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Four Hundred Years of Central Banking in the Netherlands, 1609–2016

Gerarda Westerhuis and Jan Luiten van Zanden

7.1 Introduction

The Dutch Central Bank, as we know it today, was set up in 1814, as a result of a decision taken by King William I, who developed a comprehensive programme of economic reconstruction and institution building after acceding to the throne of the Kingdom of the United Netherlands in the same year. But the initiative was also based on a two-century experience with a kind of proto-central banking embodied by the Amsterdam Exchange Bank, established in 1609. In fact, in order to understand the history of Central Banking – and of the Swedish Riksbank in particular – the history of the Amsterdam Exchange Bank is arguably much more relevant than the history of De Nederlandsche Bank (or DNB, as the Central Bank was abbreviated to) since 1815. The Swedish Riksbank was to a large extent modelled after the Amsterdam Exchange Bank and its sister institution, the Beleenbank, and the same applies to that other 'mother of all central banks', the Bank of England of 1694.

We will therefore open this chapter with a brief discussion of the history of the Amsterdam Exchange Bank, and its proto-central bank functions. Next we will discuss the history of DNB itself, with a special focus on the first half of the 19th century when it developed into an independent central bank, largely outside the direct sphere of influence of the rather autocratic King William I.

Our approach will be to focus on the primary functions that these central banks performed. The primary aim of the Amsterdam Exchange Bank was to facilitate the payments system – its other, perhaps secondary aim was to stabilize the monetary and financial system. It also supplied credit to certain government-related institutions, but this was an

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unintended by-product. DNB was different from the start in the sense that its aim was to contribute to the revival of the economy after the deep crisis during the French period. But views differed about what this meant in practice, and as we will see, the king had other ideas than the bankers who were recruited to manage the institution.

In the 20th century DNB changed into a modern central bank with three important functions: monetary policy aimed at price stability, smooth functioning of the payment system and stability of the financial sector. These tasks were formally laid down in the Bank Act of 1948. The way DNB could perform these tasks changed with the increasing European integration since the 1950s. So we will see that in particular its influence on monetary policies was transferred to the European level (ESCB). The idea prevailing in the 1960s and 1970s that stability of the financial sector was best safeguarded by banks that became not too big and too powerful, was slowly loosened under pressure of increasing competition resulting from European integration and liberalization of capital markets since the 1980s. The financial crisis of 2008 showed that the remaining few large financial conglomerates endangered the stability of the Dutch financial sector. As a result, to restore confidence in the banking sector, supervision has even more been moved to Europe.

7.2 The Amsterdam Exchange Bank, 1609–1820

The years of the Revolt against the Spanish King (1572–1648) are probably the most dynamic period in the history of the Dutch economy. After 1578, when Amsterdam joined the coalition, and 1585 when the Spanish forces recaptured Antwerp, the city quickly became the central hub of international trade. It dominated, first of all, the trade with the Baltic, but increasingly all other trades as well, including commerce with the Indies which became dominated by the East India Company (VOC) set up in 1602. But trade was handicapped by the fact that in this small open economy so many different coins from abroad circulated, of which the value sometimes changed dramatically (the mid-16th century had for example seen the ‘great debasement’ in England). High exchange costs contributed to transaction costs, and merchants complained about the costs of acquiring high quality specie for carrying out large international transactions or for minting money for that purpose. The payments system was, in sum, highly chaotic, and merchants requested the Amsterdam city government to intervene. The Estates General tried to create some order in the chaos by introducing, in 1603, a new standard coin, the *rijksdaalder* (which would become the most important Dutch coin used in international exchange), but this was clearly not sufficient. After new requests by Amsterdam merchants, the city government set up the Amsterdam Exchange Bank in 1609, modelled after the Venetian Banco della Piazza di Rialto from 1587 (Mooij 2009).

Its aim was primarily to facilitate the payments system: merchants could deposit their coins there and receive a standard return in terms of bank money, which could be used for transactions with other merchants and others who had a bank account, such as the city government and the VOC. This was the primary service the bank supplied: it replaced costly transactions with coins or letters of exchange with giro transactions on paper. The courtage on transactions would be minimal – the exchange bank was a public institution without a profit motive (although it managed to make nice profits for the city government during much of its existence). Alternatives were suppressed: merchants were not allowed to transfer large sums in other ways, that is, via letters of exchange (the threshold was 600 guilders, or three times the annual wage of a carpenter), and private banking was not allowed. The cashiers, who had performed similar functions in the past, were prohibited (already in 1604), but this rule was in practice gradually relaxed. The bank was also supposed to hold the countervalue of the deposits in coins or bullion in its cellars, and not use it for credit, a rule to which it stuck normally. But it did lend money to the other financial institution that was set up in these years, the Amsterdamse Beleenbank of 1614, which aimed at supplying credit to those who were short of cash and did own a collateral of any kind. And it could not resist occasional claims of the city government and the related VOC to supply it with credit – operations hidden to the public, but which were highly profitable (Uittenbogaard 2009 and Van Nieuwkerk 2009a).

The strong reputation of the Exchange Bank was largely based on the fact that at any moment deposits could be withdrawn in full. In 1672, during the worst financial crisis of the 17th century, the bank established this reputation – it could indeed pay out massive sums of gold and silver in a moment of intense crisis. Exchange banks in other cities (Rotterdam, Middelburg) had been less cautious, and experienced many more problems during these years. By in principle not using its monetary reserves for supplying credit, it contributed to the stability of the monetary system. Because of the confidence in the bank, and the fact that it did not change the value of the coins it took in (which were fixed by government regulation), the value of bank money showed a substantial agio compared with the 'real' gulden that was used in daily cash transactions. This agio reflected the trust the commercial community had in bank money and became a financial instrument in the hands of the Exchange Bank: via what nowadays would be called ‘open market transactions’ made possible by its large reserves of silver and gold it could manipulate the bank agio and in that way isolate the internal market from large exogenous shocks (Guillard 2004). Or, as Quinn and Roberds have summarized the recent consensus about the role of the Exchange Bank, it performed three functions ‘that are routinely carried out by central banks today: operating a large-value payments system, creating inconvertible money (i.e. not directly redeemable for coin), and managing the value of this money through ‘open market operation’ (Quinn and Roberds 2009: 44).

In the 18th century the Exchange Bank also to some extent took up the role of ‘lender of last resort’. During two financial crises, in 1763 and 1773, it coordinated efforts to stabilize the financial system and to supply the market with liquidity, and in 1773 even helped to create an emergency fund, the *Beleenkamer*, to assist bankers in distress. During both crises emergency measures were so effective that the market stabilized very quickly, and only limited use was made of the new facilities created (Uittenbogaard 1996) (their signalling function was apparently already sufficient). Also in terms of long-term stability, in particular price stability (today’s goal of central banking), the system developed in the initial decades of the 17th century worked well: the silver value of the guilder became stabilized (it depreciated only once in 1681 by less than 3 per cent). The exchange rate of the Dutch guilder, as a result, was very stable, in a period when many countries experienced large swings and substantial declines in the external value of their currency. Only England matched the Dutch experience in this respect. Inflation as far as it occurred was the result of real economic changes reflecting the scarcity or abundance of goods and services (including silver). Prices more or less doubled during the 190 years that the Exchange Bank was in operation, which points to an average rate of inflation of 0.37 per cent p.a. (Van Zanden 2005).

The governance of the Wisselbank was a typical example of how Dutch institutions were operating in the ‘Golden Age’. The policies of the bank were carried out by a board of commissioners, composed of three to six annually appointed commissioners and chaired by a president commissioner, but they were closely monitored by the burgomasters and the city council. Not to mention the close family ties between commissioners, burgomasters and other council members, in particular during the first half of the 17th century (‘t Hart 2009). Moreover, this city institution was performing functions for the local, regional and even international market, which meant that very different layers of government were also involved. Other parts of monetary policy (minting, public expenditure and the management of public debt) were the privilege of regional (Holland) and central (Estates General) state authorities, which created much room for bargaining and the need for compromise and a solution. Dehing describes a 'continuous struggle with respect to roles, responsibilities, competences and tasks between central and regional government and the city of Amsterdam. In theory, various levels of administration within the city – city council, burgomasters and bank commissioners – were pursuing the same goal. In practice it was not always easy to establish who actually pulled which strings and when, and whose influential intercession and actual decisions we have to thank for which conclusion' (Dehing 2012: 289). There was, in sum, no unified governance structure and the system showed all the features of what has been called the 'poldermodel' of Dutch politics (Prak and Van Zanden 2013).

There are perhaps two reasons for also being somewhat critical of the role the Wisselbank played in the development of the Dutch financial system. First of all, it suppressed the development of private banking – by being an efficient supplier of payment services, and by officially banning private cashiers and bankers. But once they entered the scene again – not handicapped by the official ban – this did not really result in more financial stability, as the crises of the second half of the 18th century demonstrate. The gradual development of paper money as it occurred in 18th-century England was therefore not an option for the Dutch financial system, and paper money for a long time remained an underexploited innovation (although the cashiers did make use of cashiers' notes: Jonker 1996). Moreover, it was rather conservative in the use of the large monetary reserves that were held by the bank. The Bank van Leening of 1614 initially acquired substantial support from the Wisselbank, and via this channel the Amsterdam elite in the first half of the 17th century supported a number of strategic ventures, but it abandoned this policy after 1650. Only the city of Amsterdam and the VOC continued to profit from credit supplied by the bank, but this remained a secret as the official idea was that all bank accounts were covered by the reserves of the bank. When, in the 1780s, the VOC suffered greatly as a result of the Fourth British–Dutch war, loans from the Wisselbank made it possible to keep the company afloat. But after the French took over the city in 1795 the real state of affairs became public, and confidence in the Wisselbank collapsed. Merchants withdrew their money from the bank, which continued to struggle until it was liquidated in 1821 (after the Dutch Central Bank had been set up) (Van Nieuwkerk and Van Renselaar 2009).

7.3 The Emergence of the Dutch Central Bank (DNB), 1814–1864

The recent literature on the Amsterdam Exchange Bank has tended to stress the modern central banking functions that were already performed by this early modern institution. Paradoxically, recent research on DNB has been characterized by the opposite tendency. In the older literature, the establishment of the central bank in 1814 is taken as a point of departure to analyse its evolution as a 'modern' central bank (De Jong 1967). Uittenbogaard (2014) in particular has recently questioned this approach, and stresses that the institution set up in 1814 did not 'automatically' develop into a central bank as we know it now, but that this development was contingent on choices made and policies implemented in these years. Key to understanding the evolution the new institution underwent is the context in which it was set up.

This was dramatically different from the context in which the Exchange Bank of 1609 was established. After 1807 the Dutch economy had gone through a big slump, reinforcing a process of relative decline – mainly vis-à-vis the United Kingdom – that had much older roots. Moreover, the Congress of Vienna proposed to merge the two parts of the Low Countries – the south (current Belgium) and the north (the Netherlands) – into one Kingdom, of which William I became the sovereign with almost autocratic powers. His immediate job was to revive the economy of the Northern Netherlands (the south had fared quite well under French control), and to merge the two parts of his Kingdom into one new unit. He was a highly capable administrator, with very ambitious plans for steering the economy in the desired direction. However, he desperately needed funds for realizing his great ambitions, but the state of public finances was highly problematic. Public debt was about 250 per cent of GDP of the Northern Netherlands, also because the King accepted the old debts to appease the Dutch elite, which had invested a large share of its assets in government bonds (Van Zanden and Van Riel 2004: 85–106). One of the aims of setting a central bank was to facilitate borrowing and the management of the huge public debt. Rather than serving the commercial community of Amsterdam – the purpose of the Exchange Bank – it was the interests of a newly centralized state that were behind the establishment of the new institution.

The foundation of DNB in 1814 had been prepared by debates among politicians and financial experts about the desirability of setting up a central bank, which followed the proposal by the Finance Minister Gogel of 1798 to that purpose. After the collapse of the Amsterdam Exchange Bank, the money market was characterized by recurrent shortages of money (due to trade balance deficits and high spending on warfare), a problem that had to be addressed by the new bank. It would be permitted to issue banknotes (its most important innovation), discount bills and lend on collateral of securities, commodities and specie (Uittenbogaard 2014: 52). To avoid potential government abuse, the Gogel proposal prohibited the bank from lending to any public authority. Moreover, the bank would be privately owned and controlled by its shareholders (Uittenbogaard 2014: 54). Opposition against the centralizing tendency of the bank – which would be a national institution, but located in Amsterdam – resulted in its abandonment when the political tide turned (in 1802). But the proposal was back on the agenda in 1814, after the new King assumed power. He made a number of significant changes: the government became co-owner of the bank (for 10 per cent), the King appointed the president directly (and other members of the board on the basis of choice between pairs), the government was allowed to borrow from the new bank and it became the state's cashier (Uittenbogaard 2014: 60). These changes created much more leverage for the state, and made clear that the King wanted the bank to help him raise funds for his ambitious plans for recovery and economic modernization. But this also created a problem, as the new role the bank was supposed to play jeopardized its independence within the business community of Amsterdam. Officially the aim of the bank was to facilitate and stimulate trade, but the fiscal motives the King also had created a certain tension in its architecture and operation.

That DNB was seen as an agency set up by the state, which did not immediately further the interests of the commercial elite, is also clear from its rather difficult start. It took three years to place the shares of the bank. This is a long time, but it has to be said that the capital of the bank of 5 million guilders was quite large, and its denomination of 1,000 guilders did not help to attract small capitalists. After this difficult start, the bank quickly gained the confidence of the Amsterdam commercial elite, mainly because representatives of this elite were appointed as President, secretary and other board members. Moreover, the President was appointed for life, which meant that he was quite invulnerable and could oppose, if necessary, the King. As Roland Uittenbogaard (2014) has shown convincingly, the state tried on several occasions (in 1815, 1830 and 1831) to borrow large amounts of money from DNB, but the board of the bank simply refused to comply. In 1834, in the depth of the crisis over the secession of Belgium, the bank could no longer refuse to help, but the transaction that was concluded involved a middleman and therefore meant that the bank still did not directly supply credit to the state (Uittenbogaard 2014: 89). This loan, which was raised in 1834 (when the state faced imminent bankruptcy), amounted to about 10 per cent to 15 per cent of total DNB loans, and never reached a level which would have destabilized DNB. Uittenbogaard (2014: 91) concludes that 'after repeated attempts in the first decade, the King apparently accepted that DNB was not the ideal vehicle for lending'. He moved on to create other financial institutions which he could control more completely, such as the Nederlandsche Handel Maatschappij, which acquired the monopoly on the trade with Indonesia, and out of which ABN Amro grew, as well as the Société Générale, which became the most powerful bank of the Southern Netherlands.

The management of DNB, in short, managed to keep the King at arms' length, and established a reputation for financial conservatism which was greatly appreciated by the Amsterdam elite. Yet its business developed only slowly, as its banknotes were not generally accepted and only circulated in limited networks in Amsterdam. The King wanted the bank to branch out and become a truly national bank by setting up branches in Antwerp and Brussels, but DNB simply refused to do so (with the consequence that until the secession of Belgium the branches of Société Générale played a role in facilitating transactions within (that part of) the Kingdom). After the renewal of the Charter in 1839, a similar discussion about opening up a branch in Rotterdam began, which ended in a compromise solution; DNB reached an agreement with local cashiers but did not set up a new branch.

Until the 1840s, DNB played only a limited role in facilitating the payments system. Cashiers had already in the 18th century assumed a central role in this, which was strengthened by the decline and demise of the Exchange Bank. The main problem for DNB, in taking over this role, was the limited acceptance of its banknotes by the Amsterdam community (Jonker 1996 174–175); in particular, the cashiers saw DNB as a state-led competitor threatening to take over their business. In the 1840s, a series of developments strengthened the position of DNB, however. The autocratic regime of William I was succeeded by a liberal government and constitution (definitively in 1848), which finally resolved the tension with the commercial elite. Until the 1840s, DNB had been cautious in competing with the cashiers, but could now more aggressively marginalize them. Only now did it become, also thanks to the fact that all transactions involving the government were carried out via its accounts, the central hub of the payments system. Finally, the reform of the currency system in the mid-1840s also strengthened confidence in the banknotes issued by DNB. After about 30 years it had established itself as the central hub in Amsterdam's financial system.

7.4 Towards a National Central Bank 1864–1914

By the early 1860s, DNB was still largely an Amsterdam institution, focused on the Amsterdam money market. At the same time, the Dutch economy was becoming more centralized and integrated as a result of changes that had set in during the 1830s and 1840s, such as the telegraph and railways, and increased openness to international trade. Amsterdam continued to play its role as the centre of the capital and money market, but the economy of Rotterdam was more dynamic and became an important hub of finance as well. The pressure to create a more comprehensive – perhaps even countrywide – network of branches of DNB intensified. Earlier provisions in the Bank Acts of 1814 and 1829 to open up branches in a.o. Rotterdam had been successfully ignored by the board. The new Bank Act of 1863 simply stated that before 1 January 1865, a branch in Rotterdam and 12 agencies spread over the country had to be opened. And so it happened, after which, immediately, the activities of DNB expanded rapidly. In particular, the circulation of the banknotes of DNB grew strongly after these changes (De Jong, II 1967: 313). Moreover, during the same years, the mid-1860s, a number of 'modern' banks were set up in the Netherlands, which also grew rapidly – with ups and downs, of course, due to the often rather speculative nature of these banks, and the swings in the international business cycle. This also meant that gradually DNB became a bankers' bank, with a division of labour emerging: members of the business community increasingly held their accounts with the new banks (De Jong, II 1967: 190–194).

The next major change was the move to the Gold Standard in the early 1870s, following the examples of Germany, France and other Western European countries. In 1847 silver had officially been accepted as the single basis of the currency (before 1847 bimetalism had been the official policy), but the rather sudden move to gold by (first) Germany, soon followed by France and the Scandinavian countries following the German-French war of 1871, also meant that the Netherlands had to move to gold, or face strong fluctuations in its exchange rate. The transition was completed in 1875, and was followed by a rather lengthy period of about 20 years of deflation (as the massive move to gold resulted in a sudden shrinking of the monetary base of the economy). The switch to gold was particularly problematic in the Netherlands Indies, where important trading nations (Singapore, China) remained on silver, whereas the Indonesian guilder was tied to the Dutch (gold-based) guilder. The move to gold on the other hand made it possible to further reduce the interest rate differential between British Consols and the Dutch public debt, showing the further integration of capital markets (Van Zanden and Van Riel 2004: 254–255).

Debates about DNB in the final decades of the 19th century centred on the large profits made by this semi-public institution. Most shares were in private hands, and thanks to its monopoly on, for example, the issue of banknotes, the bank earned high profits and distributed high dividends (18 per cent on average during the 1860s and 1870s). The new Bank Act of 1888 substantially lowered the share of profits going to shareholders, and increased payments to the state (de Jong, III 1967: 46). But the private nature of the bank was not seriously questioned until the 1920s and 1930s.

The Dutch economy was affected by the international business cycles of the period, but DNB had only to use its standard repertoire of instruments – in particular its discount rate – to keep the currency stable and monitor the Gold Standard. The banks set up in the 1860s and 1870s became more stable, and did not require the kind of 'lender of last resort' activities that were developed in London in these years (but remember that the Amsterdam Exchange Bank had been more active in this field in the 18th century). It would take the financial crisis of the early 1920s to really involve DNB in this.

7.5 Towards a Modern Bank: 1914–1948

The period 1914 to 1948 can be characterized as a period of serious transformation. In 1914 the bank was still deeply rooted in the 19th century, operating in a national environment of stable economic and political relations and monetary links to the Gold Standard. At the end of the period, with the Bank Act of 1948, the bank was nationalized and focused mostly on public instead of private functions. The Bank Act of 1948 formed the keystone of structural developments and marked the beginning of a new era. Two wars, a banking crisis in 1920/1921 and the Great Depression of the 1930s marked a permanent rupture with the past. The bank started to combine the function of circulation bank, including monetary policies, with interference in the international payment system in the 1930s and monetary measurements in the First and Second World Wars and after 1945. Both wars involved DNB in national and international political and economic developments and policies to a greater extent than previously. During this period it started no longer to function alone but increasingly kept in touch with other institutions, persons and groups in society: the 'socialization' of DNB.

The First World War, when the Netherlands remained neutral, still necessitated more state intervention, such as regulation of the monetary system and flow of goods. Also, the state needed more support from business. For example, it was involved in the creation of the *Nederlandse Uitvoer Maatschappij* (Dutch Export Company), which controlled and monitored the international trade of the country during the First World War. During the Second World War, the bank was the most important monetary institute and, in a way, the centre of the financial exploitation of the country by the German occupiers who were allowed to pay in Reichsmarks, which DNB then had to transfer into guilders. The bank slowly degraded towards a circulation bank only (de Vries 1989).

The system of informal international cooperation of the pre-1914 period was succeeded by much more formal structures. The complex monetary problems of the interwar period – including those emanating from the Versailles Treaty – necessitated international meetings of financial experts and policy makers (Amsterdam 1919; Brussels 1920; Genova 1922). Although results were not really tangible, the last one in Genova resulted in closer cooperation between central banks in the US, the UK, France, Germany, Switzerland and the Netherlands. It formed a first step in the development towards the creation of the Bank of International Settlement (BIS) in Geneva in 1930 and towards the IMF and the World Bank after the war.

Nationally, the banking crisis of 1921–1923 was a turning point, as for the first time DNB, under considerable pressure from the Minister of Finance Colijn, played the role of lender of last resort for the banking system. It was part of the evolution of DNB becoming the 'leader of the club' of banks and emerging cooperation between DNB and the rest of the banking sector. As a result of the development of the banking sector since the 1860s, discounting by the banking sector had increased substantially, making DNB already into a banker's bank. The percentage of *disconteringen* by the banking sector of the total activity in this field by DNB increased from 52.9 per cent in 1864–1865 to 91.9 per cent in 1913–1914 (de Vries 1994: 563). As said, the banking crisis in the early 1920s pushed DNB further into her role of supervisor of the banking system. DNB helped two times to guarantee the liquidity of the banking sector, ensuring that the banking sector did not collapse. Thus, DNB supported Marx & Co Bank with almost 27 million guilders, so that the bank could be liquidated without a formal bankruptcy. For the much larger Rotterdamsche Bankvereeniging, DNB passed on a state guarantee of 60 million guilders to meet the immediate financial problems. A few small banks, however, were sacrificed in the early 1920s, without doing much harm to the system as a whole (de Vries 1989).

A few years after the banking crisis, in 1926, DNB managed to return to the Gold Standard, almost immediately after the Bank of England, and also at the old parity. There are, however, no grounds for thinking that this was a mistake, as the economy of the Netherlands expanded rapidly during the 1920s and did not seem to suffer from an overvaluation of currency (Van Zanden 1997). This changed after 1929, however, when the Gold Standard became arguably the most contentious issue in public debate. Perhaps because it had digested its financial problems successfully in the financial crisis of the early 1920s, and the banking system was in relatively good shape, there was no external pressure to leave the Gold Standard in 1931 or 1933. On the contrary, being one of the few countries with a stable currency, it attracted large inflows of capital in moments of crisis, making it difficult to leave gold. But this sticking to gold had major consequences for the domestic economy: unemployment continued to grow after 1933, and recovery was extremely weak if it existed at all. The government under the leadership of Colijn also ideologically wanted to stick to gold, and saw itself as the only remaining island of stability in an increasingly unstable world. This 'Dutch continuation of the Great Depression' lasted until September 1936, when – finally – external pressure, that is, the leaving of the Gold Standard by France and Switzerland, forced the Netherlands to abandon the Gold Standard as well (Van Zanden 1997).

The financial crisis of 1931 did have an effect on DNB, which had invested most of its resources in pound sterling (as part of the gold-exchange standard promoted by London), which suddenly lost part of its value due to the devaluation of the pound in September of that year. This despite the fact that, according to the President of DNB, even the day before the devaluation the Bank of England had guaranteed the value of DNB's holdings. The state had to step in to balance the accounts of DNB, which lost some of its former freedom; a change that would be completed by the nationalization of 1948 (de Vries 1989).

7.6 The Golden Years: 1948–1973

After the war, rebuilding the country and its economy became priority. The era 1948–1973 can be characterized as the Golden Years and a period in which the welfare state was created. The Bank Act of 1948 formed the keystone of structural developments and marked the beginning of this new era. The bank kept its limited liability form, but was nationalized, in other words ownership was transferred from private investors, mostly wealthy Dutch men from the nobility, to the Dutch state. It can be seen as a response to societal developments and also to the bank's own development. Instead of private functions, the Bank increasingly focused on public functions. Thus, an important reason for the nationalization of the bank was the idea the profits that were made belonged to the community and not to private investors. However, despite nationalization, the bank remained independent from the state and outside of democratic control. Fitting into the culture of mutual consultation of Dutch politics, the political system formulated policy goals which it delegated to the bank. The Minister of Finance was responsible for the realization of these goals, but his formal powers were limited. In practice, the Minister of Finance and President of the Bank consulted each other as equals. The bank could choose its own policy instruments. This replaced the automatic working of the Gold Standard by constantly changing policy measures (Fase 2000: 49). Only very strong Ministers of Finance – such as Pieter Lieftinck in the years of reconstruction (1945–1952) – were able to use the bank as an instrument for economic and financial policy. A *Bankraad* (Bank Council) was created which had to intervene when the minister and the bank's managing board failed to reach agreement (Fase 2000).

Although ownership and the relationship to government changed fundamentally, DNB's functions and activities showed continuity with the previous period. In this respect the Act of 1948 can be seen as institutionalization of existing practices. The Act distinguishes three important functions of the bank. First, its role as a monetary institution was enshrined as it had to bear (joint) responsibility for the stability of the value of money – the guilder. Apart from price stability, other goals were full employment, stable market conditions, equilibrium of exchange control and creation of conditions for economic growth. This implies that monetary policy was highly interwoven with general economic policy. Thus, full employment policy required active monetary policies which DNB made possible by, for example, tight regulation of bank lending and capital controls. In the period 1948–1973, the Golden Years, economic development (economic growth and low unemployment rates) was very high because of the stable monetary climate in the Netherlands, among other things.

DNB was also responsible for the smooth functioning of the Dutch payment system. This meant that it took care of the circulation of banknotes, to simplify the interbank giro payment system and to promote cross-border payments. The circulation of banknotes has increased tremendously in the period following the Second World War. Non-cash payments by bank transfer became increasingly popular during this period.

The third core activity of the bank was to ensure financial stability by supervising the financial system. At first, consultation with the banking sector happened on a voluntary basis. Later, in 1952, the Act Supervision of the Financial System (Wtk) was passed, in which supervision was legally formalized. In the years that followed, this supervisory role expanded and eventually included all financial institutions. DNB's influence was mostly tangible in the so-called *Structuurbeleid* (structural policies) aimed at keeping the banking system compartmentalized in order to prevent banks from becoming too big and too powerful, and in prudential supervision or safeguarding the solvency and liquidity of the banking sector. After the Second World War the financial sector consisted of different types of financial institutions: trading banks forming the dominant group, cooperatives, mortgage banks and savings banks. Because of the strong economic growth and the shift of liquidity to mass markets, banking services came within the reach of a much larger share of the population. A large part of the financial sector profited from this growth. As a result, a concentration process followed, which was related to increasing scale and scope in business, the creation of the European Economic Community in 1958 and the general growth of welfare in Dutch society from 1948. Larger banks were needed, with larger capital bases to service the changing financial needs of businesses and households (Uittenbogaard and Van Zanden 1999).

The bank focused on the maintenance of the existing structure with a functional separation of various financial institutions (mortgage, savings and so on), preventing banks from becoming too big and too powerful. Therefore, DNB had to give a statement of no objection in case of an intended merger, acquisition or participation (of more than 5 per cent) in another financial institution. This became an issue in 1964, when the four large commercial banks decided to merge and form two banks (ABN and AMRO). In its final approval of this move, DNB made clear that it would not approve another change towards even higher levels of concentration in the banking sector, which for a while – until 1990 – limited options for commercial banks in this respect (Uittenbogaard and Van Zanden 1999; Fase 2000).

7.7 DNB in an Increasingly International Environment: 1973–1998

The oil crisis of 1973 marked the end of the Golden Years and the beginning of a period with lower economic growth, unemployment, inflation and stagnating investments. Also, between 1971 and 1973 the Bretton Woods system with its fixed exchange rates was dismantled. After 1973, the three core functions of the bank should be seen in light of an increasingly international environment. Particularly important was the development of the Eurocurrency markets, in particular the Eurodollar market. As a result, foreign competition in the Dutch banking market increased. The implementation of the First Banking Directive in 1977 and the Second Banking Directive of 1989 stimulated international competition further. The goal of the Directives was to remove obstacles which hampered the provision of services and the establishment of branches across the borders of European Community member states. The harmonization of activities by the European Community ran parallel with the general trend of liberalization and deregulation of financial markets in the US and Western Europe. Restrictions on in- and outgoing capital movements were lifted, which led to a huge increase in capital movements worldwide. Managing the exchange rate became a central issue for DNB. Important in this respect was the decision to link the guilder to the German mark, part of the European Monetary System in 1979 (but DNB used the mark as a target already since at least 1973). The main reason for the decision was price stability and the creation of a stable link with Germany, the main export market.

Credit institutions were officially placed under the supervision of the bank in the Bank Act of 1948 and formal legislation was put in place in 1952 by the *Wet Toezicht Kredietwezen* (Wtk). In the supervision of the banking sector we see gradual changes, resulting in changes in the Wtk in 1978, in 1982 and again in 1992. Partly, these adjustments were a response to the changing market conditions: increasing use of non-cash means of payment, which made control of the money supply more difficult, and the development of cross-sectoral activities by banks ('*branche vervaging*'). Bank failures (e.g. Texeira de Mattos in the late 1960s) also contributed to the expansion of supervisory legislation. The gradual disappearance of the old segregation between commercial banks, saving banks and cooperative banks started with a crisis in the housing market in the early 1980s. Despite the *Structuurbeleid*, the bank declared that general banks were allowed to acquire mortgage banks. As a result, all independent mortgage banks disappeared and only one bank, Tilburgsche Hypotheekbank, went bankrupt in 1982. Also, most savings banks disappeared; most of them became part of bigger banking institutions.

The changes in supervision also included implementation of the consecutive European Banking Directives. Thus, the Wtk of 1992 was a result of the European integration. It lent an ear to banking supervision in the European context and the forming of financial conglomerates, as European regulation consolidated the model of universal banking (and bancassurance). As a result, in 1988, DNB allowed all financial companies to merge, and in 1990 banks and insurance companies were permitted to do so. The idea behind the deregulation was the necessity to be able to compete in the Single European Market; it was necessary for Dutch banks to increase their operating scale and extend their product portfolios. This liberalization was in sharp contrast to the 1960s and 1970s, when DNB supervision was directed towards preventing banks from becoming too big and too powerful. As a result, the Dutch banking sector changed from a highly segmented sector with numerous small and specialized banks into a very concentrated one dominated by three large banks – ABN AMRO, Rabobank and ING – all three with a diversified product portfolio and global operations (Westerhuis 2008, 2016; Westerhuis and De Jong 2015). That this implied increased vulnerability of the system as whole was a lesson learned in the 2008 crisis.

Concerning the Dutch payment system, it is interesting to note that important changes happened as well partly due to technological developments. In the course of the 1990s, DNB started to operate a fully automated interbank settlement system for large value payments (TOP), which became an integral part of the Eurozone Target system when the euro was introduced. In retail banking, new ways of electronic banking were developed, which resulted in a decrease of cash circulation and the use of cheques. Of societal relevance was the *National Betalings Circuit* (NBC) that finally, in 1997, was established after more than 20 years of consultation between DNB and the banking sector. It meant a simplification of the payment system by bank transfer (Fase 2000: 527–528).

So in this period, DNB increasingly reacted to external pressures, in particular resulting from European integration and the (perceived) increasing competition resulting from this process. DNB became less autonomous and the stability of the banking sector decreased. These developments continued after the creation of the European Monetary Union.

7.8 DNB, Europe and the Financial Crisis: 1998–Present

The creation of the Economic and Monetary Union (EMU) resulted in the end of national monetary policies, since 1983 highly dominated by Germany. Instead, European monetary policies were led by the European System of Central Banks (ESCB), created in Frankfurt in 1998 as executive institute. The change of the Bank Act of 1948 into a new one in 1998 marked this important switch of focus. The Bank Act of 1948 had served its goals for 50 years and now the objectives, tasks and activities of the bank were changed in line with the Treaty establishing the European

Community and the establishment of an ESCB. DNB came to form an integral part of the ESCB with respect to her tasks and duties. As a result, DNB has a dual function, being both part of the ESCB and an independent public body. This implies that DNB is co-responsible for the determination and implementation of the monetary policy for the euro area, and forms a link in the international payment system. At the same time, being an independent public body, DNB has to exercise the prudential supervision of financial institutions.

The president of DNB is a member of the ECB Governing Council and in that role the president can co-decide monetary policy. The Governing Council consists of the governors of all central banks of the euro area and the ECB Executive Board. Independently, this Governing Council decides what monetary policy is best for the euro area as a whole. These decisions should be independent of national and political interests. Regarding the bank's objective, it still has to maintain price stability and, without prejudice to the objective of price stability, the bank supports the general economic policies in the European Union.

In the Bank Act 1998, it is also stated that within the framework of the European System of Central Banks, DNB contributes to the performance of the following tasks (Bank Act 1998):

- to define and implement monetary policy;
- to conduct foreign exchange operations;
- to hold and manage the official foreign reserves;
- to provide for the circulation of money as far as it consists of banknotes;
- to promote the smooth operation of payment systems.

Furthermore, 'within the framework of the European System of Central Banks, the Bank contributes to the pursuit of sound policies by the competent authorities relating to the prudential supervision of banks and the stability of the financial system' (Bank Act 1998).

Another important development was the reorganization of financial supervision within the Netherlands between 2002 and 2004. Prior to the reorganization, there was a sectoral distinction with the DNB (member of ESCB) as supervisor for the banking sector, and separate supervisors for insurance and pensions (*Pensioen- en Verzekeringskamer*) and securities (*Stichting Toezicht Effectenverkeer)* respectively. Because of the emergence of financial conglomerates, the boundaries between different sectors had become blurred. Supervision changed from sectoral towards functional supervision. The Netherlands performed a pioneering role here, with the introduction of the Twin Peak model in which other European countries, such as Italy, have shown interest (DNB 2007). This supervisory model for financial markets relies on two supervisory bodies: DNB and the Authority for Financial Markets (AFM). DNB is responsible for the prudential stability of all financial institutions (micro prudential) and for the stability of the financial system (macro prudential). AFM, newly created, is responsible for conducting the business supervision of all financial firms. The securities supervisor was developed into AFM, whereas the insurance and pension supervisors were largely abolished or merged with DNB (Kremers and Schoenmaker 2010).

Thus DNB is still responsible for safeguarding financial stability in the Netherlands. Three important preconditions for financial stability are: low and stable inflation, secure payments, and sound and healthy financial institutions. However, the recent financial crisis of 2008 has painfully shown that it failed to guard a sound and healthy financial system. The few large financial conglomerates that emerged in the 1990s, mainly through mergers and acquisitions, had become an important part of the economy, as can be seen from the large ratio between their assets and gross domestic product. In 2007, this ratio was 194 per cent for ABN AMRO (€ 1,025b), 188 per cent for ING (€ 994b) and 108 per cent for Rabobank (€ 570b). And whereas perhaps their performance improved, stability of the system did not.

As a result of the financial crisis, banks were nationalized, had to split up or went bankrupt. Thus, already just before the crisis ABN AMRO was sold to a consortium of three banks, one of them being Fortis, the Belgian–Dutch financial. However, Fortis almost went bankrupt due to its low capital basis. In October 2008 the state announced it would take over the Dutch part of Fortis, including the former ABN AMRO's activities in the Netherlands. Only in 2015 were part of ABN AMRO's shares sold on the capital market again. At the same time, ING Group, a bank-insurer which received substantial state funds during the depth of the financial crisis (*Volkskrant* 2009), had to split up into ING Bank and insurer Nationale-Nederlanden. Only Rabobank survived the crisis relatively unharmed. The state, in close cooperation with DNB, also nationalized the bank-insurer SNS in 2013 because it could not meet its solvability requirements. Recently, this led to discussions about the role of DNB and the Minister of Finance in the nationalizations. In 2014, a commission concluded, for example, that DNB, when it granted permissions to SNS for a few acquisitions, had not recognized the risks that were involved in these acquisitions.

Because of the financial crisis governments were forced to save failing banks with taxpayers' money. Also it became clear that worldwide financial institutions were very closely interconnected, whereas at the same time there was no uniform supervision system within Europe. As a result, after the financial crisis, two important steps were taken: first, European rules and regulations on resolution were drafted, and second, central supervision became the responsibility of the ECB.

Thus, in 2014 important steps were taken towards the European Banking Union by the creation of European banking supervision. One goal of the introduction of European banking supervision was restoring confidence in the European financial sector. In other words, the European Banking Union aims to safeguard the safety and soundness of the banking sector in Europe, by fostering further financial integration and stability across Europe. The Banking Union consists of three pillars, the first of which is the SSM. The other two are a single resolution mechanism, which deals with banks that get into trouble (Single Resolution Mechanism, SRM), and a European deposit guarantee scheme (not in effect yet).

Within the first pillar, SSM, supervision of all banks in the euro area is a shared responsibility of the ECB and the various national supervisory authorities, one of which is DNB. Thus, under the new system, ECB works in tandem with national supervisory authorities. In practice this means that ECB has direct responsibility for 120 banks, which is around 85 per cent of all banking assets in the euro zone (DNB website), among them the Dutch financial institutions such as ABN AMRO, SNS Bank, Rabobank, ING Bank, BNG Bank and NWB Bank. Smaller banks remain under the supervision of DNB.

The second pillar focuses on resolution, which means in the first place that it is no longer the government that has to bail out a bank with taxpayers' money, but that shareholders and investors are responsible for bearing the cost of a failing bank. There are various tools, such as bail-in by shareholders and creditors or the sale of parts of the bank. Resolution rules also include that a bank in trouble will resolve in a controlled manner to ensure that customers keep access to payment services and savings. Moreover, it aims to prevent other banks from collapsing (see DNB website).

7.9 Conclusions

The history of central banking in the Netherlands can neatly be divided in to two periods – 200 years of 'proto-central banking' and 200 years of 'real central banking'. The Amsterdam Exchange Bank set up in 1609 was not designed as a central bank, but as an instrument to facilitate the payments system of the city. However, because it began to play such a large role in the financial and monetary development of the city and the state as a whole, and because all partners involved were keen on stabilizing the monetary system, it developed activities that are now associated with the classical central bank. This is what we have called 'proto-central banking'. Due to the power structures of the Dutch Republic, the overwhelming economic role played by Amsterdam, and the business-like approach of the bank itself, the Amsterdam Exchange Bank not only began to play a central role in international monetary system of the 17th and 18th centuries, but it also developed policies aimed at stabilizing the system, including support for banks which were under pressure from the volatility of markets (and policy mistakes). In the meantime, in Sweden and England in particular, new adaptations of the Exchange Bank further pioneered the role such an institution could play within the context of a centralized state, resulting in the development of the 'real' central banking model as it matured during the 18th and 19th centuries. In that new model, the central bank was much more intimately related to the national state, and in particular the management of its public debt.

After the decentralized polity of the Dutch Republic had given way to the centralized new Kingdom of the Netherlands, the new model of a central bank serving the central state (and in particular its King) was, in its turn, an important source of inspiration for the newly created Central Bank of 1814. DNB from the start, however, tried to keep the King and his ambitious economic policies at arm's length, as the Amsterdam economic elite distrusted his plans and power. This independence from the state arguably became the key to its long-term success. During the 20th century, DNB transformed into a modern central bank. During the Golden Years of economic growth and full employment DNB was state-owned but the state remained relatively at a distance as its formal powers were limited. After the oil crises, DNB became increasingly influenced by developments in the international and more specific European level. As a result, it became less autonomous as it had to follow European rules and practices.

The arguably most important aim of these two central banking institutions was stability of the financial and monetary system. Measured in terms of the stability of prices and exchange rates, the two central banks were relatively successful (the Dutch guilder was perhaps the most stable currency between 1600 and 2000). The financial crises of 1921 and 2008, however, hit the financial system hard (in 2008 even more so than in 1921); in both cases the state had to step in, showing the limitations of the role DNB could play. Again, in both cases DNB was unable to prevent a financial crisis – in many ways it seemed as unready to rescue the banking systems in 2008 as it was in 1921. But perhaps two major financial crises over a period of 400 years is not all that bad.

We can speculate about the underlying causes of the relative stability of the financial system. The most obvious explanation is that the Netherlands, from about 1600 onwards, was one of the richest countries in the world, and continues to be so until the present. It, for example, generated substantial surpluses on the balance of payments which were often invested abroad, but this also meant that the economy hardly ever suffered balance of payments constraints (with the exception of the years of reconstruction after 1945). The long history of sharing power – between the state (or the states in the period before 1798), and the business community and other organized interests, including the financial community – may also have played a role in stabilizing the socio-political and financial systems (Prak and Van Zanden 2013).

With the introduction of the EMU and the following centralization of central banking functions in Frankfurt, the history of central banking in the Netherlands now runs towards its end, so it seems. The recent financial crisis has strengthened European supervision even more. To restore confidence in the European financial sector, European rules and regulations on resolutions have been drafted (SRM) and central supervision has become the responsibility of the ECB (SSM). DNB always has been an important advisor of government policy and seems to be acting increasingly as an unorthodox think tank. For example, recently it advised the unions to demand larger wage increases to stimulate domestic demand and speed up economic growth – rather surprising policy advice for this traditionally rather conservative institution. It perhaps shows how DNB is searching for a new role within the Dutch polity. We cannot speculate what will happen in the long term (or even the medium long run) with the euro and the EMU; history is full of surprises and dramatic turns of events, which, perhaps one day, will bring DNB back as the monitor of Dutch monetary policy and guardian of its financial system.

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