1/ This depends in large measure on the specifications assumed with regard to private financial savings behavior and the institutional setup and functioning of financial markets. Moreover, major controversies exist with regard to the relative strength of financial crowding out effects, on the one hand, and the stimulating effects of increased public spending on the other. The significance of institutional factors and economic characteristics such as external sector size would stress a need for caution in making generalizations in this regard. Viewing the matter in the individual country context would appear to be a more rewarding approach. The available evidence does not permit such an ambitious undertaking here, however, and for the purposes of this study it must suffice to recount some major aspects of the issue based on individual country experience.

Financial markets in the smaller industrial countries are in different stages of development and are subject to different exposure to international capital markets. Those differences appear to have significant implications for crowding out mechanisms. In countries such as Australia, Belgium, the Netherlands, and Sweden, where the capital markets are highly developed, the mechanisms described above seem to come close to what actually happens as far as financial crowding out is concerned. In Belgium and the Netherlands, where the public sector borrowing requirement was growing, nonmonetary financing of the deficit by the sale of bonds has put upward pressure on long-term interest rates and has had an adverse impact on business investment. In Sweden, a sharp increase in the government borrowing requirement exerted upward pressure on interest rates and industrial investment suffered. The authorities endeavored to avoid crowding out of industry from the capital market by limiting government borrowing outside the banks, but this led to growing monetary financing of the fiscal deficit, as well as excessive monetary expansion.

1/ For a further discussion of this issue, see, for example, OECD, op. cit.

The mechanisms are not so clearcut where domestic market forces are less effective in determining interest rates. In Austria and Denmark, for example, the impact of fiscal deficits on interest rates is limited, as the latter are determined by external rather than domestic consideration. Exchange rate considerations in Austria have contributed to the fact that the deficits do not appear to have crowded out private investment although this is also explained by the depressed state of economic activity and limited private sector demand for credit. In Denmark monetary policy was preoccupied with preserving the foreign reserve position which implied high interest rates to induce capital inflows needed to adequately finance the external deficit. Although crowding out effects may have been felt, the connection with the fiscal deficit was for this reason less obvious. In other countries, such as Norway and Spain, funds are acquired by the public sector to a certain extent through captive arrangements, and in others, interest rates are administered by the authorities and do not reflect market forces. This practice is known to have resulted in the existence of negative real interest rates over an extended period.

4. Employment policies

Government policies supporting employment have assumed an enhanced role in the postwar period and fiscal measures were an important ingredient in the overall strategy. While previously, policies of unemployment insurance, employment exchange, and public relief work were pursued in many countries, the 1960s witnessed a spread of strategies that involved training and retraining and similar devices to increase labor mobility. In the 1970s and early 1980s with rising unemployment and growing structural adjustment problems the emphasis shifted to job maintenance and job creation in private industry, and a number of countries adopted the policy of relieving the unemployment problem through increased public sector absorption of labor. At the same time employment policies became more permanent in nature and there was a growing tendency to introduce selective employment-supporting measures to favor certain kinds of industry and labor or to maintain regional balance. 1/ Government support to industry has in many countries been closely connected with employment policies.

Since the early 1970s most of the smaller industrial countries pursued active employment policies of a protective or preventive nature where emphasis was placed on protecting the workers involved. The extent of employment support by the government has varied, however, with Australia perhaps placing most emphasis on the role of market forces

1/ For a historical overview of employment policy strategies, see McKerzie and Sengenberger, Job Losses in Major Industries, Chap. IV (Paris: OECD, 1983).

in bringing about the required adjustment and thereby minimizing direct government involvement. The countries have had mixed results on this front. Whereas a few managed to prevent the rate of unemployment from exceeding 4 percent of the total labor force for the major part of the period covered (Austria, Iceland, Luxembourg, New Zealand, Norway, and Sweden) other countries suffered unemployment rates in excess of 8 percent over an extended period (Denmark, Ireland, and Spain). As the employment situation at any given time is determined by the general economic environment, which in turn is influenced by a multiplicity of external and internal factors, it is inherently difficult to assess the effectiveness of fiscal measures in this regard. However, the following examples provide an illustration of some of the major government schemes for sustaining employment since the early 1970s, and subsequently certain implications of these policies for economic performance will be considered.

a. Increased public sector employment. Several countries pursued the policy of increasing public sector employment to ameliorate the unemployment problem, for example, Belgium, Spain, Denmark, and Sweden; the last two emphasized local government employment in this regard with the support of special grants from the central budget. Public sector absorption of labor was especially pronounced in Sweden over this period, where the share of the government services sector in total employment rose from 20 1/2 percent to 29 percent between 1970 and 1978, compared with a rise from 12 percent to 14 1/2 percent on the average in industrial countries for which data are available. 1/ It is also relevant to note that Austria has traditionally followed the policy of having the nationalized industries absorb labor in times of depression.

b. Direct budgetary outlays to create or sustain employment. This is probably the most common employment-supporting device adopted by this group of countries. Direct budgetary outlays for this purpose took various forms, most frequently capital expenditure for public works projects, relief works or building programs, or under specific employment creating schemes (Ireland, New Zealand, Sweden). Some countries (Australia, Finland, Netherlands) emphasized employment at the regional level by increasing advances for local or state government investment.

c. Retraining. Central government grants for training and retraining in the local government and private sectors served the objective of facilitating labor mobility in an environment of structural change in the derived demand for labor. In some instances, special emphasis was put on training disabled persons and the long-term unemployed. Although many countries in the group adopted this approach at different times within the period covered, it was most pronounced in Denmark, Finland, the Netherlands, Norway, and Sweden.

1/ OECD Economic Surveys: Sweden (April 1980).

d. Compensating for shorter working hours. Belgium set up a program to support firms, which had agreed to cut working hours, in the form of credit to finance additional hiring, and Luxembourg granted subsidies to firms to partially compensate employees that had been put on short-term work. The purpose of these schemes was essentially to avoid the cost of dismissal and rehiring and to enable employers to keep experienced workers, while at the same time reducing the earnings loss of employees during short-time work.

e. General incentives for job creation. Such incentives took various forms and affected both sides of the budget. Several measures of this kind which had the broader objectives of general economic stimulus have already been accounted for in previous sections, but here a few examples will be recounted where the stimulating objective was more confined to employment. Incentives for capital expenditures that would sustain employment in particular were granted in Ireland. In Luxembourg wage costs were subsidized (20 percent of these costs) to mitigate the effect of structural change on the employment situation, especially in the declining steel industry. In Austria interest costs were subsidized and also in Denmark as far as interest on loans for residential housing was concerned. Also, in Austria tax credits were granted for certain types of employment creating investments, and in Finland and Spain employers' social security contribution rates were reduced as a means of reducing factor cost distortions against labor. Norway sought to sustain employment in separate parts of the country by differentiating employers' social security contributions by region.

f. Conditional employment supporting measures. Schemes that required a minimum level of employment to be maintained by firms receiving grants were practiced in the Netherlands, Norway, and Sweden. In the Netherlands grants were made available to the clothing industry provided that employment was kept at a specified minimum level. In Norway a special stock financing scheme was operated whereby firms received subsidies to cover a certain proportion of the increase in stocks on condition employment was not reduced. And in Sweden a temporary stock support scheme whereby enterprises received grants amounting to 20 percent of the volume increase in their inventories was conditional upon the maintenance of employment levels by the enterprises over the grant period. An additional measure under this category practiced in Luxembourg to encourage labor mobility was the payment of a bonus for workers who voluntarily transferred to new industries.

g. Grants to encourage recruitment of special kind of labor. In order to directly alleviate the unemployment problem, Finland, Ireland, and the Netherlands paid special grants to employers who hired from the unemployment register. The Netherlands also granted subsidies to enterprises that employed teenagers.

h. Retirement schemes. The introduction of early retirement schemes or flexible retirement options in countries like Belgium, Denmark, Luxembourg, and Sweden, beside serving a broader social objective, also was presented in an employment policy context that aimed at alleviating unemployment through the removal of older workers from the unemployment register.

Evidence shows that some of the schemes mentioned had a fair amount of success, such as mobility schemes and training programs. Job creation schemes were also successful in some countries especially in the short run. 1/ This last device, along with many other employment sustaining programs, was originally intended to be temporary to help firms and industries over cyclical downturns in the level of economic activity and thereby minimize the social cost of employment dislocation. As mentioned, these schemes tended to assume a more permanent character with adverse repercussions on overall long-run economic performance. This experience was fairly general among the smaller industrial countries, although it was most marked in countries that had a combination of high employment policies and large structural change, like Austria, Norway, and Sweden. Policies to absorb labor in the public sector to alleviate unemployment and selective measures to support ailing industries exposed to foreign competition and to preserve regional balance contributed to a slowdown in labor mobility and thus retarded an adjustment that by a more efficient allocation of resources would have taken fuller advantage of the production potential of the countries concerned. Of course, these adverse long-run repercussions on economic performance have to be weighed against any social benefits these policies may have entailed.

5. Social security schemes

In almost all countries in the group, subsidies and other current transfers have been the most dynamic element in public expenditure growth as discussed in Section III.1. Unfortunately, the basic statistical source used, GFS, does not permit a disaggregation of this expenditure category, so the following analysis has to rely on less comprehensive data. It is clear, however, that within this category expenditure on social security is the major component and old age and disability pensions weigh the most heavily. Unemployment compensations form another subcategory and although this type of expenditure is a relatively small part of total government spending, it increased rapidly over the period. As a result of these developments, the generosity of entitlement programs has in some instances reached a level that has caused concern over the potentially adverse repercussions on the economy. A few examples of exceptionally generous schemes are provided and the main economic implications of the expansion of social security entitlements are considered with emphasis on old age pensions and unemployment compensations.

1/ Innovation in Small and Medium Firms (Paris: OECD, 1982).

In the Netherlands, the general social security system includes a guaranteed minimum income equivalent to US$750 a month. Also, taking account of the hidden unemployment element in this scheme, the estimated proportion to the potentially active population that is not working is as high as 20 percent. In neighboring Belgium, where social benefits, notably unemployment compensation, have become more generous than in most other countries, it is estimated that over 80 percent of households receive support from the system and that one quarter of all households is entirely dependent on it financially. In Sweden which traditionally typifies a country of intensive social insurance, the effect of a supplementary pension scheme, which became fully effective in 1979 after a 20-year phasing-in period, increased the pension to 65 percent of the individual's income over the best five years with an upper limit amounting to the equivalent of about US$17,500 a year. All new pensioners from 1979 qualify. The generosity of unemployment compensations has also reached unusual proportions in Denmark as indicated by the fact that benefits amount to 90 percent of earnings up to the equivalent of approximately US$33 a day payable from the first day of unemployment for six days a week. 1/

There are various ways in which social security schemes may exert an impact on the economy. The most frequently studied are the effects of pension schemes on employment and household savings and of unemployment compensations on work incentives. Studies of the impact of pension schemes on labor supply and retirement decisions are not conclusive. While some maintain that there is an inverse relationship between the two, that is, improved pension schemes reduce labor supply and increase incentives to retire, the impact is considered relatively modest. 2/ Others have come to the opposite conclusion. Thus, a cross-country study by the OECD found that there is little evidence of a systematic relationship between participation rates, on the one hand, and eligibility and transfer ratios, on the other. 3/ The same kind of inconclusiveness is attached to the impact of pension schemes on household savings. Whereas earlier studies purported to find a significant negative relationship between old age pension schemes and private savings, later empirical work failed to consolidate such findings. As concluded in the OECD study just quoted, ". . . it would appear that the effects of social security provision on savings remains ambiguous on the basis of both theoretical reasoning and empirical investigation." 4/

1/ Social Security Programs Throughout the World - 1983, U.S. Department of Health and Human Services (May 1984).
2/ S. Danziger, R. Haveman, and R. Plotnick, "How Income Transfer Programs Affect Work, Savings and the Income Distribution: A Critical Review," Journal of Economic Literature (September 1981).
3/ OECD, Consequences of Public Sector Size and Growth, op. cit.
4/ Ibid., p. 43.

It would appear, however, that the empirical evidence is not always easily reconciled with these inconclusive findings. Thus, the aging structure of the population, which is a fairly general characteristic of demographic developments over the period, did not entail a concomitant increase in the participation rate of older people in the labor force as might have been expected. On the contrary this proportion declined over the period. This has been attributed to a general increase in wealth of older people, some of which has surely been generated by increased real pensions. Another factor that contributed to this development is the adoption of early retirement schemes in a number of countries in the group, as already discussed. Such increases in generosity would appear to constitute a strong presumption that in the 1970s improved pension schemes reduced the participation rate of older workers in the labor force. However, it is unlikely that during this period of severe slack in economic activity in most of the countries, such a withdrawal adversely affected the performance of the economies. But it imposed additional strains on government budgets.

Elsewhere in this study references have been made to an adverse economic impact of high unemployment compensations on employment. Where generosity of unemployment benefits is greatest there is a perceived risk that induced unemployment increases through moral hazards on the part of recipients. The other side of the coin is that generous benefits induce increased female participation in the labor force which, under the adverse economic conditions prevailing for a large part of the period, added to registered unemployment. The Netherlands, Belgium, Denmark, and Sweden have already been mentioned as typical examples of generous social security programs. In all these countries concern over the potentially adverse impact of high unemployment benefits on work incentives and economic growth has been growing. In addition, in New Zealand unemployment benefits have been a growing incentive to register as unemployed and this, in particular, has had a strong impact on female participation rate that accounted for the entire increase in employment between 1976 and 1981. A similar, if less pronounced, increase in female participation rate took place in Denmark and is considered to have arisen from generous unemployment compensations.

Since social security outlays contributed significantly to the explosive growth of government expenditure in most countries in the group, the impact of large and sometimes widening fiscal deficits on the economies is an important corollary. The economic implications of fiscal deficits are discussed in Section VI.3, but to conclude this subsection a few additional reflections on factors that may have driven the generosity of some programs further than intended seem in order.

As discussed in previous sections, increases in real benefits and extension of their coverage were a major cause of the explosive growth of social security expenditure. While the general relief and redistributional objectives of this policy enjoyed wide support in the countries concerned, there is a presumption that the extent of generosity of particular schemes in some instances went beyond original intentions of such policy actions. One reason lies in overoptimistic assumptions about future growth rates of the economy that tended to be based on projections of trends experienced in the more prosperous 1950s and 1960s when many of the schemes were founded or improved. A second reason may derive from insufficient regard to demographic developments such as aging structure of the population, larger female participation rates, and change in migration patterns. A third reason may lie in the fact that the legal provisions frequently did not entail immediate costs at the time of enactment so that the financial implications were not fully perceived. However, even when it was subsequently realized that the cost implications of social security schemes could not be reconciled with growth prospects of the economies--that is, financed by economic growth--once entitlement programs were established or their generosity increased, a failure to stabilize, let alone reverse, growth trends was one of the major problems facing fiscal policy.

6. Incomes policies

This subsection deals with the interaction of fiscal and incomes policies in the smaller industrial countries over the period covered. Beginning with a brief overview of the objectives of incomes policy and the main approaches followed, the section goes on to review fiscal incomes policy measures introduced in individual countries and ends by considering the effectiveness of such measures and their wider implications.

Incomes policies generally served the immediate purpose of combating inflation and alleviating the unemployment problem, but in countries like Denmark and New Zealand these policies formed an integral part in strategies to bring about external adjustment, and in others, such as the Netherlands and Norway, redistribution of income in favor of lower income groups was a declared objective pursued within the framework of incomes policy. Persistent inflation and unemployment persuaded authorities in many countries that the imbalances could not be eliminated through demand-management policies alone, and attention was progressively directed at the cost side. Almost all countries in the group adopted some form of incomes policy in this context although approaches varied widely with respect to permanency of such policies, extent and formalization of government involvement in the wage bargaining process, and comprehensiveness of the macroeconomic base on which incomes policies were founded. Thus, in Austria and Norway, incomes policies were based on a broad social contract, or social partnership, and these countries managed to maintain such policies over an extended period, while most other countries, owing to insufficient social consensus and unfavorable institutional conditions, had to contend with temporary incomes policies and associated phasing-out problems. Also, formal government involvement was intense in countries like Finland, Iceland, the Netherlands, and Norway; whereas in Belgium, and in Sweden until 1978, for example, formal government involvement was minimal. Austria, Norway, and the Netherlands, represent cases where tripartite agreements were well coordinated with macroeconomic policy; this also holds true for Sweden, where an economic model developed jointly by the central federations of labor and management has had a considerable influence on collective bargaining. Such a link was weaker in most other countries.

Although incomes policies date back to the early post-World War II period, it was not until the 1970s that fiscal incomes policy measures came to play a prominent role. This reflects growing awareness of "tax-push" inflation and explains the widespread use of income tax reductions in endeavors to ensure moderate wage settlements. Otherwise, the form of fiscal and other official measures to influence wage developments varied considerably among individual countries. The most direct intervention consisted in mandatory controls in the form of temporary wage or price freeze, or a combination of the two. In New Zealand, for example, wages and other private incomes were effectively controlled during the 1974-77 period. In 1976 Spain introduced tax reductions to make the continuation of wage controls more acceptable, and from autumn 1978 until the end of 1979 Norway implemented a complete wage and price freeze. Belgium and the Netherlands also imposed temporary wage controls over the period. Other countries have intervened by stipulating maximum wage increases at certain intervals within a fixed period either by legislation or as guidelines, most recently Denmark and Iceland. However, the strictness with which such policies have been implemented has varied.

As indicated, tax reductions are probably the most widely used fiscal contribution to incomes policy. In order to ensure moderate wage settlements a large majority of countries in the group implemented a series of reductions in the personal income tax over the period in the form of rate reductions, increase in exemptions, and indexation of tax scales and deductions. In addition, employers' social security contributions which tended to distort the cost of labor against other factor costs were reduced explicitly in an incomes policy context in countries like Belgium, Norway, Spain, and in Finland where employees' contributions were also reduced. Furthermore, temporary reductions in indirect taxes for slowing down the rate of inflation were carried out in Denmark, Finland, Ireland, and Sweden.

On the expenditure side, increases in social security benefits, including pensions, child and maternity allowances, and unemployment benefits, were incorporated in the government's incomes policy strategy in a number of countries, notably Finland, Iceland, and Norway. The same countries, with the addition of New Zealand and Spain, resorted to increases in consumer subsidies to counteract inflation, frequently within an incomes policy framework. In many countries a contribution to incomes policy on the part of the government consisted in commitments to secure a high level of employment. This approach was usually expressed in general terms as a major objective of overall economic policy, whereas in certain instances such commitments appear to have played a more specific role in wage settlements, for example in Austria, as have employment guarantees in the Netherlands and Ireland. Also, in a 1981 tripartite agreement in Spain the Government committed itself to promote the creation of a certain number of jobs against wage restraint. Finally, a unique approach adopted by Denmark is the payment by the central government of a portion of indexation compensations due to workers into blocked individual accounts with the labor market pension fund.

Assessing the effectiveness of incomes policy is fraught with problems. Its success or failure depends on a variety of social, political, institutional, and economic factors that are likely to differ among countries and change over time within individual countries. The sociopolitical factors have an important bearing on the extent to which a social consensus is achievable. Institutional factors influence the degree of centralization of collective wage agreements, but decentralized agreements reached at different times are liable to undermine the effectiveness of incomes policy through wage emulation and catch-ups. Economic factors relate to the openness of the economy and the impact of external impulses on the price level, the extent to which incomes policy is formulated in a macroeconomic context, the role assigned to complementary fiscal and monetary policies, and the exchange rate policy pursued. Austria's favorable experience with incomes policy, for example, may be explained by an advantageous constellation of these factors, and to a certain extent this is also true of a relatively effective incomes policy in Norway and in Finland after 1977. Other countries in the group have had mixed results on this front. Thus, Denmark and Iceland have encountered persistent difficulties in establishing a sufficiently strong social consensus despite government involvement in income formation and a substantial use of fiscal incomes policy measures. 1/

1/ For an overview of incomes policies in six of the smaller industrial countries, see John T. Addison, "Incomes Policy: The Recent European Experience," in J. L. Fallick and R. F. Elliott, Incomes Policies, Inflation and Relative Pay (London: George Allen and Unwin, 1981).

In view of the openness of the economies under consideration it is relevant to note the potentially favorable interaction of incomes and exchange rate policies. Under a relatively stable exchange rate regime incomes policy may assume an enhanced role in keeping wage increases to a rate that preserves profitability in the exposed sector of the economy. Austria provides a vivid manifestation of such a role of incomes policy. In a setting of strong social consensus exchange rate considerations figure prominently in deliberations of the "social partnership." The labor market partners have appreciated the hard-currency policy pursued by the authorities and this has enhanced the effectiveness of incomes policy. However, as is the case with other aspects of incomes policy, Austria's experience is rather unique among the smaller industrial countries.

While fiscal measures in certain respects effectively moderated wage settlements, especially in countries where social consensus was strong and institutional and economic factors were favorable, these measures had wider and usually detrimental implications in other areas. As mentioned fiscal incomes policy measures, whether on the revenue or expenditure side, generally weakened the budgetary position and thus compromised demand management; moderation in wage claims was in varying degrees offset by increased demand pressures. In this complex issue it is not possible to determine the net impact of such measures on price developments in the longer run. Econometric examinations of the effectiveness of incomes policies, including the impact of fiscal incomes policy measures, have not led to any conclusive results, one reason being disagreement of model-builders about the determinants of the inflation process. An additional difficulty relates to the modeling of price expectations, which usually figures prominently in discussions of wage equations, because inflationary expectations are not observable. 1/

Apart from the demand pressure emanating from fiscal incomes policy measures, an intensive application of indirect tax reductions and increases in subsidies is liable to distort the allocation of resources. Moreover, incomes policies have a tendency to reduce wage differentials more than intended or more than is sustainable, and this may cause destabilizing reaction that gives added impetus to wage drift. 2/ Finally, ill-conceived strategies, such as preannouncement of fiscal incomes policy measures, including commitments to maintain a high level of employment and to reduce taxes, can compromise the bargaining position of governments and complicate the achievement of moderate wage settlements.

1/ For further discussion of these issues, see, for example, Andersen and Turner, Incomes Policy in Theory and Practice, OECD Economic Outlook, Occasional Studies (Paris, July 1980).

2/ Op. cit.

VII. Summary and Conclusions

The two oil crises and persistent global recessionary conditions had far-reaching repercussions on budgets and in many ways shaped fiscal policy in the smaller industrial countries over the period covered. Although policy priorities differed among these countries, there was one overriding similarity in fiscal policy response to these external impulses, namely, a defensive stance intended to cushion their adverse impact on the national economy, especially on employment and activity and on living standards in general. The intensity of policy responses varied from one country to another for various reasons. Thus, the action required differed according to the size of the external sector, or openness of the economies, and also because domestic energy production varied substantially among the countries. Also, political ideologies with regard to the proper role of the state and the reliance on the market mechanism were not the same in these countries and sometimes changed within individual countries with changes of government. Moreover, the likely duration of the recession following the first oil crisis was perceived differently and consequently so was the appropriate degree of fiscal stimulus.

The policy response to the first oil crisis and the ensuing world recession was generally to shift the stance of fiscal policy in a highly expansionary direction. Although initially intended to be temporary, the persistence of recessionary conditions caused a prolongation of this posture which entailed, with a few exceptions, sharp increases in government expenditure in relation to total output, mounting tax burdens, and widening fiscal deficits. During the latter half of the period policy was increasingly directed at the containment or reduction of these imbalances as the large scale absorption of resources by the public sector was widely seen as having an adverse long-term impact on economic performance. However, the problem of achieving the needed adjustment was exacerbated by rigidities in the fiscal systems that had grown over the period and severely limited the scope for fiscal action. In countries experiencing the largest deterioration in the fiscal position, the public finances had assumed imbalances of a structural character. Deficits and debt accumulation threatened to become self-perpetuating and fiscal adjustment became an objective per se.

Limited success has materialized in reducing fiscal imbalances despite growing efforts toward this end. Obstacles to fiscal improvement are diverse and include elements of both an economic and a political nature. The period thus witnessed strengthening of automatic fiscal stabilizers that tended to simultaneously trigger increased spending, notably in the social security area, and retard revenue growth. Demographic developments constituted increasing claims on budgetary resources. The scope for fiscal action was narrowed by a growing tendency to determine future expenditure commitments by specific legislation whose budgetary burden was frequently aggravated by indexation mechanisms. Persistent fiscal deficits implied debt accumulation whose servicing requirement increasingly pre-empted budget resources. All these elements constituted growing rigidities in fiscal systems. Furthermore, there are indications that overoptimistic assumptions about the growth potential of the economy led to the setting of overambitious goals of fiscal policy with adverse implications for the fiscal position. Lastly, the smaller industrial countries all have a system of political democracy which often is characterized by frequent changes of government. This political environment has not proved conducive to the formulation and pursuit of consistent long-term policies with clearly defined objectives and the stance of policy tended to change frequently. There is ample evidence of inconsistent policy actions over the period that caused the impact of restrictive fiscal measures to be outweighed by subsequent measures of stimulus to promote employment and social welfare objectives. Such changes entail the risk of impairing confidence in the firmness of the policy stance with adverse repercussions on economic performance. The political element in fiscal policy thus contributed to difficulties in achieving targeted fiscal adjustment.

While the foregoing comments are fairly representative of the general situation, fiscal performance nonetheless varied markedly among individual countries. This applies to the expansion of the government sector, as measured by the ratio of government expenditure to GDP, and of tax burdens as well as the size of fiscal deficits and the debt accumulation they generated. While all countries experienced tendencies toward a rapid expansion of the government sector after the first oil crisis, some had reacted quickly and were successful in curbing expenditure growth, for example, Australia, Finland, Iceland, and Norway. Consequently, these countries had less need to raise revenue, and the tax burden was not a cause for particular concern by the end of the period. Other countries, including Belgium, Ireland, the Netherlands, and Sweden experienced an explosive expansion of the government sector, and tax burdens also rose steeply in these countries, especially in Belgium and Ireland. However, revenue growth did not match that of expenditure except in Norway and Iceland, which implied growing fiscal deficits elsewhere. Over the whole period, the largest government deficits were incurred by Ireland, Belgium, New Zealand, and Sweden; Luxembourg had the distinction of maintaining a surplus for the major part of the period. Ireland and Belgium had the highest government debt/GDP ratios and mounting debt-servicing burden by the end of the period, whereas this ratio was lowest in Luxembourg and Finland.

These fiscal developments and policies had far-reaching economic implications. Analyzing their impact on the economy in any precise manner is a complicated task, however; a major problem is the issue of causation, as factors outside the realm of public finance influence economic performance and their impact is not separable from that of fiscal factors. But in many instances the direction of the impact is fairly clear. On the expenditure side, while analysis at the aggregate level does not lead to conclusive findings, there is strong evidence that separate expenditure schemes in many instances increased to an extent that exerted a harmful impact on economic performance. Thus, it was a fairly general experience that employment creating schemes contributed to a slowdown of labor mobility and thus retarded structural adjustment and efficient resource use. A similar impact emanated from various forms of industrial support designed to protect the exposed sector of the economy against adverse external impulses and to preserve regional balance. An explosive growth of social security expenditure was a major cause of fiscal imbalances. The generosity of pension and unemployment compensation schemes, in particular, in some instances reached a level that caused concern over the adverse repercussions on work incentives. Also, while incomes policy in a few countries, including Austria and Finland, contributed to economic stabilization, this was not the general experience, and the fiscal contribution to incomes policy invariably entailed a substantial deterioration in fiscal positions and added to demand pressures. While revenue in most countries increased at a slower pace than expenditure, some experienced a substantial increase in the tax burden. Personal incomes taxes and their progressivity affected work effort and initiative adversely in countries where this tax was highest, such as Belgium, New Zealand, Norway, and Sweden. In some of these countries the high personal income taxes encouraged tax avoidance and evasion, contributed to wage-push pressures, and discouraged savings. Social security contributions, a significant revenue source in countries like the Netherlands, Spain, and Sweden, increased rapidly over the period and added significantly to labor costs. This entailed a distortion of factor costs against labor and aggravated the cost position in a depressed enterprise sector. Lastly, the large and persistent fiscal deficits implied debt accumulation whose servicing constituted increasing claims on present and future budgetary resources. There is evidence also that in countries like Australia, Belgium, the Netherlands, and Sweden, where financial markets are well developed, fiscal deficits exerted upward pressure on interest rates with an adverse impact on business investment and economic growth. Such financial crowding out effects were doubtless experienced in varying degrees in other countries in the group, although the imperfection of financial markets and external influences on interest rate determination renders analysis of the crowding out effects of fiscal deficits in such cases indeterminate.

One lesson emanating from different experiences in the fiscal field is that the degree of expenditure restraint would appear to be a significant determinant of overall fiscal performance (see Appendix). The rate of expansion of the government sector thus tended to be positively correlated with the rate at which deficits widened, debt ratios expanded, and debt-servicing burdens increased. Also, with a few exceptions, notably Norway and Spain, countries with the smallest government sector at the beginning of the period tended to experience the smallest expansion of that sector over the period in terms of percentage points of GDP. On the other hand, the relation between government sector expansion and growth of the tax burden exhibited, to some extent implicitly, a highly irregular pattern.

The scope for exercising expenditure restraint depends on a variety of factors and the most important ones are probably not economic in nature. Among countries that were most successful in restraining expenditure growth it appears that certain attitudes, which had evolved through long and complicated historical processes, had an important bearing on the pursuit of fiscal policy. In some instances these attitudes generated national cohesion that ensured sufficient acceptance of short-term material sacrifices against longer-term gains, and in other instances fiscal prudence was equated with national security. There is also evidence that ideological persuasion concerning the proper role of the state caused a reversal of an ongoing process of increased government sector absorption of resources. While the nature and strength of such attitudes varied among the countries concerned, they generated in each case the required fiscal discipline to keep government sector size to more manageable proportions.

Finally, it should be reiterated that the main objective of this study has been to provide information and analysis that could enhance knowledge and understanding of public finances and the conduct of fiscal policy in this group of countries. For this reason the scope of issues addressed has been fairly broad. It is hoped, however, that the study will provoke thought and will direct attention at separate issues that deserve more thorough research and analysis.

The Smaller Industrial Countries: Selected Fiscal Indicators

(Central Government, Percentages of GDP)

	Government Sector Expansion 1972-81 (Percentage Points)	Deficit in 1981	Annual Average Deficit 1972-81	Interest Payments 1981	Debt Ratio 1981	Government Sector Size 1981	Tax Burden 1981
Iceland	1.4	-0.8	-3.4	2.0	23.6	31.9	31.1
Norway	1.6	2.0	-3.6	2.6	32.0	41.0	43.0
Australia	3.7	-0.8	-2.7	2.0	24.9	28.3	27.5
Finland	4.5	-1.0	-0.7	0.7	10.4	30.5	29.5
Luxembourg	6.8	-1.4	1.1	0.7	--	38.9	37.5
Austria	8.0 1/	-2.9	-3.7 1/	2.0	28.1	39.9	37.0
Spain	8.5 2/	-4.3 3/	-2.1 2/	0.5 3/	17.2 3/	29.0 3/	24.8 3/
New Zealand	10.2	-7.4	-6.5	4.2	50.0	41.2	33.8
Denmark	11.2	-6.1	-0.7	3.7	45.9	43.2	37.1
Netherlands	12.9 4/	-6.5	-3.9	2.5	33.5	56.6	50.5
Sweden	13.0	-9.4	-4.6	4.3	38.9	48.4	39.0
Belgium	15.6	-11.4	-6.6	6.6	65.2	55.4	44.0
Ireland	16.6 2/	-13.7 3/	-11.9 2/	6.8 3/	99.3	53.3 3/	39.6 3/

1/ 1973-81.
2/ 1972-80.
3/ 1980.
4/ 1973-82.