# The Origin of Investment Trusts in the Netherlands 1919-1939

*A step towards a more coordinated economy?*

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19 June 2023

13736 words excluding title page, table of contents, references and bibliography

Thesis History of Politics and Society (GKMV17023)

Supervisor: Dr. C.J.J. Schellekens

*'Historians not only need a tele-lens, but also a wide-angle lens…'*

Martin Bossebroek in TV-show *Buitenhof*, 16 April 2023

**ABSTRACT**

Present day's analyses of financial crisis and economic stagnation often refer to the 1930s, when the capitalist world was hit by depression. During that period the world was confronted with decreasing global trade, economic imbalances and political turmoil eventually leading to the catastrophe of WW2. This warrants thorough analysis of what happened and why, in order to draw lessons for policies today. This thesis examines change of the capitalist economy in The Netherlands during the interwar years. Economic depression and unemployment led to unprecedented state interventions, particularly in the labour markets by undertaking large public works. The government also imposed trade restrictions and tariffs and abandoned the gold standard. These measures could be characterized as a transfer of a liberal economy towards a coordinated economy. However, developments in the financial sector and how firms were financed remain under researched. This thesis contributes to this field of research by investigating the numerous Dutch investment trusts that were created following US and UK examples. Their contribution to financing the economy may in financial terms have been modest, but their nature and the motives of creation by their sponsors were paradoxically very liberal. Rethinking the period, research into the Dutch investment trusts leads to the conclusion that the overall economy became only partially coordinated. Well embedded, classical liberal traditions had survived under conservative cabinets and would further erode only after WW2.

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CHAPTER 1

# INTRODUCTION

### 1.1 WHY THE 1920S AND 1930S ARE OF INTEREST

In January 2023, the International Monetary Fund (IMF) published a Staff Discussion Note addressing the consequences and risks of what they describe as Geoeconomic Fragmentation. The financial crisis which set in as of 2008, the pandemic and the subsequent geopolitical circumstances, may lead in the eyes of the IMF to less globalization in the coming years by falling trade volumes. This could result in potentially a decrease of 7% in overall global economic growth. In the same publication the authors looked all the way back to the 1870s when international trade started to take off. It appeared that total world trade as percentage of GDP has always been rising, with an acceleration since the 1980s. The most recent years since 2008 have formed an exception with a stabilization of that increase, but even more dramatic was the period between the two World Wars where they noted a decline of that ratio of 50%. This analogy is therefore, in the eyes of the IMF researchers, a good reason for further analysis and policy action to prevent future crises as we have witnessed in the 1930s. Of course, the circumstances are different today compared to those in the 1930s, but the similarity of a stagnating trade flow after a period of continuously growing globalization is quite striking.[1] This warrants further study of the 1920s and 1930s. In this chapter, I will introduce the research questions and the further structure of this thesis. Subsequently I will elaborate on my research method.

### 1.2 CHANGES IN CAPITALISM

Typology of capitalist systems has been long debated by scholars in an attempt to explain the difference in economic and democratic performance, institutional persistence as well as the evolution from one capitalist variety to another. But what makes a country develop from one capitalist type to another, if at all? Economists Joseph Schumpeter and Friedrich Hayek expressed their views on the economy as of the early 20th century. In their views competition, free trade and capitalism are intertwined. Increased trade flows are the result of less restrictions

[1] Shekhar Aiyar, Anna Ilyina et al. 'Geoeconomic Fragmentation and the Future of Multilateralism.' Staff Discussion Note SDN/2023/001. *International Monetary Fund, Washington, DC,* January 2023

and less protectionism combined with benign monetary circumstances such as stable exchange and interest rates which lead to favorable and predictable financing conditions.[2] But how capitalist systems are embedded within different countries and how these over time develop, varies. Peter Hall and David Soskice provided a widely used framework for classification of capitalist systems in their work entitled Varieties of Capitalism (VoC) in 2001. They distinguished between Liberal Market Economies (LME) and Coordinated Market Economies (CME). Roughly speaking the LME depend more on market relationships whereas CME depend also on non-market relationships, for example by involvement of the state as an economic actor. They presented both models as ends of a continuum rather than a as binary choice.[3] In chapter 2 I will discuss their model in more detail.

Before 1914, the whole Western world, including The Netherlands, enjoyed industrialization, increased trade flows and governments supporting a laissez faire economy. Once the Dutch economy had recovered from the immediate aftershock of WW2, the country started to more resemble a CME: the welfare state continued to develop and the state increased its role in the economy. It looks as if somewhere during the interwar period conditions existed to change from one variety of capitalism to another.[4] In discussions about VoC, emphasis is often put on relationships between firms and their workforce. I am interested in relationships between firms and their financiers. In this context I will research the emergence of a new financing vehicle in The Netherlands, namely the investment trust. The reason is that this period of depression and economic decline seems to be in contradiction with the flurry of investment trusts that emerged simultaneously. This apparent paradox could help increasing our understanding of changing capitalist economies in times of pressure.

### 1.3 RESEARCH QUESTION AND SUB QUESTIONS

Firms are at the heart of the Hall & Soskice capitalism analysis including arrangements for their financing and their relationships with financiers. In a CME, financing is predominantly provided by insiders, banks, sometimes supported in some way by the state. In an LME, firms arrange their financing contracts mostly via free capital markets. This thesis will examine a

[2] Sylvia Nasar. *Grand Pursuit*. New York: Simon & Schuster, 2011, Chapter 15.
[3] Peter A.Hall, Daniel W. Gingerich. 'Varieties of Capitalism and Institutional Complementarities in the Political Economy.' *British Journal of Political Science* 39(3), 2009, pp 449-482.
[4] Jan Peet en Erik Nijhof. *Een voortdurend experiment. Overheidsbeleid en het Nederlandse bedrijfsleven*. Amsterdam: Boom, 2015, pp 81-105

particular, new source of financing, namely investment trusts and how their emergence relates to change in capitalism in The Netherlands in the 1920s and 1930s.

The main research question of this thesis is therefore: *'Can the emergence of Investment Trusts in The Netherlands during the interbellum be considered a step towards more coordination in the Dutch economy?'* The sub questions to be discussed in chapters 3-5 are as follows:

1. What were the political and economic developments in The Netherlands during the interbellum and do they point towards change of liberal capitalism?
2. Why and how did investment trusts emerge in The Netherlands and what was their significance?
3. Which are the arguments in favor and against considering investment trusts as indicators for capitalist change?

Obviously we cannot consider emerging investment trusts as the sole indicator of capitalist change. They do, however, reflect the mindset of economic actors. That in itself can prove to be a valuable contribution to the debate of changing capitalism in the Netherlands in the past and for the future.

### 1.4 Method and primary sources

In order to answer the research question, I need to understand the relationship between more coordination in the Dutch economy on one side, and the simultaneous emergence of investment trusts on the other. Did the creation of the investment trusts originate from the same causes as the changing economy or were they maybe a cause themselves? To investigate this I will use the causal narrative because this method allows analysis of complex processes and concepts, as well as their interaction.[5] In order to present such narrative I need to consult sources that describe this period's dynamics from a holistic economic and political perspective. But I also need to explore detailed sources to unravel from where the originators got their inspiration and how they embarked on the journey of creating investment trusts. I consider idea generation and adoption, both elements of innovation, as an important starting point for change. Next I want to determine which theory of capitalist change best matches the findings of the research. Jointly this will give insight into the question whether investment trusts can be considered a step towards coordination and what this reveals about capitalist change.

[5] Matthew Lange. *Comparative-Historical Methods*. London: Sage, 2013, p 45

For the interbellum years, I consulted the work of Loe De Jong (1914-2005), the Dutch journalist and former director of *NIOD,* the National Institute of War Documentation. He redacted the series Het *Koninkrijk der Nederlanden in de Tweede Wereldoorlog,* of which the first volume described the political situation between the wars concisely.[6] The monographs on the history of ABN AMRO Bank and *De Nederlandsche Bank* (DNB) served as background for the economic section.[7] For economic data and their interpretation I studied the annual reports of DNB from 1920 until 1939 and in particular the traditional extensive introductory comments by its President. These are available online via the *Nationaal Archief,* the National Archives.

By the end of the 1920s, Dutch newspapers started writing about investment trusts, particularly about those in the United States and later in the United Kingdom. Via Delpher I accessed brief articles in *De Telegraaf, Algemeen Handelsblad* and *Het Vaderland*. More elaborate articles were published in Rotterdam-based daily *De Maasbode* between 1929 and 1939. *De Maasbode*, founded in 1868, had a nationwide circulation of around 50,000 and contained a sizable, renowned financial section that was staffed with people educated at the Rotterdam *Handels Hogeschool*. The editorial staff was considered to be at least as good as liberal rival's *Nieuwe Rotterdamsche Courant,* NRC. Despite its catholic origin, its readers included liberal businesspeople because of the quality of its financial publications. The paper had correspondents in the major financial centres of the world and processed data of US stock markets overnight.[8] *De Maasbode* can be accessed through Delpher, but not all of the issues and sections can be found there. The Rotterdam City Archive keeps a physical archive of all copies. I also studied a series of articles in *Economisch Statistische Berichten* ESB, a Dutch economic monthly that was founded in 1916 and exists until this day. All their issues can be found online on ESB's website. The time of publication, 1920s and 1930s and their international orientation make those articles informative and exemplary for emerging financial integration.

I traced and consulted three Dutch dissertations on investment trusts that were written with approximately a 40 year interval each. The first dates back to 1931 and was written by Eduard Kwast, who obtained a doctorate in Law at *Vrije Universiteit Amsterdam* under the auspices of Prof. H.H. Kuyper. Given the time of publication, this dissertation can be considered

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[6] Dr. L. de Jong. *Het Koninkrijk der Nederlanden in de tweede wereldoorlog. Deel 1: Voorspel*. Den Haag, Staatsuitgeverij, 1969.

[7] Joh. De Vries, W.H. Vroom, T. de Graaf (eds.), *Worldwide banking, ABN AMRO Bank 1824-1999*. Amsterdam: ABN AMRO Bank NV, 1999 and Wim Vanthoor. *De Nederlandsche Bank 1814-1998*. Amsterdam: Boom, 2004.

[8] J.M.L. Vermeulen. *De Maasbode: de bewogen geschiedenis van 'DE beste courant van Nederland'*, Zwolle: Waanders, 1994 pp 158-159.

a primary source. The other dissertations were published later and are therefore secondary sources. Willem Berghuis researched the emergence of investment trusts before WW1 in 1967. He obtained his doctorate in economics at the *Nederlandse Economische Hogeschool* (previously the earlier mentioned *Handels Hogeschool*, now Erasmus University) in Rotterdam under the auspices of Prof. R. Burgert. Last but not least, Brigitte Slot published *Iedereen kapitalist* (Everyone a Capitalist) in 2004 obtaining her doctorate degree from the Technical University Delft with Prof. J. Drukker. What makes these dissertations such valuable sources is that they pertain very specifically to investment trusts and place them in the context of their times. There is quite some interaction between these primary and secondary sources. Journalists have inspired scholars for their dissertations, and earlier scholars have inspired later ones to write theirs. Slot literally picked up the thread where Berghuis had stopped, starting her first chapter by quoting Berghuis' conclusion 'I have come to here'.[9]

The International Institute for Social History (IISH) in Amsterdam houses the archives of the *Stichting Capital Amsterdam*, originally coming from the *Vereniging voor de Effectenhandel* (Amsterdam stock exchange), and there I consulted the files of various other investment trusts that were listed on the exchange during the period under review. Robeco, the 1929 incepted and largest investment trust by 1939, has entrusted their public information such as prospectuses and annual reports to the Rotterdam City Archive. This collection partly overlaps the Robeco files available in the IISH. I consulted files of investment trust OBAM in the archives of ABN AMRO Bank. Since the fund was not listed before WW2, the information available was quite succinct.

Once the historic background of investment trusts has become clear, I will put them into the economic context of the time and draw conclusions on whether they reflect or announce a more liberal or a coordinated capitalist society. But first I will give, in the following chapter, an overview of the historiography of literature on Varieties of Capitalism and particularly on capitalist change.

[9] Brigitte Slot. *Iedereen kapitalist. De ontwikkeling van het beleggingsfonds in Nederland gedurende de 20e eeuw.* Amsterdam: Aksant, 2004, pp 15-16

CHAPTER 2

# CAPITALIST CHANGE: HISTORICAL FRAMEWORK AND ACADEMIC DEBATE

There are many academic approaches to capitalist systems and capitalist change. Scholars from the economic, social and political sciences have observed these changes or the need for change in their own societies since capitalism took root. Consequently historians became interested and continued the analysis. In this chapter I will discuss a brief overview of the debate on capitalist change. These insights will allow me to assess in chapter 5 my research findings in the context of such change in The Netherlands.

## 2.1 VIEWS ON CAPITALIST CHANGE IN THE 1930S: ROLE OF THE STATE AND AGENCY

Because I zoom in on the interwar years, the ideas of John Maynard Keynes are relevant since he worked and published during that period.[10] He questioned the laissez-faire economy as we had experienced in the Western world until the 1930s and that had been supported by Schumpeter and Hayek. These two liberal economists were convinced that the process of innovation and free markets would lead to the best possible outcome, not only economically but also in terms of democratic freedom as Hayek advocated in his Road to Serfdom.[11] Keynes had a more nuanced view. He pleaded for change in capitalism and for a special role for the state in the economy. Whenever the market failed to express demand for goods and services, which could potentially lead to economic recession, the state had the ability and obligation to step in and create additional demand.

Another aspect of changing capitalism at that time is what has become known as the agency issue. Agency is the term used for the arena of influence between shareholders and management of firms and is sometimes dubbed as the market for corporate control: who is ultimately in charge of the company. In Keynes' view, a too independent management could lead to driving a firm into short term profit maximization. He stressed the economic evil of risk with asymmetrical outcomes: managers could walk away with high salaries whereas investors could lose their money. Therefore he believed that investors, even if they were small, were

[10] J.M. Keynes. 'The End of Laissez-faire (1926).' In E. Johnson & D. Moggridge (Eds.), *The Collected Writings of John Maynard Keynes*, Vol. 9, pp 272-294. London: Royal Economic Society, 1978.
[11] Friedrich von Hayek. *The Road to Serfdom*. 50th anniversary ed. Chicago: University of Chicago Press, 1994.

responsible for holding management accountable. Especially in fast growing industrializing economies, the role of outside investors, i.e. not belonging to the firms' founding families or their inner circle, had grown substantially. This viewpoint coincided with the statements by American lawyer and scholar Adolf Berle, who considered the emergence of the modern corporation in the 1930s and the separation of its management and a large group of anonymous shareholders even as destabilizing for capitalism as a whole.[12] Henry Simons would have agreed as he pointed out already in 1936 that the monetary component of the capitalist system was potentially destabilizing and therefore needed adequate rules and regulations.[13] In the 1930s the world was becoming financially interconnected but governmental decisions were mostly taken autonomously and isolated on national level.

### 2.2 Views on capitalist change after WW2

After WW2 thinking about capitalism drew the attention of many scholars, particularly at times of crisis such as the ones following global instabilities in the 1970s and after the 2008-2011 financial crisis. A long standing pessimist on capitalist development was Hyman Minsky. Minsky drew particular attention to the instability of capitalism, especially seen through a financial lens.[14] He concluded that a sophisticated capitalist economy is in itself unstable because the financial system can drive it into deep recession. He considered the crisis of 1929-1933 as a time when banker capitalism was gradually replaced by managerial capitalism, at least in the United States, which would continue to be the main model until the early 1980s. Influence on economic decisions shifted from shareholders and bankers to managers. In case of a financial crisis, such as in 1929, the government typically steps in and public policy starts to matter. Such crisis could therefore be labelled as a critical juncture on an otherwise steady path of capitalist development. The way governments react, determine whether the existing path is followed or that another path is taken which leads to a transformation of the capitalist system.

James Fulcher offered a concise description to categorize capitalist systems and their evolution. He defined capitalism broadly as the process of investing money in order to gain a profit or return. He described modern capitalism as an evolution starting with mercantile

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12 Adolf Berle. 'For Whom Corporate Managers Are Trustees: A Note.' *Harvard Law Review*. Vol. 45, June 1932, pp 1365-1372.

13 Henry C. Simons. 'Rules versus Authorities in Monetary Policy.' *The University of Chicago Press Journals.* Vol. 44, Feb. 1936, pp 1-30.

14 Hyman Minsky. 'Capitalist Financial Processes and the Instability of Capitalism.' *Journal of Economic Issues*. Vol.14, June 1980, pp 505-523.

capitalism in the 16th and 17th centuries. This period was followed by industrial capitalism in the 18th and 19th centuries. The 20th century saw the emergence of managerial capitalism and in our present days we are in an era of financial capitalism. Although capitalism has been continuously hit by crises which leads to capitalist systems evolve over time, the system as such has persisted. His definition did not offer room for varieties within capitalist oriented countries but contributed to the thought of capitalist change.[15]

### 2.3 VARIETIES OF CAPITALISM (VOC)

Peter Hall and David Soskice presented their analysis of VoC between individual countries in 2001, which still takes center stage in the current debate about VoC. Leading in their classification of capitalist styles, is the functioning of firms within an economy. Firms are active in what Hall and Soskice describe as five spheres of coordination. Three of them are related to the interaction between the firm and its workforce. Here we can situate the debate about the development of the welfare state, whether this should be a private or a collective set of arrangements.[16] The remaining two spheres comprise on one side interfirm relations, such as the ones with the firm's suppliers and its clients and on the other side relations with their providers of capital including the market for corporate control (agency) or corporate governance. In each of the five spheres, relationships are either more determined by market mechanisms or by non-market mechanisms which makes a market economy either more liberal (LME) or coordinated (CME).[17] Anglo-Saxon economies such as the US and the UK qualified in their analysis as LME, continental European countries such as the Netherlands, Germany and the Scandinavian countries bore characteristics of CME. Their work did not go into a deeper historical analysis on how a country's VoC moved from one system to another. In a subsequent article, the two authors identified institutional change indeed as a further field of research.[18] They also hardly go into detail on the causes of these different VoCs.

There have also been scholars with different perspectives on capitalist systems. An example is Wolfgang Streeck. He focused less on firms as central actors like Hall and Soskice did, but more on the institutional make up of a country. In a 2010 paper, he summarized four

[15] James Fulcher, *Capitalism, A Very Short Introduction*. Oxford: Oxford University Press, 2004.
[16] Hall, P.A. & D.W. Soskice, *Varieties of Capitalism*. Oxford: Oxford University Press, 2001.
[17] Keetie Sluyterman (ed). *Varieties of Capitalism and Business History. The Dutch Case.* London: Routledge, 2015, p 3
[18] Peter Hall & David Soskice. 'Varieties of Capitalism and Institutional Change: A Response to Three Critics.' *Comparative European Policies*, Vol. 1, 2003, pp 241-250.

models to analyze and categorize capitalist varieties. First the so-called Social Embeddedness model. This model is embedded in societies' cultural traditions. Economic transactions are subordinated to traditional sociological patterns including for instance a paternalistic society. Today's Japan is mentioned as an example. Some characteristics of this model certainly apply to the Netherlands prior to WW2 as I will discuss later. Secondly he described the Power Resource model. This model is more politically based where social democratic forces dominate and a widely accepted social policy is implemented. This model emerged after WW2 and led to welfare states such as Sweden, but the Netherlands also shares characteristics. The third model Streeck described is the historical institutionalist model. Institutions are constraints but also opportunities for capitalist development. Particularly the labor inclusive institutions and how these are represented at the negotiation table with employers and the state leads to a particular capitalist outcome. This model applies well to industrial countries such as Germany. The last model looks most similar to Hall & Soskice's LME and is labelled rationalist-functionalist. This capitalist model is built around institutions as a goal; actors in the economy organize their relations in the most efficient way which is most often via an open market. The US and UK are categorized in this model. Streeck concluded that economic performance was not necessarily better or worse depending on the variety of capitalism. In his view, this makes change or evolution from one model to another not an obvious route; varieties can prove quite sticky. He also drew attention to the pitfall that countries as units of comparison may fall short when you focus on firms like Hall and Soskice did. Firms operate internationally, nowadays, but also during the interwar period despite the fact that the absolute and relative size of multinationals were then more limited.[19] I would add that investors operate internationally too, in the past as well as in the present. In a later article, Streeck argued capitalism is under strain: in fact he proved to be quite a pessimist, like Minsky. He even drew a parallel between current times, i.e. after the 2008-2011 financial crises, and the 1930s.[20]

### 2.4 Institutional change: critical juncture and gradual change

Not so much about capitalist systems per se, but about institutional change in general, is the widely used concept of path dependency. James Mahoney defined path dependency as decisions taken (or not taken for that matter) at a so-called critical juncture, which can be an event, a crisis

[19] Wolfgang Streeck. 'E Pluribus Unum? Varieties and Commonalities of Capitalism.' *Max Planck Institute for the Study of Societies. Discussion Paper* 10/12, 2010.
[20] Wolfgang Streeck. 'How will capitalism end?' *New Left Review*, Vol. 87, 2014, pp 35-64.

or even a change such as in the sphere of the legal, monetary or regulatory environment. These decisions can be taken by governments but also by other actors in society, such as individual firms. After such decision, in order for a new path to be persistent, there need to be so-called reinforcement mechanisms which prevent the situation to hover back to the old status quo.[21] In the context of changes in capitalism, this means concretely that there needs to be some sort of crisis or change in playing field for a system to evolve. I will discuss some of these critical junctures and their importance in the Netherlands during the interbellum in a following chapter.

Kathleen Thelen discussed in various publications institutional change emerging from gradual institutional adaptation to new circumstances, so not particularly after a critical juncture. It is all too tempting to consider WW1 and the 1929 financial crisis and subsequent depression as exogeneous shocks, leading to institutional change. But in terms of Dutch economic circumstances and patterns, we must take this important point of attention from Thelen and not lose eye for more gradual and endogenous developments during the period under study.[22] The shift in power between investors or owners and managers of companies, became more apparent during the interbellum and investment trusts, adopting a passive stance towards a company's management, are a good example for such development. Therefore they offer a good insight in understanding capitalist change.

### 2.5 THE ROLE OF FINANCE IN CAPITALIST CHANGE

How do change in capitalism in the Netherlands during the interwar years on one side and the emergence of new investment vehicles on the other, relate to each other? Did the emergence of investment pools in the form of mutual funds contribute to a different type of capitalism or did they form a counterweight? Maurice Obstfeld attributed the interwar decline of global trade to monetary policy, exchange rate policies and reduced capital mobility.[23] In other words, finance was the root cause of economic slowdown and subsequent government interventions. But how to explain then the emergence of mutual funds in The Netherlands precisely in this period? Investment trusts could be labelled as a financial innovation. To explain a different

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[21] James Mahoney. 'Path dependent explanations of regime change: Central America in comparative perspective.' *Studies in Comparative International Development*, 36:1, 2001, pp 111-141.

[22] Wolfgang Streeck & Kathleen Thelen (eds). *Beyond Continuity: Institutional Change in Advanced Political Economies*. Oxford: Oxford University Press. 2005, pp 1 – 38 and James Mahoney & Kathleen Thelen (eds.). *A Theory of Gradual Institutional Change in: Explaining Institutional Change: Ambiguity, Agency and Power*. Cambridge: Cambridge University Press, 2010, pp 1-37.

[23] Maurice Obstfeld. 'The Global Capital Market: Benefactor or Menace?' *Journal of Economic Perspectives*. Vol. 12, Number 4, Fall 1998, pp 9-30

phenomenon, namely the emergence of the first financial bubble in the early 18th century, Rik Frehen et al. discussed financial innovations in more detail. These included insurance of physical transactions such as trade, which can be considered as a way to share the risk burden among market participants just like investment trusts. They concluded that innovations have an impact on stock market volatility and eventually on stock market decline.[24] That may be true for speculative transactions, but some financial innovations actually diminish unsystematic risks and should be met with more enthusiasm. Pooling investments in the form of an investment trust is one such innovation.

The approach taken in this thesis is one from a financial historic perspective, less so from a purely institutionalist point of view. Youssef Cassis drew the attention to the relationship between financial history on one side and global history, business history and economic history, on the other. He argued that the impact of financial events such as panics and crashes has been under researched in the context of global history dynamism.[25] In their 2011 paper on the consequences of financial innovation, Josh Lerner and Peter Tufano explored the characteristics of financial innovation as opposed to industrial innovation. They also identified a research gap: the dynamics of financial innovation are very different. In their definition of financial innovation there was a clear place for 'new financial instruments,…, institutions and markets.'[26] They also pointed to the lack of research and to the lack of data. The main differences with industrial innovation are centered around interconnectivity of international markets, highly dynamic markets and their complexities because of differences in regulation and supervision.

In her dissertation, Slot listed the reasons for her study of investment trusts. One of them was institutional embeddedness: investment trusts are a reflection of societal trust leading to an environment where investors can trust fund managers and the legal and regulatory infrastructure, hence the term investment *trust*. In a low trust society investment trusts will not survive.[27] I will look at this argument from a different perspective by investigating the dynamics in capitalist coordination in the Dutch economy.

Capitalism evolves over time and place and in that process finance seems to matter. Sometimes an exogenous shock such as a financial crisis or war triggers a different path. But

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[24] Rik Frehen, William N. Goetzmann and K. Geert Rouwenhorst. 'New Evidence on the First Financial Bubble.' *Journal of Financial Economics* Volume 108, Issue 3, June 2013, Pages 585-607

[25] Youssef Cassis (ed.). *The Oxford Handbook of Banking and Financial History*. Oxford: Oxford University Press, 2016, chapter 2.

[26] John Lerner and Peter Tufano. 'The Consequences of Financial Innovation: A Counterfactual Research Agenda.' *Working Paper 16780, National Bureau of Economic Research*, Cambridge MA., February 2011, p 8

[27] Brigitte Slot. *Iedereen kapitalist. De ontwikkeling van het beleggingsfonds in Nederland gedurende de 20e eeuw*, pp 23-24

evolution also occurs over a longer period of time. How this happened in The Netherlands is the topic of the next chapter.

CHAPTER 3

# CAPITALIST CHANGE IN THE NETHERLANDS: MORE COORDINATION

## 3.1 DELAYED INDUSTRIALIZATION AND DELAYED DEPRESSION

Did the political and economic developments in The Netherlands between the wars lead to change of capitalism? What were the causes of more government coordination? The Netherlands had been a neutral country during the First World War, and although its open economy had obviously been bruised, it came out of the war relatively unscathed. The gold reserves of the central bank had more than doubled and companies had a solid starting position for the economic rebound. Because of its late industrialization, however, the country first had to catch up compared with other countries. By means of example: the number of Dutch industrial companies in 1913 was a meagre 13% of total Dutch companies, whereas this figure had increased to 30% in the 1930s.[28]

A major global financial event was obviously the 1929 stock exchange crash which caused the subsequent great depression and unemployment. In the Netherlands this led to unprecedented government interventions. The state created welfare and employment projects to support the population, which suggests an evolution towards more economic coordination.

Other countries started to put in place protectionist measures such as trade tariffs. On the monetary side they let go, starting with the United Kingdom and the United States in the early 1930s, of the gold standard for their currencies in order to enhance competitiveness in a more difficult international trading arena.[29] Nevertheless, industrial development continued, also in the Netherlands. It is only later that GDP per capita in constant monetary terms drastically decreased for six years in a row, as can be seen below.[30]

[28] Gerarda Westerhuis & Abe de Jong. *Over geld en macht. Financiering en corporate governance van het Nederlandse bedrijfsleven.* Amsterdam: Boom, 2015, p 69
[29] Wim Vanthoor. *De Nederlandsche Bank 1814-1998*. Amsterdam: Boom, 2004, pp 128-155
[30] Dr. Loe de Jong. *Het Koninkrijk der Nederlanden in de tweede wereldoorlog. Deel 1: Voorspel,* p105

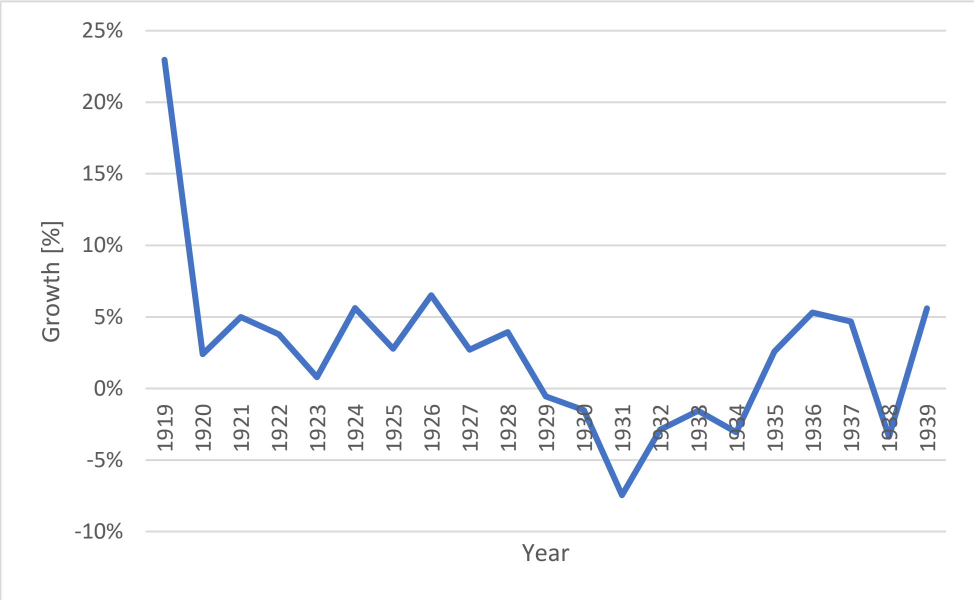


*Fig 1: GDP per capita growth in NL 1919 – 1939* [31]

### 3.2 A CONSERVATIVE POLITICAL ENVIRONMENT

Between WW1 and WW2 The Netherlands had governments that consisted primarily of conservative, confessional parties (Catholics and Protestant) occasionally supported by right wing, liberal parties. There was too much political distrust to include socialist and other left wing parties in government, particularly from the Roman Catholic side, although the socialist electorate hovered between 20 and 25% during the interwar years. Three confessional prime ministers dominated the period, heading a total of 10 different cabinets. The composition of these cabinets, however, did not change dramatically, as is demonstrated in below table.

| Period | Prime Minister | Party | Minister of Finance |
|---|---|---|---|
| 1918-1925 | Charles Ruijs de Beerenbrouck<br>*2 cabinets* | Roman Catholic Party | S. de Vries, D.J. de Geer,<br>H. Colijn |
| 1925-1926 | Hendrik Colijn | Antirevolutionary Party | H. Colijn |
| 1926-1929 | Dirk de Geer | Christian Historical Union | D. de Geer |
| 1929-1933 | Charles Ruijs de Beerenbrouck | Roman Catholic Party | D. de Geer |
| 1933-1939 | Hendrik Colijn<br>*4 cabinets* | Antirevolutionary Party | P.J. Oud, J. de Wilde,<br>C.W. Bodenhausen |
| 1939-1940 | Dirk de Geer | Christian Historical Union | D. de Geer |

*Table 1: Important Dutch cabinet positions 1919-1939.*[32]

[31] www.clioinfra.eu consulted on 28 April 2023
[32] Dr. Loe de Jong. *Het Koninkrijk der Nederlanden in de tweede wereldoorlog. Deel 1: Voorspel*, pp 655-660

It was not so that these coalitions were always as stable as their composition may suggest. As a matter of fact, cabinets often governed 'extra-parliamentary' which meant that there was not an upfront coalition agreement between parties on specific policies. This explains the relatively large number of cabinets over a short period of time. What was stable, however, was the belief of ruling politicians in the old pre-war liberal economic and social order. This included belief in the capitalist system, free markets, free trade and with the state at the background. This led Loe de Jong to the conclusion that The Netherlands was a conservative country.[33] Streeck would have categorized the system as socially embedded capitalism.

### 3.3 Economic conditions

Although the conservative governments had as general policy to get the country back on the economic track from before WW1, they had to operate in a new era, that eventually forced them to intervene. Social, monetary and economic conditions changed, propelled firstly by WW1, then by the financial crisis and depression. The subsequent governments had little idea to integrate these changes into new concepts and policies on economic order.[34]

The economy came back to life after 1918, helped by the relatively strong export position due to the previous neutrality of the country. The 1920s were characterized first by a period of pent-up demand until 1921. However, the years 1921-1923 saw a financial crisis following diminished German demand for Dutch products caused by their inflationary problems and a simultaneous too generous financing by the Dutch banks to industry. The banks were relatively new in the financing mix of companies because the stock exchange based so-called *prolongatie* system, whereby short term notes were issued by companies to the general public, had ceased to exist shortly after WW1: the market had too often been closed to regain confidence from investors.[35] Rotterdam headquartered Robaver, one of the largest banks in the country consequently embarked on an aggressive lending policy. This proved to be over aggressive and the bank had even to be saved by the Dutch central bank, which was unprecedented.[36] The years 1923 – 1929 were characterized by a return to the prewar, liberal trade policies and led to an economic growth of 5% p.a. As a result gold reserves of the central bank even accumulated more. In 1925 the Dutch and British governments simultaneously

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33 Dr. Loe de Jong. *Het Koninkrijk der Nederlanden in de tweede wereldoorlog. Deel 1: Voorspel*, pp 65 - 70
34 Jan Luiten van Zanden. 'Old rules, new conditions.' In *A financial history of the Netherlands*. Cambridge: Cambridge University Press, 1997. pp. 124-151.
35 Ibidem.
36 Lodewijk Pertram. *De vergeten bankencrisis*. Amsterdam: Atlas Contact, 2016.

announced the return to the pre-war gold standard, predominantly to encourage trade and commerce to flourish. The Netherlands had left the gold standard 10 years earlier, in 1915, which at that time had improved Dutch competitiveness and had been a growth impulse to Dutch corporates. Only in 1931, when the pound sterling, then the global reserve currency, left the gold standard quite unexpectedly and lost 20% of its value, the immediate impact on the Dutch economy became apparent. The suddenness of this decision even led to a loss of the Dutch Central Bank of NLG 30 mln.

Although the government did everything it could to return to the economic order of pre 1914, we did see various hesitant steps towards further social policies and dialogue; the emergence of a coordinated capitalism. After the introduction of social laws prior to WW1, such as the law forbidding child labor and the law prescribing education up to the age of 12, the government introduced further laws building the origins of a welfare state. Initiatives to protect the workforce from accidents and losing employment, were gradually put in place. As of 1919, there was general suffrage, allowing women to vote. In the same year the dialogue between the state, employers and workers was formalized in the High Council of Labor (*Raad van de Arbeid*).[37]

Everything changed after the occurrence of the financial crisis originated in the United States in October 1929. Although investors also in The Netherlands lost quite a bit of their capital that was invested in the US, the effects on the real economy were not immediately felt. Unemployment only started to rise after 1930.


*Fig. 2: Unemployment in The Netherlands as % of total workforce* [38]

[37] Jan Peet en Erik Nijhof. *Een voortdurend experiment. Overheidsbeleid en het Nederlandse bedrijfsleven*, p73
[38] https://www.cbs.nl/nl-nl/nieuws/2009/12/werkloosheid-jaren-dertig-hoogste-ooit, consulted on 28 April 2023

The main reason was exports suffering from the strong currency and consequent lower competitiveness. *De Nederlandsche Bank* (DNB) did not discuss the financial crash of 1929 in its 1930 annual report at all, its President started discussing the depression only in his review of the year 1930-1931. But he also remarked the resilience of the Dutch economy. One of the reasons mentioned was its liberal, free trade oriented economy.[39]

### 3.4 GOVERNMENT REACTIONS

The government, then under the leadership of Colijn as prime minister and minister of finance, firstly embarked on a so-called adjustment policy (*Aanpassingspolitiek*) which meant that in principle the state had to balance its budget. This was a non-Keynesian policy. A deficit had emerged as a result of lower tax revenues and the higher number of unemployed eligible for financial support. This led to a detrimental spiral of budget cuts, including undesired effects such as increasing the number of pupils per class, decreasing civil servants' salaries and impoverished unemployment benefits. In the following year's report, DNB criticized other countries' imposing measures to curb free trade.[40] Only in 1933 DNB went into greater detail describing the depression whilst discussing the necessity of the reduction of the government spending, supporting Colijn's *aanpassingspolitiek*.[41] But overall there was no radical change in the government's beliefs and policies other than that specific work programs and agricultural support were put in place. The most significant shocks to the Dutch open economy were the reaction to other countries leaving the gold standard in the early 1930s, and the restrictions on international trade which was dramatic, as is shown in the table below.

| *(1928=100)* | | *Imports* | | | *Exports* | |
|---|---|---|---|---|---|---|
| | ***1930*** | ***1931*** | ***1932*** | ***1930*** | ***1931*** | ***1932*** |
| **The Netherlands** | 90 | 70 | 48 | 87 | 66 | 43 |
| **United States** | 75 | 51 | 33 | 75 | 47 | 32 |

*Table 2: Imports and Exports of NL and USA 1930 – 1932 (1928 = 100)* [42]

[39] DNB, *Annual reports*, 1930-1931 & 1931-1932
[40] DNB, *Annual report* 1931- 1932, pp 4-6
[41] DNB, *Annual report*, 1932-1933, pp 19-26
[42] DNB, *Annual report*, 1932-1933, p3

Subsequently the government increased its intervention in the real economy with the adoption of the crisis import law (*Crisisimportwet*) in 1933 allowing the establishment of import quota. Obviously this led other countries, in case of an import limit on their products, to impose a reciprocal export limit on Dutch goods. As of 1934, the government started to interfere in tariffs and trade but also by imposing other regulations. First the Agricultural crisis law (*Landbouwcrisiswet*) was adopted in 1934. This law allowed the government to intervene in any aspect of agricultural produce and distribution: tariffs, minimum prices, quota etc. Another example concerns the retail sector. As of the early 1930s, various rules were issued, including in 1937 the obligation for a retailer to meet certain minimum standards of knowledge prior to opening up shop.

By 1935 the most important freely trading currencies had devaluated between 20 and 60% against the guilder.[43] By means of example, the USD quoted NLG 2.47 on 31st March 1933 and NLG 1.48 only 1 year later.[44] Otherwise the period appeared relatively more stable than turmoil in other countries might suggest. In 1931, when the pound sterling, then the global reserve currency, left the gold standard quite unexpectedly and lost 20% of its value, the real impact on the economy became apparent. It took the government until 1936 to finally abandon the gold standard, as one of the last countries, after which the guilder lost 20% of its value and the export position of Dutch companies was improved. The late timing of this decision has been widely indicated as one of the factors of a prolonged recession in The Netherlands.[45]

A third category of measures were the labor projects at the end of the 1930s (*Tewerkstellingsprojecten* or *Werkverschaffing*). The government defined a number of projects for which unemployed could be put to work. Left wing parties considered this a form of forced labor but it fit within the conservative confessional viewpoint that one has to work for money. The Socialist Party (SDAP) themselves had launched an ambitious labor plan (*Plan van de Arbeid*) in 1935 which was a lot less radical than previous standpoints from the socialist side. De facto, they had embraced capitalist order and denounced class struggle and Marxist viewpoints. It did not get them in the cabinet after the 1937 elections, though.[46]

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[43] DNB, *Annual report*, 1934-1935, p4
[44] DNB, *Annual report,* 1935-1936, p6
[45] J.L. Van Zanden, ‘Old rules, new conditions.’ In *A financial history of the Netherlands,* pp. 124-151.
[46] Jan Peet en Erik Nijhof. *Een voortdurend experiment. Overheidsbeleid en het Nederlandse bedrijfsleven*, p 97

### 3.5 FIRMS AND THEIR FINANCIERS: NEW LEGISLATION

In their study on financing and corporate governance in The Netherlands, Westerhuis and De Jong agreed that the period before WW1 could be characterized as a liberal economy, but they identified a paradox as far as the financing of firms is concerned. They argued that the banks actually played a double role: on the one hand short term debt financiers, but on the other hand as intermediaries for finding investors in exchange listed paper. That institutional make-up did not change significantly after WW1, but some regulatory changes were made. Firstly, a new tax regime made that only paid-out dividends were taxed. Retaining profits had therefore become more attractive. Secondly, the government at last also finalized a long debated review of the laws pertaining to limited companies (*Naamloze Vennootschappen* or NVs). In 1928, Parliament approved a wide set of new regulations replacing the old ones going back to 1838. At that time there were so-called closed NVs, predominantly family owned (currently: *Besloten Vennootschappen* or BVs). But because of the need for outside capital for investments, there emerged open NVs, with outside shareholders, which could be listed on the stock exchange or remain unlisted. The objectives of the new laws were, among other, to provide more disclosure to and protection of outside providers of capital. The power of management and supervisors became subordinated to the general Shareholders' meeting. This marked an important step in the dissociation between management and ownership of large companies and paved the way to managerial capitalism.[47] Westerhuis and De Jong argued that this change should more be considered as an institutionalization of existing practice rather than as a radical break form the past. Managers of companies actually had increased their power at the detriment of shareholders during before the change of law.[48] Researching investment trusts should be situated in this agency debate.

Traditionally family capital, retained earnings and, to a lesser extent, trade credit were the principal sources of financing for the emerging industrial sector. After the first world war, there was a shift toward a more diverse group of financiers. As stated above, the banks started to play a bigger role in financing companies. Large companies tapped capital also by means of the stock exchange once the pre-war short term debt *prolongatie* market had come to an end. This source, however, came under severe pressure once the depression continued. DNB started publishing data on the securities new issue market in Amsterdam as of 1926, which are

[47] Gerarda Westerhuis & Abe de Jong. *Over geld en macht. Financiering en corporate governance van het Nederlandse bedrijfsleven* p 88-89
[48] Ibidem, pp 97-98

summarized below which clearly illustrates the standstill in the capital market after 1931 until 1938.

| Year ending 31 March | Total domestic issuance (A) | *Of which State and Provinces (B)* | Net domestic (A-B) | Foreign issuers (C) | **Total (excl NL State and provinces) (A-B+C)** |
|---|---|---|---|---|---|
| 1926 | 402 | *186* | 216 | 97 | **313** |
| 1927 | 619 | *420* | 199 | 154 | **353** |
| 1928 | 278 | *152* | 126 | 89 | **215** |
| 1929 | 410 | *69* | 341 | 310 | **651** |
| 1930 | 262 | *70* | 192 | 134 | **326** |
| 1931 | 263 | *168* | 95 | 185 | **280** |
| 1932 | 184 | *159* | 25 | 38 | **63** |
| 1933 | 322 | *306* | 16 | 32 | **48** |
| 1934 | 203 | *195* | 8 | 0 | **8** |
| 1935 | 121 | *89* | 32 | 0 | **32** |
| 1936 | 144 | *140* | 4 | 0 | **4** |
| 1937 | 126 | *107* | 19 | 13 | **32** |
| 1938 | 114 | *37* | 77 | 25 | **102** |
| 1939 | 205 | *53* | 152 | 33 | **185** |

*Table 3: Size of the Dutch total new issues (debt and equity) market in NLG mln* [49]

The Dutch financial sector but evenly so capital rich entrepreneurs demonstrated a rejuvenated interest in pooling investment money by means of the establishment of investment trusts. These may not have been dominant in absolute size of total financing but did mark a change in the way money was invested and how risks were shared. The establishment of an investment pool of funds in a separate legal entity was not entirely new and dated back to the 18th century or even earlier to the early 17th century if one includes the way the Dutch East India Company sourced its funds by means of shares. The period under review, however, did mark a dozens of new funds launched, unlisted as well as listed. These were, among other, inspired by similar product developments in the United States and in the United Kingdom. Most of them

[49] Based on data in DNB annual reports 1926/1939

disappeared, but some, notably Robeco and OBAM, created in 1929 and 1936 respectively, have survived until this day.[50] Chapter 4 will go into more detail.

### 3.6 CONCLUSION

In conclusion it can be stated that conservative mindsets and anxiety prohibited the various governments to take adequate measures timely, such as a devaluation of the guilder and allowing companies to go bankrupt in order to adjust the economic structure to the new reality. Colijn stressed that the government could not solve the issues in society but simply had to wait for better times and appease as much as possible undesired social outcomes. It was policy to deal with the crisis at hand rather than with a changing business cycle or new economic realities.[51] Or in terms of path dependency: the depression as critical juncture did not fundamentally change the government's viewpoints on how the economy should be structured, but the subsequent events eventually forced the government to change its direction on an opportunistic basis. So it would be incorrect to speak of a complete change from a liberal economy to a coordinated economy, but signs of coordination undoubtedly emerged.

[50] Brigitte Slot. *Iedereen kapitalist. De ontwikkeling van het beleggingsfonds in Nederland gedurende de 20e eeuw*, pp 113-163

[51] Dr. Loe de Jong. *Het Koninkrijk der Nederlanden in de tweede wereldoorlog. Deel 1: Voorspel* pp 178-198

CHAPTER 4

# INVESTMENT TRUSTS IN THE NETHERLANDS

## 4.1 DEFINITION

A successful investment trust is the outcome of a process that starts with an original idea followed by flawless execution. In that process there need to be initiators, sponsors and distributors, the investors who pool their financial resources and eventually financial assets to invest in. In this chapter, I will present my research into how that materialized in The Netherlands, and what the importance was for the Dutch economy. As definition of an investment trust I will use the one that W.H. Berghuis formulated in his 1967 dissertation studying its development *until* 1914. An investment trust is (1) a separate legal entity with the purpose to (2) invest in (3) a least two different securities. An investment trust does (4) not seek control (i.e. a majority interest) over companies in which investments have been made. (5) Investors who entrust their capital, do not actively manage the assets of the trust. They can, however, (6) dispose of or trade their holding in one way or another.[52] I will sometimes use alternative names that are common in the investment industry: mutual funds or investment funds, but the concept is basically the same as an investment trust. Investment trusts can take different shapes and forms. They can be open end, meaning that investors can buy newly issued shares by the fund, or closed end, meaning the size is fixed until maturity date. In case the investment portfolio is not actively managed but determined up front, the term fixed depot is also used. An investment trust can take the legal form of an NV and subsequently be listed on the stock exchange. I will focus on these listed trusts because they offer the best primary sources such as prospectuses and annual reports.

## 4.2 ORIGINS – PERIOD UNTIL WW1

Although I discuss here the emergence of investment trusts during the interbellum, risk sharing by investors was by no means a new phenomenon. The year 1772 saw the demise of Dutch bank Clifford & Co, which gave Amsterdam trader and broker Abraham van Ketwich the idea that it would be better for investors to spread risks over various different investments rather

[52] W.H. Berghuis, *Ontstaan en ontwikkeling van de Nederlandse beleggingsfondsen tot 1914*, Assen: Van Gorcum & Comp. NV, pp 4-6

than put their eggs in one basket. He created the fund *Eendragt maakt Magt* (United we stand) in 1774 of which the shares were negotiable. The fund invested in foreign bonds issued by for example Danish and Viennese banks, the states of Russia and Sweden, English colonies but also by plantations in Dutch Guyana. To avoid conflict of interest, he did not manage the fund himself but was merely its administrator. He left its management to two independent commissioners, Dirk Bas Backer and Frans Jacob Heshuysen, who could select their investments from the pre-agreed list. After the launch of this fund, two other followed: *Voordelig en Voorsigtig* issued by a group of Utrecht based investors, and Van Ketwich created a second fund, *Concordia res parvae Crescunt*. The total invested amount was NLG 2.5 mln, which was very modest compared to the NLG 1.5 bln of Dutch wealth that was invested abroad by the end of the 18th century.[53] The funds were dissolved before the beginning of the 20th century.[54]

The earlier mentioned W. Berghuis investigated the emergence of investment trusts in the Netherlands until 1914. He noticed that during the period between 1780 and 1860 there was no activity in investment trusts following the three mentioned funds at the end of the 18th century. As of 1869, stockbrokers Kerkhoven & Co and Boissevain launched a series of depots particularly investing in US railway stocks and bonds. Other brokers launched the *Vereenigd Bezit van Amerikaansche Fondsen* in 1887, liquidated in 1920. In 1888 the *Vereenigd Bezit van Nederlandsch Indische fondsen* was created, to be dissolved in 1905. Over the period until 1914, only NLG 20.4 mln was invested in investment trusts.[55] Compared to the United States and Great Britain, this amount was very small. Why was this, according to Berghuis, the case? First of all he attributed the lack of interest to the investors, the demand side. He first mentioned the Dutch climate of individualism and distrust in institutions. This was quite a claim but it fits in the overall political and social context which distrusted new institutions and concepts. He then described Dutch society as lethargic. People with capital actually had the time to manage their own investments: The Netherlands was a nation of rentiers. Nevertheless he attributed the frugal Dutch with a certain talent for investments, deeply rooted in the liberal tradition as of the 17th century. Bad performance of the existing funds did not provoke additional interest. On the supply side there was not a lot of enthusiasm either: the community of stockbrokers, through which investors could pass orders on the stock the exchange, was atomised. There were around 1500 small broker firms in the Netherlands who lacked the actual knowledge of investing and

53 Brigitte Slot. *Iedereen kapitalist. De ontwikkeling van het beleggingsfonds in Nederland gedurende de 20e eeuw*, p 85
54 Geert Rouwenhorst. 'The Origins of Mutual Funds'. *Yale ICF Working Paper No. 04-48*, December 2004.
55 W.H. Berghuis, *Ontstaan en ontwikkeling van de Nederlandse beleggingsfondsen tot 1914*, pp 117-176

also feared a decline of revenues once investors were locked in funds rather than actively traded underlying securities.[56]

### 4.3 INVESTMENT TRUSTS IN THE DUTCH PRESS – PERIOD AFTER WW1

After WW1, Investment Trusts were now and then mentioned on the financial pages of daily newspapers. I mention a couple of early examples. In 1927 *Algemeen Handelblad* ran an article on investment trusts in the US and how further regulation was expected to curb the spectacular growth of these speculative instruments. More than half of the New York state active trusts had been incorporated in that very same year.[57] In *Het Vaderland* of 2 January 1928 E. Henny, partner of Henny&Co stockbrokers, shared his enthusiasm for investment trusts in the US and in the UK. From a risk diversification point of view, he advocated the trust as a good method for Dutch investors to invest abroad rather than in domestic and colonial securities.[58] *De Telegraaf* mentioned investment trusts on 3 February 1928. In an article they pointed out the importance of the management of the trust but also warned for foreign ownership of Dutch companies once US trusts would start to invest in overseas' stocks.[59]

Similarly intrigued by developments in the US, journalist H.M.H.A. van der Valk published a series of articles in Dutch monthly *Economisch Statistische Berichten* ESB in 1929. Van der Valk was also an editor of that magazine. On 13 March, a couple of months before the Wall Street crash, he published his first article, titled: The Nature of Investment Trusts (*Het weezen der Investment Trusts*). He noted an increased interest in new funds and top up of existing funds in the United States: in the period between 1 October 1928 and 31 January 1929 a total of USD 600 mln was invested in new funds, and the existing funds represented a value of up to USD 1 bln. He recognized the advantage for small investors ('small capitalists') who could benefit from sectoral and geographical diversification in their portfolio. Also larger investors could benefit from specialized investment management.[60] His next article appeared on 27 March 1929 and focused more on Great Britain. British investment trusts rotated out of the United States into European assets because of the high USD rate and the increased

[56] W.H. Berghuis, *Ontstaan en ontwikkeling van de Nederlandse beleggingsfondsen tot 1914*. pp 209-223
[57] *Algemeen Handelsblad*, 'Amerikaansche Beleggingstrusts, wettelijke voorschriften te verwachten', 28 november 1927.
[58] *Het Vaderland*, 'Beleggingsproblemen en investment trusts', 2 January 1928.
[59] *De Telegraaf*, 'Investment Trusts en de beurs', 3 February 1928.
[60] H.M.H.A. van der Valk. 'Het wezen der investment trusts.' *Economisch-Statistische Berichten*. Vol. 14, 13 March 1929, Nr 689, pp 248-250.

valuations on the stock exchange, which, as we know, collapsed a couple of months later.[61] A third article by his hand was published just before the October crash, on 11 September. Van der Valk discussed the popularity of the trusts in the US over the recent couple of months but also the explicit speculative character of some. The most recent funds of course lacked any financial buffer when the market collapsed in October 1929.[62]

The most comprehensive publication in a daily newspaper was in *De Maasbode*. This newspaper dedicated a series of three longer articles to Investment Trusts in the Netherlands in September 1930. Journalist B.H.A. Meyerink wondered why investment trusts were a big success in the US and in the UK, but not in the Netherlands. He praised the countercyclical nature of the funds in the US by buying shares when they were low for the longer term. He expressed concerns about the set-up of the few existing Dutch funds, that were in his view relying too much on the decisions by their fund managers rather than statutorily defining the criteria for individual investments. All trusts were linked to brokers and banks which Meyerink identified as a potential conflict of interest.[63]

### 4.4 THE FIRST DISSERTATION ON INVESTMENT TRUSTS

Eduard Kwast referred to the series of articles in *De Maasbode* in his dissertation on Investment Trusts in 1931. Kwast discussed the different categories and features of the Anglo Saxon funds and put the actively managed investment trust at the center of his study. He praised the 'financial genius' of the British (and of the Scottish in particular) and how they were the inventors of the investment trust in the 1860s. The British trusts had collected by then around GBP 500 mln in value. According to Kwast, the British had an international approach to their investments, which is logical because Britain was a capital exporting country: foreign interest rates were higher than domestic. He also emphasized the long term strategy of the funds, including the buildup of reserves which allowed a fund to continue to pay out dividends even in times of lesser underlying results. One of the pioneers of portfolio investing was Robert Fleming, founder of the Scottish American Investment Trust in 1873. Fleming advocated the spread of risks by investing in different sectors and companies. The Americans had a more speculative approach to investing. In the US, apparently USD 3.5 bln had been collected in funds, particularly after

[61] H.M.H.A. van der Valk. 'De ontwikkeling der Britsche investment trusts.' *Economisch-Statistische Berichten*. Vol. 14, 27 March 1929, Nr 691, pp 296-297.
[62] H.M.H.A. van der Valk. 'De ontwikkeling van de investment trusts in de Verenigde Staten.' *Economisch-Statistische Berichten*. Vol. 14, 11 September 1929, Nr 715, pp 814-816.
[63] *De Maasbode*, 6, 10, 19 September 1930, Stadsarchief Rotterdam

the end of WW1, but as Kwast explained, there was much more turnover in underlying assets. This also had to do with the business model where the brokers actually benefitted from more trades rather than from a buy and hold strategy. The US trusts also invested more in shares rather than in bonds, which made their value more volatile and vulnerable to stock market crises. For his chapter about the Dutch trusts, Kwast relied on the earlier work done by Meyerink.[64] Kwast ended his dissertation with two conclusions for the Netherlands. First he was surprised the Dutch market had not copied the British initiatives: The Netherlands also being a capital exporting country. He ascribed this to lack of initiative and the dominant role of banks in financing industrial companies rather than financial markets. His second conclusion was that despite these structural deficiencies, the Dutch market as such should be very receptive. He calculated that on the basis of the same cost ratio of the British funds, the Dutch needed to put together NLG 7.5 mln in order to run a profitable business. In short, he expected the Dutch market to be very promising. There strangely was no mention at all of the Dutch origin of investment pooling nor of the various initiatives that had meanwhile been taken in the Dutch market that I will describe below.

### 4.5 The origins of Robeco

The series of articles in ESB in 1929 inspired Rotterdam businessman Willem Mees, having read these articles during his summer retreat, to mull introducing similar funds in the Netherlands.[65] For The Netherlands this was not a totally new idea: there existed already a fund called *NV Vereenigd Bezit 1894*. This fund was the successor to *NV Vereenigd Bezit Indische fondsen 1894*, which invested in the Dutch East Indies. The purpose was to share risks, particular crop risks of plantations, among investors. The fund attracted on top of the existing NLG 750k founders' capital, another NLG 900K in the year 1929.[66] Willem Mees talked about his thoughts with Rotterdam banker and entrepreneur Karel Paul van der Mandele, who was also one of the advisory board members of ESB, as is mentioned on the cover of each issue of ESB.[67]

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[64] E.H.Th. Kwast. *Investment Trusts*. Amsterdam: Scheltema & Holkema Boekhandel en Uitgevers NV, p81
[65] Brigitte Slot. *Iedereen kapitalist. De ontwikkeling van het beleggingsfonds in Nederland gedurende de 20e eeuw.*, p 116
[66] NV Vereenigd Bezit, *Prospectus 1929*, Archive Stichting Capital Amsterdam, International Institute of Social History
[67] A.J. Teychiné Stakenburg. *Beeld en beeldenaar: Rotterdam en Mr K.P. van der Mandele*. Rotterdam: Kamer van Koophandel, 1979.

Mees and Van der Mandele were formidable figures in the Rotterdam business community. Mees was born in Rotterdam in 1882. He became director of the newly established Ship Mortgage bank (*Scheepshypotheekbank*) in Rotterdam in 1912. He held a number of functions in Rotterdam, for example as curator of the *Handels Hogeschool*, the newly established business school, where ESB held office.[68] Van der Mandele was born in Delft in 1880, son to a stockbroker. His father went bankrupt in 1901 but Karel paid off all his debts over a period of almost 40 years, even after his father's death.[69] After law school, he joined the *Rotterdamsche Bankvereeniging* Robaver and made it to the board in 1910, at the age of 29. Van der Mandele originally thought of an investment trust as a pool of funds collected by local entrepreneurs and public figures in order to finance Rotterdam businesses. Mees, however, wanted to establish a broader targeted fund, also accessible for smaller investors in general. He expressed a social argument for this: wealth needed to be redistributed so not all of it would be in the hands of a rich upper class resulting in a large class without any assets. That would in his view lead to chaos.[70] This coincided with the earlier mentioned fear by the ruling classes, liberal and confessional, of a potential socialist uprise. Mees and van der Mandele mobilized five other well-known Rotterdam entrepreneurs to establish the *Rotterdamsch Beleggings Consortium*, later abbreviated to Robeco, in December 1929. Despite Mees' good intentions, the fund had a closed end character, at least in the beginning. The NLG 600k that was raised, was to be invested internationally, in stocks and bonds. The timing at first looked ideal, with stock and bond prices having come under pressure, but the market only got worse in 1930. The additional NLG 1.8 mln that was invested in 1930 had halved in value within two years.[71]

Robeco became an NV in 1933, which allows to have a look at the first published annual report. The balance sheet showed a little over NLG 1 mln invested capital of which 2/3rds in the Netherlands. Remarkable was also the mention of a currency forward transaction to protect the fund from USD fluctuations.[72] Robeco was officially listed on the Amsterdam Stock Exchange in 1938 and finally became an open ended fund. The cover of the prospectus showed that the original idea of a broadly placed fund was not attained: the minimum investment size was NLG 1000 per share. The statutory capital was established at NLG 5 mln which was also

[68] International Institute of Social History, *IISG entrepreneurs*, pers-0990-02.pdf , IISG.nl, consulted on 11 May 2023
[69] Lodewijk Pertram. *De vergeten bankencrisis*, p31 - 35
[70] Brigitte Slot. *Iedereen kapitalist. De ontwikkeling van het beleggingsfonds in Nederland gedurende de 20e eeuw.*, p 117
[71] Ibidem, p 121
[72] Robeco, *Annual Report*, 1933. Stadsarchief Rotterdam.

not a sign of confidence of a wide popular pick up.[73] The introduction price was set at 116%.[74] Later that year, however, a further increase of NLG 1.25 mln in capital was warmly welcomed: *De Maasbode* reported that the allocations had to be sharply reduced because of oversubscription, and reported after the weekend that certificates had changed hands for a handsome 122%.[75] Two other new issues followed and shares were much more broadly placed among investors, now by a syndicate of banks. In 1938 a total amount of almost NLG 10 mln was raised which is compared to the total new issue volume on the stock exchange in that year of NLG 102 mln (see Table 3) quite a significant amount. By 1939 the fund value had increased to almost NLG 15 mln, share premium and new shares placed combined, and Robeco became the biggest individual fund in the Netherlands. Mees could be satisfied with the result.

| Year | End of period capital (nominal in 000 NLG) |
|---|---|
| *1933 (becomes NV)* | *1103* |
| *1934* | *1139* |
| *1935* | *1200* |
| *1936* | *1750* |
| *1937 (prospectus issued)* | *3184* |
| *1938 (formal listing)* | *12500* |
| *1939* | *13670* |

*Table 4: Development of nominal capital in Robeco* [76]

The late 1930s was also characterised by a more professional management style, introduced by scholars of the *Handels Hogeschool* Rotterdam. Robeco had a formal investment committee that decided upon written buy and sell proposals submitted by management.[77] Brigitte Slot ascribed the eventual survival of Robeco during these first difficult years of existence to the social cohesion of the Rotterdam founders, investors and local supporters.[78] This is a credible argument considering the many links the founders had with each other, including their businesses and through Rotterdam based institutions such as the earlier

[73] Robeco, *Prospectus 1937*, Archive Stichting Capital Amsterdam, Euronext Amsterdam.
[74] Robeco, *Internal commemorative brochure 1929-2018*, p17, Stadsarchief Rotterdam.
[75] *De Maasbode*, 4 and 6 March 1937, Delpher.
[76] Robeco, *Annual Reports 1933-1939*.
[77] Brigitte Slot. *Iedereen kapitalist. De ontwikkeling van het beleggingsfonds in Nederland gedurende de 20e eeuw.* p 137
[78] Ibidem, p 137

mentioned *Handels Hogeschool* (est. 1913), Blijdorp Zoo and *Stichting Volkskracht* (est. 1923).[79]

At the end of the 1930s the portfolio had shifted to a considerable extent to the United States: over 40% was invested there compared to less than 10% in 1933. The portfolio was heavily invested in shares, more than 90%.[80] The original idea of Van der Mandele, to create a local fund in order to support the Rotterdam business community, had apparently been abandoned.

### 4.6 Other Funds and Fixed Deposits

On the brink of the 1940s, in 1938, another investment trust was launched by a The Hague and Amsterdam group of financiers and brokers: *Internationale Beleggingsunie* or Interunie. Some well-known names were involved as Board members: H. Van Eeghen of the eponymous trading house, J. Deknatel of the *Nederlandsche Handelmaatschappij* and W. Redelmeier of Albert de Bary Bank. In the prospectus the stated objective was to spread investment risks. Only shares were included in the portfolio, bonds were considered to be too much correlated to one another to take full advantage of diversification.[81] The set up was quite similar to Robeco's. The objective was somewhat different though: the The Hague and Amsterdam brokers and bankers wanted to create a new source of revenue for themselves, solidify the relationships with their existing clientele and attract new clients. The fund was listed on the Amsterdam stock exchange as of its inception. In March 1939 the fund reported to the stock exchange over 100 individual investments. Over the year 1939 a loss was incurred of 10% but this was defended as a relative outperformance: the New York and Amsterdam stock exchanges as a whole incurred bigger losses. The size before the outbreak of the war was limited, around NLG 1.25 mln placed capital.[82]

Another fund, which still exists today, is *Onderlinge Beleggings- en Administratie Maatschappij* (OBAM) NV. Its origin was very different from the previously discussed funds. In 1936 a number of convents in Northern France decided to take their capital offshore, out of fear that the newly elected socialist government in France would seize their assets. So not only in the Netherlands there was distrust of left wing movements. The nuns had established a

[79] Joop Visser, Mies van Jaarsveld (Eds.). *Rotterdamse Ondernemers 1850-1950*. Rotterdam: De Hef, Erasmus Universiteit, 2002.
[80] Robeco, *Annual Reports 1933-1939*.
[81] Interunie, *Prospectus*, August 1938, Stichting Capital Amsterdam, International Institute for Social History
[82] Interunie, *Annual Report*, 1939, Stichting Capital Amsterdam, International Institute for Social History

contact with a Dutch broker who would manage the fund from the Netherlands, which was considered a safe place because of the stable political situation and because of the increased legal protection NVs offered to shareholders after the 1928 reforms. The original deed of incorporation of OBAM as an NV was dated 20 November 1936. The capital invested on behalf of the convents amounted NLG 750,000 and an additional NLG 7500 was put in by the Amsterdam based managers F. Hooft Graafland and A. Sillem.[83] The monies were invested in internationally oriented companies in the Netherlands and in the United States. Not a lot is known about this first period of OBAM, before WW2, but Hooft Graafland is believed to have to explain the performance of the fund to the Mother Superior who seemed to have been well informed about global developments.[84] OBAM was listed on the Amsterdam stock market only in 1954 with a capital of NLG 3 mln, which allowed most of the French original sponsors to monetize their investments in a convenient way and other investors to be let in.[85]

The end of the 1930s witnessed the growth of the number of investment trusts with a fixed portfolio of assets, called depots or unit trusts. These were different than the above described investment trusts because they were not actively managed: they invested in a pre-agreed portfolio of assets. Between the managers of the fixed trusts and those of the managed trusts, there had always been discussion about the proper format. Dynamically managed funds could anticipate future developments, but contain a risk of speculation. Fixed trusts protected investors against high transaction costs and offered transparency.[86] One of the first examples of a fixed trust is the in 1927 created depot *Drie Fransche Banken* that invested in shares of three different French Banks. This gave Dutch investors conveniently access to foreign stocks that were not listed in Amsterdam. Two international trusts were listed on the exchange: North American Trust shares 1953 (the year of its proposed liquidation), then the biggest trust company in the world, and Swiss Société Internationale de Placements, SIP. SIP worked with various classes of shares with different underlying portfolios.[87]

The number of depots listed on the exchange developed as follows:[88]

[83] OBAM, *Instrument of Incorporation*, 1936. Archive ABN AMRO.
[84] OBAM, *Internal Brochure 1936-1996*. Archive ABN AMRO.
[85] OBAM, *Prospectus.* 9 July 1954. Stichting Capital Amsterdam, International Institute for Social History.
[86] E.H.Th. Kwast. *Investment Trusts*. p165 - 170
[87] Société Internationale de Placements, *Prospectus*, 24 September 1936, Stichting Capital Amsterdam, International Institute for Social History
[88] Own table based on Brigitte Slot. *Iedereen kapitalist. De ontwikkeling van het beleggingsfonds in Nederland gedurende de 20e eeuw*, p113-162

| Year | Total Number of depots | Examples of Recent additions |
|---|---|---|
| *1927* | *1* | *Drie Fransche Banken* |
| *1930* | *2* | *Nationaal Beleggingsdepot (Dutch shares)* |
| *1932* | *3* | *Zes Zuid-Afrikaanse goudmijnen* |
| *1933* | *4* | *Dutch Banks and Financial Institutions* |
| *1934* | *5* | *Rubber companies Dutch Indies* |
| *1938* | *22* | *Canada (4), Dutch Indies, South Africa (3), US (4)* |
| *1939* | *25* | *Sweden* |

By the end of 1939 there were 25 such depots which were all listed on the Amsterdam Stock Exchange. Sponsors of these fixed depots were primarily the banks but also brokers, who marketed the product to their clients who were looking for more yield in the low interest environment. Their total invested funds amounted to NLG 32.3 mln by the end of 1939. Whereas some sponsors, such as Wertheim & Gompertz of the *Nationaal Beleggingsdepot* launched in 1930, praised the advantages of a locally oriented fund which would protect investors against foreign losses, others pointed to international opportunities that became accessible for a broader group of investors.

Earlier mentioned financial journalist B.H.A. Meyerink, devoted another series of articles in De Maasbode and ESB on this topic in 1938. He discussed the popularity of the instrument in Great Britain and in the United States and praised its accessibility for ordinary people. Nevertheless, the introduction was, compared to Anglo Saxon countries, not an overwhelming success. Like Kwast in 1931, Meyerink did not quite understand why this was the case. But he also warned for market chaos because of the variety of trusts and for the highly speculative character of some of them.[89] In *De Maasbode*, again, he questioned whether issuing brokers and banks sufficiently advertised and marketed their products. He did it for them by mentioning Depot for Dutch Financials, *Nationaal Beleggingsdepot* and the depot for the Rubbercompanies. He also hinted at the available open end funds, including Robeco. The size of invested capital remained modest, as can be seen in the table below.

[89] B.H.A. Meyerink. 'Effectenbeleggingsinstellingen in Nederland', *Economisch-Statistische Berichten*. Vol. 23, 27 July 1938, Nr 1178, pp 568-576.

| Type | Number | Invested amount in NLG |
|---|---|---|
| *Fixed depots* | *25* | *32.2 mln* |
| *Active depots* | *2* | *2 mln* |
| *Other Investment Trusts* | *7* | *23 mln* |
| *Total* | *34* | *57 mln* |

*Table 5: Summary of Dutch listed Investment Trusts on the Amsterdam Stock Exchange by end 1939.* [90]

Meyerink called the lack of success even 'shameful' and the fault of the sponsoring institutions themselves. Nevertheless, he predicted a good potential in the Dutch market for these instruments.[91]

### 4.7 THE IMPORTANCE OF KNOWLEDGE TRANSFER

The international success of investment trusts in the UK and in the US led to articles in newspapers and subsequent series by journalists Meyerink and Van der Valk in ESB and *De Maasbode.* Their publications sparked interest with Dutch investors and other participants on the financial market place who created new depots and other types of funds. Knowledge development and transfer was enhanced by scholarly publications. So unlike the markets in physical goods that were restricted by governments to protect their home economies, the financial markets and what happened in the two largest liberal economies of that time apparently resonated positively overseas. Finance and business were clearly much more internationally oriented than governments. The fact that even a relatively small newspaper like *De Maasbode* had a link to the New York stock exchange is an illustration of this. The interbellum was a period of new economic thinking and a scientific approach towards investing. I conclude that the development of such ecosystem is a cause for the emergence of investment trusts.

On the other hand, the speculative nature of particularly the US investment trusts and their massive growth were reasons for the US stock market collapse of 1929. Financial innovations are not without risks, as earlier mentioned Frehen et al. had concluded. This did not

[90] own table based on Brigitte Slot. *Iedereen kapitalist. De ontwikkeling van het beleggingsfonds in Nederland gedurende de 20e eeuw*, p 155.
[91] *De Maasbode*, 20 November 1937.

hold back initiators in the Netherlands to create their own investment trusts. This points to a biased interpretation of what happened on the financial markets. I demonstrated that early losses of Robeco prevented initial success among investors.

## 4.8 CONCLUSION

The period between the two world wars marked a renewed interest in The Netherlands for investment trusts, in various shapes and forms. Foreign providers of funds considered The Netherlands as an attractive place to launch their initiatives or park their money. The created funds' objectives and their sponsors' motives were diverse. The rise of the investment trust could point towards, according to Slot, an increased level of trust in society. For the period under review this seems a stretched argument; the circumstances actually did not change that much. Risk sharing, access to otherwise unattainable investment categories, capital flight, creation of new revenue streams but also social concerns played a role. The managers of the trusts never sought influence over the companies' management. Unlike Keynes' viewpoint and the possibilities to do so following the 1928 changed legislation, there was no intention to keep companies tight on the leash. So what caused the emergence of investment trusts? Besides the above mentioned knowledge distribution, I have demonstrated that the 18$^{th}$ century examples of pooled funds as well as Robeco and to a lesser extent Interunie, emerged after market turmoil. I avoid the term crisis, because actors recognized an opportunity because of the price correction rather than a shock.

The period also marked the emergence of modern portfolio management techniques. But despite all this, investment trusts were not immediately an outstanding success. Broader distribution only occurred once the banks put their weight behind the idea, as is evidenced by the growth of Robeco in 1938. Their financial importance may thus have been limited, but the fact that they re-emerged, and their variety contributed to a more diverse financial landscape. How to interpret this in the context of capitalist evolution will be discussed in the next chapter.

CHAPTER 5

# DISCUSSION AND ANALYSIS

In this chapter I will interpret the events described in the previous chapters using the theories discussed in chapter two. This will allow me to consider the relationship between investment trusts and capitalist change in The Netherlands. Were investment trusts a further step towards a coordinated economy in The Netherlands?

## 5.1 INVESTMENT TRUSTS AS AN EXAMPLE OF COORDINATION?

Is organizing investments by means of a trust in itself a form of coordination? Although he state did not intervene in financing the private sector by policy, market intervention or regulatory measures, it cannot be denied that within the private sector initiatives of coordination took place. Slot did, as discussed in 2.5, not include coordination as such in her analysis, but linked activity of pooled funds to societal trust. But it was coordination among investors themselves, not so much between firms and their financiers. I demonstrated that the pooling of funds was ad hoc and opportunistic. The relationship between firms and financiers could have been impacted by the change of corporate laws pertaining to NVs in 1928. These had the initial intention to increase the influence of shareholders and therefore to allow for a broader group of investors to finance upcoming Dutch industry. But the new laws did not quite deliver as promised: at the end of the day companies managed to maintain their management-dominated character at the detriment of those shareholders who came from outside the original group, mostly the company's founding families. As discussed above, Minsky, Berle and Keynes, among many others, all pointed to this agency problem and how interests of various stakeholders of the firm were served and embedded. Westerhuis and De Jong, inspired by Thelen, commented that actors reinterpreted existing rules in a new way or gave a new role to existing institutions; in other words, companies issuing shares or certificates of shares, could still protect or even increase their managerial power.[92] Investment trusts were not created with the objective to gain control despite appeals to do so. In addition, they invested for a great part in non-domestic securities. This demonstrates that managerial capitalism had certainly been on the rise.

[92] Gerarda Westerhuis & Abe de Jong. *Over geld en macht. Financiering en corporate governance van het Nederlandse bedrijfsleven,* p 98.

Investors stayed mainly on the side lines until well in the 1930s and companies could rely on banks and direct access to the capital market but even more importantly, on self-financing. Most of the companies' balance sheet consisted of equity. Dutch companies had not been more active in mobilizing capital from private financiers to diversify their own financing risk. This originated from the fact that there existed no corporate tax, but only a dividend tax which led to companies minimizing their profit payout ratio.

On the monetary side there was some form of international coordination between countries by reestablishing the gold standard to facilitate trade and stability. Van der Valk argued the reestablishment of the gold standard led to London reaffirming its position as global financial center, despite the fact that after WW1 the United States had gained importance in global trade and had become a creditor instead of a debtor nation.[93] Therefore, undesired results emerged. Countries were confronted with unstable balances of payments, differences in interest rates and when countries started stepping out of the standard, unforeseen losses appeared. The Dutch government intervened in first instance with tariffs and quota. Zooming out and looking at the Dutch economy, Van Zanden pointed out that the Netherlands experienced a delayed depression compared to other countries. Whereas most countries saw their economic growth recover after 1932, and their employment figures improve at the same time, the Netherlands continued to be in a subdued economic environment because of the before mentioned gold standard and the consequent strong guilder. The reason the guilder did not devaluate more than it did after leaving the gold standard in 1936, could be ascribed to capital imports to politically stable Netherlands, as is evidenced by the creation of OBAM.[94]. The political world and the financial world in The Netherlands were in my view separated: they simply did not meet.

## 5.2 INVESTMENT TRUSTS AS A LIBERAL MARKET PHENOMENON

Articles started to appear in Dutch newspapers following the success of investment trusts in the US in the late 1920s. These were followed by newspaper features and academic dissertations which paid attention to the investment practices in the US and Great Britain, two economies designated as 'liberal' by Hall & Soskice or as 'rationalist-functionalist' by Streeck. Kwast stated in his dissertation that the English and the Scottish, through their financial genius proper to the British people, had served the savers for over half a century and that others, including

[93] H.M.H.A. van der Valk. 'De ontwikkeling der Britsche investment trusts.' *Economisch-Statistische Berichten*. Vol. 14, 27 March 1929, Nr 691, pp 296-297.
[94] J.L. Van Zanden, 'Nederland in het interbellum.' *Economisch Statistische Berichten*, Vol. 73: 24 February 1988, pp 172-178.

Kwast himself, had admired their ingenuity.[95] This demonstrates that in the Netherlands there was a receptive liberal capitalist audience. Financial ideas and institutions are easier to copy than physical products, and the transfer of knowledge seemed to have worked very well. Journalists who reported from financial centers, quotes from foreign stock exchanges being published in local newspapers all contributed to an environment in which new ideas could thrive. There was then strangely enough no reference made to earlier initiatives by Dutch financiers in the late 18th century, those were only investigated in later publications by Berghuis and Slot. Van der Valk stressed the importance of diversification of investments, geographically as well as sector wise, and therefore the need for a solid investment policy and a well-informed fund management. This implied a plea for more power to investors rather than to company management. Fulcher described this period in the Western world as pivotal between industrial and managerial capitalism, but not necessarily coordinated in the Hall & Soskice sense. The research demonstrated that sponsors of and investors in investment trusts even if they were industrialists, certainly did not seek active influence over their investments. I qualify this as liberal because investors counted on price efficient markets and tradability of their investments in case of their discontent.

Meyerink showed less of his outright admiration for the British funds as such but more for the savings power of the British people. He highlighted the managerial flexibility to make changes in underlying portfolios depending on investment circumstances.[96] He thought that Kwast's attempt to explain the lack of interest by focusing on the poor promotional activities in The Netherlands compared to Britain, was 'weak' but did not come up with his own theory. He rather claimed that the British recognized the importance of stable and professional risk diversification.[97] The initiative for investment trusts came as I have demonstrated from the side of the sponsors, brokers and banks. These were people and institutions that already had the knowledge and the habit of investing. Funds were created to generate income and return rather than promote domestic growth and entrepreneurship. The funds raised were invested in a variety of instruments, certainly not all in the Dutch economy. There was no initiative by the government to mobilize financing structures like investment trusts to mobilize capital for proper Keynesian initiatives, for example to finance investments in infrastructural works and embark on an expansive monetary route.

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95 E.H.Th. Kwast. *Investment Trusts*. p1

96 B.H.A. Meyerink. 'De jongste ontwikkeling der Unit-Trusts in Engeland', *Economisch-Statistische Berichten*. Vol. 22, 28 April 1937, Nr 1113, pp 317-318.

97 B.H.A. Meyerink. 'Effectenbeleggingsinstellingen in Nederland', *Economisch-Statistische Berichten*. Vol. 23, 27 July 1938, Nr 1178, pp 568-576.

### 5.3 A DIFFUSED PICTURE

The importance of the capital market in the UK and the US and its subsequent similar initiatives in The Netherlands, suggests that government policies moving towards more coordination were not in sync with what was happening on the capital markets and in finance. The Netherlands enjoyed a liberal economic tradition and conservative governments and their policies during the interbellum tried to hold on to that order. As such that offered a good infrastructure in which investments trusts had the potential to thrive: the government had contributed to an economic climate in which these funds could actually emerge in the way they did. Persistent low domestic interest rates, low investments, slow economic development caused holders of available capital to invest abroad. On the other hand, foreign capital was attracted to the neutrality of Dutch financial system. On the supply side there were many brokers and banks active in offering their clients to invest in newly established funds as of the late 1930s. If the Dutch market was indeed so liberal, one could have anticipated a broad adoption like we had seen in the US and UK: they fitted in the prevailing structure of the economy. But local reception of all these initiatives remained lukewarm. There was an inner circle of investors, even after listing on the stock exchange there was not an immediate wide proliferation among new kinds of investors. Does this support Berghuis' conclusion that there was still an issue on the demand side of investment trusts? Kathleen Thelen described situations of institutional change as a result of gradual transformation rather than after a shock. It looks as if the interbellum in the Netherlands did not experience an acute crisis like in the United States with its stock market collapse and subsequent immediate recession. In the Netherlands the negative effects were spread over a longer period of time and were the result of diminishing international trade and monetary policies, not so much of the market crash. In their 1930 annual report (covering the year until 31st March 1930), DNB did not mention the crash at all, but focused on trade and monetary imbalances as major risks for the economy. In the subsequent report, the DNB president did discuss the depression, but not the stock market.

The overall picture is therefore diffused. Yes, investment trusts and their sponsors were internationally oriented, but on the other hand the success of their endeavors was limited. Concluding that investors were anticipating a different capitalism in which the state played a bigger role, would be an exaggeration. Investment trusts in the context of Dutch capitalism find their roots both in institutional as in social traditions, like in Streeck's social embeddedness model. As I have demonstrated, neither of them had materially changed.

CHAPTER 6

# CONCLUSION

### 6.1 INVESTMENT TRUSTS ORIGINATED FROM LIBERAL TRADITIONS

The main research question for this thesis was to establish whether the emergence of investment trusts could be considered a step towards a more coordinated economy in The Netherlands. At first sight it seems a paradox that a time when the government started interfering with the real economy, also witnessed new investment opportunities that were purely market driven. The political developments during 1919-1939 generally marked a continued adherence to liberal capitalism like before WW1. The government was confronted with the enormous consequences of the collapse of international trade and consequent monetary instabilities. Cabinets designed ad hoc programs to cope with rising unemployment which, jointly with social reforms that had already started earlier, led to more involvement of the state in the economy and therefore announcing coordinated capitalism. But it was only to a limited extent. I argued on the basis of my research of DNB annual reports that there was no proof of perception of a sudden shock or critical juncture to provoke immediate political change. The Netherlands rather experienced a number of years of gradual decline and a deeply rooted inclination to hold on to old beliefs and ideas.

Meanwhile, entrepreneurs and financiers tried to open up a new financial market by creating investment trusts. I demonstrated on the basis of the studied news and feature articles and scholarly publications that they copied UK and US practices. The reception by a broader range of investors, however, was lukewarm. This indicates that the general public may not have been not so charmed by new liberal ideas and that private investors were looking for more traditional, bilateral options to save and invest. Potential users of capital, government and private enterprise, also showed no particular interest in the new structures. Increased coordination by changing relationships between firms and financiers was nipped in the bud. Industrial development in The Netherlands lagged other countries' and continued to rely on self-financing by companies and their related families. The country remained conservative, but not necessarily entirely liberal: many relationships were personal and were not fully subject to markets. So from a financial perspective, Dutch capitalism was not as LME as the reminiscence of the pre-WW1 order may suggest.

Testing the emergence of investment trusts against the various scholarly theories of capitalist change, there is not a conclusive answer. There are, however, more pointers towards the persistence of LME rather than to capitalist change. So, in that respect investment trusts were not a further step towards change as such. But at the same time they were subtle indicators of a new time to come. The investment trusts' eventual success after WW2 ran in parallel with the enormous wealth creation and can be attributed to the supporting role of the banks, like they did in 1938 by promoting Robeco among their clientele (see Table 4). Like with other new products and ideas, investment trusts found a more fertile soil under different circumstances.

## 6.2 MEANING FOR CAPITALISM TODAY

What does this mean for capitalism today? First of all that capitalist change is not a linear process. Whereas some variables in a capitalist society may be subject to change, such as intervention of the state in the labor market, other paradoxically stay the same or even move in opposite direction, such as the emergence of the trusts has demonstrated. Whilst the government fought unemployment by commanding large public works, rich entrepreneurs and their entourage collected money for lucrative, global investments. Academic study of varieties of capitalism deserves more research into the dynamics of such change.

Secondly, what has become clear is that in the context of varieties of capitalism, the finance factor is under researched despite its importance in the capitalist system, whichever variety it is. Cassis remarked this lack of research in the field of financial history within business history. Finance is a more fluid commodity than physical goods. The proliferation of financial ideas and practices goes very quickly, as the history of the investment trusts has demonstrated. Much research has been conducted around agency and governance of businesses, like Westerhuis and De Jong have demonstrated. Yes, there have been many economic articles about the relationships between changes in flows of imports and exports, capital, rising asset prices and consequent crises. The analysis by the IMF quoted in the Introduction is only an example. But further research about financial innovation, the dominance of certain currencies in world trade and the pooling of money and risk distribution in all shapes and forms, including investment trusts remain underlit in the context of capitalist evolution. In my research, it remains for example unclear how stockbrokers determined the composition of their fixed depots and how this responded to their clientele's demands.

And finally it has once again been confirmed that history serves as a good source for further academic economic thought. The developments in the Euro zone immediately after 2008 are not dissimilar from the discussions about the gold standard in the 1930s. The latest financial crisis 2008-2010 has refueled, once again, the discussion about the future of capitalism. Examples of participants in this debate are modern, almost activist writers such as Francesco Boldizzoni and Mariana Mazzucato. They are as critical as though less pessimistic than Minsky and Streeck.[98] Are economic actors locked in, like the Dutch interwar conservative governments? Rebecca Henderson is far more optimistic. She is confident that private initiative, like the Rotterdam business people envisioned at the time of the creation of Robeco, will contribute to a better society.[99] Historians can help answering these existential questions by using tele-lenses and wide-angle lenses to present parts of this puzzle.

[98] Examples are their following monographs: F. Boldizzoni, *Foretelling the End of Capitalism*. Cambridge MA: Harvard University Press, 2020. M. Mazzucato, *The Value of Everything*. London: Penguin, 2018.
[99] R. Henderson, *Reimagining Capitalism; How Business Can Save the World*. London: Penguin, 2020.

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