

**Shaping Factors for the
Business Environment
in the Netherlands
after 1992**

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Report for the
EC Cellule de Prospective

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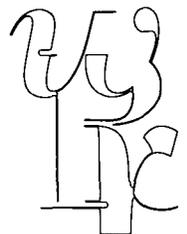
Frans Bletz
Willem Dercksen
Kees van Paridon

ex. 2

Bibliotheek Wetenschappelijke Raad voor het Regeringsbeleid
Plein 1813 nr. 2 2514 JN 's-Gravenhage
Postbus 20004 2500 EA 's-Gravenhage
Telefoon 070 - 564100 toestel 4452/4454

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Introduction

This survey attempts to identify the key general factors which will drive the European business environment during the next 20 years, as viewed by The Netherlands. It was compiled at the request of the *Cellule de Prospective* of the Commission of the European Communities, and served as 'input' for the report 'The European Challenges Post-1992; Shaping Factors, Shaping Actors', recently published by the Cellule. That report was based on individual contributions made by policy research institutes from each of the twelve member-countries of the EC.

Whereas the Cellule, in its report, concentrated on the medium- and long-term strategies of companies within the European Community, the following survey focuses on the context in which these strategies will have to operate. It deals with *shaping factors* for the post-1992 period. The factors identified include not only external forces, but also related economic, socio-cultural and political responses, all of which combine to shape the future business environment. Specifically, this study describes the problems, opportunities and challenges companies are expected to face in the Dutch segment of the Single European Market during the next decades.

The *Leitmotif* for this report is that the future business environment will be determined not only by market forces, but also to a significant degree, by the success or failure of EC countries to adapt to new circumstances. The authors foresee a tough *policy competition* among members of the EC. As a consequence of the Single Market, governments will increasingly have to further their national aims in Brussels, both through joint determination of Community policies and by taking advantage of current and new opportunities in the Single Market. Governments, like companies, will have to reconsider many assumptions on which their present policies are based. Those who do so, and then act upon their findings, will be rewarded with success.

In this study, developments in The Netherlands are analyzed from this perspective of future challenges. In view of the intended use of this report, the authors have largely concentrated on the particular shaping factors which are important to their country. Following an overview of European circumstances in Chapter 2, Chapters 3-9 deal with seven key areas for the future business environment. Chapter 10 presents a summary of the foremost findings and conclusions.

As all futures research does, this study tends to project today's concerns on tomorrow's world. The authors are well aware of the fact that present assumptions may in the longer term turn out to be less relevant, while, at the same time, unforeseen circumstances may influence the outcomes. They do, however, feel reasonably confident about the choices they have had to make, since most of the developments traced are solidly rooted in the (sometimes distant) past. Whereas many things will change, they do not necessarily alter. It might be tempting to consider the advent of the Single Market as not only a new beginning, but also another 'end of history'. It does not, however, seem prudent to exclude historic continuity from the many factors that will shape Europe after 1992.

The Netherlands in a changing Europe

2

2.1 Introduction

Always a maritime nation, The Netherlands can itself be compared to a ship at sea. Just as a ship goes up and down, ultimately beyond the control of the crew, similarly, for a wide-open country such as The Netherlands, the outside world clearly plays a vital role, economically as well as otherwise. Of course, it is possible to influence the ship's behaviour.

The following chapters will address in more detail those specific factors contributing towards The Netherlands' expectations for the future. These chapters will sketch how the country prepares itself for things to come, and in which areas the Dutch feel the European Community has an important role to play. This chapter, however, deals with certain aspects of the international arena. These aspects are the position of Europe in the world, the future architecture of Europe, the consequences of European Monetary Union (EMU), European Political Union (EPU) and the Single Market, as well as the effect of German unification on the position of The Netherlands.

2.2 Europe in a turbulent world

The coming years will be of critical importance to the future of the European Community as a leading player in world markets. Only a few years ago, prospects in this respect seemed rather bleak. The United States was still the economic and political leader of the world, even though its impact had decreased. Only Japan, and in its wake other countries in the Pacific Rim area, seemed capable and willing to join in a battle for the economic top. Europe's destiny seemed confined to lagging further behind, trapped in rigid arrangements which did not allow for adequate economic competition.

In recent years this picture changed. The United States is still the world leader, but will it be able to maintain this position in ten years time? Japan continues to capture ever-increasing market shares, but its performance has lost some of its lustre as a result of slower growth, troubles on the stock exchange and several cases of large-scale fraud. Europe, on the other hand, has for some years witnessed an era of unexpected regeneration. All the communist regimes in Eastern Europe have been replaced by market-oriented governments with democratic pretenses, that are opening up their markets in an effort to find a place in the world economic system. In the European Community a process has been set in motion with the Single Market, which could eventually launch the Community into the leading position of world economic development. Whether this will be realized, will of course depend on the outcome of current efforts to reach EMU and EPU, and on the way the EC will deal with new applicants.

As with any process, integration has its ups and downs. The unexpected rejection by the Danish voters of the Maastricht Treaty on European Union, the narrow victory for the yes-vote in the French referendum, and the crisis in the ERM can all be viewed as 'downs' which could seriously hamper progress if other national electorates (the British?) were to follow suit. Given the imperatives of policy coordination on a Single Market (which is more than just a free-trade area), it may nevertheless be assumed that the process of further integration will not wane, although unification may take more time, and pass through more stages than was foreseen in Maastricht. It therefore seems reasonable, for the purposes of a report on expected *long-term* developments, to view these setbacks as temporary. The results of the European summit in Edinburgh may

interpreted as a first empirical confirmation of this interpretation. It still can be assumed that EMU and EPU eventually will be concluded as both a result of, and an important shaping factor for, further integration in Europe, albeit at a slower time-scale and probably with fewer countries than initially was foreseen.

The position of the Community within the world will not only depend on a successful process of deepening and broadening. It will also be affected by the success or failure of Central and Eastern European countries to attain a path of structural growth, and by the degree to which the United States and Japan manage to maintain their positions.

The creation of a Single Market will certainly strengthen the position of industry and business within Europe. The actual organization of the future trade system is a determining factor in whether this will be followed by the desired success on world markets. At this point some doubt arises. The Uruguay round of GATT negotiations has yet to achieve a major breakthrough. The agreement on agricultural products will, if it sticks, improve the chances of success. In the longer term, however, apprehension about a Fortress Europe, protectionist policies in the United States, and the difficulty of entering the Japanese market all continue to threaten the world trade system. The duration of current negotiations in the Uruguay round seems related to a struggle for dominance in future world trade. With the end of the 'Pax Americana' new equilibriums will have to be found which balance the ambitions of the U.S., Japan and the EC, in order to avoid serious damage to trade relations among the various blocs.

2.3 Central and Eastern Europe

Now that even Albania has abandoned its communist ideology and central-planning system, all countries of Central and Eastern Europe are hazarding a market-oriented economic approach. This has led to dramatic breakdowns of the economy and of society in general, steep declines in production, high unemployment, high inflation and huge deficits in government budgets and current accounts. The process of transformation is enormously difficult. Forty years or more of rigidities, huge accumulated foreign debts, a heavily polluted environment and little or no background in a free-price system, coupled with hardly any experience in competing on international markets, form major obstacles for economic development.

Financial support is, of course, an important aid in helping these countries, but money is not enough. Access to the European market and support for the creation of institutional frameworks within the countries which actually meet the requirements of a market economy, seem better ways of providing assistance. The Community has a clear interest in providing this type of assistance. If the transformation processes in Central and Eastern European countries should fail, the resulting instability will threaten to spill over the borders of the rich EC countries. In that case, constant turmoil and even civil war are to be expected, all of which may lead to major waves of migration. Events in the former Yugoslavia, former Soviet territories, and Albania are recent illustrations of this very point.

2.4 The future architecture of Europe

No matter what the opinions on the Maastricht treaty may be, it certainly stimulated discussions on the future organization of the Community. There is also other food for thought: the breakdown of Eastern Europe and the Warsaw Pact, civil war in Yugoslavia, the Gulf War and the application by several EFTA nations for EC membership.

Ever since the withdrawal of proposals which the Dutch presidency had

prepared for Maastricht (containing a federal approach regarding the EPU treaty), there has been increasing discussion in The Netherlands on the pros and cons of the various institutional options at the European level. This discussion has as yet, however, not provided any clear answers. So far, the shaping of general opinion in The Netherlands on European unity has remained in the hands of a relatively small circle of politicians, civil servants and captains of industry. A broader debate would not necessarily alter Dutch positions in the EC. A generally internationalist outlook, long-established 'pro-European' attitudes, and last but not least, fundamental interests of the Dutch, all point towards continued support of further integration. If a broader debate were to result in a more clearly expressed public endorsement, this might be welcome, and then viewed as an important antidote for unsubstantiated ideas that the EC, in some ways, has a negative balance sheet.

In the defence field, The Netherlands has always been opposed to European 'independence'. The Atlantic view was dominant: a strong relationship with the United States within NATO was considered an essential ingredient for a stable Europe. Opinions have only recently started to take the far-reaching changes into account which the unification of Germany, and the breakdown of the Warsaw Pact, are causing. The Netherlands is now preparing a major reorganization of the army. This would result in abolition of the draft, which in turn, would lead to a drastic reduction of manpower and possibly increased division of labour and cooperation with the European allies. The future direction of government policy is, however, not very clear. Much will depend on the possibility of combining reforms with a continued, if more limited, United States presence in Europe, together with further European cooperation within NATO, as the preferred organization in matters of peace and security.

2.5 Integration within the European Community

As the Single Market is realized and institutional steps are set towards Economic and Monetary Union and Political Union, the Community environment will profoundly change. Further European integration will create new possibilities and determine the ways in which challenges can be met. It will also, however, impose new constraints.

In fact, if society is viewed as a system consisting of a great number of sub-systems, European integration could turn out to be *the major driving force* in the years to come. This is the case insofar as it affects all sub-systems, albeit to varying degrees. Increased global competition, both as a result of the internal market and externally, will do more than just shape business, which is the core of the economical sub-system. It will also determine how policy objectives in the technological, socio-cultural and ecological spheres may be realized, and how the interactions between these sub-systems evolve.

The political sub-system, in particular, will have to adapt. The realization of the Single Market marks a watershed in that it compels governments, as the essential partners of business, to rethink many of their present strategies. As the administrative tier in Brussels inevitably will assume more powers from the national domain, traditional policy instruments will no longer be available or at least, have their impact blunted. EC members will increasingly have to 'play the European game', both in the shaping of Community policies and when taking advantage of opportunities provided by the internal market. As a result, Brussels will become more than just a venue for cooperation. Inter-state rivalry will become intense.

Increased competition was, of course, already implied in the Treaty of Rome, and developments it outlined are already occurring in many fields under the spur of internationalization. In today's interdependent world, the notion of

'national sovereignty' has a somewhat hollow ring. However, within a Single Market, EC members will be increasingly obliged to enter into *policy competition against each other* in order to attract labour, capital and technology to their particular territories. In order to sufficiently maintain the high levels of economic activity (necessary for meeting the demands of their national electorates), governments will have to offer low taxes and labour costs. More importantly, they will also have to compete by providing attractive environments for business (in terms of physical infrastructure, education, adequate welfare system, internal security, and attractive living conditions)¹. Yet, the financial means for providing these commodities are limited.

The creation of such an attractive business environment depends on more than just objective strengths and weaknesses, as far as a country like The Netherlands is concerned. It should be realized that, notwithstanding the obvious advantages of European integration, policy competition will impose additional demands on the smaller EC members. They lack the bargaining and buying clout used by larger states to further their aims in the ongoing European negotiations. Smaller states will, therefore, often have to depend on strategic alliances with larger states in the Single Market. Their national policy preferences may have to be diluted or sacrificed. It may only prove possible to maintain such preferences at the expense of the smaller countries' competitiveness. This implies that the Dutch will have to 'try harder' in many fields, since success or failure during the next twenty years will largely be determined by each country's competitiveness, compared with its primary European partners. Comparative advantages will have to be exploited to their fullest. Much will depend on the skill with which strengths are maximized and corresponding weaknesses remedied or compensated for in the economic, technical, socio-cultural and environmental fields. Close cooperation among private companies and public authorities will be essential.

It is interesting to note the relative optimism expressed by The Netherlands Central Planning Bureau (CPB) about the consequences of the Single Market for The Netherlands², when viewed from this perspective. According to the CPB, there is a good chance that Dutch firms will benefit from this process, especially within certain manufacturing (chemicals, metal) and service sectors (transport, trade and financial services). The increase in intra-EC trade and resulting stronger competitiveness of the EC *vis-à-vis* the United States, Japan and the Newly Industrializing Countries will also have a positive effect on Dutch economic growth. Whether or not Dutch firms manage to acquire market shares on other continents will largely depend on the success or failure of the current GATT negotiations. With regard to potential investors, the Single Market will create new opportunities for the Dutch, in that the disadvantages of their small domestic market will further disappear. The stable socio-economic climate, high productivity levels and low inflation, all important features of the Dutch economy, will help attract investments from abroad.

The CPB does, however, also envision some drawbacks. High labour costs caused by high social security premiums in particular, the fiscal climate and rigidities on the Dutch labour market, are all considered by investors to be less attractive aspects of The Netherlands. The Dutch physical infrastructure, education and training system will have to be upgraded through more (government) investments if they are to stand the test of tougher European competition. At the same time, further spending cuts will be needed in order to control

¹] Cf. Netherlands Scientific Council for Government Policy (WRR), *The Unfinished European Integration*, The Hague, 1986.

Also: L.A. Geelhoed, 'The Semi-Sovereign Western European State in 1995; Lessons from the United States', *Internationale Spectator*, The Hague, November 1990, Vol. 44, nr. 11.

²] Central Planning Bureau (CPB), *Nederland en Europa '92* (The Netherlands and Europe '92), Working Paper no. 28, The Hague, 1989.

public debt interest payments. The redistribution of budgetary means required in order to strengthen Dutch competitiveness will clearly make a further reduction of income transfers inevitable.

The following chapters will analyse in more detail the challenges, which further European integration poses for The Netherlands. Section 4.3, on public finance, pays particular attention to the requirements for entry into the third phase of EMU.

2.6 Relations with Germany after unification

The Netherlands has a strong economic relationship with Germany. Approximately 27 per cent of all Dutch international trade is with its eastern neighbour. This implies that with an export volume approaching 60 per cent of GDP, German demand for Dutch products is about 16 per cent of GDP. Any change in the business cycle within Germany is, therefore, immediately felt in this country. This trade relationship is not only remarkable with respect to its volume, but also its content. Agricultural and chemical products, as well as energy (oil and natural gas) are very important Dutch exports, whereas German exports to The Netherlands consist of the products more usually traded among developed economies: nearly 90 per cent consists of manufacturing products, mainly investment goods, consumer durables and transport equipment. Both countries are also connected by means of accumulated foreign direct investments in both directions. Lastly, the two currencies are strongly linked to each other. Official Dutch monetary policy during the last 13 years has been to maintain a constant exchange rate between the two currencies. This policy has been successful with only one exception (March 1983).

The unification of Germany has been welcomed without much public debate. Apart from some remarks linking the unification process with the past and with fears of German supremacy in Europe, there was a more or less general political acceptance of unification. There was also little discussion with regard to the economic aspect, even though the first economic consequence of German unification was a strong rise in interest rates. The Netherlands had no choice but to follow suit. This higher interest rate laid a major burden on the Dutch government, because of the necessity to finance high public debts. These costs were eased, however, by a huge increase in exports to Germany, which in turn caused a more positive development in the business cycle than was initially expected. Dutch firms were eager to gain important markets in eastern Germany. The Netherlands is now one of the largest importers to the new *Länder*. Dutch companies were also able to meet the increased demand from western Germany. It should be pointed out, however, that even though growth rates were exceptionally high and the German share in Dutch exports increased from 26 to nearly 30 per cent in two years time, the Dutch position, relative to other exporting countries on the German market, has been slightly weakened. It is not yet known whether this is a temporary deviation of Dutch competitiveness on the German market, or a more permanent decline.

Germany will remain the largest export market for Dutch firms, no matter how much effort is made towards widening the Dutch export base, especially via increased exports to promising fast-growing markets outside of Europe. This is not only because of existing trade relations, but also because of new ones. These exports have, up until now, primarily been realized on the part of larger firms. Small- and medium-sized enterprises have been more reluctant to cross the border. The integrated market will force them to change this attitude. If this proves to be the case, then they will most likely start by approaching a nearby market such as Germany.

2.7 Conclusions

This chapter covered a number of international developments of importance to The Netherlands as well as all other countries in this region. These are, however, partially beyond the control of the Dutch government and/or business community. This implies that the European Community should take initiatives to strengthen the EC position in the world economy, prevent a breakdown of the world trading system, help the new market economies in Eastern Europe, and realize a Single Market that is economically viable and socially acceptable.

Increasing policy competition among European countries will force governments (and other national actors) to optimize national comparative advantages and create business environments attractive to both domestic and foreign investors. Economic provisions will not be the only significant factor in the process of competitive policymaking. Social and political stability, a well-functioning labour market, stable industrial relations, innovative capacities and progress on environmental fronts will also be important contributing factors.

This report distinguishes between *seven key development areas* which will determine the extent to which conditions favouring the realization of such goals are present in The Netherlands today. Developments in these areas will also determine the effects of present and expected trends on the business environment during the coming twenty years. The chapters which follow will examine these key areas further.

European prospects until 2010

SHAPING FACTORS

- International competition on world markets
- Tensions within the international trade system
- Rise of EC as global economic player
- Decline of U.S. power; further rise of Japan and NICs
- Eastern Europe slowly attaining growth path

EC DEVELOPMENTS

- Single Market, EMU and EPU
- Stronger EC competitiveness on world markets
- Expansion of EC, possibly to include Central and Eastern European countries
- Increased role of EC institutions
- Tough *policy competition* for investments among EC members

(DUTCH) GOVERNMENT REACTIONS

- More reservations concerning EC federalism
- Administrative reorganizations geared towards Brussels' 'power play'
- Upgrading of infrastructure
- Decrease in total tax burden through reduction of income transfers
- Efforts to increase flexibility on labour markets

BUSINESS REACTIONS

- Further rationalization of production
- Fierce competition on foreign and home markets
- Emphasis on multinationals and niche-players
- Investments in EC where most attractive conditions are offered
- Increased exports outside Europe
- Penetration by Dutch small and medium businesses on German markets

Geography, natural resources and physical infrastructure

3

3.1 Introduction

At the moment just about everything seems to be changing. New products, new production methods, new materials and new markets are all emerging in rapid succession. There are, however, certain important elements which remain relatively unaffected. This chapter will address three such factors: geographical location, availability of natural resources, and physical infrastructure. These all have an effect on business strategies. Their importance is equalled by their 'policy resistance'. It is difficult to influence these factors by means of government policy and, even if this were to prove possible, it would only be in the long term. This chapter discusses the way in which these factors shape and change the business environment in The Netherlands, as well as the policies available which can influence them in some way ¹.

3.2 Geographical location

The destination of The Netherlands as a centre for trade and distribution has been shaped by its location on the estuaries of the Rhine, Meuse and Schelde rivers, a pivotal position between the chief West European powers. The presence of an entire range of excellent facilities for accommodating the transport and storage of goods, bears witness to this intermediary role. After the Second World War Rotterdam became the world's largest seaport, while Schiphol Airport developed into an important transfer hub for passengers, as well as cargo.

Because of this particular location, good trade relations have always been considered an essential precondition for Dutch prosperity. A founding member of the ECSC and EEC, The Netherlands is a staunch advocate for European economic cooperation and integration. The prospect of the Single Market has generally been welcomed as one which will provide new opportunities for traditional Dutch skills.

The early specialization of The Netherlands, so dependent on geographic factors, can still be seen in the country's economic structure. The emphasis is still very much on distributive and financial services. Manufacturing activities are far less prominent.

The comparative advantages which The Netherlands derives from its geographic position, although still an asset, may in the longer term be affected by several developments.

A shift of the main transport arteries in Europe might place the country in a more peripheral position. The fast growth of the southern German *Länder*, the rise of Lombardy in Italy and of the regions around Toulouse and Lyons in France, combined with the decline of traditional industries in the Ruhr area and the United Kingdom, could lead to a gradual shift southward of Europe's economic centre.

Such a shift could receive added impetus from new infrastructure such as the Channel Tunnel and the French TGV and German ICE railway systems. These will enable sea- and airports in other European countries to strengthen their main port functions, at the expense of Dutch rivals.

The extent of this trend and how it may be counteracted, in the long term, by a further opening up of Central and Eastern Europe are, as yet, unknown. The

^{1]} For a more complete description of these issues, see Central Planning Bureau, *Nederland in drievoud; Een scenario-studie van de Nederlandse economie, 1990-2015* (The Netherlands viewed from three perspectives; A scenario study of the Dutch economy, 1990-2015), The Hague, 1992.

unknown factors loom large: Which pattern of economic development will the former Comecon countries follow? How much trade will emerge between these countries and Western Europe? Will they become EC members? Will the Rhine-Main-Danube canal become an important transport route? A great deal will also depend on whether Hamburg and Bremen, traditionally the main ports for these areas, succeed in regaining their former positions. This poses a major challenge for Dutch firms operating in the distributive industries.

Internationalization, as well as the rise of new technologies and use of new materials have generally diminished the importance of the traditional geographic factors on which The Netherlands has always relied so much. It has not, however, weakened the corresponding traditional skills possessed by Dutch transport entrepreneurs. Companies are now much less dependent on the proximity of raw materials or markets, and have a far wider choice of locations. The emphasis on knowledge-intensive production, supported by sophisticated logistics ('just-in-time' production), has resulted in changes in the modal split of international trade and transport. Cheap, bulk-oriented (sea) transport declines, while more expensive, but much faster and more reliable air transport shows a very strong increase. Competition in this growth market is fierce and there are no geographic factors which might favour Schiphol Airport the same way they favoured Rotterdam.

Therefore, it should not be taken for granted that the Dutch will succeed in maintaining and developing their position in trade and transport. This will largely depend on whether a determined effort is made to maintain and enhance existing knowledge and skills. In order to attract economic activity, and hold on to the major share in a rapidly changing transport market, attention must be focused on infrastructure and logistics. At the same time, increasing environmental problems resulting from transport will have to be adequately addressed. Section 3.4 will discuss this further.

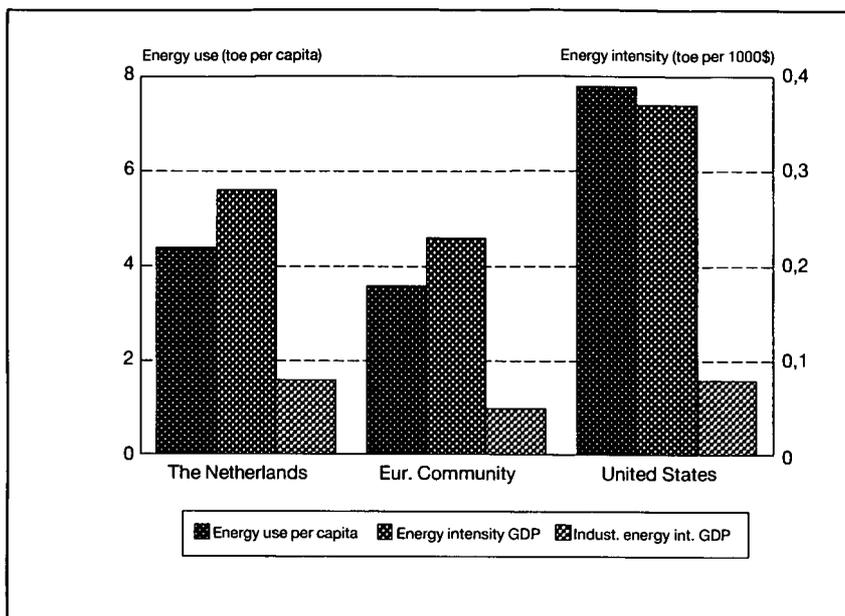
3.3 Natural resources and energy supply

The Netherlands is not known for its wide range of natural resources. It is, however, a major producer of natural gas. Since the early sixties very large quantities have been discovered and exploited, initially in the northern province of Groningen, and later throughout Holland and at numerous locations in the North Sea. The Netherlands has become a very important supplier of energy to several countries in Western Europe. Proven reserves are sufficient for at least another 40 years. Net imports of energy, as compared with total use, are among the lowest in Europe.² This has had a strong positive impact on the Dutch current account. The resulting strength of the trade balance (even more optimistic after the oil price rises of 1973 and 1979) forced a revaluation of the Dutch guilder against other currencies. The resulting disadvantage was that the competitiveness of the goods-supplying sector deteriorated significantly. 'Deindustrialization', that is the decline of value added and employment within the manufacturing sector, occurred at a correspondingly faster rate in The Netherlands during the seventies and eighties, than anywhere else in Europe. This has come to be known as the 'Dutch disease'.

There were other consequences too. Natural gas has become the major source of energy for domestic heating. It is also by far the most important energy source for electricity production, while its share in the manufacturing sector is currently more than 30 per cent. The presence of such a cheap and abundant energy source has contributed to a rather high energy use in this country, compared with other EC countries, as can be seen in Figure 3.1. The rather energy-intensive production structure in this country, with the chemical industry,

^{2]} According to EC-statistics, this ratio was 27 per cent in 1988; within the European Community. Only the United Kingdom had a lower ratio, namely minus 9 per cent; the overall EC ratio was 46 per cent.

Figure 3.1 Energy use in the Netherlands, the European Community and the United States, 1990



Source: Central Planning Bureau

refineries and basic-metal industry over-represented, becomes especially clear in the industrial energy intensity per GDP. The figure for The Netherlands equals that of the United States, while the Community average is about 45 per cent lower. Sectors such as greenhouse horticulture managed to develop quite profitably because of the cheap price of energy. Once energy became more expensive, however, the production structure was forced into a more non-energy-intensive direction. Because such changes are time-consuming, the Dutch government subsidized energy costs for the large-scale consumers in order to prevent an excessive decline in competitiveness. As a result of EC directives, the Dutch government was recently forced to abandon this subsidy.

There is another element relevant in this respect. The Dutch government has received a large share of gas revenues. It is unfortunate that instead of these revenues being used to strengthen competitiveness through investments in education and infrastructure, they were largely used to back up an already expanding social security system. The Dutch government cashed in heavily on both oil price increases. The country suffered just as much, however, in 1985-1986 when both the dollar and oil prices fell considerably. The net revenues declined by more than 50 per cent within two years, just when the reduction of the budget deficit became the Dutch government's most important policy goal.

This leads to the inevitable conclusion that natural gas has not increased the structural competitiveness of the Dutch economy to its fullest. This is because of investment decisions based on undervalued energy prices, and government policies favouring consumption, rather than investment. Much attention has been paid to changing the energy content of production during recent years, resulting in partial success. The same can be said of efforts to better utilize combined heat and power generation. Furthermore, the reallocation of funds within the government budget, aimed at investment instead of consumption, is proving very difficult indeed. Both changes must continue in the near future.

A reliable, reasonably priced energy supply is an important location factor for any economy. Dutch electricity production is more dependent on oil and natural gas than any other EC economy. Both sources are relatively price sensitive, and in the case of oil, there is always the possibility that supply might be disrupted by political tensions in the Middle East. The European Energy Charter is important in that respect. It could diminish Dutch dependence on energy supplies from the Middle East, while at the same time allowing for an extension of the use of domestic natural gas sources. This also applies to purchases of natural gas from Norway.

The reliability of the energy supply might also be improved through an increased use of coal and nuclear energy. Although the use of coal requires heavy investment for environmental reasons, it could broaden our energy supply base. Nuclear energy has been an unimportant source of Dutch energy up until now. There are only two minor nuclear power plants because the resistance to this source of energy is quite strong. Despite the fact that this resistance still has majority backing in this country, attitudes seem to be changing in some political parties. It seems unlikely, however, that a major change of opinion will occur in the near future, although this might change as a result of the Single Market process. Firms are expected to be able to import cheaper energy from other countries, via the Dutch electricity grid. If this proves so, it could undermine current Dutch energy policy considerably.

3.4 Physical infrastructure

Because The Netherlands is a small, open and trade-oriented economy, the size and quality of physical infrastructure are obviously crucial to the overall competitiveness of the Dutch economy. Higher incomes, increased scales of production, new forms of intra-firm organization ('just-in-time' production) and changes in the modal split have all led to a higher demand for transport, both private and public. As in other EC countries, the supply of transport facilities has failed to develop at the same rate. This is because of insufficient public investment, difficulties in finding space for these activities in an already crowded country, and the increasing importance of environmental obstacles which prevent or hinder infrastructural developments. This mismatch between supply and demand has resulted in more congestion for virtually all modes of transport. The various transport systems will now be discussed in more detail.

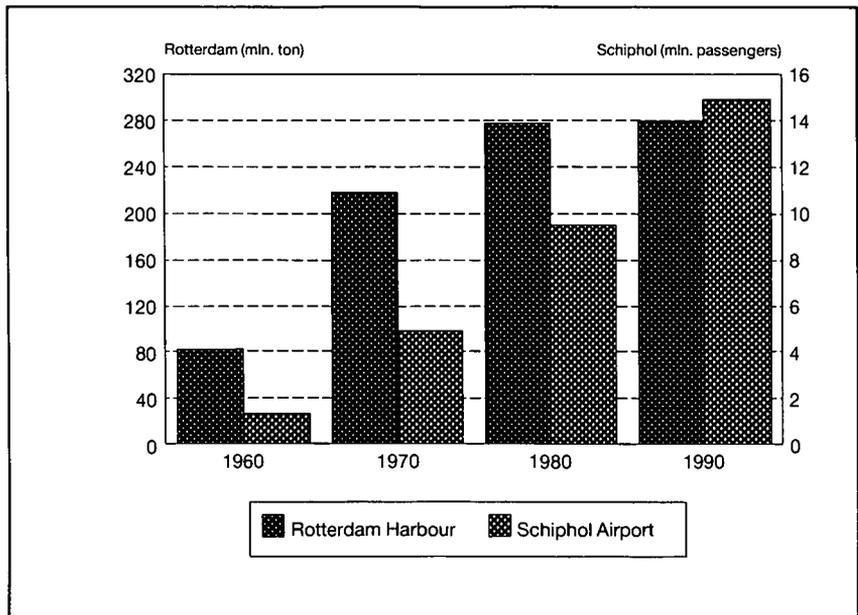
Road transport has become the most important means of transport, both for passengers, as well as freight. In 1990 about 75 per cent of traffic measured in seat kilometres occurred with cars; the percentage for domestic cargo was the same. The increase over the past decades has been tremendous, especially because of the increase in number of cars, but also due to higher mileage rates. Road infrastructure has changed much less dramatically, however. As a result, traffic intensity has risen considerably, by more than 45 per cent since 1980.

There are two main possibilities for increasing accessibility: either expand the road infrastructure, or reduce the traffic load, mainly through changes in the modal split. As far as the first option is concerned, the construction of new roads is obviously a space-consuming activity, and so, quite a problem in a small and densely populated country such as The Netherlands. Furthermore, road traffic contributes considerably to environmental deterioration, and new roads generate additional traffic. Although current government policy is directed towards improving existing roads and building a few new tunnels to relieve the biggest bottlenecks, the emphasis lies on the second option: Changes in the modal split, aimed at using all available types of infrastructure as energy-efficiently as possible. Major improvements in public transport systems will have to be realized in order to cope with the rush-hour traffic.

This point will be discussed later in more detail. Related measures currently being considered include: reducing available parking in towns, creating better facilities for switching from private to public transport, introducing a road-pricing system in the region comprising The Hague, Amsterdam, Rotterdam and Utrecht (Randstad), in order to generate more efficient use of the existing infrastructure, limiting office construction in areas which cannot easily be reached by public transport, and further increasing the price of petrol (as part of an energy tax programme).

For this to succeed, it is imperative that public transport becomes at least as competitive as private transport by automobile, with regard to speed, comfort and price. Although there has been some improvement recently, these changes take time. Also, the only way the current budget can make room for new public investment, is through difficult budget redistributions, because the deficit has to be reduced. The Dutch railway company has initiated an ambitious investment programme, expanding the number of tracks, improving crossings and creating new lines, but it will take some twenty years before these plans are fully realized. In the meantime, however, additional measures must be taken because of further increases in demand. As in other EC countries, major infrastructural developments are slowed down by resistance from environmental groups. The Dutch government is currently developing alternative planning procedures aimed at speeding this process up, while at the same time continuing to provide opportunities for those who have a legitimate interest in objecting to such projects.

Figure 3.2 Growth of Rotterdam harbour and Schiphol airport, 1960-1990



Source: Central Bureau of Statistics

Both the domestic road and railway infrastructure are essential links in global transport chains, with Rotterdam and Schiphol acting as important main ports. Both have shown very impressive growth in the last decades, as illustrated in figure 3.2. Rotterdam became the largest harbour in the world in the early sixties, because of excellent facilities for oil and other bulk products. It is also the largest container port in Europe. Rotterdam is planning to improve its port facilities in order to hold on to the lead position. Plans include improvements in the transport infrastructure (Betuwe line), establishment of distribution

centres in which groupage activities, assembly, labelling, storage, etc. are optimally combined, and improved port facilities, for instance for the transshipment of fruit and vegetables. Rotterdam's success or failure largely depends on its ability to provide optimal logistics for the supply and distribution of goods, as well as generate the necessary investments for realizing that goal.

Figure 3.2 also gives an impression of the increase in the passenger traffic by air. In the last decade there was an annual growth rate of 4.5 per cent. Although the share of air cargo is still very low in absolute terms (0.63 versus 280 million tonnes for sea transport), there has been a strong increase during the last decades (6.5 per cent growth for air cargo, compared with 0.5 per cent for sea cargo through Rotterdam). Schiphol has managed to meet these increases in demand, through the improvement and expansion of its facilities, while at the same time still realizing a high level of quality. In this way it has climbed to fifth place among European airports with respect to passenger handling, and fourth place for freight. These developments have turned the Schiphol region into one of the most flourishing areas in The Netherlands, with high growth rates for value added and employment. In an attempt to maintain that position in the years to come, Schiphol has recently published a so-called Masterplan. This plan promotes further growth for Schiphol. A second departure and arrival building is currently under construction and a new runway is being planned. The train station is being expanded since the TGV will start coming into Schiphol as of 1998. There is a general consensus that Schiphol must expand, although not everyone favours this development. There is considerable resistance from environmentalists, with regard to pollution, both from noise and fuel, and to a lesser extent with regard to the space an enlarged Schiphol would require. The recent disaster with the El-Al plane in Amsterdam-Bijlmer will certainly fuel the debate on safety measures. Again, there is the dilemma that Dutch competitiveness relies strongly on adequate transport and trade facilities, while at the same time the environmental constraints of a small and densely populated country are tighter than in most other countries.

An excellent communication infrastructure is essential in a modern society. The recently privatized Dutch PTT has started an ambitious investment programme aimed at meeting the fast increase in demand (the annual growth rate for telephone calls was 4.5 per cent in the last decade, for international calls as high as 11 per cent). The PTT has also launched ISDN, which should be available to all users around 1995. Expectations for car phones, telefax machines and computer modems are all very optimistic, thereby justifying predictions of further growth in telephone services for the foreseeable future.

3.5 Conclusions

This chapter dealt with geographical location, natural resources and energy supply, as well as physical infrastructure. Except for the gradual move southward and perhaps eastward within Europe, and a change in the modal split for global transport activities, the shaping factors in this chapter are all more or less specific to The Netherlands.

The geographical position is considered an asset, even though certain trends were identified which might decrease its importance. A desirable Community reaction for The Netherlands would be to stress the necessity of certain essential links in the continental infrastructure. The completion of the Rhine-Danube Canal has been welcomed. The Netherlands is in favour of the construction of a standardized, European high-speed rail system, not only for passengers but also for freight. This would enable The Netherlands to improve its already strong competitiveness on the transport market, while at the same time the Community could profit from handling intercontinental cargo from its centre, at the lowest possible costs.

Major changes in *energy supply and demand* are not expected to occur in the near future. For demand this depends, of course, on more efficient use of energy and increased distribution of energy supplies, both of which are major policy goals in The Netherlands. Oil and natural gas will remain the two most important fuels. With regard to supply, it can be assumed that The Netherlands will probably not opt for nuclear energy. The Dutch government must decide in the very near future, whether it is necessary to expand the current level of electricity production and if so, which technology and which fuel source will be selected.

A European Energy Charter would be useful, but it would not really alter the Dutch energy system. Some type of energy tax will probably be introduced in the near future in order to reduce energy consumption. Although a government commission has just reported that the introduction of such a tax in The Netherlands exclusively would gravely weaken Dutch competitiveness, a tax on small-scale consumption exclusively would be feasible, even though the energy-saving effect would, of course, be much less.

The introduction of energy taxation at the EC, or preferably Organization for Economic Co-operation and Development (OECD) level would be highly desirable for environmental purposes. This seems to be the only level at which certain stalemate situations can be resolved, especially those in the environmental field.

Business will continue efforts aimed at conserving energy, placing more emphasis on combined heat and power generation. As a result of the Single Market, large-scale consumers will opt for a supply of electricity from external sources, because of lower prices. This will create more competitive conditions in energy supply, which could mean lower costs and changes in the energy mix.

Physical infrastructure also needs further upgrading. The Dutch government is now initiating improvements to the infrastructure network. The government has recently decided to earmark added gas revenues for an infrastructure investment fund. The government is also investigating the options of improving and accelerating planning procedures aimed at speeding up the construction of new roads or railways.

The traditionally strong position held by Dutch firms in the European transport market can only be maintained through timely and sufficient investments in both road and rail infrastructure, as well as the two main ports. Firms consider these investments an essential precondition for the continuation of their own efforts. It is also essential for acquiring new foreign investments.

Both main ports, Rotterdam and Schiphol, are planning to make huge investments to maintain their prominent positions in fast-growing, but also quickly changing markets. Because the Dutch economy is highly dependent on trade and distributive activities, these activities are crucially important. The government wants to facilitate further expansion of both main ports. If one of them falls short, it could become a major obstacle to further economic development. This expansion is realized by making new areas available and by creating or improving the physical infrastructure.

The business sector responds by means of new investments in both main ports. At the Rotterdam docks, new terminals are being constructed for containers, distribution centers and specialized products such as fruit. Many new firms are also making investments in the Schiphol area, with an eye to using the location for efficient distribution of their products within Europe.

Location, resources & infrastructure prospects until 2010

SHAPING FACTORS

- Central location, subject to shifts in economic activities
- Large supply of natural gas
- Parts of physical infrastructure in need of upgrading
- Excellent main port facilities
- Road congestion in the 'Randstad'
- Overburdened railway system
- Problems with environmental degradation

EC DEVELOPMENTS

- Infrastructure policy on EC level
- European Energy Charter
- European transport policies
- Further development of high-speed rail system
- European environmental policies

(DUTCH) GOVERNMENT REACTIONS

- Increased investments in transport infrastructure
- Promotion of main port functions
- Streamlining of physical planning procedures
- Efforts to influence European transport policies
- Road pricing and other measures aimed at influencing modal split
- Efforts to achieve European Energy Charter
- Emphasis on energy conservation (eco-tax)

BUSINESS REACTIONS

- Further specialization in logistics
- Further concentration around main ports
- Increase in container transport by rail
- More telematic operations
- Research into and development of road pricing systems
- Energy conservation; cheaper energy from external sources
- Cooperation with government on environmental safeguards

4.1 Introduction

This chapter deals with future relations between the public sector and business environment. Particular attention is paid to expected structural changes within the public sector. The twentieth century has been an age of strong belief in man's ability to change the natural and social environments. Government is considered a major actor in this process of change. As a result, policies and goals concerning the future of the public sector are ambitious.

4.2 Political structure ¹

The Netherlands is a constitutional monarchy with a parliamentary system. Queen Beatrix is the head of state. The Queen (or King) and ministers constitute the Crown. Under the Constitution of The Netherlands, the ministers (rather than the monarch) are responsible to Parliament. All bills are submitted to the Council of State, approved by Parliament and become law after being signed by the Sovereign and minister(s) responsible. Parliament consists of an Upper House (75 members, elected by the Provincial Councils) and a Lower House (150 members, elected by universal suffrage of all residents with Dutch nationality over the age of 18).

The Sovereign appoints ministers on the recommendation of a *'formateur'*, usually the leader of the largest party in the Lower House, who then goes on to become Prime Minister in a new government. Presently, government consists of 14 ministers and 11 state secretaries (each of whom are assigned political responsibility for certain areas by their particular ministers). The Netherlands is made up of 12 provinces, each of which is administered by a Provincial Council (elected by the inhabitants), a provincial Executive and the Queen's Commissioner. Municipalities are administered by a Municipal Council, a Municipal Executive (mayor and aldermen) and a mayor. In 1986 non-Dutch nationals (of 18 years and older) who had resided in the country continuously for at least 5 years were allowed to vote in the municipal council elections for the first time. At present municipalities increasingly join forces to tackle such matters as the location of industry, housing, transport and environmental problems. They then form a regional authority which attends to these common interests.

The Netherlands has many political parties in parliament. As a result, the government is always a coalition and government policies are more like compromises than they are in two- or three-party political systems. The present Lubbers government is a Christian-Democrat and Social-Democrat coalition. The Christian-Democrat party (or its predecessors) has been in office since the First World War. The possibility of a government coalition between Social-Democrats and Liberals has been a topic of discussion since the seventies. There is already a natural alliance between these two on moral issues. The present 'end of (politico-economic) ideologies', attained by the triumph of liberal democracy in the world, might theoretically benefit such a coalition.

4.3 Public finance

The Netherlands has a public sector corresponding to a welfare system, which provides generous benefits and supports a high proportion of the population. Moreover, the government budget is still experiencing the repercussions caused by the economic crisis of the early eighties. Public expenditure in 1991

¹] This section is based on: Ministry of Foreign Affairs, *The Netherlands in brief*, The Hague, 1987.

amounted to 51.2 per cent of GDP; 29 percentage points concerned income transfers (excluding subsidies and interests). Interest payments on the government debt are approximately 6 per cent of GDP. In 1991 The Netherlands had a budgetary deficit of 3.5 per cent of GDP. In the seventies and eighties the real value of government investments decreased from 139 in 1970 to 86 in 1990 (1980=100). Since 1987 the index has been slowly increasing again ². In 1990 government investment was 2.3 per cent of GDP. This percentage is still declining. The amount of income transfers involved explains the gap between public expenditure and employment in the public sector. In comparison with other countries the share of public sector employment in total employment is rather low. Table 4.1 shows that the volume of public sector employment hardly increased during the eighties.

Table 4.1 General government employment

(1) 1000 labour years (2) percentage of total employment						
	1980		1985		1990	
	(1)	(2)	(1)	(2)	(1)	(2)
civilian	334	8.0	364	9.1	371	8.5
military	136	3.3	133	3.3	129	2.9
education	244	5.8	239	6.0	234	5.3
Total	714	14.9	736	16.0	734	14.7

Source: Central Bureau of Statistics (CBS), *Nationale Rekeningen 1990 (National Accounts 1990)*, 1991, p. 43.

The EMU will force the Dutch government, as well as other European governments, to pursue low inflation and interest rates, and budgetary deficits of no more than 3 per cent of GDP. Table 4.2 gives an impression of the structure of public sector receipts and outlays with relation to corresponding figures for other industrialized countries.

It may be observed that the proportion of Dutch government consumption, including expenditures on wages and salaries, is lower than in other industrialized countries. On the other hand, transfer expenditure is much higher. Consequently, taxes and social security contributions exceed those in other industrialized countries. It should be noted that the share of indirect taxes is relatively low, whereas that of direct business taxation is rather high. However, the latter figures do not reveal existing differences in taxation among enterprises.

The Netherlands has been known for its attractive fiscal climate for business. This was due to its corporate tax rates and tax base, and because it provides opportunities for requesting the Ministry of Finance to grant tax rulings tailored to the specific circumstances of a particular company. Serious European competitors have emerged in the fiscal field during recent years. The process of European integration will probably give rise to further fiscal harmonization, aimed at tackling this form of policy competition among EC countries. The Ruding report (1992) is an important step in this direction ³.

^{2]} Central Planning Bureau, *Centraal economisch Plan 1992 (Central economic plan for 1992)*, The Hague, 1992, p. 258-9; Organization for Economic Co-operation and Development (OECD), *Economic surveys; The Netherlands*, Paris, 1991.

^{3]} Commission of the European Communities, *Conclusions and recommendations of the Committee of independent experts on company taxation*, Brussels, 1992.

Table 4.2 Structure of public sector receipts and outlays as a percentage of GDP

	The Netherlands 1990	OECD average*
Receipts		
Total direct taxes	15.5	16.1
including: Households		13.2
Business	3.4	2.9
Indirect taxes	12.4	13.8
Social security contributions	17.0	11.7
Property and entrepreneurial income	3.3	2.9
Total receipts	48.1	44.5
Outlays		
Government consumption expenditure	14.8	18.1
including: Wages and salaries		12.2
Debt interest payments	5.8	5.6
Transfer expenditure	27.2	17.3
Subsidies	2.5	2.4
Government investment	2.3	2.7
Capital transfers (net)	1.6	0.6
Other transfers and capital consumption	-0.7	-0.7
Total outlays	53.4	46.0
Net lending	-5.3	-1.4

*) Average 1989, excluding USA, Greece, Iceland, Luxembourg, Norway, Portugal, Switzerland, Turkey and New Zealand.

Source: OECD

Note: These figures may differ from the official National Accounts.

The Netherlands will probably manage to meet the EMU condition of a budgetary deficit not exceeding 3 per cent GDP by 1994. Another EMU requirement is a gross public debt not exceeding 60 per cent of GDP. In 1991 The Netherlands had a gross public debt of 80 per cent. This is the primary obstacle to meeting EMU criteria. There is, however, one argument which might prove valuable in this respect. In contrast to other EC countries, The Netherlands has a capital cover system for financing civil service pensions. If these funds (which equal roughly 30 per cent of GDP) were to be counted as public assets, the EMU norm could easily be satisfied. In that case neither the public debt, nor the government deficit would pose insurmountable obstacles for entry. The relatively low proportion of government investment caused by the high level of transfer expenditure, however, does result in a need for (further) reductions in public expenditure. Demographic developments will serve to reinforce this argument (see Chapter 7).

Consequently, a key issue in the public sector will be the continuous reform of public finance. Policy competition generated by the process of European integration results in a dual task: a) to reduce the high level of government expenditure by reducing social security costs, and b) to reshuffle the government budget in favour of public investments in the physical, technical, scientific and education infrastructure required by a competitive business environment.

Not all investments in infrastructure need to be government investments, however. Some are strictly private (for example, R&D investments by private

companies), some are public-private, whereas others are 100 per cent government investments. Consequently, an international comparison of government investments in infrastructure fails to provide a 'hard' indicator for the comparative quality of that infrastructure. Other indicators do reveal the necessity of continuing government and private investments in infrastructure: for example, traffic congestion, environmental problems, the growing relevance of global transport chains, R&D and the increasing relevance of education and 'education permanente'. Of course, investments in infrastructure are not only a shaping factor for the business environment, they also form a separate branch of industry themselves.

4.4 Public administration

During the eighties, exercises in privatization, deregulation and decentralization were conducted to create smaller and more effective public administrations. The results until now have not been impressive. Employment of civil servants even rose (in persons as well as in labour years). Nevertheless, some success has been achieved, for instance in the decentralization of social services, the privatization of the PTT, diminished interventions in wages and prices, and the tripartition of the Employment Services.

The diagnosis for public administration in The Netherlands does not differ much from that in other western countries: the welfare state is in trouble. Welfare guarantees turned out not to be forever, and they had unexpected, undesirable consequences. The state proved unable to react promptly and effectively to economic and technical pressures. These problems seem to some extent irreparable. A hallmark of any constitutional state is that it provides its citizens with rights (as well as duties). Of course the enactment of these rights may lead to unforeseen consequences. It is not always possible or desirable to (immediately) change rights and rules according to changing circumstances. Until now, solutions for government reactions to changing circumstances and unintended consequences of government interventions, have mainly been found in the shape of formal goals. On the other hand, decentralization, privatization and deregulation are no guarantee of success. A lesson for the nineties might be that new policies are inevitable, also as far as their content is concerned.

Notwithstanding actual government efforts to maintain the present structure of the Dutch welfare state, a return to key activities may become necessary during the nineties in the fields of social security, health care, social services and housing. In these areas government's key activity might become restricted to providing guarantees for merely minimum subsistence, albeit at a civilized level. Additional social security and social provisions could be obtained via private insurance.

Market forces will probably be (re-)introduced in many areas, for instance in labour market and training facilities, and in the further development and administration of physical, educational, scientific and technical infrastructure. Competition among public and private suppliers of further training may enhance the quality of the 'education permanente'. Public-private partnerships may enlarge the financial capacity for investments in infrastructure. Private execution of public policies could reduce costs and enlarge the flexibility of the public sector. As a result, the provision of public goods will increase its share in total government activity, at the expense of the provision of merit goods and executive and administrative functions.

4.5 Regionalization

There are regions emerging in the European landscape which serve as new administrative actors. This is the result of Europe's regional policy to support developing regions, on the one hand. On the other hand, it is a question of economic and political development. Regional-economic specialization is linked to specific infrastructural provisions. Administrative cooperation on a regional scale is a powerful instrument in the process of policy competition, especially with regard to investments in infrastructure. In many respects, the regional level is more relevant for decision-making than that of cities or the national state.

Two such 'Euregions' are emerging within The Netherlands, in addition to the Randstad. The Randstad is the economic, social and cultural centre of the country. It includes the harbours of Rotterdam and Amsterdam, Schiphol airport, a wide variety of services, vegetable, flower and fish auctions, various forms of higher education including six universities, many tourist attractions, etc. The Randstad is a major logistic centre in Europe. The installation of a Randstad authority might, according to some observers, reinforce the status of this region in Europe. Until now, however, proposals aimed at installing regional public authorities have not met with much support ⁴.

Another main Euregion is the area encompassing Maastricht, Aachen (Germany), Hasselt and Liège (both Belgium). Until recently, the connections between these cities were poor, but this situation is improving. Maastricht is developing into a Euregional centre of trade, services (conferences, higher education) and tourism. Expansion of Maastricht Airport, direct rail connections between Brussels, Maastricht, Aachen and Cologne and motorways connecting Maastricht with Brussels and Aachen would most likely reinforce the standing of this Euregion. Maastricht will shift southward, from a Dutch perspective.

The Euregion between Rotterdam and Antwerp is also slowly emerging. It has an enormous potential of becoming a competitive transport and transshipment centre which could rise to the competitive challenge resulting from the Channel tunnel and TGV network. These have, up until now, mainly been developed along the London – Paris – Frankfurt lines. Other economic pillars might be transport, metal trades (for example, machine- and shipbuilding) and services. A main precondition for further development of this Euregion is cooperation and division of labour between the two competing, major international ports. The appropriate local and national authorities will have to cooperate on this issue. A second condition is the further development of an efficient infrastructure.

The manner in which devolution of powers will enable urban regions in The Netherlands to attract investments is of particular significance. Dutch cities have, until now, been restricted by unusually strict financial regulations which allowed them little freedom to take the initiative and compete with other EEC regions ⁵. Nor do the Provinces have much scope in pursuing regional policies. Moreover, the borders of Provinces are not the same as those of emerging economic (Eu)regions. There are two incentives which might enable local authorities in The Netherlands to further develop competitive regions. The first is more scope for administrative manoeuvring, which includes more far-reaching jurisdiction in imposing local taxes. Public-private partnerships are

⁴] P. Fortuyn, *Zonder ambtenaren; de overheid als ondernemer* (Without civil servants; the government as entrepreneur). Amsterdam/Antwerp, Veen publishers, 1991.

⁵] Netherlands Scientific Council for Government Policy (WRR), *Institutions and Cities; The Dutch Experience*, The Hague, 1990.

a second potential means of overcoming financial restrictions. A necessary condition is that all public and private actors (are prepared to) consider economic-geographical regions as primary instruments in international competition.

4.6 Planning procedures

An important problem are the long periods of time required before infrastructural projects can even get under way in The Netherlands. This is caused by lengthy preliminary discussions, planning procedures and elaborate provisions designed to allow interested parties their say. It is generally believed that procedures for major projects are more time-consuming here than in competing countries. This is, however, difficult to prove. What is true is that discussions concerning a direct rail connection tying Rotterdam with the German Ruhr valley first began in the thirties. On the other hand, the initiation of the quite extensive Delta Project (network of dams in the south-western part of The Netherlands) is an example of speedy decision-making (which followed large-scale floods in 1953).

Long lead times are characteristic of any constitutional state. They reflect the need for legal security and constancy in economic interaction. Security and constancy have their economic price, however. The rate at which infrastructural projects are executed is a major weapon in international policy competition. Ways of shortening Dutch procedures to a (presumed) 'European average' are now actively being sought and considered. The actual proposals (Tracé law, Nimby law = Not in my backyard) make a clear choice in favour of centralization in decision-making, as well as concentration and standardization of procedures.

4.7 Conclusions

A major contributing factor of the future business environment is the success or failure of efforts aimed at improving the efficiency of the political and administrative sector. The outcome will substantially determine the Dutch level of competitiveness, as well as its ability to attract business and investment. One major test will be whether The Netherlands succeeds in reshuffling the government budget. A reduction in the share of transfer incomes in favour of public investments would make a significant contribution towards the creation of a competitive business environment.

quality of health service, which is largely financed by public funds. This is also true of education, which is almost completely dependent on public finance, and the social services. Compared with other countries, the Dutch system of social security is a generous one.

Although the mixed economy and the welfare state have proven they can stand the test of time, the actual shape they take has not. Privatization, flexibility, deregulation and re-evaluation of arrangements for care will continue to be important policy issues during the nineties. Further implementation of these goals will be enforced via the ongoing process of policy competition. The mixed economy and the welfare state must meet the standards of increased economic competition.

Neo-corporatist decision-making has also come under attack. The Dutch 'consultation economy' has been described as an economic system in which several processes of economic coordination and decision-making function side by side. These include market, governmental decision, consultation between unions and employers' federations and tripartite decision-making. Neo-corporatist decision-making is found at:

- the macro level: by means of (scarce) central agreements on major socio-economic topics between employers' federations and trade unions in the (bipartite) Trade Union Federation; government is directly or indirectly involved in these agreements. For all important decisions in the socio-economic field, the government is legally obliged to consult the Dutch Socio-Economic Council (SER), where employers and unions are represented and joined by independent experts.
- the meso level: the Dutch minister of Social Services and Employment declares the main results of collective bargaining as generally binding for all firms in a branch of industry. Government, unions and employers have joint administrative powers within some branches of industry. Furthermore, the (central and regional) Employment Services have tripartite boards. Social security insurance is administered by representatives from employers and unions.
- the micro level: here consultation of employees is stipulated by law. According to the Works Councils Act, any enterprise employing more than 100 persons is required to set up a works council for the purpose of consulting with the workers' representatives. The Work Environment Act is based on the concept that employers and employees must cooperate on issues of safety, health and welfare provisions within the enterprise.

Dutch neo-corporatism has strong support among political parties, unions, employers' federations and academics. This support is based on a belief in its potential for promoting economic growth along non-conflicting lines. There is, however, also criticism: Dutch neo-corporatism could hinder the functioning of the market. One aspect currently under attack is that of the minister of Social Services and Employment declaring the main results of collective bargaining generally binding for all firms within a given branch of industry.

The relevance of this criticism can be illustrated in the following manner. The lowest wages in collective agreements are on average 10 per cent (1990) above the statutory minimum wage. Collective agreements apply to 75-80 per cent of Dutch workers. The costs attached to paying a statutory minimum wage are high, compared with rival countries. The costs of paying the *de facto* minimum wage are consequently even higher. This is one of the reasons behind the low employment rate among adults with lower or only basic education. In general, the practice of declaring (main clauses of) collective agreements obligatory for branches of industry is said to favour existing companies, as well as workers (insiders on the labour market), at the expense of outsiders (new establishments, young people, the unemployed, women and migrants). Reality is more complex than theory, however. Within the practice of collective bargaining, Dutch government, management and labour unions exclude outsiders, while simultaneously trying to compensate for damage by providing employment for the unemployed, minorities, etc. (without overwhelming success, however). There are also advantages in declaring (main clauses of) collective agreements obligatory for branches of industry:

Public sector prospects until 2010

SHAPING FACTORS

- Entry into EMU
- Continuing need for coalition governments
- Pressures for further budgetary reform geared to policy competition
- Need for more efficiency in public administration
- Regionalization
- Increased competition among urban agglomerations on EC level

EC DEVELOPMENTS

- EMU and EPU
- Further fiscal harmonization
- (Limited) fiscal powers for Commission
- More emphasis on Euregions
- European urbanization policies

(DUTCH) GOVERNMENT REACTIONS

- Reshuffling of budget to meet EMU criteria
- Reduction of transfer incomes (welfare benefits, housing subsidies)
- Increase of public (infrastructural) investments
- Decentralization, deregulation, privatization
- Shortening of planning procedures
- Public-private partnerships

BUSINESS REACTIONS

- Further concentration in services and industry
- Expansion of construction and building industry on European scale
- Expansion of insurance companies (health care, pensions, etc.)
- Linkages between business and education
- Participation of industry in (urban) development schemes
- Growth of international (European) business consultancies

5.1 Introduction

Socio-economic institutions deeply affect the business environment. They produce both formal rules (laws, public and private regulations, etc.) and informal guidelines (cultures of decision-making, norms, habits, etc.). These institutions reduce the level of uncertainty, facilitating economic contacts and contracts. They display a considerable degree of tenacity. Although institutions can be changed, this neither occurs all at once, nor completely according to some master plan. It is a combined result of global and national shaping forces, actions and reactions by actors in the socio-economic field, and past strategic choices. The considerable amount of (neo-)corporatist decision-making involved in Dutch socio-economic relations is typical. Conversely, the Dutch state plays a major role in industrial relations (even if it is a decreasing one).

Another striking feature of prevailing socio-economic relations in The Netherlands is the low level of participation in paid employment. It is related to specific institutional arrangements such as breadwinner provisions and social security arrangements. Increasing competition in the private sector, as well as the need for competitive government policies, justify a national effort aimed at raising the level of labour force participation. This would be in line with the social process of individualization. Many women are striving for economic independence, the number of children per family has diminished, divorce rates are high and demographic development shows a trend towards more one- and two-person households. An effort to raise the employment rate could provide a major shaping factor for the business environment in the decades to come.

These aspects of Dutch socio-economic relations will be addressed in more detail in the following sections.

5.2 Neo-corporatism

The compromise reached in The Netherlands after the Second World War still applies today: both in economic terms, by means of the mixed economy, and in social terms in the form of the welfare state. This consensus model forms the basis for the high level of socio-economic stability characteristic of Dutch society. The country's socio-economic administration also relies on a variety of tri- and bipartite decision-making structures. This partly accounts for the importance placed on reaching agreement along non-conflicting lines. Distribution conflicts are apparently resolved peacefully, given the relatively small number of strikes. At the root of the mixed economy is the acceptance of government involvement within the existing economic order, as well as that of the market mechanism. The government stipulates conditions and rules with respect to how the market should function. It steers in both a broad and conditioning sense, and is economically active. This is particularly true wherever private initiative has not taken advantage of repeated opportunities, or is unable to maintain the momentum of economic projects or even launch them. In addition, the government plays an important role in the exploitation of natural resources (natural gas, water and oil). Neo-corporatist decision-making is at the heart of the Dutch mixed economy. Unlike a country such as Sweden, neo-corporatism here is still supported by employers and their federations. Of course, the practice of neo-corporatism is frequently criticized.

The Dutch welfare state consists of a number of arrangements providing citizens with financial aid covering virtually all contingencies, from child support to unemployment, sickness, disablement or old age ('care from the cradle to the grave'). The Dutch highly value their system of social security, as well as the

- it may prevent a process of underbidding in collective bargaining (or overbidding, in the event of shortages on the labour market);
- it reduces the number of strikes;
- it promotes efficiency in bargaining processes.

Two future developments are feasible with regard to neo-corporatist decision-making. Tripartite decision-making might gradually be replaced by market principles, on the one hand, and strict governmental decision-making (with no consultation of employers' federations and/or unions), on the other hand. Such a development is consistent with trends towards decentralization, flexibility and internationalization. At the moment, Sweden provides a good example of such a development. It is also consistent with the low representation of Dutch unions. It might also be a consequence of failure in restoring the Dutch consultation economy to current economic and internationally political standards. In this case the disadvantages of neo-corporatism, that is bureaucracy, reduction of political democracy, inflationary pressures, interference with long-term state planning procedures, and exclusion of outsiders, would outweigh the advantages. Potential advantages of neo-corporatist decision-making are: reduction of conflicts, social coordination, strengthening of social democracy, and synergy. The result might be a more conflict-ridden economy with increased social inequality.

The other, less probable, development is a revitalization of the consultation economy. Revitalization would primarily imply more emphasis on production and less on the distribution of income. This (revitalized) continuation of neo-corporatist decision-making would be in line with the tenacity of existing structures. Such a revitalized consultation economy might contribute towards a competitive business environment similar to the first option: an erosion of the consultation economy. In a revitalized consultation economy the pros of neo-corporatism would outweigh the cons. Such a revitalization must involve all relevant actors: government and government agencies, management and their associations, as well as the unions.

5.3 Industrial relations

A striking element of the Dutch system of industrial relations is the dominant role played by central government within labour relations. The centralistic nature of decision-making in the socio-economic sphere and in collective bargaining is closely related to this. A third point concerns the high level of trust placed in tripartite consultation. Additional characteristics include the labour force's high level of contentment, the way participation is firmly grounded in legislation, and the weak position held by the trade union movement within companies and institutions. Dutch industrial relations are generally of a non-conflicting nature (the number of days lost to strikes is the lowest in Europe).

There has been a tendency towards decentralization in industrial relations since 1982. Decentralization was paradoxically the theme of the *Central Recommendations* agreed to that year within the Federation of Netherlands Industry. Since then the national government has refrained from direct intervention of wage control in the market sector (this was not unusual during the 1972-1982 period; between 1945-1963, government was the major decision-maker with respect to wages). During the eighties socio-economic matters became more the concern of government, management and labour unions. Collective agreements began granting more freedom to individual enterprises and institutions in filling out the details as they wished. With respect to the business climate, this means that the employment situation within a firm can become more tailor-made than previously.

The Dutch system of industrial relations has a consequence which may not be immediately obvious: as the following section will show, it contributes to and tends to perpetuate a low level of participation in paid employment.

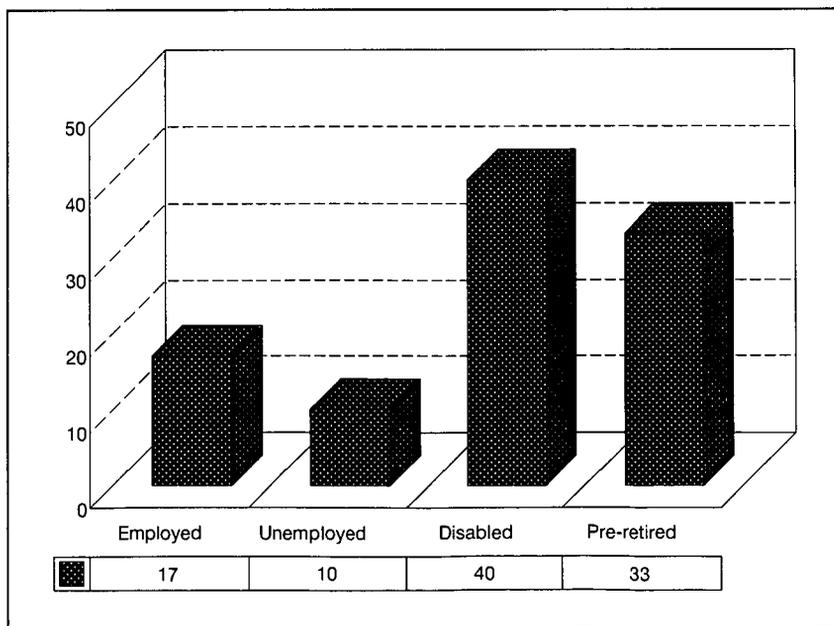
5.4 Participation in paid employment

5.4.1 Nature of the problem

Not enough Dutch people are working. The percentage of those in paid employment contrasts sharply with that in a number of other industrialized countries. In The Netherlands, for every 100 inhabitants between the ages of 15 and 65 (not including school children and students), 62 are in paid employment. Although this is in line with the EC average, it is lower than in the United States or Japan, where 10-11 more are working, for every 100 adults. It is also less than in the Scandinavian countries, where an average of 16 additional adults are working for every 100 (1990 figures). Furthermore, many people only work part time. In 1991 one-third of Dutch employees had part-time jobs. If labour force participation is expressed in labour years (full-time jobs), instead of persons, The Netherlands contrasts sharply with the EC. Calculated in full-time jobs, the level of Dutch employment is a full 4 percentage points below the EC average (1990). That is to say, there are 4 fewer full-time jobs per 100 adults than in the EC as a whole. Only Spain and Ireland have a lower level within the EC. Lastly, in The Netherlands the contractual number of hours worked in a full-time job is also one of the lowest in the EC and OECD.

This relatively low level of participation in paid employment is related to a number of factors. It may be attributed to the country's still sizeable unemployment, the large number of those receiving disablement benefits, and the low level of participation among women and older men. Employees older than 55 are quite scarce, and those older than 60 years of age are almost extinct. Older employees are disappearing in huge numbers via the WW, WAO or VUT (Unemployment Benefit Act, Disablement Benefit Act or Pre-Retirement Schemes, respectively)¹.

Figure 5.1 Position of men aged between 60-64 years (1989)



¹] Netherlands Scientific Council for Government Policy, *Work in perspective; Labour participation in The Netherlands*, The Hague, 1990.

The specific nature of Dutch institutional arrangements explains a great deal about the low employment rate.

1. The numbers of unemployed, disabled and those on pre-retirement are high, compared with other European countries. These three routes of premature exit are, to a certain degree, communicating vessels. In the financial sense, (long-term) unemployment is the least attractive of the three.

The Dutch volume of unemployment is not only related to economic circumstances, but also to the way unemployment insurance is administered. Sufficient active measures are not available yet. Sanctions are hardly applied when unemployed do not want to participate in training, work-experience, etc, or when they do not take advantage of job opportunities. Moreover, for many unemployed who are also breadwinners, there is no incentive to (re)enter the labour market as there is no – or only a minor – difference between net social assistance (for families) and the net minimum wage to be earned.

The disability provisions are less unattractive than unemployment benefits: the benefits are 70 per cent of the former wage (salary), and in practice, there is virtually no obligation to re-enter the labour market. As the Dutch disability regulations are misused as a so-called 'social' route of premature exit, the percentage of disabled is twice to three times as high as in surrounding countries.

The pre-retirement schemes which almost all industries practice are, however, the most attractive, starting at 60 years (on average). Benefits are 87,5 to 90 per cent of the former wage (salary).

2. Breadwinner provisions in income tax and social security are another cause of the low employment rate. One example is the transferrable personal tax allowance on income tax. If one partner does not make use of his or her personal tax allowance, this can then be transferred to the other partner, which means the tax benefit is not lost in the case of people not participating in the labour market (mainly housewives). Other examples include the non-contributory status of dependent partners in the national old-age pension scheme and national health insurance. These provisions provide built-in protection for breadwinner households. They enable partners (in practice women) to withdraw from the labour market without causing undue effects on the household's income. The obverse of this situation is that (re-)entering the labour force has no more than a minor effect on income. Besides the normal marginal pressures of taxation and social security contributions, the loss of breadwinner allowances means that the household's first income is more heavily taxed.

In 1991 official unemployment was 5.4 per cent of the labour force, while the somewhat less restrictive CPB figure was 8.1 per cent. Unemployment hits specific groups disproportionately. Approximately 70 per cent of those unemployed and seeking work are younger than 25, female or immigrants.

The number of those receiving a disablement pension amounts to 12 per cent of the labour force (1990). This is approximately twice as much as in neighbouring Germany or Belgium, and points to a considerable amount of hidden unemployment².

Unemployment notwithstanding, there are shortages in certain sectors of the labour market, including the supply of unskilled labour.

This creates the paradox of a low level of participation in the labour process combining with both high unemployment and vacancies, which under present conditions, prove difficult or even impossible to fill.

²] R. Prins, *Sickness absence in Belgium, Germany (FR) and the Netherlands; a comparative study*; Maastricht, 1990, L.J.M. Aarts, Ph. de Jong, *Economic aspects of disability behaviour*; Rotterdam, 1990.

5.4.2 Arguments in favour of a higher participation rate

Viewed from a perspective of policy competition, the low rate of labour participation is a reason for concern. In the future The Netherlands will have to compete with other countries in such fields as education, science, technology and physical infrastructure. A competitive level of participation in paid employment is a necessary precondition for the creation and maintenance of a high-quality and stimulating infrastructure in all these areas.

The need for a higher level of labour participation does not, however, only rise out of economic motives. Unemployment leads to social exclusion and therefore, is unacceptable. Mass unemployment is even more unacceptable, as paid employment is the most important factor in the distribution of income, power, status and cultural participation. The labour process is an important means of achieving social cohesion. The smaller the proportion of the population participating in society via the labour process, the heavier the demands on other institutions to generate the necessary social integration. It is precisely at the present time, when traditionally integrative frameworks such as church, family and neighbourhood are in decline, that participation in the labour process is so crucial to the cohesion of society as a whole. Improving the chances of employment also corresponds with the ambitions of an increasingly large percentage of the population. That is not only true for the untapped 'female capital' and/or younger men; quite a number of older unemployed people would gladly (re-)enter paid employment, if only they could find work befitting their age and abilities.

An increase in the level of labour participation is also necessary from a demographic point of view. The increasing number of elderly people in The Netherlands, combined with a decline in the number of children, will make it increasingly difficult to guarantee social welfare benefits, especially those based on labour contributions. The demographic pressure will, as long as other circumstances remain stable, result in a situation where the ratio of working population to those on benefits (General Old-Age Pension, General Widows' and Orphans' Benefits, Pre-Retirement Scheme, Disablement Benefit, Sickness Benefit and Unemployment Provisions) will deteriorate from 0.65 in 1988 to 0.70 in the year 2000 and 0.80 in 2010. The absolute and relative increase in the number of elderly will exert increasing pressure on public expenditure, particularly with respect to medical care and social services. The financial backing for this expenditure is at the same time, however, decreasing at a similar rate.

5.4.3 Possible solutions

The improvement of labour participation has been a goal of successive Dutch governments. The following measures would undoubtedly improve the situation:

- implementation of a labour-market policy activating the long-term unemployed;
- more temporary employment and agency employment;
- institutionalization of a system of vocational education on a recurring basis. Technical, market-economic and demographic developments (ageing) will necessitate the (further) development of a competitive training infrastructure for those in, as well as those seeking, paid employment;
- continuing wage restraints (while Dutch net wages are relatively low, total labour costs are high, in comparison with competing countries);
- increased differentiation in labour costs (wages in The Netherlands are based on high foundations, due to the level of the statutory minimum wage);
- encouragement of women to participate in the labour process, particularly through incentives (gradual abolishment of the system of tax transfers for non-working partners), as well as through providing facilities for the combination of parenthood and paid employment (by means of childcare, parental leave, etc.);

- prevention of premature retirement on the part of older employees;
- prevention of inability to work, and reintegration of the long-term sick and disabled in as far as they are able to work.

Efforts to gear the Welfare State towards more incentives for entering paid labour, do, however, meet with considerable resistance from both the supply and demand sides of the labour market. Such efforts focus on the heart of the political debate, and ‘acquired rights’, or conditions so perceived, can only be modified with considerable political and social turmoil. This should be kept in mind when examining the prospects for development in this area.

5.5 The labour market in the decades to come

5.5.1 Starting-points

In a recent review, the OECD granted many superlatives to the Dutch labour market: ‘among OECD countries, The Netherlands has or is close to having the lowest older worker labour force employment rate, the highest incidence of part-time work, the highest productivity outside North America (when measured as GDP at purchasing power parity per person hour), the most extensive use of temporary work agencies, and the highest proportion of the population receiving disability benefits. The Netherlands has a high minimum wage, gives citizens extensive rights of access to social minimum (assistance) benefits also at a relatively high level, and the duration of wage-related unemployment insurance benefits is exceptionally age-related and on average is long. At the level of institutions, autonomous agencies in the labour market are remarkable for their number (which makes mutual co-operation both a habit and a necessity), for the extent of powers accorded to them by legislation, and for their role in giving the ‘social partners’ (employers and unions’ organisations) extensive powers in the labour market’³.

A feasible labour market scenario during the 1990-2000 period might be based on the following assumptions: (1) The participation rate of men up to the age of 55 will not change; (2) The participation rate of those aged between 55 and 65 will have been reverted to the 1982 level by the year 2000; (3) The participation rate of women will show a 1.5 per cent annual increase. According to this scenario, the growth in the labour force would be 755,000 persons (11 per cent) during the 1990-2000 period; the female labour force would increase by 473,000 (17 per cent) and the male labour force by 282,000 (4 per cent).

If age- and sex-specific participation rates were to remain constant at the 1990 level, growth in the active labour force would be 4 per cent by 2000. The difference between 11 and 4 per cent would be due to societal developments, and to policies on participation⁴.

The ageing of the population will not have a negative effect on the participation rate before 2000. During the 2000-2010 period, demographic factors will lead to a decline in the participation rate of almost one-half per cent per year. After 2010 the effect of demography again decreases⁵.

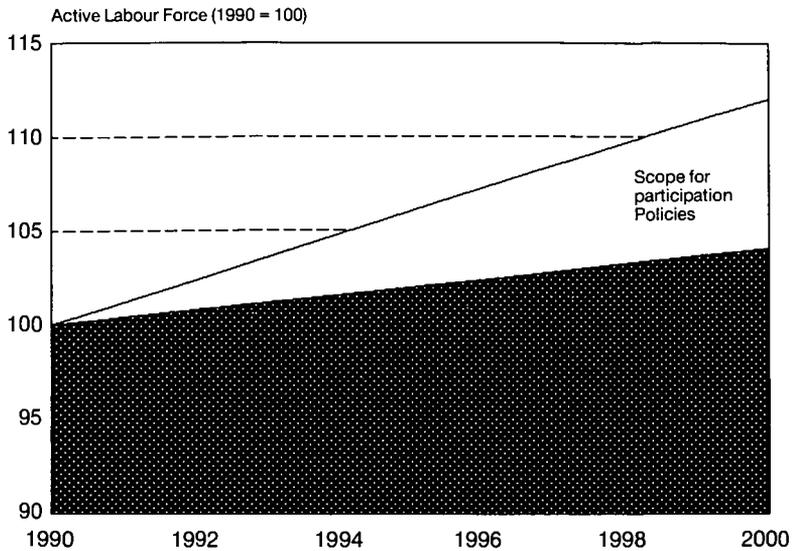
In the nineties, the business environment will have to reckon with a growing supply of male and female labour. The proportion of young workers will decrease. This will be compensated for by a steep increase in the number of older workers. The average educational level will also continue to rise. A growing segment of the (potential) labour supply will, however, because of

^{3]} OECD (Employment, Labour and Social Affairs Committee), *The Dutch Labour Market*; Paris, 1992.

^{4]} Cf. *Work in perspective*, op. cit. V.

^{5]} Cf. J.M. Bekkering, W.J. Dercksen, ‘Labour market: demography and policies’, in: *The Dutch labour market in 2000; Demographic changes & policy implications*, J.J. Siegers, F. Tazelaar (eds.), Groningen, 1991.

Figure 5.2 Scope for participation policies



continuing immigration, be from the lowest educational level, or even be illiterate. Participation in paid employment by those from the lowest educational level will be mainly determined by institutional conditions (for example, labour market provisions, conditions for obtaining social security and minimum wage). Anyway, it will be (well) into the next century before the Dutch activity rate, measured in labour years, reaches the EC average.

5.5.2 The importance of training

The prognosis on changes in the numbers of school-leavers is as follows.

Table 5.1 School-leavers aged between 15 and 64

1990 = 100			
Year	Men	Women	Total
1990	100	100	100
1995	94	97	96
2000	88	99	93

Source: *Arbeidsvoorziening, Schoolverlaterbrief 1991* (Employment Policy, School-leavers Figures for 1991); data obtained from the Ministry of Education.

Table 5.1 implies that labour mobility (from job to job), as well as the potential number of women re-entering the labour market will be of increasing relevance to the replacement of workers who leave the labour force, and to recruitment for newly created jobs. This is one of the main arguments in favour of an efficient infrastructure for (further) training. Public and private employers will have to invest substantial amounts in training. The record of private companies (more than five employees) is not bad, however. In 1986 1.5 per cent of the salary costs were spent on further training, and in 1990 this figure was 1.7 per cent⁶. These figures may be compared with the laws obliging companies in France (of more than ten employees) to spend 1.4 per cent of the salary costs on education (1992; 1.5 per cent in 1993). Additional arguments for further investment in training include the rapid obsolescence of knowledge and expertise due to technical, scientific and economic developments, the importance of training as means of combating unemployment, improvements in the quality

⁶] CBS (Netherlands Central Bureau of Statistics), unpublished data.

of work, the promotion of equal-educational opportunities and the improved distribution of educational funds. It may be assumed that these arguments will be the main shaping forces for further development of an infrastructure for vocational education and further training.

The distribution of responsibilities for equipping education and labour is changing. The business community is accepting more responsibilities in this respect⁷. Linkages between the educational and labour systems will probably expand (further training provided by companies or branches of industry, partnerships between schools and companies, partnerships between educational sectors and organized business, and apprenticeship programmes)⁸. Moreover, training is a relevant item for collective bargaining. An extension of training provisions via collective bargaining could be expected. In several cases provisions for training the unemployed and women re-entering the labour market are already part of collective agreements.

The financial responsibilities for institutional linkages of education and business are subject of decentralized decisions. The public sector will continue to shoulder the main financial responsibility for training the unemployed and re-entrants (irrespective of the possible privatization of public training institutes). Public and private employers will remain primarily responsible for training their own employees. The Dutch government subsidizes the launch of training programmes organized by branches of industry.

5.5.3 The influence of European integration

Will the 1992 Single Market alter the demand for labour? The 1992 measures by the European Commission are unlikely to directly affect the supply of labour. 1992 aims at the completion of the internal market, not its construction. The demand side will, however, undoubtedly be affected. Although a recent study predicts the net employment effect of the Single Market will be minor, it will still force 50,000 Dutch workers to change jobs⁹. The (expected) underlying mechanism stresses both the weaker and stronger aspects of Dutch branches of industry (manufacturing and services).

Consequences which may be more far-reaching are those concerning the free movement of people. Growing numbers of more 'adventurous' workers might search for jobs abroad. Private employment agencies could develop this market. The opportunity costs for less attractive jobs for workers from specific EC countries might be lower than the opportunity costs of their Dutch equivalents. It could very well be that a rich country such as The Netherlands, with its modest individual opportunity costs of unemployment, will prove unable to shake off its pre-1992 legacy of long-term unemployed.

5.6 Conclusions

The decentralization of industrial relations seems to be a solid shaping factor in the socio-economic area. It is in line with economic tendencies such as the shortening of product-life cycles, product differentiation, made-to-measure production and the replacement of Taylorite management practices with human resources management. The assumption that neo-corporatist decision-making will diminish, is more speculation since this is less dependent on

⁷] Cf. *Cooperating in vocational education; Covenant between government and central organizations of employers and employees resulting from the findings of the Rauwenhoff Commission 1991-1994*, Ministry of Economic Affairs, The Hague.

⁸] Cf. OECD/CERI, *Schools and Business: a new partnership*, Paris 1992; W. Dercksen, H. Kamps, *Linkages between education and business; towards mutual responsibilities*, Background paper, to be published in the proceedings of an intergovernmental conference on Business-education partnerships, jointly held by the Dutch Ministry of Education and the OECD/CERI.

⁹] T. Oegema, *De arbeidsmarkteffecten van 1992* (Labour-market effects of 1992), OSA-voorstudie V38 (OSA preliminary study V38), The Hague, 1990.

economic needs. The factual outcomes will strongly depend on the success of government, management and labour unions in making concern for production and participation in paid employment a number-one issue on their common agenda. The low employment rate is a main shaping factor of the Dutch business environment. If the Dutch do not succeed in raising this rate, prospects for the continuation of a highly developed welfare state are gloomy.

Socio-economic prospects until 2010
<p>SHAPING FACTORS</p> <ul style="list-style-type: none"> ● Consensual industrial relations ● Erosion of neo-corporatist decision-making ● Decentralization of industrial relations ● Diminishing number of school-leavers ● More women and elderly workers ● Higher (international) mobility of labour ● Hard core of long-term unemployed
<p>EC DEVELOPMENTS</p> <ul style="list-style-type: none"> ● European labour-market policies ● International vocational education and further training ● Harmonization of qualifications and business requirements ● Further social harmonization ● European cooperation among trade unions
<p>(DUTCH) GOVERNMENT REACTIONS</p> <ul style="list-style-type: none"> ● Emphasis on work over income ● Acceptance of dual labour market ● Recurrent education and vocational training ● More selective welfare arrangements ● Provisions for childcare and parental leave ● Less opportunities for early retirement
<p>BUSINESS REACTIONS</p> <ul style="list-style-type: none"> ● Longer production hours ● More employment opportunities for women ● Increased investments in training ● Differentiated pay structures; more low-paid jobs ● Strong dual-labour-market tendencies ● Flexible retirement ● European cooperation of employers' federations

6.1 Introduction

Socio-cultural relations are a major determinant of the business environment. It is difficult to be precise about the impact of values, norms and attitudes. Some are reflected in what is referred to as 'typically Dutch'. They certainly shape the business environment, but it is hard to measure exactly how and to what extent this occurs. It is easier to grasp the impact of processes such as decompartmentalization, demographic developments, individualization and migration. These developments will change the terms for business in general, as well as for specific branches of industry. Furthermore, the development of socio-cultural sectors such as health, education, housing and social security will affect the business environment either directly or indirectly. In turn, the socio-cultural field will be a main arena in the process of policy competition.

6.2 'Typically Dutch'

The English language is not very complimentary to the Dutch. Expressions such as 'going Dutch', 'Dutch comfort' and 'Dutch gold' all have negative connotations. Historians and sociologists provide more nuances. The Dutch historian H.W. von der Dunk pointed out three characteristics of Dutch society: the materialistic business spirit, the preacher's unswaying emphasis on religious doctrine and the flat nature of the country itself, with its straight lines and clear, simple forms¹. According to E. Zahn, the Dutch possess a latent religious attitude which presently manifests itself in a lively interest in issues of welfare and social justice, the considerable amount of aid contributed to third-world countries (compared with other developed countries), and a strong concern for environmental problems². Concern for human rights all over the world can also be added to this list. Not everyone, however, appreciates a clergyman, as the former colony of Indonesia demonstrated in the spring of 1992 when it rejected the continuation of Dutch aid after repeated Dutch protests against army killings in eastern Timor.

A spirit of liberty plus a lack of chauvinism are also said to be typically Dutch. This is, to the same extent, also true of tolerance. It is said that tolerance is rooted in the history of The Netherlands, since it is a nation of traders. Our forefathers had plenty of contact with foreign cultures and habits.

In 1579 The Netherlands became an independent state: the Republic of the Seven United Provinces. The actual 'consultation economy' (decisions are only made after extensive consultation with socio-economic organizations) is thought to be an inheritance from that political structure. All Provinces had to be consulted before decisions could be made.

In accordance with the empirical observation that the level of a country's actual inequality in income is related to its appreciation among the inhabitants, the Dutch distribution-of-income curve is rather flat. The Dutch have an ethos of equality, second only to the Swedes. Appropriately, business practices, as well as businessmen, are characterized by their lack of extravagance. Wealth should not be displayed in public. Finally, the Dutch appreciation of ambition and hard work is relatively low compared to other countries. However, practice often reveals a different reality.

¹] H.W. von der Dunk, 'Die Niederlande und Deutschland' (The Netherlands and Germany), in: *Die Niederlande: Korrespondenten berichten* (The Netherlands: Correspondants reports), Zürich, Hecht Verlag, 1980.

²] E. Zahn, *Das Unbekannte Holland: Regenten, Rebellen und Reformatoren* (The Unknown Holland: Regents, Rebels and Reformers), Berlin, Siedler Verlag, 1984.

6.3 Religion and compartmentalization

The Netherlands was a relatively religious nation until the sixties, mainly Protestant. Now 36 per cent of adult inhabitants are Roman Catholic and 32 per cent belong to one of the Protestant denominations (1989). Only 30 per cent attend church more than once a month. A comparative survey of nine EC countries (1981) also showed that the Dutch had lost their affinity for religious doctrines and institutions³. The Calvinist ethos is, however, deeply rooted in values and social norms.

In the past, religion was a dominant factor in society. The compartmentalization of Dutch society meant a peaceful coexistence in political and social life of organizations with similar goals, but different denominational bases (including religiously neutral organizations). This compartmentalization first emerged in education, later in politics, industrial relations, social services, radio, television, the press, sport and social clubs. As the Dutch sociologist Van Doorn puts it: in many of these areas the compartments run a show paid for by society. Because many political and socio-economic conflicts were regulated inside and between the compartments, the class structure in Dutch society has never been very marked. Secularization, as well as the development of the welfare state, the decline of manufacturing and (potential) class conflict, individualization and the information and telecommunication revolution have eroded away the foundation of compartmentalization. In many areas the old structures were all that remained as old ideologies disappeared. However, in some areas the old structures have been utilized for new aims. The recent establishment of a number of publicly financed Muslim schools is one such example.

Economic and policy competition will accelerate the replacement of old structures in broadcasting, the press, social services and industrial organizations with new, non-denominational organizations. In politics three rather large Protestant and Roman Catholic parties have already merged into the one Christian-Democrat Party (1980); three other Calvinist splinter-parties are still represented in Parliament. Decompartmentalization in education remains a touchy subject, however. The growing number of Muslims might be another reason for maintaining this rather expensive organizational pattern in education.

6.4 Demographic development

In general the demographic development in The Netherlands does not differ much from other industrialized countries. Until the seventies the population grew rapidly because mortality decreased and the (high) birth rate only started declining after 1965. The result for the decades to come is an ageing population. A closer examination of the facts reveals remarkable differences between The Netherlands and other European countries, however. A main reason is that the population structure was different in the sixties. Around the eve of the 'second demographic transition' (following the introduction of birth-control by the pill) only five European countries had a younger population than The Netherlands (Albania, Iceland, Poland, Yugoslavia and Turkey). The decline in the birth-rate since 1965 has been sharper in The Netherlands than in nearly all other industrialized countries. The proportion of young people dropped from 29 per cent to 18 per cent between 1950 and 1990 (see Table 6.1)⁴. Around 1990 the relative decline in number of young people came to an end. Life expectancy at birth in The Netherlands is among the highest in the world. The age structure of the population is consequently changing from a pyramid to a pillar. This pattern differs in two respects, compared with other industrialized countries.

³] Cf. Social and Cultural Planning Office, *Social and Cultural Report 1990; The Netherlands*, Rijswijk, 1991, pgs. 384-5.

⁴] OECD, *Ageing populations; The social policy implications*, Paris, 1988.

Table 6.1 Demographic indicators of OECD countries: 1950, 1990, 2010 and 2040

COUNTRIES	YEAR	%<15	%15-64	%65+	DEPEND- ENCY RATIO	OLD- AGEDE- PENDEN- CY RATIO	YOUNG- AGEDE- PENDEN- CY RATIO	MEDIAN AGE	FERTI- LITY RATE
The Netherlands	1950	29.3	62.9	7.7	58.8	12.2	46.6	28.03	3.10
	1990	18.1	69.2	12.7	44.5	18.4	26.1	34.86	1.62
	2010	16.4	68.5	15.1	46.1	22.1	24.0	42.77	1.80
	2040	16.3	58.9	24.8	69.6	42.0	27.6		1.80
(West) Germany	1950	23.5	67.1	9.4	49.0	14.0	35.0	34.60	2.10
	1990	15.1	69.4	15.5	44.0	22.3	21.7	38.36	1.46
	2010	13.2	66.4	20.4	50.5	30.6	19.9	44.81	1.42
	2040	15.2	57.2	27.6	74.8	48.2	26.6		1.42
France	1950	22.7	65.9	11.4	51.7	17.3	34.4	34.51	2.86
	1990	20.4	65.8	13.8	51.8	20.9	30.9	34.81	1.80
	2010	17.4	66.3	16.3	50.8	24.5	26.3	39.64	1.80
	2040	17.9	59.4	22.7	68.3	38.2	30.1		1.80
United Kingdom	1950	22.3	66.9	10.7	49.3	16.0	33.3	34.63	2.1
	1990	19.1	65.8	15.1	51.9	23.0	28.9	35.76	1.84
	2010	19.9	65.5	14.6	52.7	22.3	30.4	40.74	
	2040	17.9	61.7	20.4	62.1	33.1	29.0		
United States	1950	26.9	64.9	8.1	53.9	12.5	41.4	30.18	3.2
	1990	21.8	66.0	12.2	51.6	18.5	33.1	33.06	
	2010	19.3	67.9	12.8	47.2	18.8	28.4	38.69	
	2040	18.9	61.3	19.8	63.1	32.3	30.8		
Japan	1950	35.3	59.5	5.2	68.1	8.7	59.3	22.28	3.65
	1990	18.3	70.3	11.4	42.2	16.2	26.0	37.21	1.69
	2010	18.3	63.1	18.6	58.6	29.5	29.1	41.59	1.8
	2040	17.4	59.9	22.7	66.8	37.8	29.0		1.8
OECD	1950			8.5					
	1990	20.5	66.6	13.0	50.4	19.4	31.0		
	2010	17.8	66.9	15.3	49.5	22.9	26.6		
	2040	17.9	60.2	21.9	66.3	36.6	29.7		

Sources: OECD, *Ageing Populations; The social policy implications*, Paris 1988; United Nations, 1991; Eurostat, 1990.

First, the process is slower than in other EC countries, in particular the northern ones. So although the problem of an ageing population looms ahead, it is farther away than in competing EC countries. Secondly, the rate of population ageing is higher than in most other industrialized countries.

The actual age of the Dutch labour force is rather young, compared with other European countries. Between 1945 and 1965 fertility was much higher in The Netherlands (and Ireland) than in the other countries. For instance, the ratio of the population aged between 40 and 59, and between 20 and 39 is 66 per cent in The Netherlands; in the EC it is 80 per cent (1985)⁵. Both the fertility rate, and the percentage of 0-14 year-old children is now equal to the European average (1985). In the decades to come the population in paid employment will grow older. The gap between The Netherlands and other European countries, with regard to the age structure of the working-age population will disappear. Details will

^{5]} International Labour Office, *From pyramid to pillar*, Geneva, 1989.

depend upon the further development of fertility and migration (see for migration Section 6.10).

The relative growth of the number of very old people (over 80 years) will continue to be the case in The Netherlands, as in other countries. The rate of this growth is, however, expected to diminish from 3.5 per cent during the 1960-1990 period to 1 per cent during the 2005-2015 period ⁶.

6.5 Individualization

Individualization is the development whereby individuals become less dependent on their immediate social environment (family, neighbourhood, community) and more on distant and often more anonymous links (friends, sport club, school, company, state). Individualization is not a process of disintegration, whereby links merely become looser. It is a question of changing links; the network around an individual person encompasses many more other individuals and organizations. In the process of individualization the dependence of individuals on each other does not become smaller, but less permanent and more dispersed.

Individualization has a demographic and a socio-cultural component. The demographic aspect is reflected in the trend towards smaller households and longer lifetimes. The number of single homeowners in The Netherlands has increased considerably. The average number of children has declined and so has the period in which parents have their children living at home.

Individualization is also a socio-cultural process. Socio-cultural changes manifest themselves partly in the number of couples refraining from, or postponing marriage. A wide variety of primary relationships have emerged, such as 'living apart together' and short-term relationships ('serial monogamy'). At the same time, young people tend to leave home at an earlier age, and more often while still single (this trend seems, however, to be reversing during the past couple of years). Whereas in the past, there was a large group of women who never thought of going to work, now many (also married women) want to put their education and training to good use by earning money. Partner dependence is therefore making way for economic independence. This change is not only occurring among the younger generations at a fast rate, but also among the better educated age groups who were in their teens and twenties around 1968. Consequently, all kinds of breadwinner arrangements are losing ground (for example, in social security and taxation). With the so-called 1990 enactment, government policy has started to reflect this tendency towards individualization. The overall participation by Dutch women in paid employment is still rather low, viewed from a European perspective.

In 1960 57 per cent of households consisted of a married couple and their children; in 1989 this percentage had fallen to a mere 35 (see Table 6.2).

In 1986 57 per cent of Dutch people lived in a household consisting of a married couple and children living at home; only ten years earlier this figure was 63 per cent ⁷. In the course of the nineties this percentage will probably sink below 50 per cent. As a result, statistically the nuclear family will lose its majority position. Together with the increasing level of female participation in paid employment, individualization forms an important factor for the business environment of the future: purchasing power will not only rise, it will also be put to uses more appropriate to the needs of single people, double earners, and the (very) elderly. On the other hand, individualization, as well as the process of secularization, may increase the number of lonely people. In a sense, loneliness has replaced the (sometimes suffocating) social control exercised by family and neighbourhood in the past. Remedies for loneliness are not easy to find and remain limited in their effect.

⁶] CPB, *Nederland in drievoud*, op. cit.

⁷] Netherlands Scientific Council for Government Policy, *Work in Perspective*, summary of the 38th Report to the Government, The Hague, SDU, 1991.

Table 6.2 Households* by composition 1970-1988 (in %)

	1960	1970	1980	1989
One-person households	12	17	21	29
Couples without children	23	24	23	22
Couples with children	57	53	44	35
Single-parent families	6	5	6	7
Non-family and other households	2	1	6	7
Total	100	100	100	100
Average number of persons per household	3.6	3.2	2.8	2.4

Source: *Nota Inkomensbeleid 1992* (1992 Incomes Policy Memorandum); Parliamentary Proceedings 1991-1992, Tweede Kamer (Lower House), 22305, nos. 1-2, pgs. 10-11.

* Non-family households are: multi-person households other than a family; unmarried cohabiting couples. A family is: a couple with or without children and one-parent families. Other households are: family households with other household members not forming part of the family and multi-family households.

6.6 Public health

As already mentioned, life expectancy at birth in The Netherlands is among the highest in the world. The country has an excellent system of health care which, in principle, is available to everyone. Financial solidarity is the basis of the system. The Dutch do not tolerate great differences in health care. The two-tier system of statutory and private insurance (depending on income) is rather exceptional within Europe. As much as 8.4 per cent of GDP is spent on health care. The supply side consists largely of private institutions. During the 1990-2000 period, costs will rise by roughly 10 per cent, merely as a result of the expected demographic changes. By 2010 those changes will raise the cost index to almost 120 (1990 = 100). As in other countries, advances in medicine and technology will stimulate further increases in expenditure.

Starting in 1992, a new insurance system will be introduced, gradually providing a statutory basic insurance for everyone. Public institutions, as well as private insurance companies, will provide this basic insurance. The new system is aimed at controlling the growth in public expenditure on health care. This is done by separating the demand for health care into public (basic needs) and (additional) private flows. Market principles such as competition among suppliers of medical care, will be introduced into the new system. Furthermore, more attention will be paid to preventive care, which is mainly the responsibility of municipal and regional health services, industrial and school-medical services and childcare clinics. It is not yet clear how responsibilities will be redistributed and where, in practice, the borderline between public and private responsibilities will run.

The new system of health care will certainly have to address the following (already existing) problems:

- the control of public expenditure;
- the prevention of (regional) monopolies on the supply side, as well as on the demand side (insurance companies);
- the provision of made-to-measure care;
- questions regarding (among others) euthanasia, *in vitro* fertilization and the scarcity of specific medical provisions;
- quality control.

The question of quality control is related to the important issue of responsibility.

In conclusion, the European context and demographic development will probably impose savings on the (statutory) basic insurance. At the same time, economic growth will provide more scope for an expansion of private demand in health care. Shaping forces for business in this branch of industry will therefore be on both the supply and demand sides. On the supply side there is more scope for private suppliers and pharmaceutical 'tourism'. On the demand side there is growth in public and private expenditure, industrial medical services and medical 'tourism'.

6.7 Education

The Dutch education system is complicated, compared with other countries. There is a wide variety of schools. For this reason, the educational level of the Dutch working-age population could be undervalued in international comparisons. According to an OECD review, however, the quality of the educational system is both an economic and a social asset to Dutch society. The educational level has risen considerably during the past decades. It is now relatively high and will continue to rise in the decades to come.

Table 6.3 Educational level of the population aged between 15 and 64 in 1990 and 2005

percentages of the total		
Educational level	1990	2005
Men		
primary	16	10
extended primary	28	24
secondary	38	39
higher	18	27
Women		
primary	20	12
extended primary	34	30
secondary	32	34
higher	14	24

Source: CPB, *Nederland in drievoud; Een scenario-studie van de Nederlandse economie, 1990-2015 (The Netherlands viewed from three perspectives; A scenario study of the Dutch economy, 1990-2015)*, The Hague, 1992.

Table 6.3 also shows that differences in educational levels between men and women are expected to diminish. They will, however, still exist during the first decade of the next century.

Future problems in the educational system include finding balances between centralization and decentralization, between equality on the one hand and selection based on performance on the other, and finally between the student's freedom of choice and social and economic requirements⁸.

Educational qualifications no longer last for life. A weak point in the Dutch educational system is the neglect of continued adult education. This qualification only holds true in comparison with other countries of northern Europe. A lack of reliable data prevents a precise comparison of the Dutch 'education permanente' with that in other countries.

^{8]} OECD, *Review of national policies for education: Netherlands*, Paris, 1991.

A competitive business environment requires a coherent and lasting system of vocationally oriented continued education for the employed and those seeking work. Such a system should be flexible. The introduction of market principles in the public branches of continued education may provide some flexibility. On the one hand, the demand side (firms, employment services and civilians) should have sufficient freedom of choice in the educational supply. On the other hand, training institutions need signals from the market in order to adapt to changing circumstances.

There are two reasons why training and retraining are appropriate subjects for collective bargaining:

- the value of making a system of vocationally oriented recurrent education accessible to all (currently the younger, better-educated, male employees are over-represented in training);
- different needs and interests of firms and branches of industry.

For the last couple of years, training actually has slowly been emerging as a subject to be discussed in collective bargaining within The Netherlands.

Another weak point in the Dutch educational system is the first phase of secondary education. Reviewers from the OECD were perplexed by the wide variety of secondary schools. The isolated nature of lower vocational education, in particular, is a problem. This type of school produces an alarming number of pupils who finish school without any prospects on the labour market. Unemployment among these school-leavers (with a certificate) is even higher than among dropouts from other types of school. The forthcoming introduction of so-called continued basic education (that is, education of a general nature) in all secondary schools will probably make this situation even worse. For different reasons, many pupils in lower vocational schools are not too interested in education of a general, often theoretical nature. The educational system up to now has not adequately addressed the question of how to deal with children who are already labelled 'losers' by the age of 14.

In industrialized countries, effective education policies are a matter of continual reform. The main objectives in The Netherlands during the nineties will be:

- improvement of the linkage between education and business by the further introduction of a dual system of vocational education and their equivalents;
- the introduction of apprenticeships for dropouts;
- the extension of continued education and training for employees, especially the older ones and those with low educational qualifications;
- active labour-market policies for the unemployed and for women re-entering the labour market;
- the extension of basic education (including courses in the Dutch language) and other educational facilities for immigrants and other ethnic minorities.

A successful implementation of these objectives will prove to be an important stimulus for a competitive business environment.

6.8 Housing

The Dutch housing stock is younger than that of competing countries. Seventy-three per cent of houses have been built since the Second World War. The average quality is high. In inner cities many old houses have been renovated. Far-reaching housing and rent policies served to advance construction. After the war, the main motives behind these policies included the extreme scarcity of houses, and the goal of making decent housing a reasonable objective for everyone. Later new motives emerged: to improve living conditions and to prevent the formation of urban ghettos.

Since at the moment, initial housing problems have for the most part been solved, unintended and undesired consequences of these policies have come to

light. One main consequence is the lack of differentiation in many neighbourhoods. Under present circumstances, the construction of more expensive houses and apartments, especially in town centres, is considered necessary for economic revitalization, in order to create an attractive environment for (foreign) investors. Another consequence is that, in the allocation of the housing stock, the price mechanism has lost much of its significance. For more than eight out of every hundred homes, public authorities grant rent subsidies to individual tenants; these grants are determined according to income level. Moreover, government subsidizes 90 per cent of all newly rented homes. Owner-occupied homes are also subsidized. The percentage of (all) homes constructed without state subsidy is quite small, although growing: 25 per cent in 1980 and 44 per cent in 1989⁹. In addition, interest payments on mortgages (as on all other loans) can be deducted from income tax. Lastly, the state imposes a tax on the market value of houses in the event of transfers.

The result of these policies is a flow of grants, subsidies, taxes and tax deductions that partly accounts for the high proportion of public expenditure in national income. No one knows the resulting effects this has on private incomes. Moreover, individual grants connected to salaries can be a disincentive to labour-market participation. State subsidies also cause uniformity in housing. The transfer tax hinders geographical mobility.

The prospects for business in the construction sector are good. In the seventies and eighties housing construction remained at a relatively high level because of the rapid decline in average size of households. In comparison with other countries, the size of the average household in The Netherlands is still rather high. Given the context of a growing population (1989 = 100; 2000 = 106) and an individualizing society, the housing construction market is likely to remain prosperous.

Table 6.4 Average housing occupancy in a number of European countries

	1970	1987
The Netherlands	3.5	2.6
Belgium	2.8	2.4 (1986)
Denmark France	2.7	2.2
United Kingdom	2.9	2.5
West Germany	2.9	2.3
Sweden	2.5	2.2

Source: Social and Cultural Planning Office, *Social and Cultural Report*

According to a scenario study by the CPB, the yearly volume of investments in housing may vary from 0.5 per cent to 2.1 per cent during the 1990-2015 period¹⁰.

In conclusion, the Dutch government is aiming at more scope for market forces in the area of housing. In order to guarantee everyone the right to a place to live, state intervention in housing will continue. But the need to contribute towards a competitive business environment may oblige the Dutch government to reduce grants to tenants, subsidies on houses and interest deductions on income tax. A by-product of such a change in policy might be increased differentiation in housing construction. The processes of population ageing and individualization will lead to an increased demand for smaller dwellings and less (standard) one-family houses. Lastly, the construction sector can count on a high level of activity.

^{9]} Social and Cultural Planning Office, *Social and Cultural Report 1990*, op. cit.

^{10]} Cultural Planning Bureau, *Nederland in dreevoud*, op. cit.

6.9 Social security

The Netherlands has an extensive statutory system of social security, providing citizens with financial aid in virtually all contingencies, from child support and benefits for widows, widowers and orphans, to unemployment, sickness, disablement or old age. Additional provisions are provided by means of collective bargaining (for example, supplementary pensions, pre-retirement schemes).

The social security system is generous and thus, expensive. Spending on health and disablement, in particular, is high. Given the relative youth of the population, expenditure on old age is also high.

Table 6.5 Expenditure on social security in the EC by category, 1985

category of benefit	costs per capita of the target group (in thousands of guilders) ^a								
	NL	b ^b	DK	F ^c	IRL	I	E	UK ^b	D
illness and disablement	5.6	3.7	3.8	4.0	2.4	3.9	1.7	2.9	4.8
old age/widows and orphans	21.9	21.9	21.0	24.2	11.8	21.1	12.6	18.1	24.0
maternity and child benefit	4.3	4.3	4.8	4.1	1.6	2.0	0.3	3.8	3.7
unemployment and employment	1.5	1.5	2.0	1.2	0.9	0.3	0.8	0.9	0.8
Total	8.6	7.5	8.4	7.8	3.9	5.9	3.2	6.3	8.3

^a based on 1985 prices and purchasing power parities

^b 1984

^c 1983

Source: Social and Cultural Planning Office, *Social and Cultural Report 1990*, Rijswijk, 1991.

The main causes of high expenditure are:

1. The level of benefits. The guaranteed social minimum levels for single people, one-parent families and couples without children are the highest in Europe. The guaranteed social minimum for families with children is also high, but slightly below that of Germany and Denmark (1988 data).
2. With respect to several provisions, free insurance is granted to non-working citizens. This functions as a subsidy on non-participation in paid employment. The General Old Age Pensions Act, Sickness Benefit Act, General Widows' and Orphans' Act comprise such breadwinner provisions.
3. The system operates more as a hammock than as a trampoline. The number of beneficiaries is, therefore, high (see the section on labour-force participation). The failure to reintegrate women with older children, the unemployed and disabled, has resulted in a process of accommodation to welfare dependency. Such attitudes, once established, are hard to reverse.

Most Dutch people consider the social security system as a major achievement. In a recent survey (1991) 78 per cent of the population opposed any cuts in the general old age pension; only 1 per cent felt that the benefits could be reduced. The corresponding figures for National Assistance are 63 per cent and 2 per cent, for disablement benefits 59 per cent and 6 per cent, for sickness benefits 58 per cent and 11 per cent, for unemployment provisions 46 per cent and 14 per

cent and for family allowance 41 per cent and 16 per cent, respectively ¹¹. Curiously enough, the family allowance is low, relative to most other Dutch social security provisions, when compared with other countries.

Despite the generosity of the social security system, there is not much fear of 'social security tourism' in post-1992 Europe. Foreign languages and cultures, loss of social contacts and costs of removal are, *rightly or wrongly*, considered major barriers preventing large-scale 'social tourism'. EC citizens, the category for which entry is easiest, are only allowed to seek work in other EC countries when they have sufficient means of support. They cannot claim social security while looking for work. The future will reveal just how realistic these expectations are.

The demographic pressure on social security is expected to lag behind that of other European countries (except Ireland). Nevertheless, the ratio of working population to those on social welfare (old age pension, widows' pension, pre-retirement scheme, disablement benefit, sickness benefit and unemployment benefit) will decline. This ratio is currently 0.66 (1990) ¹². If the percentage of those on social welfare per age group remains the same, it will be 0.70 in the year 2000 and 0.80 by 2010 ¹³.

Social solidarity will undoubtedly be severely tested in the future. The effects of rising costs on competitiveness will force The Netherlands to make a strategic choice. There is, on the one hand, the option of economizing heavily on social security. This might result in losing the basic, and highly appreciated, qualities of the system: 'care from the cradle to the grave'. On the other hand, a concerted effort to raise the rate of labour-force participation might manage to avert such a loss. A choice in favour of this last option could also promote economic growth and a dynamic business environment.

In both options social security may develop from a system providing income-related benefits to the unemployed, sick and disabled to a system guaranteeing minimum subsistence only. In a participatory scenario this might be at a high ('civilized') level. Additional insurance might become a private responsibility (via collective bargaining or private insurance). A basic problem in this scenario would be how to transform the present system into such a 'mini-system' in an acceptable way. An alternative, or additional, route towards economizing on the social security system might be via the privatization of social security administration. At the moment, employers' federations and unions play an important role in this administration. Employers and unions have excessively abused the Disablement Benefit Act to further the premature exit of less-productive employees.

6.10 Immigration and ethnic relations

The proportion of foreigners is rather low in the Netherlands, compared with other EC countries: 4.2 per cent (1989). In Belgium this figure is 8.7, in Western Germany 7.6, in France 8 and in the UK 3.2 per cent. The major ethnic groups originate from Turkey and Morocco. The Netherlands also has immigrants from its former colonies (Indonesia, Surinam, and the former Dutch West Indies, the Antilles and Aruba). The proportion of ethnic minorities, including those with Dutch nationality, is 5.1 (1989).

In 1979 the Netherlands Scientific Council for Government Policy (WRR) published a report showing that immigrants from the Mediterranean countries were here to stay. Ten years later the Council reformulated the message: notwithstanding a restrictive admission policy, a large part of all immigrants

^{11]} *De Volkskrant* (Dutch newspaper), Amsterdam, 14 December 1991.

^{12]} Expressed in man-years and 'full-time benefits' this ratio is 0.86.

^{13]} Netherlands Scientific Council for Government Policy, *Work in perspective*, op. cit.

and their descendants would remain ¹⁴. *Nolens volens*, The Netherlands has become an immigration country. A rough estimate of the migration surplus during the nineties could amount to 50,000 a year (0.33 per cent of the population) ¹⁵.

The Dutch, multi-ethnic society is not without its problems, though. The main ones are massive unemployment among certain groups of immigrants, the lack of success on the part of children from minority groups in the educational system, and the lack of socio-cultural integration. Interracial tensions do, however, seem less severe than in surrounding countries. This is probably due to the social taboo on racial discrimination, and a tradition of openness and (relative) tolerance. Social security and other welfare arrangements also play a part.

Whereas total unemployment has fallen since 1984, unemployment among ethnic minorities has risen steeply. Until the mid-seventies, unemployment among those from the Mediterranean area was relatively lower than the total figure of unemployed. Since then, it has risen at a disproportionate rate, spurred on by the decline of many traditional industries in which these immigrants used to find work. Since the eighties, short-term unemployment has displayed the tendency of becoming long-term unemployment. The unemployment rate of the indigenous population was 13 in 1987, among the Surinamese it was 27, among the Antilleans 23, among the Turks 44 and among the Moroccans 42. The percentage for these groups in the total population is only 3.9.

On average, educational achievements on the part of ethnic minorities lag behind those of the indigenous population, irrespective of age. This partly explains their high rate of unemployment. Other causes include:

- illiteracy in the native language;
- insufficient knowledge of the Dutch language;
- 'miscommunication' when applying for jobs;
- racial discrimination ¹⁶.

Large-scale participation in paid employment is of critical importance for social integration. The (low) participation rate of the indigenous working-age population is 61 (1989); among ethnic minorities this percentage is 38.

A policy for the integration of ethnic minorities, providing more and better opportunities for educating and training young and adult immigrants, and other ethnic minorities, is necessary for several reasons. Apart from considerations of social justice, there are also economic arguments. Present and expected shortages on the labour market, an inadequate future supply of labour and the rising costs of welfare facilities all point towards the need for including these groups in the labour-market process. Whether or not integration succeeds will probably also affect the Dutch business environment in the decades to come. For investors, the relative absence of major ethnic conflicts, and of related problems such as social disintegration, manifest discrimination, (severe) poverty and ethnically related crime, would certainly be an asset.

6.11 Law and order

The maintenance of law and order is of crucial importance in a democratic and social-constitutional state. Minor incidents of crime and rule-breaking, as well as the absence of corruption, contribute towards an attractive business environment. Dutch society generally still scores high on these points (if only rela-

¹⁴] Netherlands Scientific Council for Government Policy, *Immigrant Policy*, Summary of the 36th Report to the Government, The Hague, 1990.

¹⁵] Cultural Planning Bureau, *Nederland in dreevoud*, op. cit.

¹⁶] K.W.H. van Beek, B.M.S. van Praag, *Kiezen uit Sollicitanten, concurrentie tussen werkzoekenden zonder baan (Choosing Applicants, competition among jobless jobseekers)*; Netherlands Scientific Council for Government Policy, V74, The Hague, 1992.

tively). In practice the rise in reported crime is becoming precarious. The number of recorded crimes committed since the Second World War has increased by nearly tenfold, whereas the percentage of solved crimes has diminished by more than 50 per cent. In 1991 31 per cent of the Dutch population was victim of crime. This percentage is high compared with other countries. In this respect The Netherlands is in the same category as the US, Canada, New Zealand, Australia and Poland. This position is mainly due to the number of bicycle thefts. However, The Netherlands also ranks high with regard to violent crime ¹⁷. Another sign of growing criminality is the increasing length of prison sentences, although this could also be an indication of less permissiveness or the disappearance of 'abolitionist' sympathies in the Dutch judicial system. A main cause of Dutch criminality is the insufficient integration of young people in modern society. Of course, the growing number of infringements is also related to the (equally growing) number of laws and statutory rules.

Statutory rules can be roughly divided into:

- regulations regarding the social-constitutional state (for example, tax laws, social security and labour laws, economic regulations, environmental laws, etc.);
- criminal law (for example, theft, violence, destruction, etc.).

The first type of regulations have a high orbital velocity and are often of an instrumental nature. Very often they relate only vaguely to norms and values in society. Sometimes the complexity, the inconsistency or the distance between the formal legality and experienced legitimacy of the rules causes deviant behaviour. An increase in the normative standard of the regulations, as well as deregulation and an increase in the simplicity and stability of regulation, might promote adherence to the law.

Prevention is a preferred way of combatting criminal offenses. Preventive policies assume a relationship between crime and social conditions which can be changed by policies outside the fields of police and justice (for example, through social integration, renewal of inner cities, promotion of citizenship). Judicial repression should accompany prevention. In this respect, the insufficient staffing of courts and incomplete execution of legal sanctions are significant defects in the Dutch system.

The image of The Netherlands is that of a country which still scores relatively high with regard to maintaining law and order. A vigorous effort is needed, however, to keep it this way. Deregulation, as well as prevention, may help promote a climate of law maintenance which serves as a positive contributing factor for a competitive business environment.

6.12 Conclusions

Social heterogeneity is probably the best denominator for future developments in the socio-cultural area. Further de-secularization, the ageing of the population, individualization and increased migration will create a society which is much more diverse than it was in the past. Adequate government policies and business strategies will have to reflect these shaping factors. Government must find new balances between equity and efficiency in several policy areas. Developments in areas of socio-cultural policy such as public health, education, housing, social security and law and order, will, in turn, also affect the business environment in the decades to come. An eventual trimming back of the social security system in the direction of a (civilized) subsistence level, with more emphasis on voluntary health, pension and social security schemes, will undoubtedly provide direct business opportunities in at least the related branches of industry.

^{17]} Official Gazette (Staatscourant), nr. 225, November 19, 1992.

Socio-cultural prospects until 2010

SHAPING FACTORS

- Attitudes in favour of social equality
- Further de-secularization and individualization
- Increased migration and movement of populations
- Needs for continued and adult education
- Pressures on Welfare State: social security, health, housing
- Problems with maintaining law and order

EC DEVELOPMENTS

- European immigration policy
- International academic education and vocational training
- European cooperation on law maintenance
- Permissive attitudes on minor infringements of the law
- Social policy guaranteeing minimum levels of social security

(DUTCH) GOVERNMENT REACTIONS

- Policy shifts towards singles, elderly and double-income families
- Acceptance of dual labour market
- Diversification in education and training
- Downgrading of social security towards subsistence levels
- Emphasis on voluntary health, pension and social security schemes
- More selective, but also more severe; law enforcement

BUSINESS REACTIONS

- Production shifts to meet new demands (housing, health care, food, sports, leisure), social security
- More employment opportunities for women
- Increased rewards for the successful
- More low-paid jobs
- Development of voluntary health care, insurance and pension schemes
- Growth of security industry

7.1 Introduction

Technological progress is increasingly becoming a key determining factor in the international competitiveness of firms. New products, new production processes, new materials, new logistic concepts and renewal in every possible way are all necessary in order to supply the market with high-quality, attractively priced products. Two important characteristics of the current technological situation are acceleration and interdependency. Technological developments occur faster than in the past. Product life cycles are tending to become shorter and shorter. Whereas firms once could gain a strong lead through innovations, they now must reckon with imitations of their successful products within a few months. Innovations in the past were mainly the result of mono-disciplinary research. Now technological areas and scientific disciplines are increasingly interdependent, which results in 'crossed technologies'. Mechanics and telematics are good examples of this trend.

This section addresses the way Dutch firms and the Dutch government deal with these developments. It is based on a number of indicators concerning different aspects of the Dutch technological position. Certain significant features are difficult to quantify. These include the quality of research and education, the economic return of R&D expenditures and public opinion regarding technological developments. Still, these indicators do shed some light on the subject.

Two main sources are used. In 1991 the Dutch Ministry of Economic Affairs and the Ministry of Education, Arts and Science published a comprehensive study on Technology and Science Indicators¹. They distinguished between indicators for five areas of scientific and technological developments. A comparative study was recently published by the Federation of Netherlands Industry (VNO) on the technological basis of Dutch society from an international perspective². This study used the so-called 'National System of Innovation' approach. The next section outlines the Dutch position in this field by combining the main findings of both studies. This is followed by a presentation of the main elements of Dutch technology-related policy.

7.2 The Dutch system of innovation

The ministerial report on technology and science indicators differentiates between the following five main areas:

- the breeding ground for science and technology
- the R&D infrastructure
- R&D results
- economic results
- the technological environment, in general.

When combined, these indicators give an impression of the Dutch competitive position in technology. This is the framework which will be used in this section.

¹] Ministry of Economic Affairs and Ministry of Education, Arts and Science, *TWIN Technologie- en Wetenschapsindicatoren* (Technology and Science Indicators), The Hague, 1991.

²] F. Prakke, E. van der Schaft and W. Zegveld, *Het draagvlak voor technologie in de Nederlandse samenleving: een internationale vergelijking* (The Technological Basis in Dutch Society: an International Comparison), Dutch organization for Applied Scientific Research (TNO), Apeldoorn, 1992.

The second report mentioned here, by Prakke, Van der Schaft and Zegveld, compiled on behalf of the VNO, deals with the current social basis for innovation in The Netherlands, that is the Dutch National System of Innovation. Starting with the assumption that innovation is the engine of economic growth and development, the Federation requested the investigators to verify the impression that entrepreneurs currently have increasing doubts about the political and social significance of technological progress. The central question was whether this impression is right or wrong.

Prakke and co. collected 53 indicators for 11 countries, ranging from 'firm' R&D expenditures to 'soft' indices of trust in scientific progress. The three main categories were knowledge creation, knowledge diffusion and social embedment. R&D expenditures, R&D infrastructure and R&D output, together with trade in knowledge and technology and the financial infrastructure were the indicators for knowledge creation. Indicators for knowledge diffusion were knowledge and logistics infrastructure, diffusion of process innovations and of specific products, and general economic circumstances. The social embedment was handled through indicators about knowledge of technology and attitudes towards science and technology.

With regard to the *breeding ground for science and technology* (that is, the way the social environment is equipped to deal with technological developments) a serious deficit is signalled in the number of scientists and people with scientific backgrounds in the years to come. For mathematics and natural science this deficit is calculated at 22 per cent for the 2006-2010 period. This is caused by a decline in the proportion of young people and by the low participation of women in these disciplines. At the moment, technically educated people are already in short supply on all levels of the labour market. Prakke and co. also emphasize that the number of technically educated people is low in international comparisons. Continued technical education becomes increasingly necessary during a professional career. Available data do show The Netherlands do reasonable well in this respect. Recently new initiatives have been taken aimed at improving the gearing between (technical) education and business. One objective is to provide more scope for dual systems (combinations of learning and working). Prakke and co. notice that the Dutch system of education and science is organized along disciplines and not according to problem areas. New fields such as telematics research are, therefore, developed slowly. Technical universities are reluctant to integrate with the social sciences.

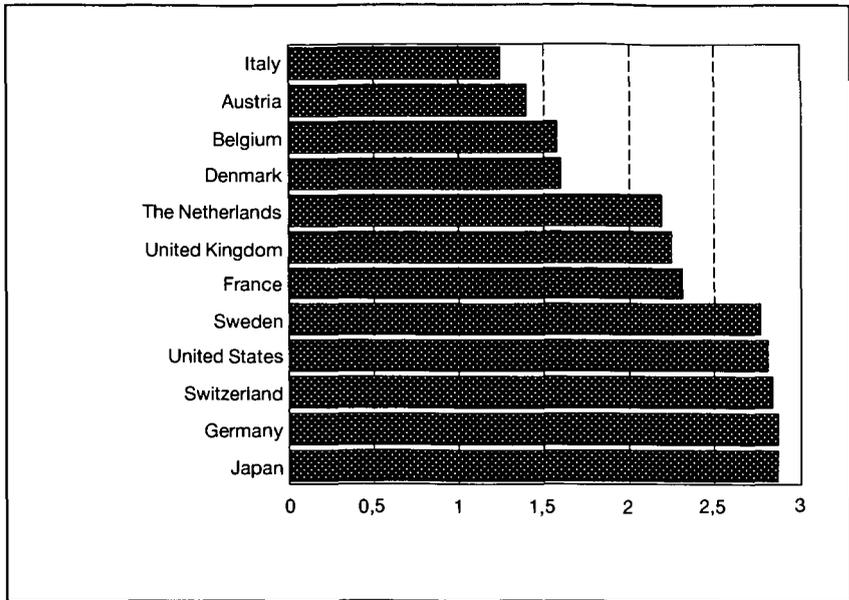
The second aspect of this 'breeding ground' concerns the way the general public learns about technological innovations. General education and media coverage are the main topics here. Research shows that there is very little television exposure of science and technology. Programme ratings by the public are equally low.

Lastly, the relationship between science and technology seems to have improved during the last decade. The Dutch private sector is inclined to support technological innovation more now, than in the past. Funding for fundamental research is still, however, scarcer here, than elsewhere. Maintaining efforts aimed at closing the gap will continue to be extremely important.

After 1987, however, this trend did not continue. The Netherlands holds a reasonable position in this respect, especially among the medium-sized EC economies, as figure 7.1 reveals. Government support for private R&D expenditure is, however, rather moderate compared with other countries.

R&D input shows a strong upward trend as a percentage of GDP between 1975 and 1987, both in total and for the private sector. Strong private research positions are held in chemicals, electro-technical, foodstuffs and agriculture, weak positions in machinery, transport and services.

Figure 7.1 R&D expenditures as a percentage of GDP, 1989



Source: OECD

A few comments should be made on Dutch R&D expenditures. First of all, a particular feature of private R&D expenditure in The Netherlands is its concentration in five very large, multinational concerns (Philips, Shell, Unilever, AKZO and DSM). Secondly, the share of the 'big five' has declined from 70 per cent around 1980 to 55 per cent around 1989. This is mainly because of the fact that Philips diminished its R&D efforts in The Netherlands. Thirdly, since the absolute amount has increased, this decline implies that R&D efforts on the part of small- and medium-sized firms must have increased considerably. Fourthly, when R&D expenditures are corrected for the unusual structure of the Dutch economy, with strong services and a relatively narrow manufacturing base, the Dutch relative position improves. It is questionable however, whether such a correction is fully justifiable. One could also reason the other way around by explaining the Dutch specialization on services, trade, agriculture and food-stuffs as a result of a lack of success in R&D. On the other hand, this specialization is related to geography. Moreover, many innovations in agriculture are due to research in the (green) University of Wageningen, and (thus) not included in the R&D-figures. Fifthly, The Netherlands belongs to the group of countries with high knowledge imports. This broadens the R&D base. Finally, The Netherlands does not have much R&D funding earmarked for defence, compared with for instance, the United States, United Kingdom and France.

A tentative conclusion is that the R&D input position of The Netherlands lags slightly behind that of the larger OECD economies, but that the position is relatively good, compared with most medium-sized OECD economies.

There is a mixed picture with regard to *R&D output*, that is patents and publications. The Netherlands scores rather low on patents, although its gap with the EC has closed during the last decade. Whether this gap has also been caused by the diverging economic structure, which is a reasonable assumption, has not yet been analysed. Here strong positions are held in agricultural technologies, foodstuffs, information storage, picture transmission, telecommunications and electrotechnicals. Mechanical technologies, materials, transport, biogenetics and biomedical technologies are seen as weak points. A high

score is, however, realized in publications. The Netherlands scores very high in nearly every branch of science, and is quoted more than the world average. A new indicator is currently being developed which takes into account the number of (product) innovations. First results (number of innovations divided by number of employees) seem to indicate that small- and medium-sized firms are much more active than larger firms, even though R&D expenditures reveal a contrasting view. This is probably related to 'learning by doing'. Prakke and co. are rather positive about the Dutch position in this respect. The conclusion must be that the Dutch R&D output position is quite reasonable.

Whether or not sufficient *economic returns* result from efforts aimed at improving Dutch firms' competitiveness by technological innovations, depends on how successfully knowledge is converted into new or improved products or production processes that are attractive for both domestic and world markets. This is normally measured by analysing the trade balance for high-, medium- and low-tech products. The Netherlands has a low share in high-tech products, while its export-import ratio has declined steadily. The shares are higher and ratios more positive for medium- and low-tech products. It is incorrect, of course, to only associate technological innovation with high-tech products. Medium- and low-tech products can also show important technological developments which can improve their competitiveness. The Dutch foodstuffs sector is an excellent example in this respect. R&D output produced in The Netherlands can also be used somewhere else and vice versa. Trade in knowledge through licences, for instance, is quite important for The Netherlands. Even though an increasing deficit has arisen in recent years, it should be noted that The Netherlands is second only to the United States in the export of technological knowledge (as a percentage of GDP).

Another element which should be mentioned in this respect is the high labour productivity of this country. This is, on the one hand related to the low level of labour-force participation, as previously mentioned. On the other hand, however, there is a relationship with technological progress. Labour productivity growth strongly depends on process innovations. This seems even more plausible when the Dutch economic structure is taken into account. Sectors such as agriculture and manufacturing, with a high labour productivity level and growth rate, are relatively small. With process-innovations The Netherlands scores above-average, while with product-innovations the score is slightly below-average.

The final category here is the *social environment* of science and technology. It is rather difficult to pass categoric judgements on such phenomena as public attitudes on technology and science. It should be noted, based on questions asked for the 1990 Eurobarometer, that on the whole, Dutch attitudes conform with the EC average. There were strong differences, however, concerning two questions. Dutch citizens have less confidence in science and tend to rate the disadvantages of scientific progress higher than the advantages. The Dutch attitude towards science and technology therefore seems burdened with reservations.

Prakke and co. do sketch a slightly more optimistic picture for the embedment of technology. Attitudes towards technology are indeed reserved, compared with the enthusiastic consumption of new products. This is, however, mainly caused by negative public reactions to nuclear technology and biotechnology. This selective attitude towards technological developments could probably be turned into a strength, as it seems to imply that people are concerned with technology.

The current situation can certainly be improved. The Netherlands has realized a growth in its R&D efforts during the last decade, which is similar to that of

its main competitors. Its level is close to the top rank, but it has not managed to bridge the gap completely. Increasing labour market tensions for technically qualified people, expected shortages of technological research personnel and the relative neglect of exact sciences are all indications of future challenges. Yet, there are fewer problems with the creation of fundamental knowledge than with the conversion of such knowledge into commercial applications. A more innovative attitude here could have very positive economic returns. This is not only true of high-tech sectors such as biotechnology, but also of traditional, low-tech ones. In addition, Dutch firms should involve themselves in EC technology programmes, more so than is currently the case. This would not only enable them to make use of the available subsidies, but also help them to closer contacts with other European firms, with regard to, for instance, technological developments. R&D costs have increased in certain sectors so much that national firms, even in the larger EC countries, are no longer able to finance them on their own. International cooperation seems the only way out to remain competitive with firms from the United States or Japan.

7.3 Policy options

Technological development cannot be left to the private sector exclusively. Technological advancement needs an inspiring social and political climate. This depends on a number of conditions:

- the scientific infrastructure must be able to meet the demand for more highly educated and scientific personnel, both qualitatively and quantitatively;
- the government must create the right conditions for the regulation of demand and supply of technological knowledge;
- the government must create circumstances for absorption and adaptation of knowledge generated elsewhere. This is especially important in strengthening competitiveness wherever the national economy is relatively small. Before this can happen there must be improvements in the flow of information and in the level of competition on the markets in question.

The Dutch government has become increasingly involved in the process of knowledge creation and innovation. It has tried to maintain the delicate balance between maintenance of a solid and productive basic infrastructure, and incentives for specific technologies. This requires a process of continuously adapting to changing circumstances. For instance, the education sector should be continuously adapted through more competition, also from abroad, in order to be able to supply the required flow of knowledge. The number of scientifically educated people must be large enough to establish a chain of knowledge, from design to final use.

The conclusion must be that a government with international ambition must first and foremost, tackle the task of creating and maintaining an excellent environment for technological development. This above all implies a competitive physical, technical, educational and administrative infrastructure. Furthermore, the size of the market and possible responses from competing countries should also be taken into account with regard to more specific policy interventions. Lastly, the Dutch government must support initiatives in this area at the European level, due to the relative small size of its economy.

7.4 Conclusions

The increasing complexity, rate of change and internationalization of technology in many fields obliges both Dutch firms and the Dutch government to increase their competitive positions in these respects. These conditions also apply at the European level, however.

As noted in the preceding paragraphs, technological developments have a strong tendency to fasten and to expand financially. Product life cycles become

shorter, R&D efforts become costlier. This forces firms in technology-oriented sectors to expand their production, to secure fast-growing markets and to use the potential efficiencies of scale. If not, they will lose the competition with other firms. For several technologies, this competition has become global. The consequence is that many national companies have become too small. For more and more companies, a European scale is needed to remain in competition. The same applies for the technology policy area. As national governments become less and less able to pursue their own technology policies, some of these responsibilities must be assumed at the EC level. It is extremely important at that level that the EC attempt to establish a proper balance between costs and returns of technology expenditures, and between legitimate cooperation of firms on the one hand, and sufficient competition among those same firms on the other hand.

Because of the growing importance of this factor, the Dutch government has set itself the task of creating a competitive environment for technological developments.

It is essential to heighten awareness of technological developments, especially by means of qualitative and quantitative improvements in education. A considerable increase in the number of science graduates is needed in order to prevent serious deficits on the labour market. The shortages which already exist are predicted to increase considerably should efforts to increase the supply of scientists fail. Entrepreneurial behaviour should also be stimulated, both in existing firms and in the creation of new firms. Towards this end the Dutch government has established so-called Innovation Centres aimed at pooling existing knowledge and stimulating its diffusion for small- and medium-sized firms. Lack of information about the technological state of the art is a serious handicap for most small- and medium-sized firms. These Innovation Centres seem a promising way of achieving the quick and relatively cheap diffusion of technological knowledge required by small- and medium-sized firms will need in order to hold their own on the Single Market. With regard to the scientific community (universities and research institutes), the government is trying to influence research efforts by means of channelling of funds. The preference is for more applied research and a stronger scientific orientation. The government has also demonstrated a willingness to grant more freedom in this type of research.

The high rate of technological development, combined with a decreasing amount of time available for earning back research expenditures, presents business with a dilemma. R&D efforts should be increased in order to remain competitive and independent. An increasing number of firms do, however, seem to lack the ability of financing such efforts on their own, especially those in countries like The Netherlands with a small domestic market. The recent developments with firms like Nedcar, Fokker and DAF have made it very clear that the costs of staying in the technology race require a bigger base than these firms can provide on their own. The Nedcar-Mitsubishi and Fokker-DASA deals have given a new impetus to the debate about the pros and cons of an industrial policy. So far, this has not yet resulted in clear policy prescriptions, but a change towards more intervention, for instance through the creation of an Investment Fund, seems plausible.

Firms themselves attempt to cope with this challenge in several ways. Assuming that larger firms, that is firms with a large market share, have a better chance of acquiring R&D funds than smaller ones, many smaller firms try to expand themselves through mergers or take-overs. This is also stimulated by the advent of the Single Market. Another strategy is to concentrate on core activities, and/or seek cooperation or alliances with competitors operating on the same markets, or using the same technologies. Partnerships are also

sought with universities and other research institutes. Being part of 'the right network' is considered very important for economic survival. Cooperation is also useful in gaining a better knowledge of disciplines that were, until then, outside the scope of the firm. This requires highly skilled employees with an interdisciplinary attitude.

Technological prospects until 2010
<p>SHAPING FACTORS</p> <ul style="list-style-type: none"> ● Average position in private R&D, but recently some lagging behind ● Concentration of private R&D in 'big five' multinationals ● Agriculture, telecommunication, data storage, electrotechnics strong ● Relatively scarce number of R&D patents; publications above average ● Application of fundamental knowledge in new products problematic ● Low share in high-tech trade ● Increasing shortages of technically qualified personnel ● Insufficient cooperation between business and technical universities
<p>EC DEVELOPMENTS</p> <ul style="list-style-type: none"> ● Evaluation of existing EC technology programmes ● Extension of available policies ● Prevention of protection-oriented policies ● Increased legislation against cartels
<p>(DUTCH) GOVERNMENT REACTIONS</p> <ul style="list-style-type: none"> ● Stimulation of technology through European cooperation ● Stimulation of technology through government buying programmes ● Innovation Centres for small- and medium-sized businesses ● Support for applied research ● Increased emphasis on technical education ● Encouragement of joint ventures between business and technical universities
<p>BUSINESS REACTIONS</p> <ul style="list-style-type: none"> ● Increase in R&D efforts ● Mergers and take-overs for gaining access to technology ● Concentration on core activities and niches ● Increased 'networking' ● Cooperation with universities and research institutes ● Development of Technology Bases

8.1 Introduction

As a small and densely populated country, The Netherlands must shoulder the heaviest environmental burden per square kilometre in the OECD area. Its population density is one of the highest, its room for waste disposal very limited, and the number of motor vehicles per square kilometre amounts to five times the OECD European average. Due to its geographic location, the country is also exposed to serious air and water pollution originating in neighbouring countries.

Official expectations about the future environmental situation in The Netherlands are based upon the following assumptions:

- a gradual reduction in the population growth, followed by a decline after 2020; the number of households will, however, increase during the next decades;
- economic growth will continue at a yearly average rate of 2.5 per cent; sectoral changes will result in an increasing share for services, and declining shares for agriculture and manufacturing; intensive livestock farming will stagnate, but environmentally sensitive sectors such as chemicals and basic-metal are expected to increase more than proportionally; the consumption pattern shows above-average growth rates for transport, heating, and recreation;
- transport by private automobile will increase further, although at a diminishing rate; public transport will develop more rapidly; internationally, air traffic will show the highest growth rates;
- energy consumption is expected to increase only moderately in the next decades, due to energy-saving measures and dematerialization (less use of materials).

The following sections describe environmental problems at four levels (global, continental, regional and local), following the approach chosen by the Dutch government in its so-called 'National Environmental Policy Plan Plus'. This is followed by a consideration of Dutch environmental policies and the role played by the EC.

8.2 Environmental problems

8.2.1 The global level

Global environmental problems receive a great deal of attention in The Netherlands, although the national contribution towards solving them can never be more than minimal. The Dutch can, however try to give a good example to the international community. At present, attention for global environmental problems is particularly focused on the potential damage of the ozone layer, and to a possible future change in climate.

In The Netherlands, the use of CFCs, thought to damage the ozone layer, has declined considerably in recent years, and should approach zero in the short term. Total elimination will depend on the success of EC policies directed towards that end in all EC countries, as part of a possible world-wide ban.

Potential climatic change is of more than academic interest to a country, more than half of which lies below sea level. If, as some experts predict, increases in temperature and rainfall were to lead to sea-level rises of 30 to 100 cm during the next century, The Netherlands would be confronted with the major cost of increasing the current level of defences against the water.

Dutch policies are directed towards a sharp national decline in CO₂ emissions. This will result in stabilization by 2000. According to available calculations,

it seems that after 2000, there will be a new increase. Stronger policies are therefore needed in order to realize a decline, as indicated for instance in the Toronto directives. 'Environmental diplomacy' aimed at convincing other countries of the need to tackle the main global environmental problems is the primary instrument for Dutch efforts at this level.

8.2.2 The continental level

8.2.2.1 Air pollution

Cross-border air pollution resulting in deposition of sulphur dioxide and nitrogen oxide is one of the most important problems at the continental level facing a country as exposed as The Netherlands. This deposition changes the chemical composition of soil and groundwater, known as acidification.

Although the Dutch have made some progress in reducing sulphur-dioxide, nitrogen-oxide and ammonia discharges from indigenous sources, these reductions are less than assumed in the National Environmental Policy Plan (NEPP). This is mainly due to a growth of traffic which exceeded expectations. The international nature of these problems is illustrated by the fact that about 75 per cent of Dutch emissions cross the border, while at the same time The Netherlands receives some 50 per cent from other countries. If developments go unchecked, by 2000 about 46 per cent of The Netherlands will be subject to acid deposition that surpasses the current maximum level. The consequences will be visible in woods and lakes, and could in the long term, even harm public health.

Similar descriptions of cross-border emissions and depositions could be given for smog, as well as heavy metals.

Much of this pollution originates in Central and Eastern Europe. It is caused by the use of brown coal as an energy source, and the lack of any environmental-protection measures. The worst-polluting countries cannot currently afford any serious measures aimed at improving this situation. It would be worthwhile for the EC to investigate the possibility of environmental investments in Eastern Europe, since these, if executed with proper safeguards, would make more of a contribution towards a cleaner environment than measures within the EC itself.

8.2.2.2 Water pollution

The Rhine and Meuse carry many pollutants from other countries into The Netherlands. Due to sewage treatment, the situation has improved in the last decades with regard to organic pollution. The quality of Rhine water, in particular, has increased considerably since the early seventies. In recent years, however, the situation has stabilized at levels which are still too high for a satisfactory ecosystem. The Meuse also has shown some improvement, but at a lesser rate. At certain points, the situation even deteriorated.

The resulting uncertainty about water qualities is especially problematic because 40 per cent of Dutch drinking water comes from these rivers. Human error, technical failures, fires and collisions, have repeatedly caused water companies to temporarily shut down the intake of water. Suboptimal water qualities also damage the agricultural sector. Greenhouse horticulture in the 'Westland' region has had serious problems with high salinity caused by waste water dumped into the Rhine at French potash mines.

Because the estuaries of these two rivers are located in The Netherlands, it also faces pollution of river- and seabeds. This occurs in rivers, lakes and in the North Sea. The effects only become noticeable after 20-40 years, causing both

technical and financial problems. It seems very difficult to rapidly clean the beds of the main rivers. The cost of cleaning the inland waters would amount to about Dfl 1.5 billion, according to initial calculations. At this moment only a fraction of that amount is allocated for this purpose. There is also the question of what to do with the extracted slurry which must be treated as chemical waste, all of which generates enormous costs.

An interesting approach towards the problem of cross-border water pollution has been developed by Rotterdam, one of the main victims. The city recently concluded a covenant with a number of important German firms along the Rhine, to reduce this pollution to a considerable extent in the next few years.

8.2.3 The regional level

Regional environmental problems concern the declining quality of soil and groundwater caused by pollution within a limited area. Slow soil processes and low transport rapidity of groundwater result in an accumulation of nutrients, pesticides and heavy metals. This accumulation can ultimately cause the soil quality to deteriorate, while increasing the outflow of pollutants to groundwater. The slowness of the soil system is characteristic: the quality of soil, groundwater, streams and ditches is already determined for the next two decades through the way the soil has been damaged during the last two decades.

Waste disposal is the principal regional problem. The Dutch landfill capacity is almost zero. Government policies are trying to change the close relationship between national income and volume of waste in favour of the environment, through large-scale waste prevention and separation and/or recycling of materials. In 1986 about 58 per cent of total primary waste was recycled, in 2000 this figure will probably be about 60 per cent. To slow down the increase in total primary waste, the government is aiming for voluntary reductions by means of covenants with the packaging sector. It is not yet clear whether this will work. The stricter rules regarding packaging introduced by Germany in 1991 may be of some help.

Current estimates do show about 600,000 cases of soil pollution in The Netherlands, of which 100,000 are considered serious. Seriously polluted locations are (former or still operating) gasworks (234), defence installations (300), wrecking yards (2400) and disposal sites (3300). More uncertainty exists with regard to (former and operating) company plants (maximum of 580,000). Cleaning up these areas in 25 years would cost about Dfl 50 billion. For the most urgent cases, those with negative consequences for housing estates and drinking water supply, the costs still amount to Dfl 5 billion. The amount of soil which must be treated in the near future exceeds the capacity of available treatment plants. Cleaning up The Netherlands will, at the current rate, take another 100 years.

Calculations indicate that phosphates will continue to accumulate in the soil until after the year 2000 because current standards for fertilization are not yet strict enough. Similar calculations indicate that the volume of manure from intensive livestock farming will most probably exceed the current processing capacity. This capacity is increasing more slowly than expected and will still fall short of requirements after 2000. The problem will be further complicated after the introduction of supplementary nitrogen standards. Although the nitrate load is expected to decrease, the area in which required limits are exceeded will not decline. Similar problems arise with regard to pesticides. Even if fewer pesticides are used, the very persistent pesticides already present in soil and groundwater will only diminish very slowly.

A final regional problem is lowering the groundwater level. This has only recently been recognized as a menace to woods, nature and landscape. This drying-up process is caused by interference in water management such as the reclamation of lakes, canalization of streams and land consolidation, all of which occur mainly for the sake of productivity improvements in the agricultural sector. It is also, last but not least, caused by the increased use of groundwater for drinking water and irrigation. Policies are now being implemented which will change this trend because of the expected further decrease in groundwater levels until 2000.

8.2.4 The local level

One point all local environment problems have in common is that removal of the source of pollution leads to immediate improvements. Noise and stench pollution fall in this category. These problems can be solved by means of physical planning (airports, motorways), technical improvements (cars, planes, roads), and through the isolation of houses. The situation is expected to improve in these respects by 2000.

8.3 Environmental policies

8.3.1 Dutch policies

In 1989 the Dutch government published a National Environmental Policy Plan. It contained the following policy lines:

- promotion of structural source-oriented measures;
- speedy implementation of measures combating acidification and manuring, and promoting the removal of existing pollution;
- development of policy instruments aimed at realizing structural changes in production and consumption;
- incentives to heighten the environmental awareness of both firms and citizens;
- development of technologies aimed at reducing pollution, for instance through higher standards of production;
- contributions to environmental policies within the EC.

One year later, a new Cabinet (tending towards centre-left) amended this plan, calling it a National Environmental Policy Plan *Plus*. It was felt that the original measures were not sufficient to bring about the necessary structural changes. Compared with the initial Plan, more emphasis was placed on binding regulations. This did not mean that efforts aimed at bringing about certain changes on a voluntary basis were abandoned, as demonstrated by recent covenants with the chemical and the packaging industries.

In the new NEPP-Plus proposals were presented for an *energy tax*, aimed at reducing CO₂ emissions through energy conservation. Recent elaborations of this idea have shown that substantial energy savings can indeed be realized this way, with relatively minor economic consequences as long as the tax is introduced on the OECD level. If the tax were restricted to The Netherlands, however, significant negative economic consequences are expected. Should such a unilateral tax be levied on the 'small-scale' part of the Dutch economy (that is, those consumers who would be unable to avoid it by moving abroad such as small firms and households), the economic consequences would be less harmful. Of course, in that case the environmental benefits would also be proportionally smaller, although such a tax would still cover half the energy consumption in The Netherlands. Such a measure has, however, met with strong resistance from the employers' federations, which view this as the thin end of a wedge and fear damage to their competitiveness on the Single Market. Industry has therefore let it be known that if there must be an energy tax, then it favours one at the EC level, or preferably at the global level. The government has not yet made up its mind.

The preference for an international approach is in line with another change in the NEPP, namely a stronger tendency to look abroad. By conceiving policies as much as possible in an international setting, better use is made of foreign expertise. Secondly, taking into account the policies of important competing countries makes it possible to increase the environmental efficiency of measures, as well as help create a 'level playing field', by preventing unilateral distortions in the Dutch competitive position.

The conclusion must be that at the level of policy preparation, the Dutch government makes positive moves towards bringing about necessary improvements in the environment. The actual outcome of measures imposed so far is, however, less positive. The package of Dutch environmental rules and regulations proves to be less effective than was assumed. The structural changes in production and consumption envisaged in the NEPP are still to come. Both firms and citizens have not yet shown the 'internalization' of environmentally sound behaviour which is required in order to bring about decisive change.

This conclusion was also reached in a recent report on 'Environmental Policy' by the Scientific Council. The environmental issue is, according to this report, mainly a behavioural problem, and better behaviour can be stimulated if the government, instead of relying on direct regulation, chooses a two-pronged approach. This would involve the provision of more information to the relevant actors and the encouragement of internationalizing environmental norms in the regular market processes. This would reduce the burden of law maintenance substantially. Examples of this approach include new arrangements such as tradeable pollution credits, returnable deposit systems for hazardous substances, and the inclusion of environmental costs at all stages of production.

8.3.2 The role of the EC

The European Community does not have as great an effect on the Dutch environment as Dutch environmental policies do in several ways. The non-discrimination principle, plus the advent of the Single Market with its increased policy competition among EC countries, limits national environmental regulations. Fiscal harmonization will further restrict the possibility of imposing extra taxes on polluting products.

In this policy field, where there are so many cross-border aspects and consequences, important decisions will have to be taken at a Community level. Through Task Forces and Environmental Action Programmes, the Community has selected a number of priorities aimed at improving the quality of the environment. The main goal is to realize a stronger integration of environmental policy in sectors such as the manufacturing industry, agriculture and transport. The Community tends to favour use of the market mechanism. It wants the 'polluter pays' principle more rigorously interpreted and applied, a wider use of pollution taxes and companies taking more direct responsibility for harmful effects to the environment as a result of their activities. This approach is in line with Dutch policies. The fact that EC environmental problems are by no means identical to the Dutch problems does, however, make it particularly crucial that attention be paid to EC decision-making.

Moreover, the Dutch generally tend to make relatively harsh demands in international arenas. This is partly a reflection of the heavy environmental burden shouldered by this country. It should also be noted, however, that European directives in several areas have not yet been introduced in Dutch environmental legislation. For example, this is the case with laws for waste disposal, protecting flora and fauna, and the so-called environment-effect-report procedure. In some cases this is because Dutch regulations already existed before there were EC directives (for example, concerning chemical waste, nature

protection and environment-effect-report procedures). There the harmonization of national legislation still has to take place. More generally, it is doubtful whether many specific elements of Dutch environmental law will remain once European policy directives are implemented and introduced in national legislation.

8.4 Conclusions

Today's western societies are dedicated to economic growth. Both at the individual level and at the level of society as a whole, the struggle to increase prosperity has created a culture in which a more reserved view of growth consequences causes serious difficulties. The debate so far has not resulted in clear and unambiguous answers concerning the relationship between economic growth and environmental problems. Nonetheless, the environmental effects so far observed have led to a reconsideration of this attitude. Sustainable economic growth, instead of just economic growth, should be the main goal of development.

In The Netherlands, as in other countries, opinions vary on this question. On the one hand there are those who see further growth, albeit in a modified way, as the only way to create the resources needed for tackling huge environmental tasks. Moreover, the development of 'environmental branches' of industry can in itself be a source of (sustainable) economic growth. On the other hand there is the minority who view the very philosophy of growth as the root of all evil. Dutch government policy states that *where necessary*, the needs of the environment should take precedence over the needs of the economy.

Whereas the question what is necessary, has yet to be resolved, there are some unmistakable tendencies. It is fair to say that the Dutch government is extremely interested in these issues. There are clear intentions for a determined change of policy. Painful measures have not yet been taken, however. Instead, the emphasis is on rather non-committal covenants. Furthermore, decision-making has been delayed by both the international nature of the problem and the need to maintain a 'level playing field' for Dutch industry in Europe. Both aspects result in a strong preference for far-reaching measures on an international scale.

The Netherlands would like the EC to play a more stimulating role in global environmental talks. The potential damage to the ozone layer, potential change of climate, and deforestation in the lesser-developed countries are global, not regional, problems. It is essential that useful and workable solutions be found in the near future. At conferences such as the United Nations Conference on Environmental Development (UNCED), the EC could try to bridge the gap between the rich and poor countries in finding such solutions.

Furthermore, the Dutch government encourages the EC to take full responsibility for the European environment and when necessary, 'go it alone', even if this weakens the competitiveness of the Community as a whole *vis-à-vis* its American and Japanese competitors. The present struggle about a European eco-tax (which should in effect take the form of a sophisticated system of differentiated levies) shows that this would not be an easy road to follow.

As far as national measures are concerned, as previously mentioned, further restrictions on productions that damage the environment should be expected. There will be less emphasis placed on rules and regulations. Instead, the preference will be for measures conforming with market principles. This might still meet with strong objections from industry fearing distortions of the Dutch competitive position. Maybe these could be placated through covenants with industry, thereby creating a greater potential for mutual control and stimulating

process-integrated environmental solutions. In this way the current objections to this approach could be overcome. Also, national measures could become more palatable to business due to the unmistakable fact that a cleaner (production) environment would be an asset in policy competition among EC countries.

Environmental prospects until 2010
<p>SHAPING FACTORS</p> <ul style="list-style-type: none"> ● Very high indigenous pressure on environment ● Serious air and water pollution from abroad ● Pollution of river- and seabeds ● Increase in number of households ● Slower growth of number of automobiles ● Decrease of pollution caused by intensive farming ● Further growth of chemicals and basic-metal industries ● Above-average growth of transport, heating and recreation ● General support for environmental policies
<p>EC DEVELOPMENTS</p> <ul style="list-style-type: none"> ● Use of market mechanism where possible ● 'The polluter pays' ● Stricter limits on manufacturing industry, agriculture and transport ● Companies held directly responsible for damage to environment ● European energy tax (eco-tax)
<p>(DUTCH) GOVERNMENT REACTIONS</p> <ul style="list-style-type: none"> ● Implementation of National Environmental Policy Plan Plus ● Energy taxes, etc. preferably in EC context ● Active environmental diplomacy towards 'Brussels' & neighbouring EC countries ● Promotion of 'level playing field' for industry ● Environmental covenants with polluting industries ● Development of new administrative instruments to counter pollution ● Credit facilities for environmental investments
<p>BUSINESS REACTIONS</p> <ul style="list-style-type: none"> ● Active role on the part of employers' federations towards 'Brussels' ● Cooperation with government in development of standards ● Generally cleaner productions ● Drive towards less-polluting agriculture ● Growth of pollution-abatement sector ● Market opportunities for treating soil, river- and seabeds

9.1 Introduction

The preceding sections of this report discussed many highly significant elements for the private sector of the Dutch economy. This chapter will address the private sector itself, in the light of three structural characteristics. These are the structure of production and employment, the interdependence of the Dutch economy with the rest of the world, and its level of competitiveness and market performance.

9.2 The sectoral structure of production and employment

The development of the Dutch economy after the Second World War resulted in an era of unprecedented growth. Only 1981 and 1982 were years of relative decline. Real GDP per capita tripled between 1948 and 1990. Employment rose by about 40 per cent, implying a sharp increase in labour productivity. The agricultural sector showed a structural decline in size after 1945. The manufacturing sector initially increased its share slightly, but after 1970 the so-called de-industrialization process increased in speed. The service sector currently creates most of the value added and also contains the largest share in employment. Table 9.1 contains figures for 1990.

Table 9.1 Sectoral shares for value added, employment and labour productivity growth, 1990

	Value Added	Employment	Labour Productivity Growth, 1974-1990
Agriculture and food	10.0	10.2	4.7
Manufacturing	19.3	18.4	3.3
Energy	6.8	1.5	0.7
Construction	7.2	8.7	0.8
Market services	45.9	46.3	1.8
Non-market services	10.8	14.9	0.2
Total	100.0	100.0	2.0

Absolute increases in employment are expected to occur only in the service industries, due to higher demand for these products and the relatively lower growth in productivity for services. The expected increase in production in agriculture and manufacturing may be realized with the same labour input or with less labour. According to the CPB, the employment share of these two sectors might decline to about 21 per cent by 2015. The share of market services and non-market services might increase to about 70 per cent.

Traditionally Dutch firms hold strong positions in:

- agriculture and food processing
- chemicals and oil refining activities
- metal-electrotechnical activities
- distributive and business services.

The agricultural sector, and greenhouse horticulture in particular, is a spectacular example of Dutch effort and ingenuity. There is so much food produced in such a small area that The Netherlands has become the second-largest exporter of agricultural products in the world, after the United States. A highly organized relationship between producers and research institutes, a made-to-

measure intermediary role for the government in accordance with market processes and EC policies, highly specialized know-how and finely tuned logistics, all combine to create a sector which enjoys very strong competitiveness. The expectations for greenhouse horticulture and other agricultural activities with high value added, are very positive. The future may be less bright for grain farming and cattle ranching¹. Here, future prospects strongly depend on the way farmers can cope with the adjustments required by the Common Agricultural Policy, GATT, environmental constraints, and new competitors from Central and Eastern Europe.

The metal-electrotechnical and chemical industries are the biggest manufacturing sectors in The Netherlands. The metal-electrotechnical industry employs 50 per cent of those working in manufacturing industries and accounts for 40 per cent of manufacturing value added. The major Dutch concerns in this sector (Fokker, DAF, Volvo Car and Hoogovens) have so far been able to maintain their independence, but their size and ability to raise sufficient funds for R&D are not enough to maintain an independent production, as has become clear in recent months. Cooperation agreements with foreign firms, such as Volvo Car concluded with Mitsubishi, and Fokker with DASA, indicate this development. Even Philips has made arrangements with Japanese firms. The chemical sector accounts for 13 per cent of those employed in manufacturing and 25 per cent of value added. It is strongly export oriented; about 75 per cent of its production is exported. Following a major world-wide recession, the chemical sector has managed to recover, but it still remains vulnerable to business cycles by its structure. The Dutch chemical sector has remained dependent on bulk productions, although these have been upgraded in a very profitable way.

Adaptations in more knowledge-intensive and non-resource-intensive directions are viewed as an essential strategy for the Dutch manufacturing sector if it is to remain competitive. While present strengths are being maintained, new areas should be explored on both the European and world markets.

The service sector, already the biggest sector, shows favourable prospects. Demand will remain high, not only domestically but also abroad. Financial services, transport and transshipments, communication, information technologies and trade do seem capable of realizing above-average growth rates. Whereas in certain sectors, such as financial services for instance, the labour productivity growth will increase substantially, employment on the whole is expected to rise considerably. The same is true for the health-care sector, mainly because of ongoing demographic changes towards an ageing population.

9.3 International trade

Regarding Dutch trade in goods and services, the data for 1990 showed exports of Dfl 288 billion (56.6 per cent of GDP) and imports of Dfl 262 billion (51.6 per cent). Trade already exceeded 50 per cent of GDP during the late fifties. This demonstrates the level of openness, while at the same time revealing how sensitive the Dutch economy is to the economic climate abroad. Dutch enthusiasm for economic integration and the removal of trade barriers is, therefore, not surprising.

¹] Netherlands Scientific Council for Government Policy, *Grond voor keuzen; vier perspectieven voor de landelijke gebieden in de Europese Gemeenschap* (Ground for Choices; Four Perspectives for the Rural Areas in the European Community), The Hague, 1992. (Translations into English and French are forthcoming.)

Table 9.2 Main trade relations for The Netherlands in 1991, according to destination/origin (as percentage of total)

	Imports	Exports
Europe	72.9	86.0
European Community	64.1	77.0
Germany	26.0	29.8
Belgium/Luxemb.	14.1	14.4
France	7.6	10.7
United Kingdom	8.6	9.4
Italy	3.7	6.3
Other Western Europe	6.5	6.6
Eastern Europe	1.7	1.6
America	10.8	5.2
United States	7.7	3.6
Asia	13.0	5.5
Japan	3.5	0.9
Africa	2.9	2.1
Australia and Oceania	0.4	0.4

As table 9.2 shows, about 75 per cent of current exports go to other EC countries. Germany is the largest market, with about 30 per cent. The Dutch economy has greatly profited from the recent German increase in demand caused by unification with East Germany. Belgium is another major trade partner, with a trade share of about 15 per cent. The current account has shown a relatively large surplus for the past 10 years. In addition to increased competitiveness through only moderate wage increases, sluggish domestic demand for imports has also contributed to this situation.

The overall competitiveness of a country depends on a number of factors. One of the few regular publications on comparisons of international competitiveness is the yearly report compiled by the World Economic Forum, in Davos. Based on a total of 330 criteria, eight criteria are used to compare the different countries. As one of the 23 countries involved, The Netherlands achieved 6th place in 1992, after Japan, the United States, Germany, Switzerland and Denmark. It scored high for its international orientation and its financial and management sectors, while its economic strength, government sector, infrastructure and demography were considered relatively weak points. With regard to science and technology the judgement was neutral.

The composition of Dutch exports differs considerably from those of many other industrialized economies. More than 50 per cent of exported goods consists of agricultural products, oil, chemical products and other natural resources. This is a rather high percentage for a developed economy. There are several reasons for this, namely the strength of the agricultural sector, Rotterdam's position as the main transshipment port for raw materials destined for German firms, and the presence of a large chemical sector in the Botlek, a consequence of the post-war industrialization strategy, and finally, the presence of natural gas.

On the other hand, manufactured products represent a fairly low share of Dutch exports. Whereas machines, transport equipment and other manufactured products achieve an 85 per cent share in Germany, and the EC average is 65 per cent, these types of products hardly account for 40 per cent of Dutch exports. Compared with the overall EC export pattern, Dutch manufactured exports are relatively resource-intensive and knowledge-extensive. Both business and government have become aware of this situation. More attention is currently being paid to technology, design, quality, etc., in order to get a better

foothold on new, technology-oriented markets. Upgrading the production structure both inside firms and sectors and among sectors is seen as essential for a prosperous development of the Dutch manufacturing sector.

Until now the process of internationalization has mainly been relevant for the agricultural and manufacturing sectors, but the service sector is also becoming more and more subject to this trend. There are favourable prospects for Dutch firms operating in these markets. The linguistic ability of the Dutch, and their willingness to adapt to other countries and circumstances, are all well-known qualities. The Netherlands has also deregulated faster and more radically than many other EC countries in several service sectors such as financial services, freight transport and air passenger traffic. Experience with increased competition on the domestic market has given some cause for optimism with respect to winning shares in other markets.

A good example of this is the transport and transshipment sector. The increasing value added, growing specialization and spatial spreading-out of economic activities are all pointing towards fast, flexible modes of transport, for which information technology and logistics are key factors. Dutch firms would seem able to maintain their strong position, especially if the government were to realize its planned investments in infrastructure and main ports.

9.4 Investments

9.4.1 Domestic investment

Investments are the medium through which production capacities can be expanded, new technologies introduced, changes realized and infrastructural demands met. According to Figure 9.1, the level of investment fell quite steadily after 1968. Only after 1983 was there any evidence of a strong revival. The current level is still, however, far below that of the 'golden' sixties. This is mainly because of the decline in government investment. Private investment is at about the same level as in 1968. Government investment has in recent years dropped to an all-time low. Since government investment in infrastructure, education, and research and development facilities etc. is crucial to the country's competitiveness, it is clear that a considerable turn-around must be realized if the new requirements of international competition are to be met. The already mentioned Fund for infrastructural projects, funded through profits from natural gas sales, could help to set some steps in this direction.

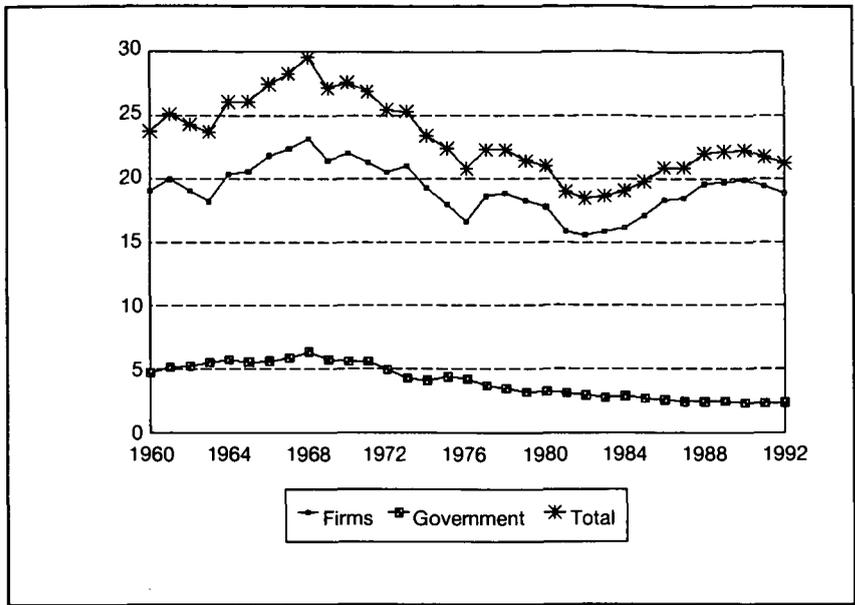
9.4.2 Dutch investments abroad

Important international relations exist in the area of direct foreign investment. In 1991 Dutch firms invested Dfl 21 billion abroad, about 16 per cent of their total investment volume. The United States, Belgium and the U.K. are the most popular destinations. The Netherlands is one of the biggest foreign investors in the U.S. Of the outgoing foreign direct investment in the last ten years, about 50 per cent was for services, while the other 50 per cent went into manufacturing.

In connection with these investments abroad, The Netherlands is the country of origin for a remarkable number of significant transnational firms. Firms such as Shell(1), Unilever (13), Philips (17), AKZO (91) and DSM (163) are all prominent in their particular sectors². The small domestic market is, of course, an important reason for these firms to invest abroad. AMRO/ABN,

^{2]} The figure between brackets gives the position among the 200 largest firms outside the United States, according to the Amsterdam financial newspaper, *Financieele Dagblad*, 6 September 1991.

Figure 9.1 Investment in The Netherlands (as a percentage of GDP)



Source: OECD, Economic Outlook

RABO and ING (Internationale Nederlanden Groep) all enjoy a strong position when it comes to financial services. ABP is one of the largest pension funds in the world (also due to the peculiar Dutch pension system).

While it may be concluded that many of the larger Dutch concerns are quite internationally oriented, many small- and medium-sized businesses were until now reluctant to enter foreign markets. Their attitude is now changing, however, because of the perspective of the internal market.

9.4.3 Foreign investments in The Netherlands

The inward flow of foreign direct investment has been smaller than the outward flow. In 1991 it amounted to Dfl 7 billion. These figures also show major fluctuations over the years. Main countries of origin were again Belgium/Luxembourg, the United States and the United Kingdom. The 1990 distribution over manufacturing and services was comparable to the outward flow. If the fact is taken into account that the share enjoyed by manufacturing was still 75 per cent in the seventies, the decline towards 50 per cent implies a remarkable change in the distribution of foreign investment.

The negative balance on the foreign direct investment account could be interpreted as an indication of The Netherlands' relative inability to attract investments. The current situation does, however, seem more encouraging. Recent research indicates an increased attractiveness for foreign investment, especially for distributive activities and holdings³. The creation of a fully integrated market seems to have swept away the disadvantages of a small domestic market. As 'Gateway to Europe', The Netherlands seems to have sufficient appeal to firms from Japan and the United States looking for a European distribution center and/or assembly plant. Its international orientation, trade facilities, stable social climate, educated labour force and knowledge of

³] Buck Consultants, *De aantrekkingskracht van de Randstad in internationaal perspectief: markt- en concurrentie-analyse* (The attractiveness of the Randstad from an international perspective: market and competition analysis), Nijmegen, 1991.

foreign languages are all important positive factors. Holdings gratefully make use of the favourable fiscal climate, even though other countries seem to have increased their attractiveness in this respect. An equally clear tendency, however, is that high-tech and other manufacturing activities are still less attracted to The Netherlands than to other EC countries. This is probably related to the absence of a comprehensive manufacturing infrastructure such as can be found in Germany, France or the United Kingdom.

9.5 Dynamism

Economic development is accompanied by changes in demand, technology and competition. Economic development means changes among and within sectors and market structures, as well as among and within firms. Growth implies change, while change is a prerequisite for growth. Dynamism is therefore an essential element for any economy. All economic actors, entrepreneurs, suppliers of labour, capital and know-how, government and pressure groups may become involved, both in instigating and anticipating change.

The overall results for Dutch economic development were rather mixed during the last decade, compared with the OECD average. Real GDP growth lagged behind OECD growth rates, except for 1989 and 1990. For real consumption growth, only 1990 showed a higher figure for The Netherlands. Even though growth in real exports lagged behind the OECD average, the current balance was very positive for the entire period. Inflation was always lower, while both national savings and the government deficit were higher. Growth in employment was about average, although unemployment was higher than the OECD level for the entire period.

It seems that the Dutch economy has become less dynamic, due to a wide array of rigid elements on different markets. The relatively low knowledge intensity in manufacturing, existence of cartels and entry barriers, and the resistance to amending laws and other regulations curtailing competition can all be considered contributing factors. This is evident, for example, in regulations and laws regarding the right to open a shop or factory, or the Shop Hours Act or in the existence of strongly regulated services such as education and health care. Of course, this is not just a Dutch phenomenon. Many other European countries demonstrate similar problems.

Such rigidities have recently been tackled in a more determined way. The expectation of tougher competition among both firms and governments in a fully integrated European market results in a greater focus on economic dynamism as an asset for the future business climate. Firms are aware that they must prepare themselves for increased competition. Governments are becoming equally aware that they will have to create a more dynamic, cost-conscious and productive environment, in order to keep their country as competitive as possible.

9.6 Conclusions

In a world of increasing internationalization, further integration of the European market and rapid technological developments, the Dutch private sector will have to exert every effort to meet the relevant demands. These developments are the major shaping factors for the private sector.

At the European level, this country considers it very important that the EC market becomes truly integrated, that all non-tariff barriers are removed and that violations of the rules on competition are stopped. It is also of utmost importance that the Community plays a constructive role in the GATT talks in order to prevent a breakdown of the world trade system. In a similar way, the

Community should resist any protectionist tendencies. Even though such measures may appear profitable in the short term, they become detrimental in a more long-term perspective. Increased protectionism would hit hardest those EC-countries with an open economy such as The Netherlands.

In order to raise the overall competitive position of the Dutch economy, the government has proposed a number of measures in the white paper 'Economy with Open Borders' (1990). These are aimed at improving the functioning of the labour market as well as the relationship it has with education, improving the infrastructure and fiscal climate, creating competitive energy prices, restoring the environment and diminishing the burden of regulations. As so often is the case, this is easier said than done. In any case, implementing these measures is sure to be slow, due to resistance on the part of various pressure groups. Again, this is a more or less common phenomenon in EC countries.

According to our observations, increased dynamism will be essential, both for government and business. Sufficient dynamism is a precondition for acquiring new markets, for successful competition with firms from abroad on both the domestic and foreign markets for products and services, for a change towards a more knowledge-intensive manufacturing sector, and for government to create excellent conditions for achieving high levels of employment and growth. Of course, other factors such as sufficient savings, high labour-force participation, low inflation, etc. are also important, but it is the presence of dynamism which creates the ultimate difference between an environment-maker and an environment-taker. Whereas in the past, both firms and government chose the first option, there are now indications of a shift favouring the second option.

The business community will be facing increased competition as a consequence of the Single Market. Marginal improvements to the existing line of products, for instance, through increases in productivity, are no longer sufficient. The realization of the Single Market presents Dutch firms with an excellent challenge to create new opportunities. The prospects are promising in certain sectors, partly due to the abolition of government regulation in other EC countries. Certain service sectors such as transport and financial services, are in a better position to face the increased competition than their counterparts elsewhere. Greenhouse horticulture and other agricultural activities with very high value added, do also show promising prospects. The expected increase in competition will force the business community to re-evaluate all existing arrangements. This concerns both the various markets on which the companies operate, and their internal organization and functioning.

Private sector prospects until 2010

SHAPING FACTORS

- Highly productive and knowledge-intensive agriculture
- Traditionally strong and competitive services sector
- Limited manufacturing sector
- High labour productivity level
- Well-educated labour force
- Home base of several large multinational corporations
- Strong dependence on exports (particularly to Germany and EC)
- Large direct investments (particularly in U.S.)

EC DEVELOPMENTS

- Liberalization of agricultural markets
- Completion of Single Market
- Resistance towards protectionist tendencies
- Anti-trust policies

(DUTCH) GOVERNMENT REACTIONS

- Increased investment in infrastructure
- Increased investment in education
- Systematic efforts to improve dynamism
- Adaptation of fiscal policies favouring European levels
- Further deregulation

BUSINESS REACTIONS

- Further internationalization (for example by mergers, take-overs)
- Upgrading of manufactured products
- Expansion of services on EC market
- Entry of small- and medium-sized businesses on EC markets
- More entrepreneurial behaviour, for example establishing new firms

10.1 Policy competition

The newly emerging Europe is sometimes seen as a fortress, when viewed from the outside. The United States and Japan fear that further economic integration will make it more difficult to sell their products in Europe. Although the image is inadequate so far, the concern is correct. The Single Market will improve Europe's economic position *vis-à-vis* the American and Japanese economies. Nevertheless, the Single Market is a necessary, but in itself insufficient condition for improved economic performance. European companies must perform as well as American or Japanese competitors if they are to survive. Competition within Europe will not become less severe. On the contrary, the Single Market will offer companies fewer opportunities to hide behind national barriers and institutional arrangements.

Certain institutional differences among nations, regions and communities will, however, remain. Various combinations of natural and infrastructure-related environmental and institutional conditions will also remain, providing various comparative advantages to different branches of the economy. Together with further integration, authorities will focus on this dynamic factor within the EC in order to enhance national prosperity. *Policy competition* will increase in the institutional and infrastructural areas. These facts, which are only now gradually dawning on policymakers in The Netherlands, form the *Leitmotif* for this report.

European integration can in itself be considered a main shaping factor for the future business environment. Other shaping factors can be found in the seven key areas discussed in the preceding chapters. These chapters, when combined, give insight into the basic facts and developments which arise when considering the business environment for the decades to come. Particular attention has been paid to the consequences of perceived trends for the competitiveness of The Netherlands.

The seven key areas are:

- geography, natural resources and physical infrastructure
- the public sector
- socio-economic relations
- socio-cultural relations
- technology
- environment
- the private sector.

The following section considers the primary shaping factors which fall under these headings, as well as plausible reactions on the part of the EC, (Dutch) government(s) and businesses.

10.2 Primary shaping factors

When trying to detect main factors which will shape the future business environment, it is difficult to differentiate between more or less 'objective' circumstances or developments, and 'subjective' public and private actions and reactions. Social circumstances and developments are by definition man-made, although in many cases their existence is not intended to be so. 'Objective' shaping factors refer to the outcome of chains of subjective actions and reactions leading to results no one originally intended. The resulting 'objective' developments and circumstances generate 'subjective' public and private reactions, which in turn, become relevant shaping factors.

The following are primary 'objective' shaping factors for the future Dutch business environment.

10.2.1 Rise of the EC as a global economic player

The Single Market provides an incentive as well as a need for many of the larger corporations in Europe to operate on a European or even global scale. The interests of these corporations will increasingly be connected with the future architecture of Europe: Single Market, EMU, EPU, new EC countries, GATT negotiations, etc. The United States, Japan and the newly industrializing countries are the primary competitors/antagonists. If Central and Eastern Europe manage to follow a long-term growth path along capitalist and democratic lines, EC countries will be the first to benefit from the increased trade.

Within the EC, governments will react to further European integration with tough policy competition for new investments. A relevant strategy for The Netherlands is the upgrading of the physical, technical, scientific and educational infrastructure, a decrease in the total tax burden through a reduction of income transfers, more flexibility on labour markets, more participation in paid employment and maintenance of the quality, rather than size of the Dutch welfare system.

The main business reaction to internationalization will be that the nationality of shareholders becomes less significant for the location of business enterprises. The allocation of investments will increasingly concur with the comparative advantages offered by EC countries.

10.2.2 Competitive infrastructure

The traditional asset of the Dutch geographical location may be eroded by new patterns of trade, new products, new production processes, new materials and the resulting new modes of transport. Compensation will have to be found in the development of a competitive infrastructure for trade and trade-related economic activity. The further development of Schiphol Airport and Rotterdam harbour into excellent main ports in global transport chains is crucially important for the economic future of The Netherlands. The infrastructural requirements for such a position go far beyond these two areas. Problems such as traffic congestion, an overburdened railway system, pollution and related environmental problems must also be addressed.

The EC must play a part in shaping European infrastructure, transport and environmental policies. As far as the physical infrastructure is concerned, Dutch government action can be expected with regard to planning (promotion of main port functions, streamlining of physical planning procedures) and finance (reshuffling of the government budget in favour of infrastructural investments). Business companies are expected to react by increasing the concentration around main ports, through further specialization in logistics and telematic operations, and implementation of energy conservation in transport.

10.2.3 Reshuffling the government budget

Coalitions are not the best basis for governments to pursue resolute entrepreneurial policies. Nevertheless, the present size and composition of public expenditure in The Netherlands, together with the need to strengthen and maintain competitiveness in Europe, strongly indicate a reshuffling of the government budget in favour of public investments in all types of infrastructure. The ideological victory of liberal democracy in the world is another factor favouring a policy in which entrepreneurial activity prevails over redistribution issues. Other shaping factors in the public area are EMU aspirations and regionalization.

EC reactions to increasing policy competition should be expected in the following areas: EMU, EPU, fiscal harmonization, European urbanization policies and emphasis on Euregions. As far as Dutch public finance is concerned, more is expected than just a reduction in the proportion of transfer incomes, and increase in the proportion of public investments. Related policies such as decentralization, deregulation and privatization will continue and be supplemented with efforts to shorten planning procedures and establish public-private partnerships. In so far as the Dutch government will concentrate on core activities, the scope for private business will grow, for example, in the areas of insurance (health care, pensions), training and retraining, and services. The construction and building industry as well as (European) investment bankers, business consultancies and R&D institutes will benefit from the increasing importance of infrastructure.

10.2.4 An open economy

The traditional openness of the Dutch economy may make it sensitive to foreign influences, but is also an advantage in the process of completing the Single Market. Dutch companies are used to operating on foreign markets. Consequently, the Dutch have always opposed protectionism. As in many countries, though, arable farming is the exception to the rule. Moreover, this open attitude coincided with tolerance towards cartels at home.

EC anti-trust policies may have an important effect on the Dutch business community during the nineties. The EC will also have to play a role in the liberalization of agricultural markets. As a result, Dutch agriculture will have to increase its reliance on technological performance and capital investments since soil conditions, geographical or climatic factors in The Netherlands are not better than elsewhere.

10.2.5 Employment

The combination of a low participation rate and a well-educated population constitutes a primary shaping factor for the future Dutch business environment. Institutional conditions and policies are factors which directly affect the supply of labour and consequently, indirectly affect the demand side of the labour market.

The Dutch government will have to pursue participation policies in order to maintain the quality of the Dutch welfare state. Neo-corporatist resistance may emerge as a barrier to stressing work above income (redistribution) in socio-economic policies. Business can be expected to react positively in removing institutional obstacles to increased participation in paid employment. Examples include longer production hours, more employment opportunities for women, dual-labour market tendencies (increased investments in training as well as growth in low(er)-paid jobs). The degree to which business internationalizes is expected to be reflected in industrial relations: trade unions in Europe will seek cooperation and employers' federations will have no choice but to react.

10.2.6 Education and training

Any future economic performance will rely heavily on the quality of the labour force. Technological developments and increasing competition lead to the permanent revision of products and production processes. The life cycle of products has become shorter and investments more costly. Education is seldom lifelong. Training can help to accommodate the ageing process of skills and knowledge. This is especially true for an ageing work-force.

An, on average, high educational level is a necessary requirement for a high quality labour force. The Netherlands scores well in this. Additional requirements are linkages between education and business, as well as continued training.

A serious competitive advantage could be won through the further institutionalization of linkages such as industrial training, partnerships between schools and businesses, partnerships between educational sectors and branches of industry and the further introduction of dual systems in vocational education. Existing neo-corporatist structures could be useful in this respect. The institutionalization of a business-oriented 'education permanente' is another relevant strategy for improving the quality of the business environment.

10.2.7 Socio-cultural heterogeneity

Further desecularization, individualization, immigration, a growing concern for environmental issues and an increasing crime-rate are clear shaping factors in the socio-cultural arena. Long-term dependency on social security, poverty traps and the growing gap between costs and technical possibilities in health care are policy-related shaping factors. A common denominator might be the resulting increase in heterogeneity of the Dutch population.

Policy reactions will be as diverse as the various shaping factors. On the EC level, there is a clear need for a European immigration and asylum-policy, as well as cooperation in law maintenance and a social policy guaranteeing minimum levels of social security. On the national level, policies reflecting socio-cultural heterogeneity are expected, that is, policy shifts favouring the demands of singles, the elderly and double-income families. In social security and health-care a shift towards providing basic security, supplemented by private insurance, may result from pressures placed on the Welfare State. In the labour market more differentiation in pay seems both inevitable and desirable in order to provide incentives. The Dutch attitude favouring social equality may help prevent the emergence of a permanent (ethnic) underclass. Business will also reflect the growing heterogeneity of the population. Expectations include production shifts to meet new demands (housing, health care, food, sports, leisure), more low-paid jobs, more employment opportunities for women and migrants, increased rewards for the successful, more scope for private health-care, insurance and pension schemes, growth of a security industry and cooperation between businesses and government concerning environmental safeguards.

10.2.8 The welfare state as an asset

Although the actual Dutch welfare provisions cause budgetary problems and contribute to the low employment rate, in other respects they can be considered an asset. Compared with the United States, it seems plausible that the European welfare states in general, and the Dutch one in particular, precluded to a considerable extent the emergence of an underclass. In The Netherlands ghettos, real poverty and social exclusion on a generation-by-generation basis are scarce, while reasonable minimum standards for education, public health, housing and social services were assured. Of course this is no guarantee that a welfare state conforming with actual standards will also prevent social disintegration in the future. For the time being, though, the Dutch welfare state does contribute to an integrated society with comparatively high standards of social solidarity and law and order. At the same time, these qualities of the welfare state contribute to the competitiveness of the business environment.

10.2.9 Technological challenges

Technological innovation is a key to economic success. In this respect, performances by Dutch companies are mixed. There is a concentration of R&D in five large multinationals and the well-organized agricultural sector. Overall Dutch R&D expenditure seems below average, compared with other EC countries. This is, however, because of the lack of military research and the high share of

the service sector in economic activity. Process innovation in services does require less R&D than product and process innovation in the manufacturing branches of industry.

On the European level, technological competition with Japan and America will necessitate a continuation of technology programmes. On the national level, additional programmes continue to be necessary. Within The Netherlands, Innovation Centres are important for the introduction of new technology in small- and medium-sized firms. Technical education on all levels is an old problem still in need of adequate solutions. The number of students is too low and the ties between technical education and business are inadequate. Within the business sector, mergers and take-overs provide one answer to the technological challenge. Concentrating on core activities and niches, as well as increased networking are alternatives.

10.2.10 Environmental issues

Public opinion in The Netherlands displays a great deal of interest in environmental issues, and is, perhaps more so than other EC countries, prepared to sacrifice growth for environmental purposes. Both the international nature of the problem, however, and the need to maintain a 'level playing field' for Dutch industry in Europe, result in a strong preference with policy-makers for far-reaching measures on an international scale.

The Dutch encourage the EC to assume full responsibility for the environment, both on a global and European scale. When necessary, the Community should be prepared to 'go it alone', even if this weakens EC competitiveness on the whole *vis-à-vis* American and Japanese competitors.

National measures will undoubtedly become tougher. Current Dutch environmental policies place a greater emphasis, however, on measures conforming with market principles than on rules and regulations. This could help to placate fears in industry about distortions of the Dutch competitive position. Covenants with industry creating a greater potential for mutual control and stimulating process-integrated environmental solutions, might also lead to environmental improvements. If national measures contribute to a cleaner (production) environment, they will help develop an asset in the policy competition among EC countries.

10.3 Conclusions

What will be the *primary shaping factor* for the business environment in the next two decades? The answer is, there will be no single shaping factor. The business environment will be shaped by a multitude of 'objective' factors in different areas, reactions by the EC and other actors on the global scene, by national governments and other public authorities, and by businesses themselves. This report has attempted to identify within this entire structure, the primary shaping factors relevant for business in The Netherlands.

This final chapter highlighted the ultimate top ten:

- the rise of the EC as a global player
- the relevance of a competitive infrastructure
- the need to reshuffle the Dutch government budget
- the openness of the Dutch economy (which might be an asset)
- the low participation rate (which certainly is a liability)
- education and training
- socio-cultural heterogeneity
- the welfare state as an asset
- a mixed picture in the field of technology
- a heavy environmental burden.

These are all factors which, at the very least, must be taken into account in the preparation of tomorrow's policies. Most of these factors would have been listed, even if there had not been an EC. They determine a country's ability to compete on world markets. The developments in the EC, with the Single Market, and at some stage eventually EMU and EPU, have increased the necessity to meet the related challenges. At the same time, these developments offer opportunities for both business and government to influence their future business environment. Adequate action now determines what tomorrow's competitiveness will be.

About the authors

J.C.F. Bletz is deputy secretary and deputy staff-director of the Netherlands Scientific Council for Government Policy.

Dr C.W.A.M. Van Paridon is member of the Council's research staff. He holds a chair on the structure and development of the German economy and Dutch-German economic relations at the Free University Amsterdam.

Dr W.J. Dercksen is member of the Council's research staff. He is also professor of socio-economic policy and director of the Graduate School AWSB (Labour, Welfare and Socio-Economic Administration) at the University of Utrecht.

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- 4 Milieubeleid (Environment Policy), 1974.
- 5 Bevolkingsprognoses (Population Forecas), 1974.
- 6 De organisatie van het openbaar bestuur (The Organization of Publics Administration), 1975.
- 7 Buitenlandse invloeden op Nederland: Internationale migratie (Foreign Influence on the Netherlands: International Migration), 1976.
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- V39 Leo Jansen, *Sociocratische tendenties in West-Europa (Sociocratic trends in Western Europe)* (1983)
- The Council commissioned a number of experts to carry out preliminary studies for the report 'A Coherent Media Policy'. The following studies were published in a separate series entitled 'Media Policy Background and Preliminary Studies' (in Dutch):
- M 1 J.M. de Meij: *Overheid en uitingsvrijheid (The Government and Freedom of Speech)* (1982)
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- M16 J.G. Stappers, A.D. Reijnders, W.A.J. Möller: De werking van massamedia; een overzicht van inzichten (The operation of Mass Media: A Survey of the State of Understanding) (1983)
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- V48 J.J. Feenstra, K.J.M. Mortelmans: Gedifferentieerde integratie en Gemeenschapsrecht: institutioneel- en materieel-rechtelijke aspecten (Differentiated Integration and Community Law: Institutional and Substantive Aspects) (1985)
- V49 T.H.A. van der Voort, M. Beishuizen: Massamedia en basisvorming (Mass Media and the Core Curriculum) (1986)
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