Governing with Multinationals

Dutch smartness in coping with home-based and host multinationals

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1. INTRODUCTION

Most industrialised countries face a growing internationalisation of their economy, which is supposed to put the margins for policy making by national governments under pressure. The dual process of internationalisation and shrinking policy margins, however, is not so new and unique as it is often presented. Particularly the smaller and open economies of Europe faced high export and import penetration ratios for a long period, whilst this did not prevent their national governments – often in collaboration with other societal groups – to create a welfare state, along with considerable institutionalised influence exerted by the national government over the economy. Small countries like Denmark, Finland, the Netherlands, Norway and Sweden are the clearest examples of so called "institutional welfare" states (Cf. Esping-Andersen, 1990:74; Ahonen, Salminen, 1997: 96). The discussion of the origins and the sustainability of the welfare states in smaller countries, however, has rarely adressed the position of multinationals in the economy. This is understandable for the Nordic welfare states (and Austria): they hardly faced any inroads of foreign multinationals in their economy, nor where they confronted with large home-based multinationals (Cf. Table 1).

Sweden (and Switzerland) developed an institutionalised welfare system in concerted action with a number of strong home-based multinationals. The discussion on the sustainability of the welfare state in Belgium, Canada and Ireland was spurred by the awareness that the economy had been dominated by foreign-owned multinationals. The Netherlands represents the only smaller welfare state that has developed policies faced with large numbers of home-based multinationals *as well as* a high impact of foreign-owned multinationals on the economy. The example of the Netherlands therefore could be of considerable relevance to all the other smaller welfare states: with the growing internationalisation of their economies, they will either be faced with a growing number of own multinationals, with grow-

Table 1. Multinationals and Small Countries: different governance regimes

		HOST-BASED MULTINATIONALS	
		SMALL IMPACT*	LARGE IMPACT**
HOME-BASED MULTINATIONALS	SMALL IMPACT/ SMALL NUMBER	Finland Denmark Norway	Belgium Ireland Canada
	LARGE IMPACT/ LARGE NUMBER	Sweden# Switzerland#	Netherlands

Source: based on OECD, 1997: 100ff
** more than 40% of employment in hands of host-based multinationals
* less than 10% of employment in hands of host-based multinationals
# less than 20% of employment in the hands of host-based multinationals

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ing inroads of foreign firms or with both. In either case, the Dutch experience in governance (together) with these multinationals illustrates the dilemmas *and* the opportunities for governments in the smaller economies.

The Dutch example elucidates how a government of a small country can develop a particular kind of "smartness" in coping with multinationals. The article will ask whether that particular smartness can be sustained under changing circumstances. The first section assesses what can be understood by smart governance in a small country. This section underscores the function of corporatism in an open economy. Next, the degree of 'smartness' of consecutive Dutch governments in four important phases in Dutch economic history is elaborated. Thirdly, recent challenges to the Dutch corporatist model are scrutinised: foreign entries, further internationalisation of the Dutch multinationals, and processes of further European integration. Will they change the room of manoeuvre to such an extent that the effect of government policies vis-à-vis multinationals and its effectiveness in balancing public and private interests will become more limited? This contribution ends with an assessment of leading policy challenges that the Dutch welfare state is facing – assuming it intends to sustain its historical 'smartness'.

2. COPING WITH SMALLNESS

The Netherlands is a small country with a remarkable number of sizeable home-based multinationals. Dutch multinationals have undoubtedly been responsible for pushing the Netherlands up the rankings of technologically sophisticated nations and underlay its strong trade orientation and dependence. Being the home-base for many large firms, however, poses particular policy making problems. In addition, the policy margins in a small and open economy are smaller than the policy margins of a large and often more closed economy. At the same time, the Netherlands has had to cope with firms that dominate large shares of domestic employment and research and development. The situation is further aggravated by the fact that Dutch multinationals are amongst the most internationalised firms in the world, i.e., the largest of these firms have more employees, assets and sales abroad than at home (see e.g., UNCTAD, 1997; Ruigrok and Van Tulder, 1995). Thus, these small policy margins are under constant pressure, because the most important players in the economy have the bulk of their interest elsewhere in the world.

Political economists refer to this situation as the "small country dilemma": given a process of internationalisation, smaller countries are on the one hand rather powerless to influence that process itself, whereas on the other hand they are hit the hardest by international developments (Höll, 1983: 34). Others, in considering the position of these economies in international technological developments, have referred to this as a process of "small country squeeze" (Kristensen and Levinson, 1983). Large and economically strong societies have the opportunity to 'internationalise domestic structures' to a certain extent, whereas the smaller economies are largely confined to an 'internalisation of international structures'. What this means is that while the sovereignty of a small country in theory is large, in practice this sovereignty is often limited by a number of non-legal political, economic and even practical factors (Van Tulder, 1989: 12).

Notwithstanding the 'small country dilemma' or 'squeeze', consecutive Dutch governments have been particularly creative and successful in leveraging their limited policy margins to their extreme, and match the private interests of international firms with longer-term domestic public interests. As a result, the Dutch economy is amongst the most competitive in the world, while at the same time generating income levels that are high enough to sustain a welfare state. In this context Cameron (1978) has pointed at the interesting (statistically significant) causation that the large involvement of the state in the smaller countries should be considered the logical consequence to the openness of the economy and the higher concentration of employment in production with a few large (multinational) companies. The welfare state can thus be considered the logical complement to the process of internationalisation and an input to a sustained viability and competitiveness of the economy.

Policy formulation and implementation in the Netherlands for the past four centuries, never developed in isolation. Trade and industrial policies in particular have materialized in close consultation with a number of big and influential multinational corporations, of which the home-based multinationals remained remarkably "Dutch" in their management approach, financial sources, and location of research and development. The latter firms stayed clearly embedded in the Dutch economy and culture. Dutch governments, multinational firms and trade unions have always mixed-up policy and business strategy in a very pragmatic manner. This typical form of Dutch pragmatism has been dubbed by some as *interactive governance* (cf. Kooiman, 1993), *corporatism* (Visser and Hemerijck, 1997), an *associative export oriented* model (Senghaas, 1982), or most recently as the "*polder model*".

In comparing a number of smaller countries, Katzenstein (1985) typified the Dutch model (along with the Belgian, the Canadian and the Swiss) as "*company induced*", clearly putting the emphasis of policy form(ul)ation with representing the interests of companies. However, in judging the success of the Dutch corporatist model, many have also stressed the often constructive role the trade unions have been playing in particular through a low strike proneness and responsible wage claims, which were linked to the international competitiveness of the country. Small countries in general tend to have stronger trade unions, and a higher propensity towards corporatist bargaining institutions. The Dutch government has often acted as a referee in conflicts between employers and employees, which in practise reinforced its bargaining position vis-a-vis both parties.

An important result of the postwar corporatist compromise in the Netherlands has been the linkage of high productivity with relatively high wages, creating the foundations not only for the success of the Dutch model as an international powerhouse, but also as a welfare state. In the approach of the French regulation theory the coupling of productivity with wages is also referred to as a "productivity coalition" (Cf. Ruigrok and Van Tulder, 1995: 37). It can overcome inherent control dilemmas in capitalist production and contribute to virtuous circles of economic growth/welfare. In the Netherlands, the tripartite bargaining platform of corporatism was predominantly organised *at a national level*: with centralised trade union (confederations), centralised employers organisations and a central state.

The Dutch model of governance over time has shown a considerable degree of effectiveness, demonstrated by the success of the Dutch economy over a prolonged period. Being a small, but economically successful power, in a world dominated by big countries has required a substantial degree of 'smartness' in state policy formulation and implementation, which can be defined as an optimal utilisation of its small policy margins (Katzenstein, 1985; Voorhoeve, 1979). To be perfectly lucid about the term 'smartness' used in this contribution: it should be considered without any qualitative overtones.[2]

3. PHASES OF "SMART" GOVERNANCE

In Dutch economic history four phases of 'smart' governance can be distinguished. Firstly, the *Golden Age* in the seventeenth century, in which Dutch trading firms 'ruled the waves' and the Dutch economy achieved hegemonic status. A second phase began at the end of the nineteenth century during which period many of the leading Dutch industrial multinationals were established. A third phase started in the 1950s and 1960s, in which the Netherlands was amongst the six founding members of the first stages of European economic integration. Finally, in the 1980s the Dutch government – again in close consultation with some Dutch multinationals – played an important role in overcoming *Euro-sclerosis* which had threatened to strangle further initiatives in the economic integration of Europe.These four periods embody 'smart' governance in striking a balance between the interests of particular multinationals and a national policy making elite. A further elaboration of these phases should, it is hoped, illustrate the wide range of policy instruments used by the Netherlands over time. This short historical overview also shows that the Dutch smartness often linked an appeal to high international moral values although in practice policies were less altruistic.

The *first* – and undisputedly most successful – phase of smart governance was the age of Dutch "hegemonic power" (Cf. Wallerstein, 1980). The Netherlands became the leading economic power as well as the breeding ground for many institutional innovations that still facilitate the operational aspects of international business today, such as the stock exchange. Policy formulation and implementation always implied a close scrutiny of public and private interests in which the distinction between rulers and business people was often absent. Under these circumstances,

[2] An assessment of the nature of the success of the Dutch Golden Age can illustrate this point. The early phase of Dutch international trade dominance can be considered 'smart' in a more or less neutral connotation. But the smartness of the Dutch state and its multinational trading companies clearly received more vicious treats with the further development of the very profitable "triangular trade". One has to remember that one of the legs of the 'smart' trade model consisted of slave trade between Africa and the Americas.

the Dutch East India company, founded in 1602 as a state-owned company, became the first true multinational corporation (Cf. Jones, 1996). The scholar Hugo Grotius, an employee of the Dutch East India company, set forth the legal principles of International Public Law. Grotius contributed to opening up markets and trading routes for the Dutch against the domination of the Spaniards and the Portuguese in particular. Trade policy (self interest) thus got moulded in the form of International Public Law (universal interests), which consequently was also used with considerable pragmatism. Voorhoeve adequately observes for instance that the elevated principles of Grotius "were not always applied by the Dutch themselves when vital interests were at stake" (Voorhoeve, 1979: 24).

The *second* phase of smart Dutch governance can be situated in the late nineteenth century. The Dutch economy was in the middle of catching-up with the industrial revolution that had spread around most other European countries, with the exception of the low countries. Officially the Dutch still favoured a regime of open international trade. However, while the Dutch adopted fewer visible trade barriers than other countries, instead they used non-tariff barriers to their advantage. In particular the Dutch refusal in the 1869–1910 period to comply with international patenting law has contributed to favourable circumstances for the "own" multinationals. Due to this refusal, Dutch start-up companies could copy foreign technology without paying remuneration to the inventor. Companies now listed in the Fortune 500 ranking which 'illegally' copied in this way include Philips – Anton Philips started his firm on copied light-bulb technology of Thomas Edison (General Electric). Simon van den Bergh (one of the founders of Unilever), together with seventy other Dutch margarine producers, freely copied the French margarine processing technology of Hippolyte Mège Mouriès (Wennekes, 1993:38). By the end of the 19th and the beginning of the 20th Century Royal Dutch/Shell used the Dutch part of its firm for the more technical activities – such as exploration, drilling and refining (setting major technical laboratoria in the country), whereas the British part accounted for the commercial activities – such as transport and marketing (Luiten van Zanden, 1997: 52/53). All three firms still count the activities they built up behind smart non-tariff barriers among their core businesses.

The *third* phase of smart Dutch governance matured after World War II. Although the Netherlands had been amongst the founding fathers of consecutive phases of European economic political and economic integration initiatives, Dutch governments have played a less prominent role at the political forefront of these initiatives than other continental governments. The effectiveness of Dutch policy involvement in the European integration process was based on silent diplomacy rather than on overt support. The Dutch faced a balancing act with regards their business constituencies: they had to balance the clear continental interests of part of the Dutch business community (the export dependence on Germany for instance) with the prevailing North-American orientation of another important part of Dutch multinational business. The situation of other European countries varied between these two countervailing interests. France, Germany and Italy had more clear continental European interests and thus their bias was often more explicitly in that direction, while the United Kingdom had stronger transatlantic interests, which partly explains their more fundamental hesitation to engage in European initiatives. The particular shape the early phase of European integration took can be considered to represent an adequate compromise between the two orientations of Dutch (multinational) business: a European market was created as a compensation for the loss of its colonial empire and as a means of managing the crisis in its resource-based multinationals in the coal and steel industries.

The successful rejuvenation of the European integration trajectory in the 1980s which culminated in the Treaty of Maastricht can be considered the most recent, *fourth*, phase of smart Dutch policy governance. The evolution of the European Economic Community in the 1973–1986 period from the original six to twelve member states had put a heavy burden on the effectiveness of the European policy making arena. At the beginning of the 1980s, a feeling of *Eurosclerosis* was spreading throughout Europe. The process of further European integration had almost come to a halt. Direct and indirect trade barriers between the European member states remained substantial. Unlike the intentions of the Treaty of Rome, the mobility of labour and capital remained low, and the harmonisation of technical standards was still an illusion. The costs of doing business within Europe therefore stayed high. This situation was particularly harmful for Dutch multinationals that had internationalised relatively early within Europe and had developed a *multi-domestic* strategy to overcome these trade barriers. While the multi-domestic strategy makes it more difficult to profit from economies of scale, co-ordination problems between the various national organisations lowers the firm's strategic flexibility.

In the 1970s and 1980s multi-domestic oriented multinationals became confronted in particular with the challenge of Japanese firms which competed on the basis of economies of scale, and export-oriented strategies in high-tech consumer products. Dutch multinationals took an active stance to break the apathy of *Euro-sclerosis*. In particular Philips and its president Wisse Dekker were actively pursuing a large number of initiatives to step up further European integration. Philips was hit hardest by the international developments. The firm – in close consultation with the Dutch government – constructed the foundation for the European Roundtable of Industrialists (ERT). The ERT has been very influential in pressing for further European integration. The Presidents of Unilever and Shell have also been amongst the most active members of the ERT. At the same time Philips led the initiative to create European technological collaboration projects. The 1983 ESPRIT project facilitated a large number of pre-competitive collaborative research projects in Europe which subsequently led to an even larger number of complementing projects all meant to strengthen the competitive position of European firms. Dutch firms figure prominently in many of these initiatives, and as a consequence the Netherlands is also well represented in the administration and regulation of these initiatives.

Perhaps most important, however, has been the initiative of Philips president Dekker to launch a plan called "Europe-1990; An Agenda for Action". In this plan a design for further integration – for example via harmonisation of standards and procurement policies – and the breakdown of customs procedures was presented. The Dutch government actively lobbied for the adoption of this plan by the other European governments. The effectiveness of the Dutch approach proved very high: many elements of the Philips' scheme consequently reappeared in the June 1985 White Paper 'Completing the Internal Market' by Commissioner Lord Cockfield – the most important departure of the original scheme being that the target year became 1992 instead of 1990. The Philips/Dutch government initiative thus became the bandwagon on which the Single European Act and the famous "1992" trajectory has been based, finally leading to the Treaty of Maastricht. *Euro-sceloris* was thus superseded by Europtimism and the Dutch played a catalytic role in facilitating this change of mood.

4. THE DUTCH MODEL FACING DOMINANT RECENT STRATEGIES OF MULTINATIONALS

Elsewhere the restructuring strategies of the largest Dutch industrial and service oriented multinationals in the 1985–1995 period have been inventorised in more detail (Van Tulder and Ruigrok, 1997). It is clear that the Dutch multinationals have profited from the political initiatives undertaken by the Dutch governments in the direction of Europe. The 1992 trajectory facilitated their regional restructuring strategies. At the same time, other Dutch firms continued to pursue a North-American strategy. During the 1990s, some firms have accelerated the implementation of the latter strategies. At the same time, the Dutch economy became further invaded by foreign-owned companies. This section will consider these developments in order to outline the circumstances under which the Dutch policy model is entering a next phase of governance, which is challenging its historical smartness.

A European orientation: regional restructuring strategies

The Dutch companies who have internationalised the most are Philips, Unilever, Shell, Akzo, and KNP-BT. At the moment they are mostly trying to regroup regionally within Europe. This is partly made possible by the formation of the European Union, a process on which especially these companies have strongly insisted. Within the European region, production facilities are being recentralised so that the whole European market can be served from one location. These companies strive for a "regional division of labour" and less for a "global" division of labour. This restructuring process has put considerable pressure on all parties concerned, including governments, suppliers and employees. Because of this strategy, the threat of curtailment of existing investment has become a part of the bargaining process where governments and trade unions who meet the wishes of the big company (increased flexibility, sharper supply conditions, deregulation, wage modification, regional support, industrial politics) are the ones who have the bigger chance of keeping or getting the higher value-adding parts of the company inside their borders.

An example is the restructuring strategy of Unilever. In 1994 Unilever reserved 1372 million Guilders for a period of three years for the restructuring of its production. While 73% of the annual turnover is generated in these two world regions, 94% of the restructuring costs were directed to these regions (57% to Europe, 37% to North America). The restructuring will result in the closing down of a considerable number of factories, meaning a loss of 7500 jobs, of which a great part will be in Europe (Unilever, Annual Report 1993, Financial Times 23 February 1994). Unilever's restructuring policy will therefore put all the national governments and trade unions in the involved countries under permanent pressure.

Similar restructuring strategies by other Dutch MNEs tremendously increased the share of Dutch investment in the EU over the period of 1985 to 1994. Until 1990, the investment flow to other European countries accounted for almost half of the foreign investments. Since then, this share has increased. While Japanese companies mainly invested in Europe *before* 1992 in the fear of a "Fortress Europe", Dutch companies seem to put the emphasis of their investments in Europe *after* 1992. The creation and utilisation of economies of scale are an important consideration. It can be expected that this trend will persevere for the time being. The role of Eastern Europe as a targeted region for investments will probably stay restricted – although relatively speaking there is considerable growth but starting from a very low investment level. The current situation would suggest that, Eastern Europe does not play a significant role in the strategic plan of most of the large Dutch companies, neither as a potential market, nor as a supplier. Although most of Dutch MNEs are indeed present in Central and Eastern Europe, the region still has low priority when it comes to their generic restructuring plans.

Dutch banks and insurance companies – some of which rank amongst the Fortune 500 companies – have also primarily been interested in Europe and the United States. In Asia, Singapore and Japan have been the focus of attention, but these markets only make up 10% of the turnover. Even the most internationalised Dutch bank (ABN-AMRO) rapidly withdrew from its goal of achieving "global status" in the course of the 1990s. In 1995 the three largest Dutch banks had more than 90% of their employees located in Europe, although the share of turnover recovered abroad is much bigger.

Overt support for sustaining the Dutch national corporatist model under these circumstances comes from the least internationalised of the three largest banks, the Rabobank. This bank in many respects represents a micro-cosm of Dutch corporatism and is also organised as a 'corporative'. The management approach of the Rabobank (ranked no. 297 in the 1995 Fortune 500) is still Dutch-centred. It can be expected that especially the Rabobank will remain most active in the support and (re)formulation of domestic instruments for a more offensive industry and technology policy.

North American orientation of some home-based multinationals

In terms of their internationalisation strategies, the US is the second most important market for Dutch firms. Approximately 30% of the total investments of the Netherlands are concentrated in the US. Looked at in absolute terms, Dutch companies have been the second largest investors in the US. Extrapolating from the strategy of Unilever, Vendex and Ahold it would seem that the majority of the investments are focussed on rapid entry, often through takeovers and mergers and acquisitions. Dutch companies worldwide take the sixth place in the field of takeovers, mergers and joint ventures (Ministry of Economic Affairs, 1996:17). In the period of 1986–1992, only 30 to 35% was focussed on greenfield investments. By the mid-1990s, the portion of greenfield investments had even decreased to 10–15% of all international investments (Centraal Plan Bureau, 1996).

In services, the leading Dutch insurance company – Aegon (no. 307 in the 1995 Fortune 500 ranking) has clearly aimed at the United States' market, next to its European strategy, with 31% of its turnover achieved in the USA in 1995. The ABN-Amro Bank is also developing the American market in particularly – albeit using a more gradual strategy. Far trailing the European and American interests are other world regions.

The Netherlands as an attractive host to foreign-owned multinationals

Ever since the 1950s when American firms started to develop activities in Europe and the Netherlands, the Dutch economy has remained a prominent destination for inward FDI. The Neth-

Table 2. Foreign Investments in Western Europe: The Dutch Score for 1991–1994*

	number of establishements		Employment	
	relative (%#)	ranking +	relative (%#)	ranking +
European headquarters				
■ American multinationals	30%		24%	2
■ Japanese multinationals	32%		42%	1
Production location				
■ American multinationals	10%	4	7%	5
■ Japanese multinationals	11%	4	8%	3
■ Scandinavian multinationals	23%	2	11%	3
R&D centres				
■ American multinationals	12%	2	8%	3
■ Japanse multinationals	11%	3	3%	5
European distribution centres				
■ American multinationals	46%		48%	1
■ Japanese multinationals	52%		57%	1
Call centres:				
■ American multinationals	41%		50%	
■ Japanese multinationals				
Total	22%		12%	

source: Buck consultants International, March 1995

* survey includes seven Western-European countries: Germany, UK, France, Netherlands, Belgium, Luxemburg and Ireland

relative number of establishments indicates percentage of all Western-European establishments located in the Netherlands

+ ranking is the place occupied by the Netherlands as prefered location for the indicated activity

erlands was ranked seventh worldwide since 1980 on the list of receiving FDI. Next to transatlantic and – later – Japanese investments, since the mid-1980s a strong interest by European firms in investing in the Netherlands can be observed. This involves primarily companies from Belgium, The UK and Switzerland. The share of EU firms in the total investments in the Netherlands has grown from 33% to 43% between 1984 and 1993, with a subsequent decline in the (relatively high) share of the US (De Nederlandsche Bank, 1994; Ministry of Economic Affairs 20).

Not discouraged by the small size of the home market or the supposed high-wages, foreign-owned firms invested heavily in the country. Based on a survey conducted by the company Buck Consultants International for the Ministry of Economic Affairs on the motives of non-EU companies to invest in The Netherlands, it would seem that the Netherlands is the preferred location when selecting a site for European headquarters as well as distribution (Table 2). From the point of view of the other European countries, the Netherlands is also seen as an attractive location for the establishment of production facilities. It seems that this is especially true for companies from other small countries that are looking for comparable institutional conditions – note in particular the interest in The Netherlands as production location for Scandinavian companies. Finally, the distribution function of the Dutch economy – and its international orientation – has made it the prefered location for international call centres of American multinationals. Call centres will become important points of coordination in the future for other companies as well.

One of the most obvious explanations for this investment behaviour is of course the transit function of the Netherlands, the excellent infrastructure and the (still) highly educated and (still) internationally orientated working population. The strategic role of the port of Rotterdam and Schiphol Airport in particular is still of great importance. According to a survey of merchants and transporters from the Far East, Rotterdam has been the best European sea port (before Hamburg and Antwerp), while Schiphol Airport is the best European airport (before Frankfurt and London-Heathrow) (*Cargo New Asia* quoted in De Volkskrant, 26 March 1996). Wage levels are not necessarily an important consideration for investments that are primarily triggered by the transit function of the Dutch economy and the entrance provided to the wealthy European continental economy.

It is important to note that in the post-war period, foreign-owned firms substantially contributed to employment – and thereby to the continuation of the Dutch corporatist model. 15% of the growth of industrial employment in the 1950–1963 period was accounted for by foreign-owned companies. In the 1964–1972 period these companies accomplished a growth of 30.000 jobs, while the rest of the Dutch companies shed of more than 83.000 jobs (Atzema and Wever, 1994: 171). As a result of these inroads, the Netherlands has become a small country with approximately 40% of employment and 25% of production in manufacturing industry in the hands of foreign affiliates in 1993 (OECD, 1997:100; cf. Table 1).

One could argue that the Dutch economy in the postwar period has become penetrated by foreign multinationals, *precisely because* of the close consultation between the government, trade unions and the home-based multinationals, as well as its important role as a transit point in the European economy. The Netherlands is considered by many firms a tax haven. Consequently the country is being chosen to play host to some company headquarters. The latter blurs the official (de-jure) distinction between foreign-owned and home-based multinationals. In practise, however, it should be noted that these firms can not really be considered Dutch. For instance, French telecom equipment producer Alcatel has its headquarters in The Hague. The Netherlands also houses the headquarters of the (actually) Swedish firm IKEA. Additionally, the European headquarters of many Japanese firms moved to the Netherlands.

Firms locating in the Netherlands to profit from the transport function of the country in general can be considered to have had a positive influence on the Dutch productivity model. The pressure for lowering wages came more from the home-based multinationals competing on world product markets.

5. THE RESULT OF RESTRUCTURING: A MULTINATIONAL COUNTRY WITH STRUCTURAL DEFICIENCIES

The Dutch society nowadays is faced with three major types of strategies of multinational corporations:

- Regional restructuring strategies of important home-based multinationals that have traditionally focussed on the European internal market and are taking further steps towards European integration in the direction of Central and Eastern Europe;
- The Atlantic orientation of some home-based multinationals that are oriented more towards the United States than towards continental Europe;
- The influence of foreign-owned multinationals that utilise the Netherlands primarily as an entry point to the European Union.

The parallel restructuring activities originating in these strategies have created a unique governance challenge to the Dutch as compared to other small countries (Cf. OECD, 1997: 100). Belgium, Ireland, Canada are small countries with large foreign-owned multinationals (with more than 50% of employment in the hands of these firms). Finland, Denmark and Norway are small countries with a limited number of own multinationals, but with small inroads of foreign-multinationals in their economy (less than 10% of employment). Sweden, Switzerland represent small countries with large home-based multinationals but with relatively low impact of foreign-owned multinationals (lower than 20% of employment). The Netherlands seems to be the only important small country that has a large number of sizable home-based *as well as* sizable foreign-owned multinationals present in the national economy.

The multinationalisation of the Dutch economy, on balance, remains outward oriented. The "black hole of the Dutch economy" as it is called by some means that outward-oriented FDI for decades outvalues inward-oriented FDI. It goes without saying that the Dutch corporatist compromise (productivity coalition) is under continuous and heavy pressure due to this hole: productive investment capacity leaks away to other countries, without appropriate compensation by leakages from other countries to the Netherlands. The productivity coalition of the Dutch governance model thus remains in a particularly weak equilibrium.

The unique multinational structure of the Dutch economy, has also contributed to a number of structural deficiencies, that have become increasingly apparent in the course of the 1990s. Centuries of involvement of (vertically integrated) multinationals in the Dutch governance structure have had a major impact on the structural outlook of the economy. Increasingly, observers of the Dutch economy are coming to the conclusion that the Dutch economy suffers from a *lack of dynamism*, particularly in the area of smaller and medium sized firms. The following observations underscore this:

- clusters of economic activities do not sufficiently overlap, hampering the build-up of an efficient supply network in many areas (Jacobs et al, 1990; Beije and Nuys, 1995);
- smaller start-up companies face difficulties for further growth, because of an over dependence on one big customer or supplier (Henniger et al, 1993);

But perhaps most important, at a time that technological innovation is supposed to contribute decisively to a country's competitive position, the Dutch economy increasingly suffers from a lack of dynamism in its Research and Development (R&D) infrastructure. Dutch R&D investments on the one hand rely heavily on public sector R&D (Ministry of Economic Affairs, 1995: 31), while on the other hand it is dominated by a few home-based multinationals (Van Tulder, 1991: 287). These multinationals have clearly had a close relation with the public R&D sector, which has made the public sector less open to usage by smaller and medium sized firms, as well as by foreign firms. As a consequence, private sector spending on R&D has not been very high – except for a limited number of home-based multinationals – and the attractiveness of the Netherlands to have foreign-funded R&D is low as well. The Netherlands has the smallest share of foreign-funded R&D of the European countries. It is the only country of a sample of six countries (incl. USA, Japan, Germany, Britain and Denmark) in which the share of foreign-funded R&D in the 1985–1992 period substantially *declined* (Ministry of Economic Affairs, 1995: 36).

The innovation policy problem for the Netherlands in the 1990s has become that private sector R&D spending has remained low and is even falling due to the decisions of the core firms to either lower R&D and/or relocate part of R&D investments. The R&D intensity of the Dutch high-tech industry thus is likely to remain lower compared to many other countries (Ministry of Economic Affairs, 1995: 36). The Dutch economy suffers from lacking product and process innovations which is bound to affect the competitive position of its industry in the longer run (Kleinknecht and Ter Wengel, 1996).

6. POLICY CHALLENGES FOR (RE)NEW(ED) SMART DUTCH SOLUTION

Witnessing some of these structural deficiencies, can the Dutch add a fifth phase of 'smart' domestic governance to their historical legacy? The answer to this intriguing and complex problem, as always, very much depends on whether a new compromise can be found between multinational and national interests. Between the status of the Dutch population as producers and as consumers, and the way in which the Dutch economy can create a new dynamism in order to overcome the structural deficiencies that have developed over the past decades. Presently, the Dutch "polder" model is heralded in many parts of the world as a best-practice solution, for instance because of its low levels of *official* unemployment and low budgetary deficits. Looks can deceive, however. Underneath the surface of the Dutch success, substantial deficiencies and structural weaknesses exist that are bound to make the Dutch policy arena a forum for intense debate for decades to come.

Considering the three strategic orientations of multinational enterprises present in the Netherlands, thereby, seems to form a good guidance in understanding and anticipating Dutch policy debates for the decades to come. When these interests converge – or partly overlap – the policy debate is often non-existent and/or policy makers are highly creative in finding solutions to every problem that appears in the area. When the interests do not converge, the policy debate becomes more intense and sometimes even vicious and to the critical contributor to the debate it seems as if policy makers invest more time in creating additional problems even when solutions seem perfectly logical and feasible. The balancing act for Dutch policy makers in the latter instance to strike a balance between the various interest groups indeed becomes more complex, but also more important.

Undisputed non-issues: converging interests

Converging interests of the multinational constituencies of the Netherlands have made a number of very important policy issues almost undisputed – and often unsaid. The most important (non)issues for the Dutch seem to be: free trade, further European integration, the mainport strategy of the country and deregulation and privatisation.

Firstly, consecutive Dutch governments have been particularly smart in using the free trade argument and a relatively low governmental involvement to facilitate international business – be it home-based or foreign-owned. Consequently, the free-trade orientation of the country is a *non-issue* in the Netherlands (although practice and principles can diverge, as the previous sections have indicated).

Secondly, the European integration trajectory is an almost sacred *non-issue* to the Dutch. If left alone, the Dutch would probably go for a European Federal State, thereby striking a balance between the interests of home-based multinationals that are restructuring their European operations *within the European Union* and the position of the country as "port to Europe". There is no other country in Europe in which the debate on the Maastricht Treaty, and the creation of a European Monetary Union has received so little attention as in the Netherlands.

Thirdly, even though the country is small and the burden of related environmental problems very big, the status of the country as the home-base for important European "mainports" is undisputed. The country's mainports (Rotterdam and Schiphol in particular) serve the distributional aims of both home-based and foreign-owned multinationals. Balancing the interests of inhabitants with the interests of the mainports has lead to intense debates, but the end-result of each debate has always been a further growth of the size of these mainports.

Fourthly, the choice for a strategy of deregulation and privatisation in the Netherlands has been taken relatively early and is seemingly more radical than in many other European countries. The Dutch proved also to be more open for pressure in particular from the United States to open up their markets in order to enable Dutch firms to enter into an alliance with foreign firms. This happened in particular with regard to American multinationals: the Dutch deregulation and privatisation in the area of telecom was preceded by an alliance of Philips and American Telephone and Telegraph (AT&T). The deregulation and privatisation in the area of airways got paralleled by an "open skies" agreement between the United States and the Netherlands, and a strategic alliance between KLM and Northwest. Considered like this, the Dutch deregulation and privatisation trajectory strikes a smart balance between the Atlantic orientation of some firms, their European restructuring strategies and the desire of non-European firms to enter the European Union. Consequently, deregulation and privatisation have largely remained a *non-issue* in the Dutch debate.

As always, in practise the Dutch are more pragmatic and less principal than they seem. All sorts of *re*regulation activities can also be witnessed. In former state-owned or state-controlled sectors (telecom, public utilities, railways, air-transportation) the interest constellation is still very much dominated by Dutch multinationals, which makes policy making a relatively simple negotiation process between a limited number of actors – often behind closed doors.

In the four governance areas mentioned, it has been easiest to strike a balance between the diverging interests of multinationals. Consequently most political creativity of the Dutch has become mobilised and the typical Dutch 'smartness' is bound to be sustained in these areas.

Under dispute: diverging interests

The moment the interests of multinational firms in the Netherlands really start to diverge, a compromise becomes less obvious and the debate heats up. Not surprisingly, this type of debate in the Netherlands regularly centres around the way in which the problem of structural deficiencies and the lack of industrial and innovative dynamism in the Dutch economy should be tackled. Due to negative experiences with selectively "picking winners" or "backing losers" in the Dutch economy, a plea for the reinstallment of selective industrial and technology policies is a *non-issue* (a taboo) as well. Consequently, the debate centres around a number of macro-economic themes that are central to the future of the Dutch corporatist model.

This final section picks out two inter-related areas of considerable and probably lasting contention: (1) on the wage component in triggering a more dynamic and innovative economy; (2) on the question whether corporatist bargaining institutions in the Netherlands should be abolished or rejuvenated. The interest of many of the multinational corporations and their intellectual supporters in these debates seems obvious: in favour of lowered wages, and the abolishment of the labourious corporatist bargaining institutions. These measures cut at the root of the very Dutch corporatist model. They can be considered the real longer-term challenges to the question whether the Dutch can sustain their smart governance model. This debate is far from resolved, so this last section will only give a number of final observations on these issues.

Challenge one: linking wages, innovation and the dynamisation of smaller firms

Under processes of prolongued internationalisation, the pressure mounts to lower wages and engage in policy competition with other European countries as a means to further attract multinationals. The dual presence of dominant large home-based *and* host multinationals in the same economy clearly puts more pressure on the community in the direction of lowering wages. In the postwar period, the plea from big employers for wage moderation has therefore been a constant factor in the Dutch bargaining setting. This pressure, however, has generally been overcome, by smart institutional arrangements in which the wage level got coupled with productivity rises and a large number of other social-economic policy measures mediated by the state. The agreements between labour and core (multinational) companies spread throughout the country by means of central wage agreements that applied to smaller and medium sized firms in the same sector as well. No company in the Netherlands was able to compete with another company on the basis of low(er) wages. The wages settled between the tripartite bargaining partners in the Netherlands were relatively low compared to neighbouring countries. Smartness is always relative.

But since the midst of the 1990s, a sustained relatively low wage level has become a matter of dispute. Firstly, Dutch trade unions are taking a less corporatist stance. High profit margins of the big employers have not been matched by higher wages. Secondly, a fierce debate additionally evolved in the course of the 1990s on the relationship between the wage level and the lack of dynamism of the Dutch economy. In particular Kleinknecht (Cf. Kleinknecht and ter Wengel, 1996) argued that the low innovative ability and dynamism of small Dutch companies is due to a lack of powerful domestic purchasing power which in turn is caused by sustained wage modification. These authors (others followed suit) therefore suggested that the traditional economic view that every wage increase hurts Dutch competitiveness, has to be revised. It should not come as a surprise that proposals like these, have been criticised fiercely in particular by firms that have large international interest. More local – albeit sizeable – firms, like the Rabobank, generally take a much more positive attitude towards raising wages in order to restore the dynamism and compete internationally on the basis of innovativeness instead of (low) wage levels.

An increase in dynamism of the Dutch economic structure could cause the medium sized and small companies to have a bigger chance to grow. If smaller local companies become more efficient, they could alter the trend of increased investments abroad which has become one of the single most important challenges of Dutch policies over the 1980s and 1990s. The phonemenon of a massive flight of investments and goods abroad, is also called the "black investment hole" by the Dutch Central Planning Bureau. Smaller companies are much more inclined to invest in the Netherlands than are large companies. As such a more effective functioning of small and medium sized firms in the Dutch economy could lower the impact of the "black investment hole".

Challenge two: reinvent corporatism at a local and European/regional level

An often cited complaint, in particular by the larger employers, is that the defective Dutch economical dynamics gets aggravated (some would even say, is caused) by a Dutch habit to discuss everything, resulting in the already mentioned extreme form of levelling of wages. National bargaining institutions have been taken responsible for this "lethargy". The traditional bargaining arrangements of the Dutch corporatist model got struck at the national level, between centrally organised governments, employers and employees. Since the 1990s, restructuring processes primarily take place either at local or at the European level. Effectively handling the societal processes surrounding these restructuring strategies, thus, preferably requires bargaining institutions at the local and European level. The national state is withdrawing from society, while other central bargaining institutions (such as the SER) are losing their function. What comes instead of the central institutions, however, is under fierce dispute.

The challenge of reinventing bargaining institutions has clearly been biggest for the Dutch trade unions that have been effective negotiators at the central level, even when they officially represented only one-third to one-fourth of Dutch workers. The Dutch trade-union movement is the only organised interest group who in practice knew how to keep the coupling between productivity and wage rates. In this manner they played an important role in the take off of the economic growth in the Netherlands (Cf. Van Tulder, 1989). An effectively organised trade-union movement has always made an important contribution to the prevention of policy competition between countries and regions.

The Dutch trade-union movement actively started rethinking new local coordination mechanisms since the midst of the 1990s. After the nineteen unions constituting the largest trade union confederation in the Netherlands (the FNV) voluntarily changed over to work together in clusters, four specific unions (metalworkers, services, food and transport sector) have stated the intention to merge. A comparable development can be depicted with the much smaller CNV-union confederation where the industry and food union and the transport union CNV have become one union (de *CNV Bedrijvenbond*) from the first of January 1998. This merger process opens new perspectives for a local touch to the Dutch negotiation economy, but one cannot be completely sure about this. It is for example the intention that the newly merged union of the FNV will split up into trade associations with employees divided by profession. At the same time one expects a further decentralisation of collective labour agreement negotiations. The merger movement is more an expression of a defensive strategy, than of an offensive strategy where unions actively try to put new life into central coordination mechanisms, among other things by trying not to let the wage rates grow too far apart. Central coordination is also hindered by this same process, considering that there are also deserters in the FNV-union confederation. The latter has been the case by the exclusion of the "construction and wood" union from the four partnership union-deal. These bargaining movements leave the position of the FNV as a confederation agency even more undermined. To coordinate decentralised negotiations locally will become harder.

The other institutional challenge is posed at the regional level – within the Europe Union. At the end of the 1990s, the Dutch trade-unions had not been able to formulate an unambiguous strategy for European Workers Councils (EWC). Since September 1996 EWCs were created around multinationals operating in more than one country. The EWCs offer possibilities to influence European scaled company investments, location decisions, and the accompanying labour conditions effectively. EWCs could also form the first step into the direction of a European tripartite bargaining environment, in which a (Dutch?) corporatist model could be alleviated to a European model. However, this step is far from being implemented. It not really favoured by big Dutch multinational employers. The step is also barred by the dominant principle of subsidiarity which states that the European Commission should focus only on those activities that national governments can not effectively pursue. Whether a European social and labour policy is required has not been resolved in the Maastricht Treaty. Finally, the step towards European-level bargaining institutions is far from being implemented because European trade unions have not been capable of merging their activities on a European scale.

At the local level in the Netherlands, there appears to be a stronger awareness that new tripartite institutions should be (re)created than at the European level. The plea for tripratite institutions is even shared by some industry circles as well. In particular those industries that are strongly embedded in the Dutch industry tend to be more outspoken in support of rejuvenated corporatist bargaining institutions. Hoogovens steel provides a case: the chairman of the board of Hoogovens Mr. Van Veen even publicly stated that there might even be *too little and too short* negotiations between the parties involved. Besides, there is also the (slow) realisation that perhaps the negotiations take place between the *wrong parties*. Industrial restructuring is most evident at the local level, but local government bodies, trade-unions and even the entrepreneurs themselves (besides other interest groups) are not familiar with the serious and constructive way of negotiating about the design of the productive system. Undoubtedly, there will be a typical Dutch solution to this problem, but whether this proofs to be smart *and* sustainable is a matter of concern.

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