Wim Wiewel and Mark de Jong
with Jeroen Broeders

12

Business Finance in the Netherlands

INTRODUCTION

As a trading nation for the last four hundred years, the Netherlands has historically been inclined to favor free trade and open markets. This attitude was reflected in the 1609 treatise *Mare Liberum* by the Dutch jurist Hugo Grotius, which established the principles of the absence of territorial claims on the high seas, of providing asylum for Jews displaced by the Spanish Inquisition and for Huguenots fleeing Catholic France, and of the current European Common Market and the General Agreement on Tariffs and Trade (GATT). Taking advantage of, and helping shape, this policy to allow free movement of capital, goods, and people, the Dutch East Indies Company, the large nineteenth-century trading companies, and the modern-day multinationals housed in the Netherlands, such as Royal Dutch Shell, Philips Electronics, Unilever, and AKZO, established the country's foremost position in international trade, with Rotterdam as the largest port in the world. The Netherlands is the world's seventh largest importer and exporter of goods and services, behind the much larger economies of the United States, Japan, Germany, France, the United Kingdom, and Italy. After the Japanese and British, the Dutch are the largest foreign investors in the United States.

Another proof of the open nature of the Dutch economy is the considerable amount of inward investment. The Netherlands itself is considered a solid investment area, in particular for European distribution and holding companies, making it "the gateway to Europe." These activities are facilitated by tax agreements with most countries, liberal taxation laws for foreign companies in general, and openness with regard to employees of foreign investing firms, including private income tax exemptions and easy profit repatriation.

Interestingly, emphasis on open doors and freedom has coexisted, more or less peacefully, with a strong government and a regulatory presence. Physical planning and land-use controls have always played an important role in the Low Countries, probably because of the inescapable necessity of collective action to guard against flooding. Starting in the nineteenth century and greatly expanding in the post-World War II period, the Netherlands also developed an extensive social welfare system and centralized guidance of socioeconomic policy.

The guiding premise of this chapter is that the combination of freedom and entrepreneurship with strong, but pragmatic, government intervention has been ideally suited to the development of a strong business finance system in the Netherlands. This system not only allows firms the freedom essential in the age of the global economy but also creates acceptance of active government involvement necessary for business development in the complex climate of transnational business.

SOCIAL AND ECONOMIC CONTEXT

The key characteristic of the Dutch political, social, and economic system has been its corporatist, representational approach, which rests on the organized expression of interest groups, usually in tripartite consultative bodies of business, labor, and government representatives. During the postwar period, each of these three groups was itself subdivided along religious and political lines, resulting in what has been called a "pillarized" system (Lijphart 1968). The pillars consisted of Catholics, liberal Protestants, conservative Protestants, social democrats, and conservatives. This fivefold division was the basic organizing principle of Dutch society through the 1960s, extending to every sector of society, from hospitals, schools, and social clubs to media, labor unions, and political parties. Even though many of the religion-based organizations have had to merge due to secularization of Dutch society generally, the structure of this system is still clearly visible.

The political and social consensus created by this system weakened in the 1960s as the pillarized system was attacked in the wake of demands for democratic reform. In the late 1960s and the 1970s, the government assumed many of the roles that had been executed by the "pillars" (Zijderveld 1992). The welfare state expanded in both sociological and economic terms. However, while the welfare component of the system continued to grow, the resource side stagnated due to a declining economic growth rate. Similar to governments in many Western nations, the Dutch government sought to stimulate demand through traditional Keynesian measures but combined them with a tighter monetary policy to restrain inflation. This combination increased the government deficit and had little positive effect on economic or employment growth. Increasing demands for social benefit expenditures, coupled with rising fiscal pressures, brought about a lack of consensus and culminated in a social and economic crisis.

The worldwide recessions of the 1979–1983 period finally forced significant change. Attention was redirected to the importance of entrepreneurship and innovation, and the Dutch government shifted to a supply-side strategy. This approach aimed at broadening the role of the private market (privatization) and at diminishing the government role (deregulation). Both personal and corporate income taxes were reduced, as were subsidies for housing, health, and education. Business suffered cutbacks in location subsidies, wage subsidies, and export assistance. The old "pillars" once again played their role, for instance, by agreeing on constrained wage increases.

Due to strict monetary control, inflation was never as high in the Netherlands as in most other industrialized countries during this period, reaching only 6 percent at its peak and turning into actual deflation in 1986 and 1987. Interest rates, however, were not significantly lower than elsewhere; analysis shows that the Dutch National Bank has de facto control only over the short-term rate, with the intermediate and long-term rates inevitably tied to international monetary markets or, more precisely, to the German market (Fase et al. 1990). Thus, relatively high real interest rates caused financial problems for many companies and, combined with the international debt crisis, contributed to reluctance of banks to lend.

The other major change, which began to be felt early in the decade, was the increasing penetration of Europe by Japanese and other Southeast Asian companies. Also, the development of the U.S.–Canada Free Trade Agreement and initiation of the North American Free Trade Agreement (NAFTA) forced European countries to resume the stalled European integration process. While most tariff barriers had been removed in earlier rounds of Common Market agreements, many nontariff barriers still existed. Renewed interest in integration led to the well-known "Europe 1992" frenzy, which anticipated drastic liberalization of the movement of capital, goods, and people, starting January 1, 1993. This was expected to lead, in

TABLE 12.1
Manufacturing Wage Index (1960 = 100)

Year	*Netherlands*	*Other OESO Countries*
1960	100	100
1970	153	135
1980	275	241
1985	276	312
1990	277	288

Source: Andriessen 1990, p. 37

due course, to one central bank and one common currency. Because of the preexistent greater openness of the Dutch economy, the Netherlands was expected to reap even greater rewards than the estimated average benefit of other countries of 4.5 percent growth in GDP, 1.5 percent employment growth, and 2 percent decline in government deficits (Centraal Planbureau 1989). Of course, the subsequent skepticism expressed by voters in several European countries, accompanied by the turmoil of Eastern Europe's disintegration, delayed full implementation and may have made several features unlikely to be realized for a long time. Many aspects of the plan are proceeding on course, although not to the point of actual monetary unity.

The main result of the policy changes for the Netherlands, especially at the national level, was a considerable improvement in its international competitive position. The primary determinant was the stabilization of wage rates. After rising faster than wages in other Organisatie voor Economische Samenwerking (OESO) countries from 1960 to 1980, Dutch wages remained flat while those of competing countries increased by 20 percent (Table 12.1). Dutch exporters were thus able to increase their market share, and the rise in profits, in turn, led to a recovery of the anemic rate of private investment, from 10 percent of GDP in 1982 to 13 percent in 1989—higher than Germany, France, the United Kingdom, or the United States. Many of these investments derived from foreign sources; in fact, the Netherlands became the fifth largest recipient of foreign investment in the world, after the United States, Britain, France, and Australia (Andriessen 1990).

BUSINESS DEVELOPMENT

The 1980s represented a distinctly new and different era with regard to the general tone and direction of the Dutch economy. The corporatist, institutional system that had presided over the steady growth of the postwar welfare state had placed particular importance on big firms and thus created an unusually strong base for multinationals. In the 1980s, however, the innovation and job generation potential of small- and medium-sized enterprises received more attention. In fact, a revived corporatism managed a major transition to a greater focus on the virtues of entrepreneurship and the marketplace, in the context of ever-increasing internationalism. With some smugness, the National Secretary of the Department of Economics could note in 1990:

> In the 1980s entrepreneurship has been revalidated in the Netherlands. To be an entrepreneur is fashionable once again. . . . Entrepreneurship no longer carries negative associations, as was the case in the 1960s and 1970s, and has in fact become a positive term. To be an entrepreneur has once again become something to be proud of and something valued by society. (Andriessen 1990, 61)

The degree of consensus around this general shift is further indicated by a quote in the same report from one of the main industrial unions, which says that "Labor unions can take credit for restoring the profitability of business. Wages have been moderated because labor was willing to drop automatic cost of living adjustments early in the 1980s" (Andriessen 1990, 37).

An examination of entrepreneurship and business development in the Netherlands reveals specific issues that are quite similar to those in many other countries; that is, most small firms are started with capital provided by the entrepreneurs themselves and/or their families. Until the early 1980s, equity capital was hard to come by and was really available only to a small number of very promising, cutting-edge firms. More likely sources of capital were suppliers, leasing companies, and, once some equity was retained, commercial banks. One out of two start-up firms disappeared within five years, and only about one-fourth became truly viable (de Jong 1987a).

By the second half of the 1980s, this situation had improved considerably. Survival rates went up, and the financial markets became more responsive to the needs of small- and medium-sized firms. The amount of venture capital offered in the Netherlands ranked fourth in 1989, after the United States, Sweden, and the United Kingdom (Jacobs et al. 1990, 75). In addition, despite the public-sector retrenchment of the 1980s, which also affected business-oriented programs, a substantial number of public or public-private partnership programs remained or replaced other measures.

FINANCIAL INSTITUTIONS

Commercial Banks

As of 1988, eighty-eight commercial banks were registered in the Netherlands, but three large banks dominate the Dutch banking sector. ABN AMRO Bank was formed after a merger of the two major corporate wholesale banks in 1991. The combination has more than four hundred foreign establishments in more than fifty countries and ranks among the fifteen largest banks in the world. The Internationale Nederlanden Groep (ING) is also the product of recent mergers—between the Nationale Nederlanden insurance group and two banking groups, ING-Bank and Postbank. Both of these banks had strong ties with the government. ING-Bank specialized in credits to small- and medium-sized enterprises (SMEs), and Postbank dominated the mass consumer market. Finally, Rabobank ranks roughly fortieth among the world's banks. This in itself is rather remarkable for a cooperative bank with a particularly strong agricultural business base. Rabobank is one of the few remaining banks of this kind in the world today.

Besides these three groups, only Crédit Lyonnais Bank has a substantial retail presence and is active in the market for business financing. All other institutions are small and specialized, or they are small subsidiaries of foreign banks (Bosman 1989, 26). One should realize, however, that the Netherlands is a geographically dense country, and merchant and other foreign banks with a presence in Amsterdam can quite easily reach the entire market. About seventy foreign banks and brokers are active in the Netherlands. The large domestic banks function through an extensive network of branches as well as subsidiaries specialized in different functions, such as consumer credit, leasing, mergers and acquisitions, merchant banking, venture capital, and the like.

Many observers view the Netherlands, with its excessive number of bank branch offices, as "overbanked." Margins are generally shrinking and client loyalty is diminishing, as is the case in most banking markets in the world. As a result, there is substantial and increasing competition between banks to provide financial services to the business sector.

The three major Dutch players come from very different backgrounds: ABN AMRO, the champion of big business, ING-Bank with SME dominance, and Rabobank dominant in the agricultural sector. ABN AMRO Bank has fourteen hundred retail establishments in the country. ABN and AMRO used to compete with one another for corporate clients. The merger makes the banks even better equipped to service their core clients: ABN has a strong international network, whereas AMRO has the advantage in new issues on the stock market. However, opportunities have also materialized for ING-Bank and Rabobank that enable them to compete for the business of large Dutch firms. In its turn, ABN AMRO is increasing its presence in the SME and agricultural markets. In 1991, ABN AMRO introduced special consultants for small firms and a new program aimed at start-ups and fast-growing SMEs.

In line with the historical position of ING-Bank, this institution played a major role in addressing the entrepreneurship issue in the early 1980s. The bank has close ties to the wide network of intermediary agencies that serve the needs of small- and medium-sized enterprises. This connection provides an early warning system and also a good feel for the financial needs of small businesses. About 40 percent of all credit under the Small and Medium-Sized Enterprise Guaranteed Credit Scheme (see below) is provided by ING-Bank. In 1991, the bank made business loans valued at $32 billion.

The Rabobank has more than seven hundred member banks with more than two thousand branch offices in the Netherlands. Each is a cooperative with the goal of providing financial services (credits) at the best possible rates for its members, who are farmers and owners of agriculture-related businesses. Non-member businesses who bank with Rabobank do not get the same favorable terms as members. Of $48 billion in credits in 1992, more than one-third went to the agricultural sector, giving Rabobank a 90 percent market share. The bank's market share in the SME sector is about 40 percent. Corporate accounts are mostly handled by Rabobank Nederland, the central organization, which is based in Eindhoven.

De Nederlandse Bank (DNB), the Dutch central bank, is the regulatory agency for the commercial banking sector. The central bank has the power to control the financial well-being of all banks, although real conflicts are unusual since "gentlemen's agreements" prevail. The bank works closely with the minister of finance but is widely considered to be immune to political pressures. DNB and the German Central Bank share an independent policy tradition, forestalling any banking crises such as occurred in the savings and loan sector in the United States. The lack of political pressure also makes the Dutch banking sector generally unresponsive to public interest groups that seek funding for social enterprise development, community interests, philanthropic causes, and the like. However, this is not considered a major issue in the Netherlands since government typically is expected to fund such concerns, not the private sector.

Venture Capital Companies

Several venture capital companies are active in the Netherlands. An estimated $1.5 billion in venture capital (1992) makes the Netherlands one of the largest venture capital markets on the European continent, surpassed worldwide only by the United States, Sweden, and the United Kingdom. Under the Private Participation Corporation (PPC) program—one particularly interesting type of venture capital arrangement—the government will pay back 50 percent of any losses. Maximum investment is $2.2 million, or 50 percent of total stock (whichever is less), for a maximum period of ten years. The PPC program was created in 1981. In 1992, ninety-nine PPCs existed, with a total of 1,741 participations and $241 million in outstanding capital.

The Stock Market

As in most countries, public stock offerings are a relevant financing mechanism only for large and reasonably well-established companies. During the 1970s, the value of new issues remained at about $200 million annually, dropping to a paltry $15 million in the recession year 1982. However, the boom that followed brought unprecedented levels of activity, with the value of new issues rising to almost $1 billion by 1985 (Morreau and Ypma 1986, 325). Since then, activity has leveled off again. Since 1982, the "parallel market"—roughly similar to the over-the-counter market in the United States—has provided an opportunity for young enterprises to raise equity capital. The parallel market, though, has not been a great success, in part due to the insecure capital markets since 1987 and the easy entry opportunities for Dutch firms on the London Stock Exchange. Unlike the United States, the Netherlands has no special capital gains tax incentives to boost private investment in business ventures.

Factors and Leasing Companies

Dutch factors will finance up to 85 percent of accounts receivable. Along with leasing companies, they constitute a relatively quick and uncomplicated source of working capital or equipment finance. However, there is no ready estimate of their overall importance in providing credit.

PUBLIC INSTITUTIONS

Public business finance programs of some kind have existed in the Netherlands for centuries, but they received a major boost after World War II, when extensive reconstruction of the country was undertaken by the state. Programs exist for both equity and debt capital and are primarily oriented to the SME sector. As the case study later in this chapter will show, however, special arrangements are often made for large companies.

Small- and medium-sized enterprises are protected by a government guarantee program similar to the U.S. Small Business Administration program. The state guarantees 90 percent of a loan made by a bank to a qualifying firm. The firm may not exceed 100 employees, and the credit need should be in the range of $1–$1.5 million, with a maximum guarantee of $500,000. Total guarantees outstanding amounted to approximately $1.5 billion in 1993; the guarantees are extended at the rate of approximately $300 million annually.

The National Investment Bank was established in 1945 to assist in postwar reconstruction and to provide credit to medium-sized companies. The state owns slightly more than 50 percent of the stock but does not interfere in the bank's operations. The bank provides loans on collateral, but to a large extent the credit decision is based on the expectation of a firm's viability. Noncollateralized loans, guaranteed for 90 percent by the state, are given to basically healthy companies with insufficient equity. About one-third of the $4 billion in loans has this guarantee (Bosman 1989, 55). Credits are worth up to $28 million. Each year approximately thirty firms receive a total of $80 million.

Some of the provincial governments in lagging regions have established their own development corporations, which provide capital as well as information and technical assistance. They offer both equity capital and junior debt, financed by state-guaranteed loans from commercial banks. Five such companies are now operating, the largest one having invested about $100 million (Bosman 1989, 57).

Many local initiatives have been launched to stimulate small firms and new entrepreneurship (de Jong 1987b). These initiatives range from providing cheap incubator space to technology transfers and start-up training programs. A variety of training opportunities and business assistance agencies are also in place, based, in part, on the rich tradition of the self-organized "pillar" groups. The chambers of commerce and industry, established under Napoleonic rule in the early nineteenth century, play a particularly prominent role. They cover every city and region, and every firm is required to be a (paying) member, thereby enabling the chambers to act as effective advisors and advocates of business interests.

Similarly, there are some programs initiated at the local level that target minority and women entrepreneurs. These programs are often part of wider projects and include training, promotion, advice, or the provision of some form of incubator space. Rising unemployment, extremely low female participation rates, and concentrated problems among minority groups in certain older neighborhoods in the large cities put these issues on the political agenda in the 1980s. More recently, it has been recognized that entrepreneurship among these target groups is feasible for only a small number of individuals, and public policies have been reoriented toward job creation programs in general. These include measures to enforce quotas for hiring members of minority groups and the disabled.

BUSINESS FINANCE IN THE NETHERLANDS: A PROTOTYPICAL TRAJECTORY

In general, business finance is no longer seen as a serious problem in the Netherlands because of the existence of a variety of private and public sources. Usually a solid business proposal is required, but there are many places that will assist with writing a business plan. So, business financing in the Netherlands would typically follow this phased route:

1. *Experimental start-up phase.* Financing usually comes from the entrepreneur's own savings, increased mortgage loans, and so on; suppliers sometimes provide some material help.
2. *Start-up phase.* Advice from banks, accountants, and special entrepreneurship training consultation facilities (chambers of commerce and others) is available for formal business plans and credit procedures, and financing is usually obtained from banks, sometimes with government guarantees, or directly from one of the public institutions. Large-scale new businesses may be financed by venture capital funds and informal investors.
3. *Growth phase.* Retained profits and bank credits are most often used for financing, and factoring and leasing facilities are common practices. Specific government programs are available, often related to certain technology-based projects.

Apart from this typical trajectory, a much more complex and involved relationship between the public and private sectors may evolve in specific cases. While the largest multinational companies housed in the Netherlands—Philips, Shell, Unilever, AKZO—generally did not need direct public financing, several of the large second-tier companies did. Among them are the national airline KLM; the only Dutch airplane manufacturer, Fokker; the only Dutch carmaker, DAF; the main shipbuilder, Verolme; and the main steel company, Hoogovens. Only KLM has remained an independent, successful company, while the jury is still out on Hoogovens, as the following case study shows.

HOOGOVENS: A STEEL PRODUCER IN DISTRESS

The Hoogovens Group, a Dutch steel corporation, is a perfect example of a large company that experienced financial troubles in recent years but managed to overcome them, in typical Dutch manner, by close cooperation with the government and several banks. In 1992 Hoogovens produced 5.1 million tons of raw steel and 157,800 tons of aluminum. It also had a loss of almost $300 million, the biggest loss in its seventy-five-year history. Hoogovens is an internationally active company with subsidiaries in fourteen countries; only 22 percent of its $4 billion sales are in the Netherlands. The company has a work force of approximately 26,000.

In the early 1990s, Hoogovens' financial situation deteriorated in the wake of the international crisis that hit the iron and steel industry (Table 12.2). The global iron and steel industry is extremely susceptible to economic crises and suffers from chronic overcapacity. Moreover, after the fall of the Iron Curtain in Europe, steel exports from Eastern European countries skyrocketed as they tried to earn foreign exchange, sometimes dumping their products on the European and international markets.

The first problem Hoogovens encountered as a result of its losses was in liquidity. In 1992, the company earned $320 million less than needed to continue day-to-day operations, make the necessary investments, and pay off loans. By economizing, cutting investments, and reducing working capital, Hoogovens managed to stay in business. The company sold several subsidiaries to raise cash and started to contract out services and non-core activities. The most important measure adopted against the liquidity problem was a severe cost reduction in the steel division, amounting to about $250 million. Among other measures, 2,500 people were dismissed.

Apart from the liquidity problem, Hoogovens also faced difficulties with regard to its equity position. The company, like all integrated steel producers, is a capital-intensive enterprise, with billions tied up in machinery. During the 1970s and 1980s, more and more investments were financed with loans. There was a slow but steady increase in the volume of interest payments as less capital was available for investments. To keep the "front end"—that is, the iron and steel production in blast furnaces and converters—in working order, large investments are needed on a more or less continuous basis. But even more money is needed for the "back end"—that is, rolling mills and coating lines. The all-important added value of this "back end" is achieved by processing raw steel into high-quality steel products. In the 1970s, Hoogovens had developed an imbalance in its productive capacity as a result of an unsuccessful merger with the German steel producer Hoesch. During the 1980s, capital expenditures were needed to correct this imbalance, and large sums had to be invested in rolling mills

TABLE 12.2
Hoogovens Steel Corporation:
Profit, Loss, and Investment Data, 1982–1993
(dollars)

Year	*Profit Loss (in millions)*	*Investment*
1982	–53.0	n.a.
1983	–19.0	267.5
1984	103.5	332.5
1985	139.5	511.5
1986	77.5	539.5
1987	– 38.0	381.0
1988	150.5	324.5
1989	375.5	303.0
1990	149.0	392.0
1991	–25.5	366.5
1992	–298.0	274.5
1993	–150.0 (est.)	n.a.

Note: n.a. = not available
Sources: Koninklijke Nederlandse Hoogovens 1993; Nieuwenhuys 1993

and coating lines. Those investments formed an integral part of the business strategy to produce more high-quality types of steel. Hoogovens, like almost all Western steel producers, hoped to reduce its dependence on the whims of the steel market by concentrating on those other products.

Due to the large losses—which were booked to the reserve—the equity ratio of the company decreased. It sank to a level well below 20 percent, whereas in the steel industry a level of 35 percent is considered safe. This low equity made the banks nervous.

Hoogovens started to make use of a $500 million credit the company had obtained from the ABN AMRO Bank and the Rabobank in 1984, but had not touched. In the first nine months of 1993, Hoogovens used $125 million of the credit without showing any sign of substantial recovery. Originally, this credit facility was to run until 1999, but from 1995 onward the amount was to be reduced by $100 million every year. It seems that the banks began to threaten Hoogovens with cutting off credit right away, however, unless the company improved its equity ratio.

Something had to be done, and Hoogovens turned to the government as its white knight. In fact, the Dutch government had been involved in Hoogovens ever since its formation in 1918, when both the national government and the city of Amsterdam were among the founders of the company.

In the wake of World War I, the government believed it absolutely essential for the Dutch economy to have a national steel industry. A steel producer could function as supplier to the shipbuilding, machine building, and textile industries. In the early 1980s, the public sector still held 28 percent of the company's shares, but this percentage declined to slightly more than 12 percent by the middle of 1993. The central government had been slowly decreasing the number of its shares, and the municipality of Amsterdam sold its 5 percent interest in early 1993.

The state became directly involved in preventing a worst-case scenario when the steel producer issued new shares in December 1993. Thanks to the Dutch government's participation to the tune of $50 million, the issue was a success. The government did not actually expand its financial stake in the enterprise but rather paid for the new shares with money received when Hoogovens redeemed a $70 million loan at the same time.

Although the issuance of new stock was not a sign of strength but one of weakness, forced upon Hoogovens by the banks, it unexpectedly turned out to be a considerable success, yielding more than $175 million. The company's equity ratio rose from 19 to 23 percent and the banks extended the company's line of credit by three years, to the year 2002. Hoogovens had gained some indispensable breathing space.

Despite this success, Hoogovens still does not have the financial ability to follow the investment plans as originally envisioned, and new investments are still on the back burner. The company suffers from persistent heavy pressure on aluminum and steel prices and the failure of European initiatives to reduce steel overproduction. Thus, the future is far from rosy.

Steel is probably the most political of all industrial products, and political involvement in the steel industry has always been very strong. In many countries, governments seek to exert influence over the steel industry, sometimes for defense-related reasons and sometimes for purely economic ones. Compared to other countries, government meddling has been relatively limited in the Netherlands. Direct and indirect Dutch subsidies to the steel industry were the lowest in Europe during the 1970s and 1980s. In general, the government tried to minimize its involvement in all industrial sectors in the 1980s, including the steel industry. However, in the early 1990s, most Western governments departed from this stance and became more involved. Interest groups are expected to pressure the Dutch government in the next few years to raise the level of its participation in Hoogovens. The company will need large sums of money, and the pressure on the government will be even greater than in 1993 since the banks are unlikely to be willing to lend money on the scale they did in the 1980s.

ACCOMMODATION POLITICS AND ECONOMIC POLICY

The picture of the relationship between government, business, and labor presented here may seem improbably harmonious to those used to more contentious environments. While the level of harmony should not be overstated, the tradition of cooperative, consensual decision making has deep roots in Dutch public affairs and has come to characterize the approach to most political issues.[1]

The essential feature of Dutch politics, in a word, is "accommodation" (Lijphart 1968). In order to understand this, we need to return briefly to the concept of pillarization. As mentioned, religion has traditionally been the most significant basis for political and social organization in the Netherlands ever since the struggle of Dutch Protestants against Spanish Roman Catholic rule in the sixteenth century. During the nineteenth century, this organization took on the pervasive form that would last, full-blown, into the 1960s and that prevails still in modified form. For more than a century, Dutch society was essentially organized into four pillars or blocs. These were the Catholics, which made up about 35 percent of the population; the orthodox Protestants, about 20 percent; and the secular bloc, which included liberal Protestants as well as those without religious affiliation. With regard to many aspects of political and social life, the latter group was further divided into a lower/lower-middle class socialist bloc, and a middle- and upper-class liberal bloc. Until the 1960s, these four blocs constituted the main organizing principle of Dutch society. Catholics would go to Catholic schools and universities, read Catholic newspapers, listen to Catholic radio and television, belong to Catholic sports clubs, labor unions, or employer federations, and, of course, vote for the Catholic party. The same was true for Protestants, although they had several smaller political parties to choose from, while the socialists and liberals respectively had their own parties, newspapers, and other organizations. Not surprisingly, people also socialized primarily with those from their own bloc. Although geographically the blocs were not segregated, there were different levels of concentration in different parts of the country. Many companies and several financial institutions were clearly seen as belonging to one or the other of the blocs.

In the course of the secularization in the 1960s, the system was modified. Catholic and major Protestant political parties merged, as did all the labor unions and several newspapers. Many other organizations lost some of their explicitly religious identity.

How does a society divided so profoundly maintain any form of cohesion? Most political analysts would argue that such parallel cleavages, where political divisions are not offset by cross-cutting religious or social lines, are a recipe for certain disaster. The only modification to the parallel cleavages in the Netherlands is the class system. While the secular bloc is divided along class lines, the Catholic and Protestant blocs contain all classes, creating some countervailing pressure to centrifugal forces. But this fact alone is not sufficient to explain the relatively high level of political stability.

Rather, the stability derives from a decision-making process that has been labeled the "politics of accommodation" (Lijphart 1968). Developed in the course of the three main struggles of nineteenth-century politics over school funding, voting rights, and unionization, the politics of accommodation refers to a set of practices and beliefs that makes it possible to arrive at decisions within the context of widely differing belief systems. The primary characteristic of the politics of accommodation is the shared belief in the political system and the importance of maintaining it. This is reflected in frequent agreement to disagree and not to impose the will of one party on another. This belief is particularly strong among bloc leaders, who play a key role in reaching accommodation. Bloc leaders also accept the importance of secrecy and confidentiality in negotiations.

Other key characteristics are the participation of all blocs in most decisions and proportionality in most decisions, rather than rule by majority. Thus, in the distribution funding for schools, government jobs, or mayoralties, the blocs are rewarded in rough proportion to their percentage of the vote. Since voting patterns are relatively stable, this presents no cause for major upheavals. Involving the leadership of all blocs in confidential negotiations has become an institutionalized practice in many deliberative organizations outside the Dutch Parliament, which does not lend itself well to private negotiation.

The most important of these organizations is the Social–Economic Council. Its membership consists of equal numbers of representatives from the labor unions, the employer associations, and experts appointed by the cabinet (government ministers). Each of these categories has its own proportionality; for instance, the employers' representatives are mostly chosen by the various associations of large employers, farmers, and retailers. The members appointed by the cabinet are usually individual experts, but they, too, are chosen to give equal representation to the various parties. The cabinet is required to seek the council's advice on all proposed economic and social laws and regulations. The council may also voluntarily offer advice to the government. Since the council members are generally the top leaders of the blocs, any compromise worked out among them essentially constitutes national policy.

This same pattern of accommodation, both among blocs and among employers and unions, is repeated in deliberative bodies of individual industries. Even though the original religious identifications have largely disappeared or lost their strength, the political model they gave rise to still exists. Combined with the relatively prominent role of the public sector in the Dutch economy (the government budget equals more than 50 percent of the Gross National Product), this creates a situation in which public-private cooperation is the rule and norm. Furthermore, potential problems are identified early on and can be responded to relatively quickly rather than after a crisis has already developed. Hoogovens presents one case in point.

ISSUES AND PERSPECTIVES

Financing business, which was a dominant policy issue in the early 1980s, is no longer seen as a major problem in the Netherlands. Profitability has been restored, allowing more internal financing; and enough special institutions now exist to meet specific demands. Some needs of special groups, early start-up firms or firms owned by women are still not being met completely. But these are not perceived as central concerns by policymakers.

The official government statement regarding economic policy in the 1990s reflects this outlook. Out of forty-four specific policy initiatives, *one* deals with business finance![2] Its main focus is on improving the business climate, on issues of competition and cooperation, and on innovation in a worldwide economy. Indeed, its title, perhaps unconsciously recalling and expanding Hugo Grotius's work of nearly four centuries earlier, is "Economy with Open Borders" (Andriessen 1990). The statement emphasizes the need to control government expenditures, increase labor-force participation, maintain and improve physical infrastructure, and create strategic alliances without destroying competition. It also institutes a wide range of programs for technology development and application. The policies seek to facilitate the requisite increase in scale of operations, enabling even more firms to compete worldwide in high-end technology.

Given this policy focus, the activities of medium-sized companies, as well as innovation generally, are likely to be of greatest concern. The financing needs for existing companies are obviously well taken care of, by both their internal capacity and the additional public programs. In particular, a well-functioning capital market and banking system allow firms to obtain sufficient financial means to grow and expand. The arena most likely in need of continuing attention is that of innovation, where the problem of "picking winners" inevitably continues to confound even the private-sector experts, not to mention government agencies.

In the near future, a new issue will also arise as a result of cutbacks in public spending. The central government has proposed to reduce financial aid to SMEs, including the guarantee programs. So far, the traditionally strong pillar-oriented representative agencies have prevented this from happening. However, one may expect that in the end some reductions in public involvement may be a logical result of the greater involvement of the market sector. Similar to most other service industries, banks are continually expanding their range of products and services to a wider market segment. More national and international competition will result in an even more market-oriented financial sector.

Business financing may not be the major issue as far as economic development is concerned, however. There already is a far-flung network of institutions providing support, training, and financing. Under these conditions, entrepreneurship has probably been constrained more by other factors, most notably high business taxes, rules and regulations regarding entry and market proliferation, and laws and practices that make the Dutch labor market one of the least flexible in Europe.

Notwithstanding "deregulation" and "privatization," the main challenge is flexibility in the business environment. The buzzword in government is "public–private partnership," which certainly marks a movement in the right direction. In a way, such a partnership is a reference to corporatism in new clothes and rests on a firm degree of political consensus. This in itself is an important feature because this consensus creates a stable business climate. In common with other Western European countries, the Netherlands faces an enormous challenge to maintain this political consensus in the face of pressures to adopt a U.S.-style, worldwide, market-driven system. To the extent that these pressures lead to diminution of the social welfare system and of protection for workers, the consensus becomes more difficult to preserve. Already, distrust of government is perceived to be at record high levels (Knapen 1993). The challenge, however, is clearly not new and should continue to be met successfully through the peculiar combination of entrepreneurship and government control that has characterized the Netherlands for the last 400 years.

Notes

1. The following section is indebted to Lijphart (1968) and his excellent analysis of the Dutch politics of accommodation.
2. An extra $25 million has been allocated to the Technical Development Credit program to allow medium-sized and large companies to finance large, high-risk technology development projects (Andriessen 1990, 22).

REFERENCES

Andriessen, J. E. 1990. Economie met open grenzen. *Tweede Kamer* 21 670, no. 1–2. The Hague: Staatsdrukkery.

Bosman, H. W. J. 1989. *Het Nederlandse bankwezen*. Amsterdam: NIBE.

Centraal Planbureau. 1989. *Nederland en Europa '92*. The Hague: Werkdocument No. 28.

de Jong, M. W. 1987a. Small firm policies and job generation in the Netherlands. In D. J. Storey and S. G. Johnson, eds., *Job creation in small and medium-sized enterprises*. Luxembourg: European Communities.

_____. 1987b. International seminar on the financing of local employment initiatives and other new businesses—background paper. Amsterdam. Conference paper.

Fase, M. M. G., P. Kramer, and W. C. Boeschoten. 1990. *Morkmon II, het DNB kwartaalmodel voor Nederland*. Amsterdam: DNB Monetaire Monografieen 11, NIBE.

Jacobs, D., P. Boekholt, and W. Zegveld. 1990. *De economische kracht van Nederland*. The Hague: SMO-Boek.

Knapen, Ben. 1993. De situatie is ernstig, niet hopeloos. *NRC Handelsblad* (Weekeditie) 47, 39 (December 28): 11.

Koninklijke Nederlandsche Hoogovens en Staalfabrieken. 1993. *Jaarverslag (Annual Report)*. Ijmuiden: Hoogovens Groep.

Lijphart, Arend. 1968. *The politics of accommodation: pluralism and democracy in the Netherlands*. Berkeley: University of California Press.

Morreau, J. G. and J. Ypma. 1986. *Geld, financiele instellingen en monetair beleid*. Groningen: Wolters-Noordhof.

Nieuwenhuys, W. 1993. *Concern in beweging: vijfenzeventig jaar Hoogovens*. Ijmuiden: Hoogovens Groep.

Scholtens, L. J. R. 1991. *Ontwikkelingen en activiteiten van de Nederlandse overheidsbanken*. Amsterdam: NIBE Katern 18.

van den Tempel, Frank. 1983. *Financiering gezocht!* Amsterdam: Management Pocketboek, NUGI.

Vries, J. de. 1968. *Hoogovens Ijmuiden 1918–1968: ontstaan en groei van een basisindustrie*. Ijmuiden: Koninklijke Nederlandse Hoogovens en Staalfabrieken NV.

Zijderveld, A. C. 1992. Verzuiling, verzorging en maatschappelijke vitaliteit. In B. M. S. van Praag, P. J. Vos, and H. P. van Dalen, eds., *De toekomst van de welvaartsstaat*. Leiden and Antwerpen: Preadviezen van de Koninklijke Vereniging Voor de Staathuishoudkunde, Stenfert Kroese.