A Policy Theory Evaluation of the Dutch SME and Entrepreneurship Policy Program between 1982 and 2003

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A Policy Theory Evaluation of the Dutch SME and Entrepreneurship Policy Program between 1982 and 2003

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Abstract

The present paper reconstructs and analyses the assumptions – i.e. the policy theory – underlying the development of the SME and Entrepreneurship Policy Program in general and the Establishment Act and the Loan Guarantee (BBMKB) in particular between 1982-2003. The analysis links these assumptions to policy output results and policy effects. We find that the foundation of the policy theories of the Establishment Act and the Loan Guarantee requires improvement with respect to implicit assumptions and lacking warrants. We also find that the implied policy effects cohere with formal policy objectives.

This paper has been written in the framework of the research program SCALES carried out by EIM and financed by the Dutch Ministry of Economic Affairs. This paper along with three other papers–see introduction–are part of the author's Ph.D. research, which will result in a Ph.D. thesis early 2012.

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1. Introduction

1.1 The Dutch SME and entrepreneurship policy program 1982-2003: contents and major shifts

The present report deals with the policy paradigm shift regarding small and medium-sized enterprise and entrepreneurship policy that the Dutch government has carried out between 1982 and 2003. The policy program evolved from defensive SME policy toward (more) offensive entrepreneurship policy targeting the entrepreneurial function rather than specific businesses and industries. The shift coincided with an emergence of dramatic increases in the business ownership rate, especially self-employed without employees (ZZP-ers), increased business dynamism, and an increased integration of big and smaller businesses in the Dutch structure of production.

We focus on two major aspects of the SME and Entrepreneurship Policy program: (1) the Establishment Act and (2) the Loan Guarantee (BBMKB). We analyze these policies by means of a policy theory evaluation, which involves a systematic analysis of the underlying policy assumptions. We are interested in the theoretical foundation of the policies, their output, and their effects. We consider six policy notes published by the Dutch Ministry of Economic Affairs:

1982 Het MKB-beleid in Hoofdlijnen
1982 Startersnotitie
1987 Ruim Baan voor Ondernemen
1995 Werk door Ondernemen
1999 De Ondernemende Samenleving
2003 In Actie voor Ondernemers

Goal of the present study

The present report constitutes the fourth study of the policy program. In the first report we covered the program in an historical perspective[3]; the second report involved an eclectic analysis of the program using and combining two entrepreneurship policy frameworks[4]; the third report focused on the policy formation, i.e. it considered the questions: what did policy makers think, do, and why?[5]

Research questions

We conceive policy as a trichotomy: policy content, policy process, and policy effects. The first concerns the policy as a means to an end containing ideas, assumptions, and the application of economic theory as well as political preference. The policy process involves the policy cycle, which is a conceptual cycle through which policy is intellectually formed–addressing a policy problem–, constructed, implemented, executed, evaluated, and–if necessary or desirable–amended. The policy effects involve the implied and documented policy effects of policy. In the present paper we primarily deal with the policy effects.

[3] Kuiper, A.A.B.H. and A.R.M. Wennekers (2008).
[4] Kuiper, A.A.B.H. and A.R.M. Wennekers (2009).
[5] Kuiper, A.A.B.H. (2010).

A fourth notion needed for the analysis is the so-called 'policy theory' which we define as the underlying assumptions of the policy program. In terms of the trichotomy introduced above, the policy theory is a part of the policy content.

More specifically, in the present report the following research questions are addressed with respect to the Dutch SME and Entrepreneurship Policy Program that gradually evolved during the period 1982-2003:

- *Which (implicit) policy assumptions (i.e., the policy theory) have existed to justify the means (i.e. the Establishment Act and the Loan Guarantee) vis-à-vis the ends sought (i.e. sustainable development of the SME sector and financing viable new and existing business activities)?*

- *Which policy effects do these (implicit) assumptions imply and to which extent are these policy effects consistent with the formal policy objectives, i.e. ends sought?*

1.2Theory: Program Theory Evaluation

Policy theory

Policy Theory Evaluation (PTE) is an evaluation method based on the concept of policy theory. The basic premise of policy theory is that policy can be reconstructed by means of distinguishing three relationships: (1) the normative relationship, (2) the final relationship, and (3) the causal relationship. A secondary premise of policy is that these relationships apply to all policy and human action. The three relationships involve the most fundamental categories of human action. The normative relationship translates values such as employment creation or economic growth into concrete norms and compares economic performance with these norms; the final relationship involves policy means and ends; and the causal relationship links social economic causes and effects. One cannot deny that all human action involves applying means to attain certain ends based upon subjective valuations of reality, which is governed by knowable, less knowable, and potentially unknowable regularities or laws. An argumentation ethics argument claims that such a denial has to involve exactly the application of means in order to attain certain ends, such as arguing against a certain argument or premise, adhering to certain norms and values. We adhere to this argument.

Policy ordinarily aims to solve so-called policy problems, which means to change reality toward a norm. A norm is an operationalized value. For instance, policy makers value economic growth; suppose the Central Bureau of Statistics publishes an economic growth rate of 1% while the norm is to have 3% economic growth. A discrepancy between reality and the norm exists and consequently policy makers will pursue the construction of a policy that would overcome the discrepancy casu quo the policy problem. Policy involves the application of means i.e. resources to attain desired ends, here: economic growth. Often the desired end consists of a proxy end relative to the ultimate end, here: economic growth. Policy makers might for example aim to increase the number of start-ups in the economy or to lower the cost of doing business by lowering taxes or regulation. Lowering taxes and regulation would constitute the means.

The leap from the normative to the final relationship always involves some kind of translation that is influenced by knowledge of best practices, public and

political culture, political feasibility, the amount of money or resources under control et cetera. Well-founded policy is based on scientific knowledge, empirical research, and theory. Organizational science can inform the practical challenges of the final relationship. Social science and economics in particular can inform the causal relationship of the policy theory. With regard to the present example, economics can identify the causes of economic growth, business start-ups and the determinants of the costs of doing business–economics can also shed light on the relationship between the costs of doing business and economic growth, i.e. the costs of doing business are determined by certain factors but also determine other factors (among which there is economic growth). Policy makers can link the final relationship–means and ends–with the scientifically founded causal relationship, but can also take the causal relationship as the starting point upon which a plausible final relationship, i.e. policy means and policy ends, is built.

Thus, also between the final and the causal relationship a translation has to be made. The translation of cause and effect relationships yielded from scientific research to coherent policy means and ends is not clear-cut. For one, the causal relationships are the result of a complex of human action in the past of which the intentions might not be consistent with the results. Policy is based on these causal relationships consists of human action now and in the future to attain specific ends in the future. Historical relationships between certain variables might change and change continuously. Furthermore the means of policy qualitatively differ from the causes in the causal relationship. Additionally an increase in the number of business start-ups or the decrease of the costs of doing business might have additional effects, besides an increase in economic growth, that are contrary to the desired end and scientifically yielded effect. Or in other words, policy like any human action involves indirect and unintended consequences that can be contrary to the intended end.[6]

Normative and descriptive causal model analysis

The main idea adopted in the present paper is that theoretical analysis should both logically and temporally precede any other kind of analysis. For instance, the policy content should precede the policy process. On one hand this means that one should have a theoretical conception of what one aims to achieve with some policy; on the other hand it just means to think before one acts. On yet another hand the statement means that one cannot act or think rationally without either explicitly or implicitly adopting a theoretical framework. Policy makers and other people alike–such as entrepreneurs, citizens, employees, family members, college students et cetera–either explicitly or implicitly act rationally, which just means that they apply means to achieve ends. Conceptually the means and ends are the policy content of a policy. For the analysis of the policy content we use Program Theory Evaluation based on the foundations of praxeology.

We use the dichotomy normative causal model-descriptive causal model. By means of the dichotomy we can conceptually distinguish between what the actors in the policy network thought how the policies in the program worked (normative) and how these policies actually worked (descriptive). The former, the idea of the normative causal model is the starting point for the reconstruction of the formation of the policy program in terms of policy content. A normative causal model analysis concerns itself with the notion that it is what people think is true that influences their actions rather than that merely what objectively is true influences human action.

[6]More on the issue of indirect and unintended consequences of policy in Kuiper (2012) Ph.D. thesis.

The latter, the idea of the descriptive causal model is the starting point for the reconstruction of the policy process. With the information of official policy documents and interviews and then using several tools of understanding (see below) we can transform the normative causal models of the persons involved into descriptive causal models. In other words, by means of official policy documents and interviews we can provide a solid historical reconstruction of the policy process, which can claim objectivity–in the sense of inter-subjectivity–as far as the method of historic inquiry allows. Specifically, we use the theory of public entrepreneurship, network theory, and learning theory as the operationalization of our understanding.

The difference between the normative causal model analysis and the descriptive causal model analysis in the present study is that the former involves merely a descriptive reconstruction of the policy documents and interview data without much interpretation using social theory: we limit ourselves to the reconstruction of the internal logic of the policy content. The descriptive reconstruction of the internal logic is the starting-point for the comprehensive descriptive causal model analysis, which does demand social theory for its proper execution.

The results gained in the causal model analyses are the foundation for the policy evaluation of the policy contents. In combination with the appropriate method and theoretical knowledge we can reconstruct the (theoretically) implied policy outcomes of the policy program and compare these with the official policy objectives in the reconstructed normative causal model.

Program Theory Evaluation described

Leeuw (2003) describes three methods for reconstructing underlying assumptions and/or theories of policy and policy programs. These are the empirical-analytical method, the strategic assessment approach, and the elicitation methodology. As it is the empirical-analytical method that is based on policy theory, we only extensively discuss this method. This does not mean that the other two methods could not have been relevant for the current study. But as the research goal of the current study is limited to reconstructing and evaluating the underlying assumptions of the policy program, we can here leave these methods aside.

The empirical-analytical method can easily be modified into a method that is consistent with praxeology as described in Kuiper (2012). Leeuw (2003) proposes the empirical-analytical method as a synthesis of elements adapted from other policy analysis methods; he furthermore coins the method as a policy-scientific approach as the mentioned scholars are all active in the field of policy analysis and policy evaluation.

Next we describe the six steps of the empirical-analytical method; then we discuss its strengths and weaknesses–as laid out by Leeuw (2003).

The empirical-analytical approach to Program Theory Evaluation in six steps

1. Identify the behavioral mechanisms of which it is expected that they will solve the policy problem. A search has to be conducted in formal and informal documents and interview transcripts for statements that indicate why it is believed that it is necessary to solve the social, organizational, or policy problem; and what policy objectives are being sought. These statements can point to mechanisms on which the policy or policy program drives and of which it is believed that it will make the policy or policy program more effective. Examples are: determinants of innovation diffusion processes, mechanisms underlying prisoner dilemma games,

processes which produce social capital, cognitive dissonance, different types of learning behavior and many more.

2. Statements that have the following structure are especially relevant for the detection of the mentioned mechanisms:
    a. "It is evident that x … will work."
    b. "In our opinion, the best way to solve the problem is to … ."
    c. "The only way to solve this problem is to … ."
    d. "The many years of experience of our institute with regard to x tells us that … ."
3. Construct an overview of the statements and relate the assumed mechanisms with the policy objectives of the policy or policy program under consideration.
4. Reformulate the statements into conditional statements, i.e. in the structure of "if-then" statements or similar statements such as, "more x leads to less y."
5. Search for warrants to find the missing relations within or between the different statements by using argumentation analysis. The warrant is the "because" part of a line of reasoning; it shows that B follows from A because of a(n) (generally) accepted principle. For example, "the organization's performance will not improve next year," follows from, "the performance of this organization has not improved in the last five years," because of the principle, "past performance is the best indicator of future performance." The "why" part of such a line of reasoning is often not being made explicit. This is why these warrants or motivations have to be inferred by the person who conducts the policy analysis.
6. Reformulate these warrants or motivations in conditional "if-then" or similar statements and draw a figure of the assumed causal relationships.

After these six steps the inferred statements, i.e. assumed causal relationships underlying the reconstructed program theory, can be evaluated by analyzing them on the basis of:

- The logical consistency of the statements;
- The empirical content of the statements, or in other words, the degree to which the policy theory and specifically the assumed impact of the behavioral mechanisms correspond with the relevant "state-of-the-art" knowledge in the social sciences, behavioral sciences, and economic science and;
- The degree to which the theory focuses on variables that can be manipulated or steered by means of policy.

<u>Forecasting expected policy outcomes</u>

Dunn (2004, 129) claims that, "the capacity to forecast expected policy outcomes is critical to the success of policy analysis and the improvement of policy making." Three major approaches of policy forecasting are presented: extrapolative forecasting, theoretical forecasting, and judgmental forecasting. These approaches rely on projection, prediction, and conjecture respectively.[7] Forecasting aims to generate information about future changes in policy and their consequences and can be instrumental to control, plan and set policy in the best possible way.

"A projection is a forecast that is based on extrapolation of current and historical trends into the future."[8] Projections are claims based on arguments from method or parallel case, where assumptions about the validity of a method or

[7] Dunn (2004), pp.130-131
[8] Ibid.

similarity between cases are used to constitute these claims. Projections may be accompanied by arguments from authority or from theory.

A prediction however is a forecast based on explicit theoretical assumptions; theoretical laws, propositions, or analogies are part of the toolbox. Predictions specify causes and effects and they may be accompanied by arguments from authority and method (econometric modeling).

A conjecture is a forecast based on judgments of an expert regarding the future of society. "These judgments may take the form of intuitive arguments, where assumptions about the insight, creative intellectual power, or tacit knowledge of stakeholders (e.g. "policy insiders") are used to support designative claims about the future."[9][10] Conjectures may be supported with arguments from authority, method, and/or cause.

The present report describes the Establishment Act and the Loan Guarantee based on the descriptive causal model and their implied policy effects.

Dunn describes several methods for the prediction of policy outcomes of existing policies. These methods are: theory mapping, causal modeling, theoretical modeling, regression analysis, point and interval estimation, and correlational analysis. As we limit ourselves to a qualitative analysis and evaluation we discuss only the first three.

Theory mapping is used to identify and arrange key assumptions within a (policy) theory or (policy) causal argument.[11] It can therefore be used to reconstruct policy theories in a systematic fashion. Theory mapping distinguishes between four types of causal arguments: convergent, divergent, serial, and cyclic. Convergent arguments consist of two or more assumptions on causation, which are used to support one claim or conclusion. Divergent arguments consist of one assumption supporting several claims or conclusions. Serial arguments consist of using one claim or conclusion as an assumption in order to support a series of claims or conclusions. Cyclical arguments are serial arguments of which the last claim or conclusion is connected with the first one; cyclical arguments therefore may be positively or negatively self-reinforcing.

Causal modeling and theoretical modeling basically come down to the same method as policy analysis: the reconstruction of the assumptions with regard to policy content and program theory evaluation. Our claim that it is possible and sensible to forecast expected policy outcomes by reconstructing underlying policy assumptions and evaluating these on their merit vis-à-vis theoretically substantiated forecasts of their implied outcomes finds support in the overview given by Dunn.

In part 2 we conduct a PTE analysis regarding the Establishment Act and the Loan Guarantee by means of (1) a walkthrough of the policy notes published by Economic Affairs between 1982-2003 and (2) focusing on the (implicit) policy assumptions of these two policy instruments.

[9] Ibid.
[10] This description of forecasting policy outcomes relates to what in Kuiper (2012) is discussed as public entrepreneurship.
[11] Ibid., p. 163

2. A program level Program Theory Evaluation (PTE)

2.1 Introduction

In this chapter we apply the empirical-analytical method to PTE on the Dutch SME and Entrepreneurship Policy Program during the period 1982-2003, as elaborated in the consecutive policy notes written by the Ministry of Economic Affairs. In particular, the PTE analysis focuses on the Loan Guarantee and the Establishment Act. The PTE analysis yields a reconstruction of the normative causal model, i.e. a reconstruction of the assumptions, logical arguments, and behavioral mechanisms of the policy theory of the policy makers of Economic Affairs. The focus is on the relationship between the policy content and the policy effects.

The former includes the policy input, the policy throughput or the production process, and the policy output or the products and services provided; the latter involves the policy outcome. The focus will be on the assumptions, logical arguments and behavioral mechanisms that link the former with the latter, or in other words: we aim to reconstruct the arguments and warrants that link the policies to real-world effects. These arguments and warrants, which ought to be based on social scientific knowledge, have to be consistent with the ends sought, which in their turn have to have a sound logical relationship with the effects sought.

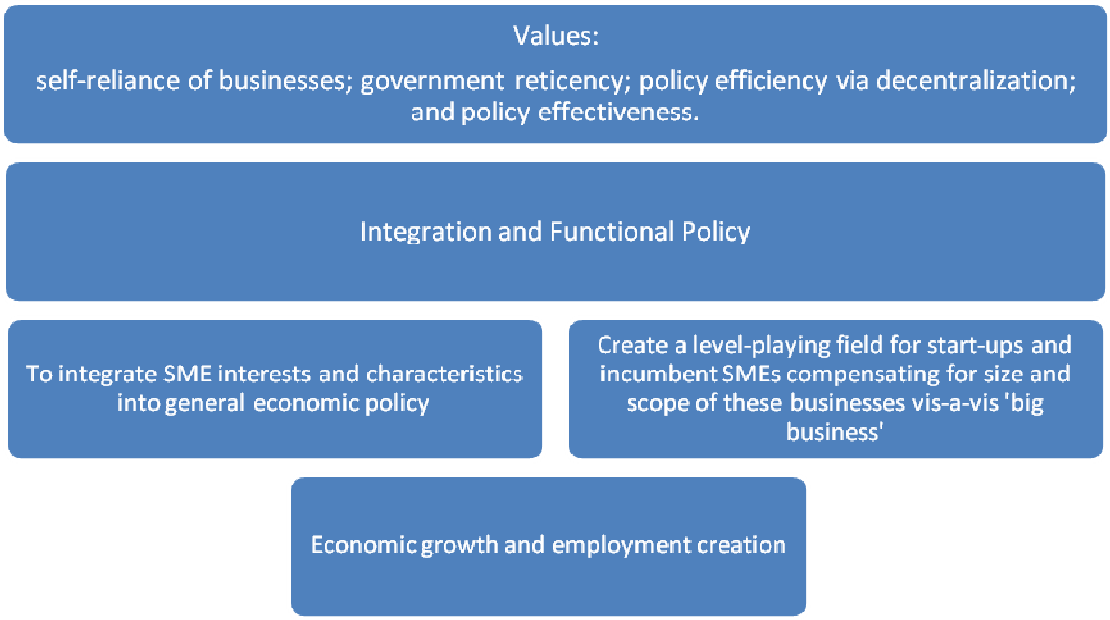
For instance, the assumptions, logical arguments, and behavioral mechanisms of the Loan Guarantee and Establishment Act, which constitute the logical structure of the policy input, throughput, and output have to be consistent with the ends sought as well as with the policy effects. When these links are not present in the policy theory, which as we will see is sometimes the case, we question this lacuna and consider several assumptions, logical arguments, and behavioral mechanism that are implicit in the logical structure of the policies.

2.2 Het MKB-Beleid in Hoofdlijnen (1982) &Startersnotitie (1982)

From a logical perspective the policy theory at the program level makes sense. The values are starting points of the SME policy program and constitute the normative relationship of desired status of economy and society and the status quo. The normative relationship is translated into two major policy lines: (1) Integration Policy and (2) Functional Policy. The two policy lines constitute the means and ends relationship of SME and entrepreneurship policy until the policy note Ruim Baan voor Ondernemen (1987). The ends sought are more and better entrepreneurship via start-ups and incumbent businesses, which should lead to more employment creation casu quo less unemployment and to more economic growth. This final relationship is related to several causal characteristics of the position of SMEs in the wider economic policy program–Integration aspects–and causal characteristics of SMEs as such and vis-à-vis big(ger) business.

The causal relationships of the policy program theory are of a logical nature. If SME characteristics and interests are addressed casu quo integrated in the general economic policy and if specific characteristics of SMEs are addressed then this would surely lead to a better and bigger SME sector, which de facto constitutes economic growth and more employment. The program theory of the Start-up Note coincides with the Functional Policy line; see Figure 1.

Figure 1 Program Theory at the program level (1982)



The 1982 policy notes contain legal, economic, and communicative instruments while physical instruments of any sort were absent–this is true for the entire 1982-2003 period. The Establishment Act along with the SME Instrumentarium[12] constituted the legal aspect of the SME policy program. The former defines economic criteria within a legal framework for business entry. The latter involves the players in the SME Instrumentarium, which were legally set in the sense that the government determined certain formal tasks of these organizations. These players were responsible for the operational policy within the SME Instrumentarium as they were set-up with certain instructions and guidelines regarding the execution of policy, laws, and regulations.

Both the Establishment Act and the SME Instrumentarium constitute institutional policy, as they established the rules of the game with regard to starting a business and the products and services that new and incumbent businesses were allowed to provide by law. Additionally, these policies allocated the tasks and responsibilities regarding the public management of the SME sector within the policy network. While the Establishment Act and the comprehensive SME Instrumentarium have been the result of the progressive, change-oriented vision in which a strong government is combined with a comprehensive labor and business representation framework; however in the 1980s the belief in this vision slowly faded when the Western economies and as a result public provision of goods and services slowed down. As set rules of the game and the resulting institutional framework, with its allocation of tasks and responsibilities, tend to be rigid and as new ideas challenging the status quo work through the political process rather slowly, the Establishment Act and the SME Instrumentarium constituted the regulatory remains of the historical progressive vision.

Internal and external financial policies were the economic instruments in the SME policy program, which respectively contained fiscal policies and financial –loan

[12]The so-called MKB Instrumentarium included small business employer organizations, advisory organizations, training institutes et cetera.

and credit– facilities. These tactical policy instruments distributed capital resources in a way that aligned with what in the policy theory was considered more socially, economically, and/or politically desirable. Politically the policies were facilitory for certain economic behavior, i.e. investing and starting-up business with newly acquired loans or credits; and stimulatory to certain target groups, i.e. (unemployed that could become) start-ups and incumbents SMEs.

Entrepreneurship courses and information provision and advice constituted the communicative instruments in the SME policy program and were aimed to guide (prospective) entrepreneurs into the rules of the game of business set up via the institutional framework of the Establishment Act, SME Instrumentarium, and general (economic) policies including the tax code, labor and social security issues et cetera.

Het MKB-beleid in Hoofdlijnen; Loan Guarantee and Establishment Act

The policy note is the main policy document of which the Start-up Note is a target group specific spinoff. The note constitutes the first step toward a reappraisal of the SME policy program, which is based upon four premises: (1) the entrepreneur is primarily responsible for his own business; (2) the government should be reticent; (3) for policy efficiency, policy should be either regionalized or decentralized; (4) policy effectiveness should be increased.[13]

The first two premises seem to be inconsistent with the Loan Guarantee and Establishment Act. One could argue that when entrepreneurs are assumed to be primarily responsible for their businesses and the government should be reticent then the government should not set minimum requirements for business entry, because otherwise the government is primarily responsible for businesses and hardly remains reticent. On the other hand, this argument can be perceived as a subjective evaluation of both the premises and policies in place. It is in the eye of the beholder, casu quo the held policy theory, to determine the Establishment Act a government responsibility that precedes the responsibility of the entrepreneur and that the Act in fact represents a reticent government.

Policy efficiency can indeed be achieved by means of decentralization. Policy efficiency involves the relationship between policy input and policy output–the efficiency of the policy achievements–and between policy input and policy outcome–policy cost effectiveness. Decentralization can increase the quality of the policy output with the same policy input. If a causal relationship exists between policy output and policy outcome, increased efficiency of the policy achievements implies increased policy costs effectiveness.

Increased policy efficiency by improving the relationship between input and output or outcome can also improve policy effectiveness, which involves the relationship between policy output and policy outcome. When policy output is increased and a causal relationship exists between policy output and policy outcome effectiveness increases. Improving accessibility, speed, and simplicity of procedures improves the policy output, which increases the policy outcome.

PTE analysis of the Loan Guarantee

The Loan Guarantee (or then-called KMKB) assumes that providing credit and loan guarantees in addition to self-financing and conventional financers is a good thing.

[13] EZ (1982b), *Het MKB-Beleid in Hoofdlijnen*, pp. 7-9.

We phrase it as 'a good thing' because the note provides no explicit policy objective. Because the policy is in place we can safely assume that the policy makers deem the policy a good thing.

The note mentions that the policy effectiveness of the KMKB is threatened by the lengthiness of the application procedure combined with a strongly increased demand for the facility.[14] The quantity of policy output–i.e. additional credit and loan provision than otherwise would have been the case, is threatened, which restricts the policy outcome–i.e. additional viable businesses than otherwise would have been the case. This illustrates that the policy makers indeed assume a causal relationship between policy output and policy outcome, but both the policy outcome and the relationship between policy output and policy outcome are not made explicit or warranted. This constitutes a serious policy theory lacuna, which cannot be reconciled with the status of the KMKB as the "by far most important governmental financing instrument for SMEs."[15]

The lack of a policy theory foundation for the KMKB might imply that the policy makers perceive the policy mostly as social policy, i.e. redistributive policy without warrants that imply the policy to be a positive sum game. Social policy differs from economic policy in the sense that economic policy can be redistributive policy, but does contain warrants that imply the policy to be a positive sum game or does not contain warrants that imply the policy to be a zero or negative sum game.[16]

PTE analysis of the Establishment Act

The Establishment Act functions as an instrument to restrict entry of low-quality and undesirable business start-ups, which may harm competition and the consumer or may overflow over-capacitated[17] markets. In the policy note, the State Secretary of Economic Affairs states that the Liquor and Hotel and Catering Law will be integrated into the Establishment Act.[18] Additionally the establishment resolutions in retail will be tightened.[19]

This implies that the general policy theory underlying the Act formally was still in place, i.e. that the Act represents a systematic policy effort to restrict business entry for unqualified entrepreneurs favoring fair competition among SMEs and the consumer.

The reappraisal of the SME policy implied that the Establishment Act was reappraised on four aspects: (1) establishment resolutions, (2) the economic activities subject of establishment resolutions, (3) the establishment requirements, and (4) the manner in which entrepreneurs can fulfill the establishment requirements.[20]

With regard to (1) the establishment resolutions were assessed with regard to their utility and necessity. This implies that some resolution might have been counterproductive to the general objective of the Act, which might have unnecessarily restricted business entry. With regard to (2) the State Secretary reconsidered which economic activities mentioned in establishment resolutions can be deregulated. With

[14] Ibid., p. 34.
[15] Ibid.
[16] We non-precisively abstract from the sunk costs of the policy input, throughput, and carrying out of the output.
[17] Or in Carree and Thurik terminology (Carree and Thurik, 1999): may overflow markets of which the carrying capacity has been exhausted.
[18] Ibid., p. 53.
[19] Ibid.
[20] Ibid., p. 54.

regard to (3) the trade knowledge requirements were reconsidered and tightened. Industry-specific trade knowledge requirements were conceived in order to attain a high quality of business entries. With regard to (4) a reconsideration of establishment tests is mentioned.[21]

More generally the State Secretary pursues a tightening of establishment resolution by maintaining these resolutions. He counters the arguments for a freer establishment of simple economic activities with the notion that moonlighters compete with conventional SMEs that do have to fulfill the establishment resolutions. However, dispensation policy can respond to societal developments, but the policy should be combined with the condition that potential market disruptions, such as unfair competition should be investigated.[22]

So while there are no explicit behavioral mechanisms mentioned in the policy note we can assume that the policy makers remain confident about the notion that if entry requirements are in place and construed, implemented, and executed effectively then quality SMEs will enrich the Dutch economy with additional (fair) competition and quality goods and services for the Dutch consumer. The policy note does however provide no arguments for this assumed causal link. As this implicit assumption is not combined with specific behavioral mechanisms and warrants we are compelled to conclude that with regard to the Establishment Act a serious lacuna was present.

[21] Ibid., pp. 54-58.
[22] Ibid., pp. 56-58.

Start-up Note: Loan Guarantee and Establishment Act

The Start-up Note (1982) observes an increased attention among the unemployed to become one's own employer; the policy makers state that in times of decreas ed spending and increased competition the perspectives of new businesses are less favorable than in better economic times. Incumbent businesses strive for continuity by expanding their business to new markets; decreased spending and increased search for new markets, which in combination with low entry obstacles for new businesses might lead to a recurrence of the 1930s.[23] This is the major argument underlying the Establishment Act, which sets minimum entry criteria for business start-ups by law.

The policy makers then mention various market opportunities and the demand for market opportunity research by the SME Instrumentarium, which has to be kept up-to-date.[24] By means of the market opportunity research government policy aims to deter business entry in markets with overcapacity and promote business entry in markets with good market perspectives.[25] Information provision, not giving income support, and not providing guarantees on credits and loans can deter undesirable market entry. Promotion of business entry in markets with opportunities can be achieved with inverse policies along with provision of low-priced business housing and an extension of fiscal facilities for start-ups.[26]

The policy makers' stance on the Loan Guarantee casu quo the KMKB and the arrangement for private participation companies (PPM) should be perceived from these considerations. Irrespective of whether start-ups aim to enter a market with overcapacity or undercapacity, financing problems of start-ups often involves a bad business plan either combined or not with a lack of confidence among potential financiers. When the business plan and the confidence are fine then financing a new business venture seems to be much easier.[27]

The Start-up Note then focuses on policy that assists start-ups in attaining finance when the start-up cannot attain finance by means of the conventional channels.[28] What is noteworthy here is that the policy makers provide no explicit arguments of why this policy should be implemented. It seems that the policy makers implicitly consider the credit and loan requirements of private financers a market failure, i.e. that the conventional credit and loan market provides a less than optimal level of credits and loans. This begs the question why the government should step in to provide guarantees instead of fixing the perceived policy problem more directly from the supply-side. We phrase the problem as a perceived one for two reasons: firstly, policy problem are subjective: start-ups excluded from the credit and loan market would not be considered a problem when one assumes that this market is functional; secondly, sidestepping the selection mechanism set by suppliers of credits and loans might not solve the perceived problem and might create new policy problems (both related to the receivers of the guarantees as well as the implementation and execution aspects of the policy). In other words, it is reasonable to expect a stance of the policy makers on the functioning of the conventional credit and loan market and the role of existing rules and regulations in this market.

[23] EZ (1982a) *Start-up Note*, p.12.
[24] Ibid., pp. 13-14.
[25] Ibid., p. 14.
[26] Ibid., pp. 14-15.
[27] Ibid., p. 35.
[28] Ibid.

PTE of the Loan Guarantee

The behavior mechanisms assumed in the policy theory are somewhat superficial. There exist potential start-ups, including unemployed that lack savings for internal financing or lack collateral for external financing. Additionally, there are markets that have overcapacity or undercapacity. When start-ups are excluded from the credit and loan market the government has put a facility in place that evaluates the start-ups by the criteria of occupational skills of the entrepreneur and the future perspective of the business. Implicitly it is assumed that promoting start-ups in this manner–sidestepping the conventional credit and loan market–is a good thing for the economy, i.e. for employment and economic growth.

Considering the market opportunity research one can ask the question why this should be combined with a credit and loan facility. If the required knowledge is there, government-sponsored credit and loan facilities seem unnecessary, as the conventional suppliers would eagerly supply the start-ups with credits and loans. The market opportunity research can then be perceived as a subsidy to the auditing and credit and loan application divisions of the credit and loan providers. If the subsidized market knowledge does not lead to an increased provision of credits and loans then it would beg the question of why the conventional suppliers are skeptical and whether the government-sponsored facility is more risky than a market oriented supplier of business finance would want to bear. Because credits and loans are ultimate based on (often leveraged via fractional reserve banking) savings this means that the supply of credits and loans is finite. It is perfectly possible that a majority of the rejected credit or loan applicants can make a profit with their businesses, but that there simply are not enough savings to fund these activities. The question then arises why the government should divert money from other public goods and services or from the private sector (via taxation, increased public borrowing or money creation) to these SMEs.

In the case of hesitancy among the conventional credit and loan suppliers, investigation into the rules and regulation, barriers, and obstacles in the credit and loan industry would be opportune. Why are the suppliers of capital, who want to make a profit, hesitant of taking these credits and loans? Commonly, the argument put forward goes that banks and other financers have to invest too much money in research and audit costs in order for the smaller credits and loans to be profitable. This begs the question of why no smaller more flexible financial entities can exist as they emerge in every market. If these small credits and loans were profitable then market discovery would lead to an increased supply of credits and loans. When this does not happen the government, policy makers, private entrepreneurs should investigate why this is the case. If the credits and loans are not profitable one has to ask the question whether it is really a market failure that these credits and loans are not provided by the conventional suppliers of finance. Additionally one could ask the question of whether the credit and loan facility involves a social redistributive policy rather than an economic policy.

Our observations and questions are not mentioned in the Start-up Note, which means that the Note contains no behavioral mechanisms or warrants regarding policy effects for the policy demanded by rational evidence-based scientific policy.

PTE of the Establishment Act

The Establishment Act constituted the reaction of the Dutch government regarding the big inflow–and consequent outflow–of businesses in the 1930s as a result of a major increase in unemployment, which allegedly undermined fair market competition and

market stability among SMEs. The Establishment Act sets minimum requirements for business start-ups in order to increase the success rate of business start-ups that pass the selection mechanism. The minimum requirements involve three categories: general business knowledge, occupational skills, and creditworthiness. The requirements result in better-prepared business start-ups as well as healthy competition.[29] Implicitly, the minimum requirements constitute a minimum level of business quality and investment: businesses with lower investments in general business knowledge and occupational skills combined with a shaky creditworthiness are not allowed to compete with businesses that meet the minimum requirements.

Explicitly, the minimum requirements also benefit the consumer because the consumer has an interest in sound products and services, especially when safety or health is a factor.[30] The behavioral mechanism involved here goes as follows: if business start-ups meet the minimum requirements set by the Establishment Act then these businesses are more likely to succeed, will be involved in fair market competition with incumbent businesses, and will benefit the consumer in a better manner than otherwise would have been the case. The warrant for the behavioral mechanism basically involves past experiences with major inflows of business start-ups in the 1930s. Why this major inflow has occurred or why the Establishment Act would constitute a solution for this perceived problem is not explained in the note. The behavioral mechanism does express a relationship between policy content and policy effects, but the opportunity costs, potential indirect or unintended consequences, or policy alternatives are not provided.

Basic economic knowledge states that an artificial obstacle of market entry not merely constitutes an obstacle for potential entrants, but can also function as a defensive shield for incumbent businesses.[31] As a result of this shield these incumbents may become less prone to be competitive because fewer businesses will be in the market than otherwise would have been the case. The entry requirements might also prevent business entry that would satisfy a consumer demand but does not meet the requirements. The implementation of the Establishment Act also disregards the fact that the policy was promoted by employer organizations, which represent the interests of incumbent businesses. While consumers applaud market competition because it commonly results in lower prices and higher quality, businesses prefer less competition to more competition because then businesses can get away with higher prices and lower quality. The protection of the Establishment Act potentially exacerbates this behavioral mechanism. Additionally, the Act limits consumer choice. It is perfectly possible that some consumers prefer goods or services with lower quality that are lower priced provided by businesses that do not meet the requirements set by the Establishment Act. These considerations are not expressed in the note.

2.3 Ruim Baan voor Ondernemen (1987)

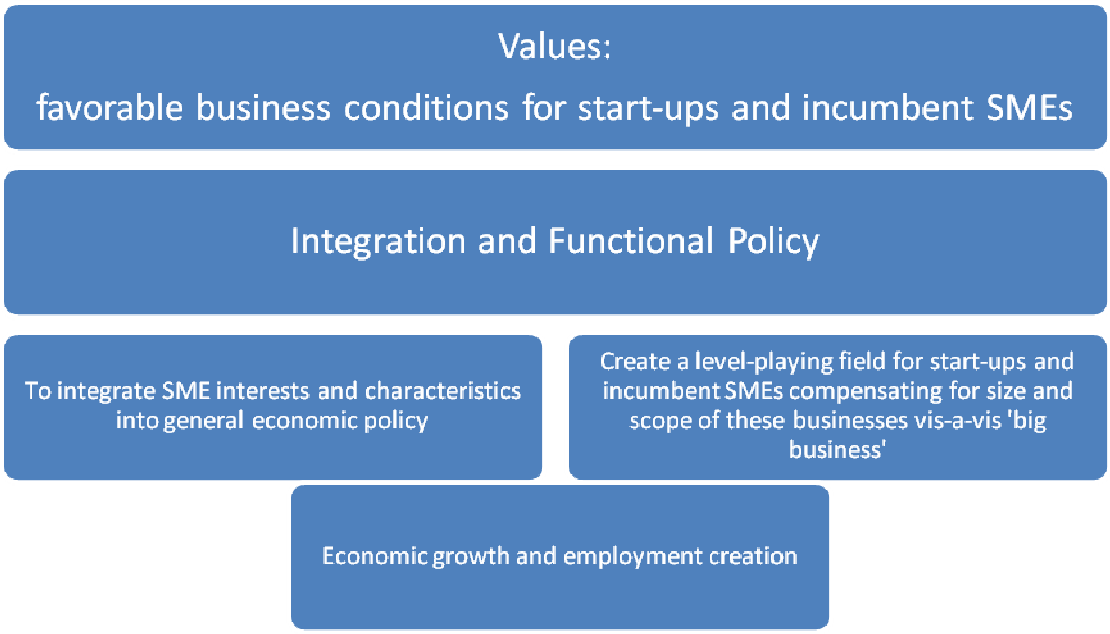
Ruim Baan voor Ondernemen's policy theory departs from the central value of a favorable business climate for start-ups and incumbent SMEs. Four underlying policy problems were addressed: (1) too little dynamism in the SME sector, and SME policy was too much focused on incumbent SMEs; (2) unexploited SME potentials as a result of too little dynamism; (3) a lack of good quality businesses, a lot of start-ups

[29] Ibid., p. 26.
[30] Ibid.
[31] This is implicitly expressed in Ruim Baan voor Ondernemen, p. 59, and explicitly in De Ondernemende Samenleving, p. 36.

were poorly prepared and many incumbents poorly complied with rules and regulations and market demand; (4) too many vested interests in the SME Instrumentarium, which is inconsistent with a favorable business climate in general and specifically hampers market dynamism and change for a more effective and efficient policy framework.

For an overview of the program theory at the program level, see figure 2. Like in 1982, the program in 1987 included integration policy and functional policy. The *Integration Policy* consisted of social economic and fiscal policy, informal economic policy, self-employment policy, deregulation, as well as local policy.

Figure 2 Program Theory at the program level (1987)



The fiscal policy instruments are economic and tactical in nature and aimed to help SMEs to freely and optimally allocate their own resources. In this way the policy instruments relieve the economy casu quo the SMEs of the negative supply side effects of taxation. The policies could be perceived as 'negative-negative', i.e. positive, stimulatory policy from a political perspective, as taxation results in negative supply side effects regarding private enterprise and the reduction (hence negative) of taxation therefore diminishes the effect. From an analytical standpoint the fiscal policy is rational in nature, as the objective is exactly to soften the tax burden upon SMEs.

Policies with respect to the informal economy consist of legal policy instruments, which aim to practically affirm the rules and regulations of doing business, such as compliance with licensing and the payment of taxes. This includes a communicative aspect to the policy line. It constitutes both institutional and operational policy as the rules of the game are affirmed and the relevant agencies are instructed to carry out the law. Politically the policy is regulatory in nature and analytically cultural and constitutional aspects apply, as a shared meaning of properly doing business and policy as rules are communicated.

Self-employment policy involves economic instruments, which assist the self-employed via fiscal facilities and via information and advice facilities. There is a legal

aspect in this policy line as some instruments aim to level the legal entitlements of the self-employed to social facilities with how other businesses are treated. The instruments are tactical as resources are distributed toward the self-employed; politically distributive and redistributive aspects apply to the fiscal and support facilities respectively. The policy is rational in nature as self-employed are both seen as a vulnerable and promising economic group.

Deregulation consists of legal instruments that aim to lift unnecessary and burdensome regulations, which disproportionately burden SMEs, for example because SMEs tend to lack specialized staff for rules and regulation compliance. Deregulation involves institutional policy as the rules of the game are revised; politically deregulation involves exploratory policies as two commissions were put in place to study a deregulation test and the administrative burden respectively. Additionally deregulatory policies were in place as regulations in many areas were simplified or discarded. Analytically deregulation policy involves a rational approach, as the objective is to soften the regulatory burden upon business and the government as the compliers and enforcers respectively. It also involves the institutional approach as some of the instruments introduce a test of current and future regulations proposals, which constitutes policy as rules by the government on the government.

Regional and local policy predominantly involved communicative instruments with an operational intention; lower aggregation levels of government become responsible for adequate facilities at the local and regional level. The central government provides these administration levels with research-based guidelines on how to regulate and license business establishment. Additionally the central government will play a facilitatory role in bringing together business, education, research, and local governments. The approach is institutional in nature in order to make the institutional framework more conducive for efficiency and exploiting the degree of scope of activities such a framework can cover.

In addition, the *Functional Policy* consisted of education, establishment policy, financing policy, information provision and advice policy, technology policy, trade and subcontracting policy, and export policy. The policy line involves promoting entrepreneurship in (vocational) high schools and intensifying entrepreneurship courses for incumbent entrepreneurs in cooperation with the business organizations. The creditworthiness criterion of the Establishment Act is dropped and the Act was to be evaluated in 1988 in which abolition, reform, and maintaining the Act would be considered as the three policy options. The financial and fiscal facilities as-is are considered satisfactory; the evaluation of the Loan Guarantee/Credit Decision 1985 is economically favorable but procedures are complex and take too long. This is why the Loan Guarantee 1988 will be implemented in which banks carry out the facility, start-up facilities are extended, and the unemployed credit facility is taken into the general Loan Guarantee procedure. With respect to their information provision businesses themselves are responsible. SME policy is supplementary: it provides a general supply-subsidized facility and a demand-subsidized facility for specialist advice; the subsidies for management assistance are extended and Innovation Centra information provision is increased. Generally, the central government aims to decentralize information and advice provision to the regional level. As outsourcing by big(ger) business is becoming a trend an Action Program will be implemented to facilitate this transition. For export policy the EVD plays an important role in information and advice provision.

The policy line was predominately economic in nature, except for the Establishment Act policy initiatives, which are legal in nature. The policy line involved incremental institutional, tactical, and operational policies; the rules of the game are proposed to be amended via the Establishment Act, functional policies are targeted at the facilitation of SMEs, and central and regional agencies are instructed with new and reaffirmed guidelines. Politically a wide range of instruments surface: distributive fiscal policies, redistributive subsidies, deregulatory Establishment Act amendments, facilitory Loan Guarantee reform, and stimulatory education and information and advice initiatives.

Overall the rational approach is applicable, which echoes the statements made by secretary of state Van Zeil in the 1982 notes.

With regard to start-up policy Ruim Baan voor Ondernemen addresses financing, fiscal facilities, information provision, advice and assistance, education, technology, business housing, employment provision, and deregulation, as discussed above.

Ruim Baan voor Ondernemen; Loan Guarantee and Establishment Act

The note describes the Establishment Act as a policy effort to set minimum requirements for business start-up in the 1930s, when a lot of unemployed fled to self-employment without having sufficient knowledge and financial means. Keeping the incapable out of the SME sector was the initial policy objective of the Act. Later the policy makers perceived the opportunity to manage business entry vis-à-vis market capacity. The 1954 version of the Act involves the same management model but emphasized the quality aspect of business entry. In 1971 the numerous establishment resolutions with regard to the retailing sector were put into the Establishment Act Retail.[32]

While the Establishment Act sets requirements for market entry, financial policy aims to alleviate barriers to the capital market. Taking into consideration the advices of the RMK and WRR the government aims to promote the formation of risk equity among SMEs by means of (partly) guaranteeing commercial bank loans.[33] The note mentions several procedural inefficiencies of the KMKB, which were identified in the 1986 evaluation. The recommendations resulted in a one-stop shop set-up by letting the banks carry out the facility.[34]

PTE analysis of the Loan Guarantee

The basic policy theory of the Loan Guarantee as described in Ruim Baan voor Ondernemen remained the same as expressed in previous notes. The 1986 evaluation of the facility yielded recommendations for technical improvement for both policy efficiency, i.e. the relationship between policy input and policy output, and policy effectiveness, i.e. the relationship between policy output and policy outcome. However, no behavioral mechanisms or warrants are mentioned that make the policy effectiveness relationship explicit. We have to concur that the relationship between the new policy output and the creation of a capital market that better serves small businesses–as the desired policy outcome–is implicitly there, but warrants for the relationship between policy output and net economic growth and net employment creation are simply lacking.

[32]EZ (1987), *Ruim Baan voor Ondernemen*, pp. 57-58.
[33] Ibid., pp. 61-62.
[34] Ibid., pp. 62-63.

PTE analysis of the Establishment Act

Ruim Baan voor Ondernemen provides an overview of the assumed policy effects of the Establishment Act.[35] The qualitative part of the Act, i.e. the establishment requirements regarding occupational knowledge and general aspects of entrepreneurship, influences economic growth in a positive manner. The policy makers expect that the qualitative aspect promotes a more skilled, rational, and efficient business operation resulting in a lower business failure rate. The influence of the quantitative aspect of the Act, i.e. the entry barrier, on economic growth is more difficult to determine. On the one hand the entry barrier can restrict unhealthy competition by one-day flies. On the other hand the policy makers argue that high and manifold entry barrier can hamper healthy economic development, not only among start-ups but also among incumbents that want to expand their activities into other adjacent markets where other establishment resolutions are in place.

According to the logic of the policy theory, we deduct, healthy economic development does not include the entry of short-lived enterprises. However, the policy makers do not merely value the detailed scheme of establishment resolutions merely in a positive manner. The Act could be focused more on entrepreneurial skills rather than occupational skills, which can be promoted by means of subsidized courses or private recognition arrangements rather than a complex scheme of establishment resolutions.[36]

Resolutions should be less restrictive, more global and should promote development opportunities for SMEs. As the Act is being evaluated three possible scenarios are considered: (1) the Act as-is; (2) a simplified Act; (3) the abolition of the Act. The self-regulating ability of the market as an alternative to the Act as-is was being studied when the note was published.

The note questions the policy outcome of the Establishment Act. It explicitly questions the relationship between the Act as the policy output and the business environment for start-ups and incumbents as a result, i.e. the policy outcome, of the Act. The note does not point out specific behavioral mechanisms or warrants for these assumptions other than implicitly stating that obstacles of doing business result in higher costs of doing business and therefore results in less business.

Although we study the history of the Establishment ex post facto, the attitude of the note expresses the preference for either simplification of the Act or abolition of the Act. Interviews with policy makers suggest that the idea of the abolition of the Establishment Act had been present as early as the late 1970s.

2.4 Werk door Ondernemen (1995)

Werk door Ondernemen focuses on employment creation as its main value. The norm it sets for the Dutch economy resulted in the conclusion that SME potentialities were not fully exploited, as the number of employment creating businesses lags while the labor force increased. This constitutes a market failure–although the word is not used in the note–which could be addressed by means of policy as the characteristics of (high) growth SMEs can be operationalized and promoted by policy.

The Gazelles or high-growth businesses capture one third of the gross employment growth while they constitute only 5-10 percent of the incumbent

[35] Ibid., pp. 58-59.
[36] Ibid., p. 59.

businesses. Moderately growing firms and new firms are each responsible for another one third of job creation. Often Gazelles are SMEs and they can be characterized as being flexible toward market change, thus having a deliberate market orientation, while combining a relative focus on R&D and export of their products.

The combined norms and values result in the operational objective to exploit the employment potential of the SME sector. The policy note approaches this objective in a threefold manner: via increasing room for entrepreneurship in general, and increasing room for start-ups and high-growth businesses in particular.

Five operationalized policy themes are targeted in attaining the three policy lines: (1) Fiscal facilities, (2) Deregulation, (3) Quality of Entrepreneurship, (4) Labor, and (5) Finance.

The fiscal facilities concern fiscal aspects of internal finance of business activities, i.e. to what degree businesses can preserve their income or lower the labor or capital costs of doing business vis-à-vis taxation. The policy theme also concerns fiscal aspects of external finance policies, which concerns tax breaks for private/non-banking system financing of business activities. Just as in the previous notes, fiscal facilities are economic instruments to influence the behavior of economic agents. Tax breaks are perceived as subsidies for certain behavior as these tax breaks are targeted at specific groups. In this sense the fiscal facilities constitute tactical policy that facilitates certain behavior; the rational approach applies.

The deregulation policies concern a reduction or simplification of legal compliance requirements regarding shop closing times, administrative burden, zoning within the Big Cities, establishment act reform, and a policy that facilitates the transition from unemployment to self-employment. The reduction (in number or comprehensiveness) of these legal instruments constitutes institutional policy as policy makers aim to change the rules of the game of doing business. Politically deregulation constitutes the reduction of policies that compel economic agents what to do and what not to do, converting the opportunity costs of compliance into more economically productive business activities. Analytically, deregulation policies constitute a rational approach, as the objective is to obtain a more flexible business environment and to reduce the (economic and non-economic) costs of carrying out these regulations.

The Quality of Entrepreneurship policy line concerns/ed the set-up of agencies that deal with the support of start-ups and (high-)growth businesses. The institutional policy that underlies it allocates certain tasks and responsibilities that are not sufficiently provided through private voluntary exchange and goods and services provision. Several political aspects can be associated with the policy line: firstly the policy line constitutes a political vision in which entrepreneurship is made more broadly attainable including underprivileged start-ups, immigrants, and restarters; (high-)growth businesses are provided with Ondernemingshuizen: these include business housing locations in which businesses can run their business and network, and/or one-stop shops were they can obtain information and advice support. Secondly and thirdly, the policy line involves facilitory and stimulatory measures with respect to entrepreneurship. The regional support coordination, the experimental projects aimed at underprivileged start-ups, the expertise center for foreign entrepreneurship, and the Ondernemershuizen constitute institutions that carry out the tasks that involve the political vision and the facilitory and stimulatory aspects of the policy: constitutory policy. The policy line can be characterized as policy using the rational approach although the political vision constitutes a cultural approach component in

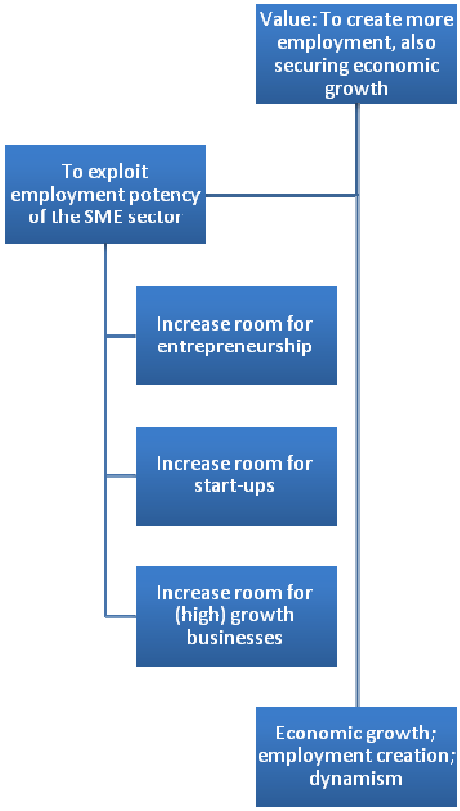
which shared meaning on the desirability of widespread attainability of entrepreneurship is promoted.

The labor policy line, aimed at promoting entrepreneurship in general, predominantly consists of fiscal–and thus economic–instruments that constitute tactical policy to relieve businesses from government imposed taxation on labor, which hampers employment creation and the willingness of businesses to expand and grow. It constitutes redistributive policy as resulting lower labor costs leave money within the business, which would otherwise have flown to the government as taxation. Labor policy here also constitutes stimulatory policy as business expansion is promoted via tax reduction. The rational approach is taken.

The finance policy line concerns internal and external finance instruments, which are economic instruments that constitute tactical policy distributing resources into the hands of nascent, starting, and incumbent SMEs. The policy line involves distributive, facilitory, and stimulatory political aspects, which are approached rationally: to promote entrepreneurship sec.

For an overview of the program theory at the program level, see figure 3.

Figure 3 Program Theory at the program level (1995)



Werk door Ondernemen: Loan Guarantee and Establishment Act

The note proposes policies that would create employment by entrepreneurship policy. The policies are categorized by means and target group, i.e. fiscal facilities, decreasing regulation, quality of entrepreneurship, labor, financing and entrepreneurship in general, start-ups, (high) growth businesses respectively.[37] The contexts of the policies are several perceived economic and social trends related to SMEs and entrepreneurship and the significance of SMEs for employment creation.[38]

The policy makers observe an increased attention for entrepreneurship related to several societal, economic, and technological developments that led to increased opportunities for small-scale economic activities.

Societal individualization has led to changed consumer preference. Consumer demand has become more and more diversified and production markets have followed this trend. Small-scale production tends to be more flexible to meet diversified demand patterns.

Big business have increasingly withdrawn to core activities and outsourced production processes, which led to opportunities for new and incumbent SMEs. The integration within the structure of production, i.e. integration between bigger and smaller businesses has increased dramatically.

Western economies have evolved more and more into service economies. Services tend to be provided by smaller businesses than industrial production businesses, which have led to an increase in the number of SMEs.

Supply-wise, technology and especially automatization and information and communication technology that decrease in price set the stage for small-scale production and service provision.

The shortened life cycle of products has led to a relative increase of R&D costs, which has led to cooperation and scale enlargement. On the other hand the process from product development to product distribution has increasingly scattered in parts. Combined with globalization of capital, resources, labor, and knowledge SMEs are increasingly able to operate in a world market.

In terms of employment creation SMEs have contributed much to the Dutch economy, as 50% of production and 58% of employment is accounted for by SMEs. SMEs as a group created more jobs than bigger businesses between 1986 and 1995. Start-ups create one-third of the new jobs, while of incumbent businesses create two-third of the new jobs. So-called Gazelles, i.e. high-growth businesses, create half of the jobs created by incumbents.

The policies are aimed at promoting business start-ups, assisting Gazelles to grow even more and faster, and providing facilities to stagnant incumbents in order to create more Gazelles.

If obstacles to starting up a business, growing an existing business are lifted the different groups of SMEs will be able to create more jobs than otherwise would have been the case. These obstacles involve five categories, related to the policy means. (1) Fiscal facilities to increase the rewards of successful entrepreneurship and to increase the capabilities of businesses to internally finance new activities and investments; (2) Reducing dynamism restricting rules and regulations related to

[37] EZ (1995), *Werk door Ondernemen*, p. 6.
[38] Ibid., p. 10.

business start-up and business growth; (3) Increasing the quality of entrepreneurship by which the opportunities for the development of new products and markets will be better exploited; (4) Decreasing the costs and increasing the flexibility and quality of labor; (5) Increasing the possibilities for externally financing new and existing businesses.[39]

PTE analysis of the Loan Guarantee

The loan guarantee facilities involve category (5) mentioned above. A thorough study of the note yields no behavioral mechanisms and warrants for the loan guarantee facility, i.e. the BBMKB. The note does mention that long term bank financing suffers from a lack of security, e.g. collateral, and incapacity of businesses to pay principal and interest in the first years. The BBMKB serves as a solution to the issue. However, the BBMKB as a loan guarantee facility is not always sufficient according to the policy makers.[40] Even when the BBMKB guarantees half of the loan, banks are sometimes not eager to take on the loan because businesses cannot provide securities. This restricts the financing possibilities for businesses.[41] For innovative businesses two-third of the principal will be guaranteed by the facility; the repay duration will be increased from 6 to 12 years, which decreases the repay burden; in the first three years there exists no obligation to repay the parts of the principal or interest. As the maximum principal of the loan guarantee is 1 million gulden and a relatively large share of the guarantees are maximum guarantees it reflects a constraint on the financing needs. The maximum loan guarantee will therefore be extended to 2 million gulden.

As observed earlier the policy documentation merely reports on the technicalities of the policy output. The causal link between the policy output and the policy outcome is simply taken for granted, while the desired policy outcome is not made explicit. Of course we can assume that because the BBMKB is placed in the financing category and the (high) growth target group it is assumed that the BBMKB promotes employment creation among (high) growth businesses, but the link is not documented, based on social science or made explicit. There are neither behavioral mechanisms nor warrants mentioned that link the policy output, i.e. the BBMKB as a government service for SMEs, with the policy outcome, i.e. more employment creation than otherwise would have been the case and economic growth.

PTE analysis Establishment Act

Reflections about changing the Establishment Act mainly involve category (2) and not category (3) of the categories mentioned above. This appears to be a policy theoretical shift as modernizing the Establishment Act aims fully at reducing restrictions for the dynamism of start-ups, the administrative burden, the Shop Closing Law, and deregulating areas in the Big Cities[42].

Just as regarding the Loan Guarantee, the policy theoretical variables within the policy output and between the policy output and policy outcome are made explicit but not linked with one another. The policy objective of modernizing the Establishment Act is to reduce the restrictive effect of rules and regulation on start-ups, casu quo on market dynamism.

[39] Ibid., p. 12.
[40] Ibid., p. 21.
[41] Ibid.
[42] Amsterdam, The Hague, Rotterdam, Utrecht.

Werk door Ondernemen reports on the modernization effort that involves a reevaluation of the quality of business start-ups and free entry.[43] Because the modernization effort involves negative policy, i.e. lifting rules and regulations altogether, it is easier to perceive the relationship between the policy output casu quo the Establishment Act and the policy outcome casu quo a business environment wherein business start-ups can more easily enter the market. But this does not mean that a policy-theoretic lacuna does not exist.

2.5 De Ondernemende Samenleving (1999)

The general policy theory thesis in De Ondernemende Samenleving implies that operationalized policy objectives A-C result in the values sought I-V (see figure 4), which constitutes a more entrepreneurial economy. Vis-à-vis other notes the policy theory is turned upside down, as the values sought now constitute the general policy objective: a more entrepreneurial society, which is defined as 'fewer obstacles and more opportunities for entrepreneurship'. The causal relationship between policy and policy objectives is loosely assumed but not seen as a strict guideline. The quantifiable general economic policy objectives are implicitly put aside and more qualitative and less quantifiable values are perceived as the ultimate objective.

A policy maker interviewed for the present report noted that when policy adheres to these values economic growth, employment creation, and dynamism are a logical consequence. The policy note implicitly submits to the notion that it is impossible to predict precisely and quantitatively the consequences of (economic) policy. This approach flies in the face of the dominant interpretation and development toward public accountability, which de facto means that every ring in the logical chain of policy theory–both input and output–should be quantifiable and accounted for.

The Good Market Order policy line addresses two historical pillars of Dutch regulation: the Establishment Act and the Bankruptcy Law. Regarding the Establishment Act the note proposes and schedules the partial and then complete abolishment of the Act in 2001 and 2007 respectively. It constitutes negative legal policy with an economic intention: to lift the adverse effects of obstacles to start-up a business. Analytically the abolishment initiatives involve a rational approach as the policy theory has shifted from positive to a negative effect on the economy as a whole. The institutional change involved should make the Dutch regulation framework–in general–more conducive for entrepreneurial activity both qua start-ups and high-growth businesses.

The Bankruptcy Law has been a predominantly legal instrument, but as its economic effects seem to be unsatisfactory policy makers aim to amend the Law in a way that yields better economic effects. These more favorable economic consequences involve attaining more business transfers and continuations rather than bankruptcies.

The Adequate Regulation policy line involves the so-called MDW[44] operation, which reviews new rules and regulations. The review constitutes an ex ante evaluation of

[43]Werk door Ondernemen, p. 18.
[44]Marktwerking, Deregulering en Wetgevingskwaliteit [Market Process Regulation, Deregulation, and Quality of Law].

new rules and regulations qua effects on business and institutional framework and the manageability and feasibility from both a business compliance and policy execution perspective. The policy line involves legal, economic, and communicative instruments as the legal framework regarding business is reviewed and amended in order to diminish the negative effects of regulation compliance. Also the stimulation policies are streamlined in order to communicate more efficiently what businesses ought to comply to and what assistance business can obtain from government. In this manner the policy line is institutional and operational in nature as the rules of the game are amended and public agencies receive new instructions regarding regulation and compliance. This rational approach aims to promote entrepreneurial activity via less government monitoring and control.

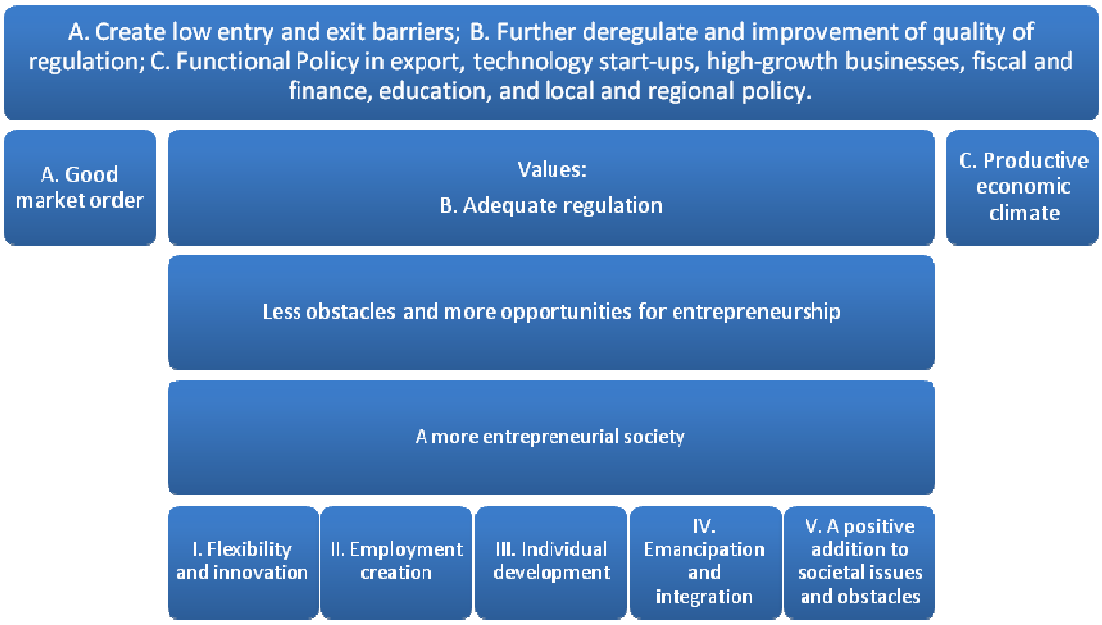
The Productive Economic Climate policy line involves six specific policy areas: finance and fiscal facilities, education, local and regional policy, new markets, fast growing businesses, and technology start-ups. The set-up of the policy note with the two previously discussed and the current policy line resembles the earlier distinction between integration and functional policy.

The policy line consists of policy instruments with legal, economic, and communicative aspects. The finance and fiscal facilities are predominantly economic instruments. The fiscal facilities promote capital accumulation, which makes businesses more eligible for loans. Secondly, the fiscal facilities promote investments with favorable depreciation possibilities, while tax reductions on R&D activities promote innovation. Thirdly, business transfer is fiscally encouraged, just as business mergers. Fourthly, a technology rating, which is a communicative instrument, is aimed to make the demand for capital more transparent. Fifthly, the Unemployment Assistance Credit facilitates business start-ups among the unemployed. Sixthly, Syntens focuses its operations on matching informal investors with (nascent) entrepreneurs.

Qua education policy communicative instruments are implemented in order to promote entrepreneurship as an alternative for wage employment. The local and regional policy efforts focus on the legal instruments, which hamper economic activity and business establishment. The new markets policy evolves around the promotion of export activities in which public agencies and commercial banks cooperate. A similar approach is conducted regarding high-growth businesses and technology (start-up) businesses; economic institutional instruments are put in place that involve a number of private and public parties, which coach and use network initiatives to provide these businesses with information, skills, and capital. The policy instruments regarding technology (start-up) businesses are applied at the regional level involves higher education institutions, Chambers of Commerce, Syntens, Regional Development Agencies.

All these instruments involve tactical policy distributing resources to the most valued ends; politically these instruments are facilitory and stimulatory with a rather rational approach as the policies reflect the assumed determinants of entrepreneurship. For an overview of the program theory at the program level, see figure 4.

Figure 4 Program Theory at the program level (1999)



De Ondernemende Samenleving: Loan Guarantee and Establishment Act

The note addresses the social economic development of the past decades in which (1) entrepreneurship gained attention, (2) 90% of the Dutch population stands favorable with regard to entrepreneurship, and (3) more than 100 businesses are started daily. On the other hand, by international comparison the Dutch economy has relatively few start-ups, relatively few innovators, and relatively few growing businesses. Entrepreneurship is deemed important because it fosters flexibility and innovation, creates employment, promotes self-development, promotes social emancipation and integration, and can augment sustainable business. Three policy themes operationalize these desirable consequences of entrepreneurship: (1) market regulation, (2) regulation and public service provision, and (3) create more opportunities by means of a productive business climate.[45]

The Establishment Act is part of the first theme; the Loan Guarantee is part of the third theme.

PTE analysis of the Loan Guarantee

The policy makers state that they will increase SMEs' possibilities of obtaining risk-bearing capital by expanding the size of the guarantee fund and by developing a rating tool for the assessment of investment projects.

The note observes that bigger businesses can more easily finance their activities than smaller businesses because of (1) information asymmetry between financiers and small businesses and start-ups: the former cannot easily and cost-

[45] EZ (1999), *De Ondernemende Samenleving*, pp. 2-5.

effectively determine the risk-reward profile of businesses without a track record or experience with external financing, the latter are often not experienced with external financing and do perceive the full potential of exploiting the capital market. (2) Small businesses need relatively little financing while the assessment and management costs of financers are relatively high. (3) Young businesses and (high) growing businesses often lack the collateral demanded by external financers.[46]

Bank loans dominate SME financing partly because SMEs are not aware of alternative financing channels, want the application process to be quick, and do not want to lose independence (to e.g. private investors). While the unawareness of alternative channels of financing may not be a problem for most start-ups–because the alternatives simply do not exist or are unattractive–alternatives to bank financing are essential for seeders, techno start-ups, and gazelles.[47]

Research shows that banks deny 13% of loan applications. Half of the 13% attain financing via alternative channels and get the loan they desired or more. One-fourth ceased seeking alternative financing; the remaining one-fourth attained less external alternative financing than desired.[48] In our opinion this shows that despite natural financing barriers, the capital market works pretty well.[49]

To promote SME financing, especially for start-ups, the Loan Guaranteed fund is increased in cooperation with the European Investment Fund (from 850 million to 1 billion Guilders).

PTE analysis of the Establishment Act

The note states that by January 1, 2001 the Establishment Act and its resolutions will be withdrawn with the exception of health, environment, and safety requirements. These requirements will be put into law where after by January 1, 2006 the remainder of the Establishment Act will be abolished.

The January 1, 2001 decision is based on a 1998 evaluation of the Act[50], which concluded that it constitutes no effective, efficient, and necessary means to promote entrepreneurship quality both regarding business entry and among incumbents. Furthermore the abolishment of the Act would increase the amount of start-ups and dynamism without negative indirect consequences.

The continuation of the modernization of the Establishment Act in the form of abolishment concludes the shift in perception regarding the Act. The view that the Act is a necessary check on quantity and quality of new entrants has been replaced with the view that the dispersed costs of direct and indirect consequences of entry requirements are higher than the concentrated benefits. While the modernization efforts regarding the SME Instrumentarium were aimed at policy efficiency (input-output), the abolishment of the entry requirements was aimed at policy effectiveness (output-outcome by taking away the input).

The warrants for the change in policy theory regarding the policy effects of the Establishment Act were based on an evaluation study, which theoretically studied the effects of the Act, the empirical effects of relaxing the entry requirements on business

[46] Ibid., p. 32.
[47] Ibid., p. 36.
[48] Ibid.
[49] As 'pretty well' does not constitute a very scientific valuation, we stress that the valuation is subjective and policy makers are perfectly entitled to perceive a policy problem, i.e. a discrepancy between values and norms, in these decline numbers.
[50] Bakkenist Management Consultants (1999), *Evaluatie Vestigingswet Bedrijven 1954: Hoofdrapport*, Diemen.

entry, and the counterfactual effects if it would not have been in place. These observations seem plausible.

2.6 In Actie voor Ondernemers (2003)

In Actie voor Ondernemers focuses on relieving businesses of obstacles in the regulatory without the elaborate framework on how to attain an entrepreneurial society as in De Ondernemende Samenleving. Therefore 29 of the 43 'actions' are policies that aim to influence the incentive structure of start-ups, incumbent SMEs whether they be (high-)growth, technology or innovative businesses, and businesses that are transferred or discontinued.

The central value of the note is more and better entrepreneurial activity; the norm–implying the way to connect the final relationship with the normative relationship–is a business climate in which less obstacles and rules and regulations exist vis-à-vis the status quo. In Actie voor Ondernemers has adopted the target group policy method, which had been introduced explicitly in Werk door Ondernemen: policy is aimed at start-ups; (high-)growth, technology, and innovative businesses; and businesses dealing with bankruptcy, discontinuation or transfer of ownership. Instead of De Ondernemende Samenleving's more elaborate policy objectives associated with economic growth, employment creation, and dynamism In Actie voor Ondernemers targets these three general economic policy objectives more directly.

In Actie voor Ondernemen addresses the three target groups by seven action lines: three for start-ups, two for (high-)growth et al. businesses, and three for bankruptcy, discontinuation, and business transfer; start-ups and (high-)growth et al. businesses share one action line.

Start-ups are addressed by means of I. An entrepreneurial culture, II. Better position for start-ups, and III. Transparent rules, public service provision. Growth-businesses are addressed by means of I. Creating a better and safer business climate and II. Transparent rules, improved public service provision.

Bankruptcy, business discontinuation and transfer are addressed by means of I. Facilitate business transfer; II. Improving procedures for debt restructuring; and III. To take away bottlenecks for family businesses.

The start-up *I. An entrepreneurial culture* policy line contains communicative instruments that aim to improve the awareness of entrepreneurship as a viable alternative for employeeship under students of middle and higher education. It adheres mostly to the tactical policy category as resources are distributed to communicate with a specific group in society, i.e. students. Politically the policy line deals with the stimulation of awareness of certain knowledge, which should lead to particular behavior: more business start-ups among students than otherwise would have been the case. Analytically, the policy line is both rational and cultural qua approach; the objective is simply the promotion of entrepreneurship awareness among public education students and to create a shared meaning on the social economic importance of entrepreneurship by providing information and organizing promotion events.

The *II. Better position for start-ups* policy line contains economic instruments, which among other things aims to increase the availability of start-up capital, improving informal capital provision networks, ethnic entrepreneurship monitor report to be integrated in the Big City Policy, and instruments aimed to lift obstacles for technology and innovative start-ups. These policies constitute tactical policy as the

distribution of resources is engineered in a way that facilitates start-ups. Politically, the policy line contains distributive, redistributive, and stimulatory aspects where respectively fiscal instruments, subsidies, and promotion of entrepreneurship are involved. Analytically, the rational approach is applied to the policy line: a mix of different instruments is aimed to create a better position for nascent entrepreneurs to act and start a business.

Thirdly, the *III. Transparent rules, public service provision* involves legal instruments, which aim to reduce the administrative burden; align the definition of entrepreneur among public agencies for social security and tax reasons; the improvement of information provision; and to give more attention to the government as a customer of SMEs. The first two instruments are legal instruments that aim to reduce or soften the grasp of the legal system upon businesses; the latter two instruments are economic instruments that aim to communicate entrepreneurship information and create equal opportunity for SMEs to gain the government as a customer respectively. The legal instruments constitute institutional policy that politically involves negative regulatory policy–changing the rules of the game in the favor of start-ups–while the economic instruments constitute tactical policy distributing resources in order to stimulate start-up SMEs. The objectives to deregulate and improve public service provision both when the government is the supplier and the consumer involve a rational approach.

The Growth *I. Creating a better and safer business climate* policy line addresses doing business in general by aiming to create a better and safer business climate. Criminal activity regarding businesses and business areas is addressed. The availability of labor is addressed and international entrepreneurship, i.e. international trade, is stimulated. Investigations are set out to make the labor market more flexible.

The instruments are therefore both legal and economic as labor legislation is evaluated vis-à-vis the economic consequences of reforming the legislation, which makes it institutional policy. Politically the instruments are negative constitutory as institutions are reformed and agencies are lifted of enforcing certain laws. The instruments are rational in approach as the objective of making the labor market more flexible in order to streamline the labor aspects of doing business is taken head-on.

The Growth *II. Transparent rules, improved public service provision* policy line concerns predominantly legal instruments as the administrative burden is addressed, the feasibility of rule-free business zones are studied and the policy makers investigate whether the BV legal structure (private limited liability company) can be simplified. These instruments involve institutional policy as the (legal) rules of the game are amended toward a more flexible and dynamic business climate. While the instruments are predominantly deregulatory in nature it also communicates a vision of a more deregulated economy, which signifies both the realization that it might be helpful for government to get out of the way of wealth creation by business and the notion that putting regulation into law backfires into a legal framework that cannot easily be retracted and might have unintended consequences related to the problem that allegedly had to be controlled. In that sense the instruments are also somewhat communicative in nature, which echoes the title and theme of the note: (practical) (observable and thus accountable) actions for entrepreneurs. Analytically the instruments are then both rational and cultural in nature; the objective is to alleviate the SME sector of (an economy-wide negative-sum game) unnecessary regulations in order to promote entrepreneurial activity, while at the same time the instruments

communicate a shared meaning of rules and regulation and the economy among the government and the business sector.

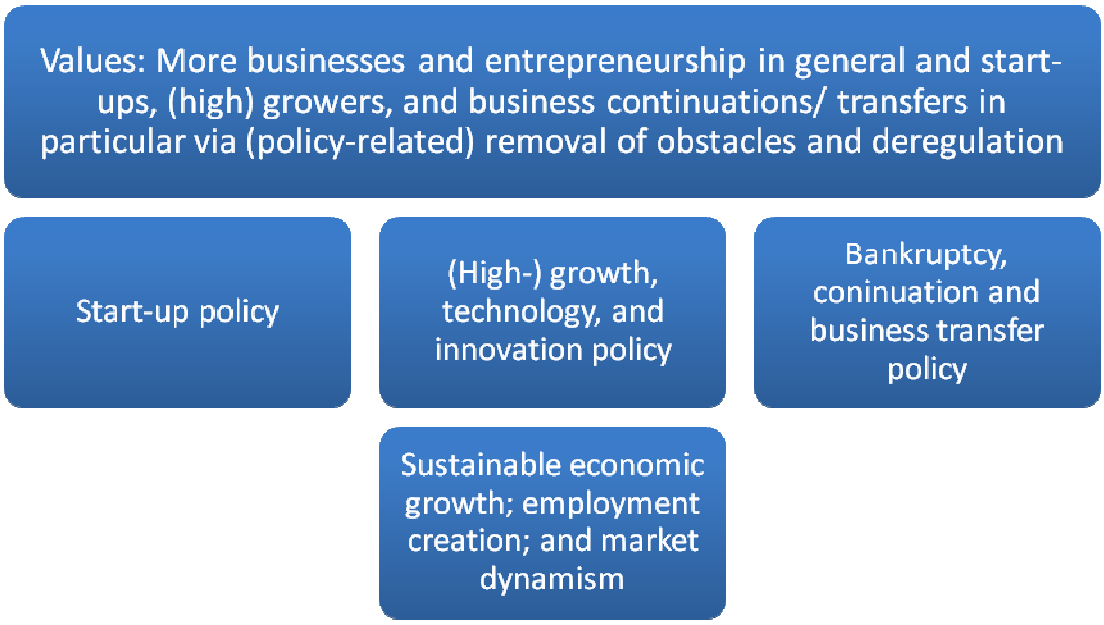
Bankruptcy, business discontinuation and transfer are firstly addressed by means of *I. Facilitate business transfer*, which predominantly concerns communicative policy in the economic casu quo preference, decision-making process, and information facilitory and stimulatory sphere. The instruments aim to increase awareness of latent entrepreneurs and incumbent businesses to the alternative of business transfer rather than starting-up or expanding a business. A toolkit is developed to inform and assist these entrepreneurs; additionally a report is prepared that covers the fiscal aspects of business transfers. Tactical policy seems to fit best, as resources are distributed toward informing and assisting latent entrepreneurs about business transfer as a viable alternative for starting-up or expanding a business. The policy is thus pretty straightforward rational qua approach with a cultural aspect of shared meaning on what SME business transfers might mean in a dynamic economy.

Secondly bankruptcy, business discontinuation and transfer are addressed by means of *II. Improving procedures for debt restructuring*, which involves a policy instrument that deals with the improvement of the insolvency system. The policy instrument constitutes is an economic instrument with a legal background, which involves institutional policy aiming to improve the legal rules of the game regarding business insolvency. Politically, it is a regulatory instrument with a rational approach: streamline the insolvency system making it more conducive for wealth creation involving the interests and (proxy) property rights of the parties involved.

Thirdly bankruptcy, business discontinuation and transfer are addressed by means of *III. To take away bottlenecks for family businesses*, which deals with networks, internationalization, and information provision regarding family businesses. Family businesses prove to be a stable wealth-creating factor in a developed economy. By means of the rationale, “promote what works,” the government aims to promote the activities of family businesses. The instruments are economic and tactical in nature and politically stimulatory. The objectives are as described and straightforward; it constitutes a nit bit of cultural policy as the instruments communicate the valuation of family businesses; to create a shared meaning on the phenomenon among government and the public.

For an overview of the program theory at the program level, see figure 5.

Figure 5 Program Theory at the program level (2003)



In Actie voor Ondernemers: Loan Guarantee and Establishment Act

The note describes entrepreneurship as the mentality and the process by which in a new or existing organization economic activity is created and developed. It arises through a mix of: taking risks, creativity, innovation, and healthy management. Entrepreneurship exists in every sector and kind of business. The term applies to self-employed and businesses of any size and in any stadium of the life cycle of a business.[51]By increasing economic dynamism the cabinet tries to sustain and enhance the competitive power of the Dutch economy. Important criteria for entrepreneurship are the number of start-ups and the performance of incumbent businesses.[52]

Additional policy measures regarding the Loan Guarantee focuses on start-ups. The Establishment Act is not mentioned, as the two-step abolition process as described in De Ondernemende Samenleving has not changed.

PTE analysis of the Loan Guarantee

The note focuses on the start-up facility within the Loan Guarantee, which readdresses the obstacles regarding start-up financing. We can deduce that the obstacles regarding incumbent SME financing, including (high) growth businesses were considered less important in a Loan Guarantee context. Growth businesses were addressed via the Special Financing Arrangement that involved 79,411,000 Euro each year in the 2004-2007 period.

In order to promote external financing among start-ups via the Loan Guarantee facility, the policy makers dismiss the banks from the obligation to provide so-called

[51] EZ (2003), In Actie voor Ondernemers., p. 9; translation by the present author.
[52] Ibid., p. 6.

secondary securities with regard to start-up loans. This decreases the handling costs of loans less than 100,000 Euro. The measure should lead to an increase in the provision of start-up loans within the yearly Loan Guarantee budget, which had been 37% in the year 2002.

The yearly Loan Guarantee budget remained at 1 billion Guilders, the total guaranteed fund involved 2.8 billion Guilders (1.3 billion Euro) in 2002.

The policy makers do not explicitly point out, e.g. by means of behavioral mechanisms or warrants, how an increase of start-ups with a guaranteed loan will lead to sustainable economic growth and employment creation. This constitutes a policy theory lacuna.

PTE analysis of the Establishment Act

Remarkably, the Establishment Act is not mentioned in the note, but once. The bottleneck list created by EIM[53] states that the flexibilization of the establishment requirements resulted in a decrease in the quality level of entrepreneurship. Given the PTE analysis of the previous notes, and the assumption of consistency, this policy outcome probably would not be considered a bad thing. A decrease in the quality level of entrepreneurship constitutes a wider range of consumer choice, as goods and services of lower quality will be priced lower as well. When these low quality businesses survive this indicates a consumer demand for lower quality goods and services. Additionally, a decreasing quality of the average entrepreneur does not entail a decreasing quality of overall entrepreneurship, as the more flexible establishment requirements might lead to a wider distribution of entrepreneurial quality, i.e. more divergences from the average. Furthermore, while the flexibilization of the establishment resolution has resulted in a lower average in quality this does not take into account the gains yielded from unburdened successful entrepreneurs, which might not have been as successful when the original establishment requirement would still have been in place. To conclude, a lower quality in the average entrepreneur does not constitute a policy problem–at least with the policy theory regarding the Establishment Act of the early 2000s–that has to be overcome.

Still it would have been more prudent from a science-based policy perspective when the policy makers had reported on the progress of the two-step abolition of the Act.

In part 3 we focus on the policy effects of the Establishment Act and the Loan Guarantee. First we describe and analyze general policy theory assumptions that relate to these two policy instruments. Then we analyze fiscal, financial, and deregulation policies. In section 3.4 we recapitulate the policy theory of the Establishment Act and the Loan Guarantee and apply the previous knowledge to the PTE of these policies.

[53] EIM (2002), *Knelpunten voor ondernemerschap in Nederland*, EIM: Zoetermeer.

3. A program view regarding the policy theory-policy effects relationship

3.1 Introduction

Here we discuss the policy assumptions that have been in place at the program level. We analyze these assumptions in a fashion that can be called an impact model analysis. First, we distinguish between three types of general policy theory assumptions. Next, we discuss the implied policy effects of a number of specific policy instruments from a theoretical perspective. Finally, we analyze the policy implications of two policies conducted in the 1982-2003 period, i.e. the Loan Guarantee Act and the (modernization and abolishment of the) Establishment Act.

3.2Three types of general policy theory assumptions

1. If statistical data shows that X leads to more Y and Z, then enhancing X with public policy will lead to even more Y and Z.[54]

This implies that policy makers think that promoting X via policy entails the same social mechanisms that emerge in the economy spontaneously. The policy makers often do not explicate the underlying social mechanisms and they do not seem to perceive qualitative difference between emergent social mechanisms and policy induced mechanisms.

First, often one cannot determine whether the businesses that made use of a policy and because of that is able to start a business or pursue a new activity–such as R&D–would have been in the same position had the policy not existed. If this can be determined one can question whether the successful policy impact is in line with market conditions or that the start-up/new business activity constitutes overcoming policy related obstacles by putting public resources into overcoming obstacles that were funded with public resources; and thus constitutes double costs for society.

Second, policy involves a selection problem that comes natural to market selection. Both policy and market selection involves intersubjective judgment. The difference is that the judgments involved in market selection are based on dispersed knowledge. Judgments involved in policy selection imply the centralization of knowledge, which cannot account for the specific contexts the judgment applies to. Furthermore, one cannot know whether the selection is in line with market conditions, it is unknowable. This is the case because the knowledge necessary for subjective judgment emerges from the market process itself. If one constructs a selection process that is outside the market, or (either implicitly or explicitly) tries to displace the market, one does not possess the knowledge to base judgment on. Of course one can approximate the necessary knowledge (like relative prices, interest rates, selection criteria et cetera), but this seems a useless enterprise because either the market can do it better (dispersed knowledge entails dispersed costs, costs for e.g. discovery) or there may be a reason why the market cannot provide–e.g. loans for certain start-ups or new business activities.

Third, human action always involves indirect effects and consequences. So, policy involves indirect effects and consequences. The effects and consequences are

[54] X can be some operationalization of start-ups, market dynamics (the sum of entries and exits), the number of high-growth rate businesses or *Gazelles*, or qualitative phenomena like entrepreneurial activity. Y and Z can be some meso or macro aggregate like employment creation, economic growth, productivity, innovations, increased competition on price and quality et cetera.

categorizes in chapter two where we described Mises's categorization of interventionist policies. The social mechanism X → Y, Z actually describes a two-way causal relationship (which may or may not be temporary and accidental and even just a correlation). X refers to a quantitative or qualitative operationalization of human action, while Y and Z are the effects and consequences of X, which in their turn also influence X. Y and Z are both the direct and indirect results of X.

The policies that are subject of the argument are subsidies, fiscal instruments, and specific exemptions on rules and regulations that apply to businesses in general. These policies influence the market selection of entrepreneurs; the supply of entrepreneurs will tend to be higher than otherwise would have been the case.

So-called positive policies can distort the selection of entrepreneurs and their performance in a way that constitutes a net loss for the economy at large. Positive policies add to the existent policy matrix; positive policies aim to countervail existent rules, regulations, or entry obstacles caused by policy. Positive policies can also involves adding interventions in order to enhance existing policies that are considered successful. Negative policies, which involve lifting obstacles for starting a business, existent business activity, and the judgment of future market conditions tend to involve a net profit for the economy.

2. More X is always better than less X, or the X resulting spontaneously, because X leads to Y and Z, which we perceive as positive phenomena.

This policy assumption pervades the policy theory through the period studied. If we conceive X as the number of incumbent SMEs, then the ultimate conclusion would be that the entire economy should consist of only SMEs. This does not seem consistent with the economies of scale and scope concept. Some goods and services can only be produced profitably by businesses that are larger than the average SME. We may also conceive X as the number of new business start-ups.

Alternatively, the policy assumption might imply that there exists and optimum of X, which is currently not in place. The first response to that statement would be: how would one know? Of course one can pinpoint a couple of industries where substantial concentration is in place, which is due to rules and regulations that favor or even specifically legally enforce the existence of big business in these industries. Certain parts of the financial sector come to mind here. The point then is to get rid of the rules and regulation and laws that cause these concentrations in order to give opportunity for new–to be discovered–suitable structures of production. The notion that one cannot know what the optimum is–taking pragmatic institutional obstacles out of the equation for a moment, a non-precisive abstraction–is hard for policy makers and economists to accept. But it seems to be that what Hayek said in the spirit of his friend Sir Karl Popper rings some truth (paraphrase): the valuable knowledge gained by science is not so much what could be known or happen, but what cannot possibly be known or happen. In other words, science is the enterprise of pursuing negative knowledge and thus to know more about what one cannot know; to point man to its ignorance and to use that as a starting-point for action.

In absolute terms the number of start-ups was stagnating and in 1996 the number of start-ups was lower than in 1995. Additionally, the percentage of self-employed relative to the total labor force in the Netherlands was still lower than in the UK and the US. Therefore, i.e. based on these facts, Economic Affairs perceived opportunities to exploit the growth potential of start-ups (and the favorable

consequences associated with them). But this conclusion simply does not follow; the Netherlands is neither the UK nor the US. Except for the fact that the US and the UK are larger economies; the major economic activities entertained in the Netherlands are somewhat different than in the UK/US.

Another response to the optimum hypothesis could be the question why the optimum does not emerge spontaneously. Secondarily, one could pinpoint the barriers and obstacles to the emergence of such an optimum. Some obstacles and barriers, although natural–i.e. the unintended result of human actions–can be lifted by policy. However one can immediately ask what the cost of the policy and its implementation is; policy can counterfactually displace the growth of existing business or the emergence of spontaneous start-ups (that are not the direct result of positive policy).

When the proper institutions are in place there exists no objective criterion to value more X over less X when a certain amount of X is the result of this proper institutional make-up. One cannot imagine–actually great thinkers in economic thought could and led the way–how consumer demand and entrepreneurial discovery influences and indirectly–meaning not intentionally steered at the macro allocation level–directs the structure of production. As the 1982 WRR report points out, every existing business plays an important role in the structure of production for the single reason that it exists (and produces a positive return or cash flow). As North[55] points out: the more complex the economy, the more room for intermediary service providers that engage in coordination of economic activities.

Although X's maybe handy to found or report policy success it does not mean that more X is always better than fewer X; or the other way around when X is valued negatively.

Displacement as a result of public policy

Public policy is the result of centralizing dispersed non-market knowledge, so public policy constitutes an intervention in the market process and therefore does not share the fundamental characteristic of dispersed adapted human action: aiming to discover and exploit changes in consumer demand. Public policy aimed at promoting and assisting start-ups and new business activities may result in an oversupply of certain entrepreneurial activities, which may displace on another. The costs of bankruptcy, which relates to the decrease in value of capital invested as a result of the misallocation of that capital, besides the costs of the policy and the change of the structure of production that influences the actions of other entrepreneurs result in a net loss for society.

3. If X emerges spontaneously and is associated with Y (Y is valued positively), or Y is one of the characteristics of X, then it is good to promote more X.

For example, so-called Gazelles (high-growth businesses) are associated with high employment creation. That is why in Werk door Ondernemen Economic Affairs aims to exploit the employment potential of Dutch SMEs by promoting the characteristics of Gazelles among existing Gazelles and potential Gazelles. One of these characteristics is R&D. In Werk door Ondernemen R&D promoting policies are proposed in order to create more Gazelles and consequently to create more employment.

[55]North (1992).

The problem with this policy theory evolves around the assumption that the characteristics of Gazelles are causal properties of them being Gazelles. R&D could have been a factor but there are a lot of businesses that conduct R&D and do not emerge as Gazelles. This is the principle of silent evidence, i.e. we only perceive empirically what we perceive empirically; so when we perceive Gazelles we do not perceive empirically the businesses with comparable characteristics that did not emerge as Gazelles.

Therefore it does not follow that promoting R&D in the SME sector promotes the emergence of Gazelles. This relates to the first general policy theory assumption. Additionally, both the Gazelle policy aimed at current Gazelles and the innovation and technology policies may be subject of the picking winner syndrome.[56] There are many policy debates how to promote and stimulate innovation, but we know very little under which conditions innovation flourishes. What are the basic issues to address qua designing innovation institutions in the private and public sector? An important approach to policy that is commonly adopted in policy issues today is the picking winners approach. The basic idea is that comparative advantage is not static, but dynamic and it changes continuously: technology changes and it changes as the economy changes. The private sector often criticized that it relies too much on existing resources today and not preparing us for resources, goods, and services of tomorrow. The basic innovation process basically looks a like this:

1. Create; Patent
2. De-Risk; Product
3. Commercialize; Profit

The innovation process confronts policy makers with two potential policy targets: picking winners or funding basic research. The latter involves the expansion of the front-end of product development (innovation), picking winners however funds innovations that have a reasonable chance of success (and does not aim to generate more potential ideas). They pick the end of the de-risking stage. Then it is identifiable. The private sector is ready to invest in products that are ready for market, or nearing the de-risking stage, venture capital firms will have alerted private sector to invest. Public investment should move to the beginning of de-risking stage, as there is uncertainty about the success of the product in the market. The success rate of inventions to innovations is very low. Society-wide, investing at the beginning of the de-risking stage is simply too risky. Private sector entrepreneurs are willing to invest in the beginning; but they are not risk takers in the sense of riding a bike of a cliff. They are knowledgeable about the conditions and believe to be able to overcome the pitfalls.

The public sector has neither the same goals nor same information; they want to win the 'innovation war'. However, they are not participants in the industries they invest in. When it seeks to pick winners, it has to base it on a different class of criteria to pick winners than the private sector depends upon. The government depends on experts. Who are viewed as experts: people that have been successful in the past. But the future does not depend upon who has been successful but upon who will be successful. And the future is highly uncertain.

[56] We adopt the conception expressed by Ross Emmett in a public lecture: http://vimeo.com/9235143

While path dependency exists (i.e. that the past and the present influence the future), you still cannot predict the future winners. Picking winners is based on past winners, future winners however are always uncertain.

Example: Internet search engines. The winners have been Yahoo, AltaVista, Lycos, and not Google. Google dominates the Internet search engine market with a business model that may not have amazed the public funders. What will happen in the future? Will Google always be the major player in the market? Who knows? It is essentially unpredictable. Questions like: "What features will they have, what will consumers want?", all evolve around the inherent uncertainty of the future in general and future market condition specifically.

3.3Implied policy effects of specific policy instruments

Fiscal facilities

Fiscal facilities comprise several implied policy effects; firstly, more capital in the hand of the decision-makers entails greater potential that these resources are allocated in a productive manner. This is definitely a positive effect. However, when a fiscal facility is aimed at a specific economic or social group it might promote certain business activities vis-à-vis others if it is not a general fiscal facility. Potentially this can lead to a relative oversupply of the emergence of these economic activities or social groups. This is also the case when we non-precisively abstract from the general negative supply side effects of taxation. And likewise when we disregard the regularity associated with subsidies. Although tax reduction should not be equated to subsidies, relative tax inequality among economic or social groups not only might increase the number of these groups–this is the subsidy regularity–but might also give them an advantage over other groups. This may exactly be the intention of the policy, but one could wonder if it is desirable. One the one hand equal taxation might indeed harm some groups more than others–think of economies of scale or cost structure relative to the tax–but on the other hand a relative reallocation of capital might influence the structure of production in a way that is less productive in terms of wealth creation than otherwise would have been the case.

In the case of a specific fiscal facility there might emerge an oversupply of certain entrepreneurship vis-à-vis what would otherwise have been the case and/or relative to what would be sufficient in the structure of production. The promotion of business start-ups and business dynamics–in the quantitative sense–in itself might fall in the trap of perfect competition–more suppliers leads to improved market competition–when it does not lift some specific obstacles for the groups at which the fiscal facility is aimed.

Fiscal facilities increase the capital invested by the groups addressed by the fiscal policy, but the existent tax structure decreases capital invested than otherwise would have been the case. Additional tax deductions may increase the complexity of the tax framework and increase the costs of doing business through extra paperwork and hired accountants without immediate production benefits. The total of fiscal arrangements between the government and big(ger) businesses seem to outweigh the tax breaks directed to start-ups and SMEs; which results in less profitability for start-ups and SMEs than otherwise would have been the case.

Financial policies

Loan guarantees create more loans for small businesses than otherwise would have been the case. This may crowd out other loans, as loanable funds are always limited. An extension of the guaranteed principal by the government entices bank to take on more and riskier loans as less of the total principal are subject to losses for the banks. If the potential benefits are high enough this may crowd out other businesses that are not eligible for the Loan Guarantee program.

SMEs and start-ups may tend to become less integrated in the market for loanable funds and credit than otherwise would be the case. This may influence their survival rate.

Interest reductions may entice start-ups and SMEs to take more risk than otherwise would have been the case. The risk taken may not be suitable for current market conditions and can influence the survival rate when the interest reduction is lifted. The supply of risk-taking start-ups will tend to be higher than otherwise would have been the case. The policy aspect may increase a selection bias for start-ups and SMEs barely surviving with the interest reduction, but they will fail when they do not qualify anymore for the interest reduction.

Deregulation policies

Deregulation policies aim to reduce formal economic rules that have a legal character. Deregulation can be targeted at market regulations and compliance regulation, which relates to administrative compliance such as legal compliance or tax compliance. The rationale behind deregulation policy is the notion that the costs of market regulations and compliance regulation for society and the businesses that are subject of the regulations might be more than it the benefits. As resources are scarce and when resources are being spend on regulations they cannot be spend on something else, such as business activities.

A self-employed businessman who spends one day a week on regulation (compliance) cannot spend it on his business; a larger small or medium-sized business that employs people that deal with regulation cannot spend these labor resources for the production of its goods and/or services. So when these regulations are determined as unnecessary, ineffective they do not serve the common good the government initially perceived to realize with the regulation. They then constitute a cost for both the economy and society as more productivity and wealth are traded for the existence of cumbersome regulations.

The argument that a loss of jobs and revenue in the regulation-related industry constitutes a loss in economic productivity is invalid, as this industry produces nothing valuable when the regulations do not realize any social or economic good. The industry's 'productivity' then merely represents a cost for the economy, i.e. the businesses subject of the regulations, and for society. Employing these resources into other economic activities adds to the productive goods and services produced in an economy.

Regulations of an administrative nature tend to unintentionally favor businesses that can obtain economies of scale in compliance. Bigger businesses tend to acquire these economies of scale rather than small(er) businesses. As the administrative burden often constitutes to some degree a lump sum of constant costs this might lead to the mechanism that small(er) businesses are relatively less capable to compete with big(ger) businesses than otherwise would have been the case.

Additionally, this might lead to a lower growth rate of small(er) businesses, which then might constitute some sort of glass ceiling.

Regulations that apply only to big(ger) business, which have adapted a way of dealing with the regulations efficiently might constitute an obstacle for small(er) businesses to grow.

Regulations should always be analyzed in advance for their utility to a common, public or economic good; additionally the potential differentiation of the impact between small(er) and big(ger) businesses should be analyzed as well as between (sub)industries.

Political and special-interest favoritism and rent-seeking are always just around the corner when important and complex economic issues are raised and new regulations are proposed. In a sense the Establishment Act worked out as a legal institutional framework that favored incumbent SMEs vis-à-vis (small) entrants and protected businesses from one industry from another which might have had discovered synergy between economic activities that were legally separated by establishment resolutions.

Entrepreneurial culture, education, information and advice provision policies

Here we discuss the implied policy effects of the entrepreneurial culture, education, and information and advice provision policies in a combined fashion. In the 1980s entrepreneurship promotion, entrepreneurship education, entrepreneurship in public education, and the information and advice facilities were treated in a combined fashion as well, while in the late 1990s when the policy efforts regarding entrepreneurial culture promotion and entrepreneurship as a subject in public education began to intensify the policy lines somewhat diverged. In the end the policies all target the entrepreneurial function via the provision of knowledge and skills among potential and nascent entrepreneurs and incumbent entrepreneurs and start-ups respectively, which explains the conceptual distinction.

Combined the policies all aim to alleviate the negative supply side effects of past and present institutional frameworks that hamper entrepreneurial initiatives. On the one hand the Establishment Act and other rules and regulations hampered entrepreneurship both as real barriers but also as cognitive barriers. Perceived complexity with regard to starting a business not merely constitute barriers to entrepreneurial activities when a person investigates whether he or she would like to start a business, it also constitutes perceptional barriers that result from a stable institutional framework that was not conducive for allowing such activities.

The policies mentioned in theory are a positive for the alleviation of the negative effects of the regulatory framework and an education system, which lags behind market demand, as the economy became more entrepreneurial rather than managerial. But the policy initiatives in combination with institutional reform–of rules and regulation–constitutes program coherency. On itself the policies are a positive for entrepreneurship as these policies provide knowledge and skills that maybe only have come to the recipients indirectly or not at all. However, the link between the policy (the final relationship) and the causal mechanisms that more skills and knowledge would lead to more successful entrepreneurship is not that clear-cut. It seems to be the case that the link between entrepreneurship education and entrepreneurship is insignificant, the link between the education and performance is positive, but that the effect on earning is smaller for entrepreneurs than for

employees.[57] Entrepreneurial foresight seems not to be a skill that is learned, but a talent that involves tacit knowledge and skills.

Additionally, these policies provide information, knowledge, and skills to the broader population and specific groups, but this does not mean that these things will be used. More information, knowledge, and skills do not necessarily lead to the exploitation of these things. The effect may even be negative.[58]

This can be explained with the notion that entrepreneurs are not necessarily successful because they have more information or knowledge than another entrepreneur. Successful entrepreneurship seems to be the result of qualitative interpretations of situational factors and internal application of resources. These interpretations are above all interpretations, not objective givens, which perfectly illustrates the essence of entrepreneurship. More knowledge and information provided can actually cloud the interpretation of entrepreneurs before they have started their activities. More information and knowledge can reveal complexity of economic life of which the entrepreneur had not been aware of before.

These policies however have (had) their role of alleviating the negative supply side effects and they are a valuable addition to the institutional reforms, which broadens the discretionary power of entrepreneurs rather than influence them in a more direct fashion.

3.4 A specific policy instrument view regarding the policy theory-policy effects relationship

Next we analyze the policy implications of the policies conducted in the 1982-2003 period. We engage entrepreneurship theory; institutional theory; interventionism, market process, and supply-demand theory in this analysis. Then we discuss some evaluation criteria, which thereafter are applied to the analysis.

The Loan Guarantee

Recapitulation: the PT of the Loan Guarantee

Start-up Note/MKB-beleid in Hoofdlijnen

Pre-1982 policy assumptions

- Potential start-ups, including unemployed, lack savings for internal financing or lack securities for external financing. Additionally, there are markets that have overcapacity or undercapacity (policy content).

- When start-ups are excluded from the credit and loan market a public loan facility should be in place (policy content).

- Promoting start-ups in this manner (policy output)–sidestepping the conventional credit and loan market–is a good thing for the economy, i.e. for employment and economic growth (policy outcome).

Post-1982 policy assumptions

- Market opportunity research leads to more efficient business entry as the government can intelligently restrict or promote entry in specific industries

[57] Van der Sluis, Justin, Mirjam van Praag, and Wim Vijverberg (2005), *Entrepreneurship, selection and performance: A meta-analysis of the role of education*, World Bank Economic Review, 19 (2), pp. 225-261.

[58] Oosterbeek, Hessel, Mirjam van Praag, and Auke Ijsselstein (2009), *The impact of entrepreneurship education on entrepreneurship skills and motivation*, European Economic Review.

(policy output), which will optimize economic growth and employment creation (policy outcome).

- The policy effectiveness of the KMKB is threatened by the lengthiness of the application procedure combined with a strongly increased demand for the facility (policy intput-policy output, policy output-policy outcome).

- The quantity of policy output–i.e. additional credit and loan provision than otherwise would have been the case, is threatened (policy input-policy output), which restricts the policy outcome–i.e. additional viable businesses than otherwise would have been the case (undesired policy outcome).

Ruim Baan voor Ondernemen
Changes and additions to policy theory
- Moving the facility entirely to the commercial bank will increase policy efficiency, as procedures will become less burdensome and lengthy, which will increase business start-up and incumbent financing (policy outcome), which will in its place lead to more economic growth and employment creation (policy outcome).

Werk door Ondernemen
Changes and additions to policy theory
- The BBMKB serves as a solution to the issue of long term bank financing suffering from a lack of security, e.g. collateral, and incapacity of businesses to pay principal and interest in the first years (policy output, policy outcome).
- For innovative businesses two-third of the principal will be guaranteed by the facility; the repay duration will be increased from 6 to 12 years, which decreases the repay burden; in the first three years there exists no obligation to repay the parts of the principal or interest (policy output). This will promote innovative business activities aligned with the general policy objectives (policy outcome).

De Ondernemende Samenleving
Changes and additions to policy theory
- Three factors influence external small business financing: (1) information asymmetry between financiers and small businesses and start-ups: the former cannot easily and cost-effectively determine the risk-reward profile of businesses without a track record or experience with external financing, the latter are often not experienced with external financing and do perceive the full potential of exploiting the capital market. (2) Small businesses need relatively little financing while the assessment and management costs of financers are relatively high. (3) Young businesses and (high) growing businesses often lack the collateral demanded by external financers (policy content).
- Therefore the size of the guarantee fund will be expanded and a rating tool for the assessment of investment projects will be developed (policy input-policy output).

In Actie voor Ondernemers
Changes and additions to policy theory
- In order to promote external financing among start-ups via the Loan Guarantee facility (policy output), the policy makers dismiss the banks from the obligation to provide so-called secondary securities with regard to start-up loans (policy output).

- This decreases the handling costs of loans less than 100,000 Euro (policy output).
- The measure should lead to an increase in the provision of start-up loans within the yearly Loan Guarantee budget, which had been 37% in the year 2002 (policy outcome).

In the 1982-2003 period the goal of the Loan Guarantee has been providing access to external capital for start-up or incumbent SMEs with insufficient collateral and track record to obtain regular loans. The government guarantees a certain portion of the loan's principal sum and borrowers obtain a lower interest, a more favorable repayment schedule et cetera. In the mentioned period policy efforts were aimed at increasing the efficiency of the Loan Guarantee by means of cutting out SME Instrumentarium related institutions and carrying out the policy via the commercial banks. This increased the total output of the Loan Guarantee, i.e. the total loans provided by commercials banks to SMEs within the Loan Guarantee framework. From this perspective the Loan Guarantee contributed to the policy objective of increasing the start-up rate and business activity among SMEs than otherwise would have been the case, as these start-ups and SMEs probably would not have gotten finance outside the commercial banking system.

Additionally, the successful provision of capital to these SMEs may have increased entrepreneurial discovery and market dynamism, which are reciprocal processes. The consecutive extensions of the Loan Guarantee in the mentioned period are consistent with the policy objective of further increasing market dynamism in a business environment that was gradually relieved with the entry barriers of the Establishment Act.

The guaranteed portion of the loan principle sum and the lower interest paid imply certain counterfactual states of the world which can be deducted into implied policy effects of the Loan Guarantee.

For one thing, the Loan Guarantee may constitute an increase in the total outstanding loans and credit facilities in the economy, specifically for SMEs. This might cause an oversupply of entrepreneurship. As an alternative system of loan provision is not in place, we cannot know whether that system would supply as much or more loans as low-hanging fruit might also be supplied by the financial system.

Secondly the Loan Guarantee may constitute a misallocation of loans to the consumers of the policy. In a bottom-up loan supply system where supply and demand come together in an organic manner–which of course does not mean that no intermediary institutions exist, such as banks, (angel) investment networks, friend and family relations–borrowers are selected in a manner where they proactively aim to obtain the loan. In a (sub) system where a Loan Guarantee is place, via the principle of silent evidence, it may meet a rather selective group of nascent entrepreneurs. This observation in no ways means to imply that the Loan Guarantee only attracts the rejected nascent entrepreneurs; however, it does imply that it may attract nascent entrepreneurs that are not necessary from a structure of production-consumer demand perspective. Of course it is possible that a rejected but innovative nascent entrepreneur submits for the Loan Guarantee and will be the next TomTom; that is totally inside the sphere of possibility. However, it is highly unlikely that in an open supply-demand driven loanable funds market this next TomTom with his or her farfetched fata morgana would not have been picked up.

This leads to the notion that the Loan Guarantee could effectively be a subsidy scheme that transfers wealth from existing or aspiring businesses to businesses

receiving the guaranteed loan. If tax money is being used to fund businesses that create less wealth–that is both monetary and non-monetary–than otherwise would have been created with the funds this effectively constitutes a wealth transfer. When the Loan Guarantee is extended in times of economic decline and the guarantees are granted to businesses of which one cannot really determine whether they are insolvent or illiquid it might be the case that the extension constitutes so-called throwing good money after bad.

While one can contend that the Loan Guarantee only involves one billion Euros a year, which is negligible compared to the total loanable funds market and economy as a whole, it still might divert and displace nascent and incumbent entrepreneurs. Given this, it is important that the government aims to take out all barriers that limit the supply and demand of loanable funds and the easiness in which supply and demand meet.

When banks assess that a business proposal is suitable for a loan, a guarantee from the government does not seem necessary. When banks will only assign a loan with an additional government guarantee it is reasonable to expect that the loan will probably only be profitable, i.e. will be repaid, when the government will step in. However, the little information we found regarding the government effectively paying out the guaranteed parts of loans points to the conclusion that not much money is lost on the Loan Guarantee facility. This begs the question whether the facility as a whole adds to societal wealth. Some policy makers noted that banks might use the guarantees as an additional security on their loans, which implies moral hazard in the use of the Loan Guarantee.

The Establishment Act

Recapitulation: the PT of the Establishment Act

Start-up Note/MKB-beleid in Hoofdlijnen

Pre-1982 policy assumptions

- The Establishment Act was introduced in 1934 as a result of the Great Depression, which involved a large inflow of unemployed.
- The unrestricted inflow of self-employed into the SME sector led to unfair competition and low quality goods and services as these entrants were poorly prepared and some were moonlighters.
- Entry requirements set into establishment resolution regarding general business knowledge, occupational knowledge and skills, and creditworthiness (policy output) is expected to result in more capable, rational, and efficient start-ups and expanding businesses (policy outcome).
- Entry requirements set into establishment resolution regarding general business knowledge, occupational knowledge and skills, and creditworthiness (policy output), would secure the stability of the SME sector as well as secure minimum quality levels of goods and service provided by SMEs from the supply side, and secure the social cohesion function of Dutch SMEs (policy outcome).

Post-1982 policy assumptions

- A research program that monitors the opportunities in different industries (additional policy output), can manage business entry relative to the carrying capacity of the industry, which leads to a more optimal level of economic growth and employment creation by SMEs (policy outcome).

Ruim Baan voor Ondernemen
Changes and additions to policy theory

- The effectiveness of the Establishment Act, i.e. the relationship between policy output and policy outcome, may not be optimal as the complex of establishment resolutions may hamper healthy economic growth.
- The net economic benefits of the Establishment Act are uncertain (policy outcome).
- Therefore the Establishment Act should be simplified as decided in the Cabinet Agreement, but an ultimate decision between keeping the Act as-is, simplification or abolishment will be based on the 1988 evaluation.
- More global and less extensive establishment resolutions (policy content toward improving policy outcome) would provide entrepreneurs more opportunities for development (enhances desired policy outcome).

Werk door Ondernemen
Changes and additions to policy theory

- The modernization, i.e. simplification, of the Establishment Act (policy output) is considered a form of deregulation, which will enhance entrepreneurial activity casu quo market dynamism (policy outcome).
- This will create net economic growth and employment creation (policy outcome).

De Ondernemende Samenleving
Changes and additions to policy theory

- While government policy has been aimed to create more room for entrepreneurship extant rules and regulations (policy output) can still hamper competitive market entry and thereby unnecessarily protect vested interests (undesired policy outcome).
- The Act does not constitute an effective, efficient or necessary means to promote entrepreneurial quality among start-ups or incumbents (input-output, input-outcome, output-outcome).
- The abolishment of the Act (no policy output) will increase the amount of start-ups and market dynamism (output without policy/policy outcome), which is associated with economic growth, employment creation, and economic dynamism (policy outcome).
- Substituting law compliance with entry requirements will enhance SME policy efficiency (input-output, input-outcome)

In Actie voor Ondernemers
Changes and additions to policy theory

- The Establishment Act is not mentioned in the note, but once in the bottleneck list created by EIM[59], which states that the flexibilization of the establishment requirements resulted in a decrease in the quality level of entrepreneurship.

Discontinuing a law that sets requirements for start-up a business and entering a market logically leads to more start-ups. This is the case because as the costs (monetary and non-monetary) of starting-up a business decline, the effort of starting-up a business enters in more people's preference list than otherwise would be the case.

[59] EIM (2002), *Knelpunten voor ondernemerschap in Nederland*, EIM: Zoetermeer.

Additionally, the establishment resolutions were sometimes very compartmentalized in the sense that an applicant should comply with several establishment resolutions to be allowed to operate his business. This obviously limited economies of synergy and diversification. On the surface it might not make sense that a shoe repair shop also duplicates keys and sells post cards; in practice this seems to work pretty well so in the case when the establishment resolution framework would prohibit such a combination of services wealth and efficiency is lost.

Instead of the government, or actually the industry organizations via the Social Economic Council via Economic Affairs and so forth, setting up establishment resolutions the discontinuation of the Establishment Act leaves this function out in the open for consumers individually, consumer organizations, certification organizations, employer associations to grasp. It may take some time, but as the function is carried out less centralized and stripped of special interests the quality of entrepreneurship maybe able to reach levels beyond the Establishment Act levels. Environmental and health laws are upheld in a compliance and monitoring fashion, i.e. businesses have to comply with these laws and are checked by government agencies, but these laws are not criteria for business entry anymore.

Additionally, the organic and emergent carrying out of the business quality function is subject to competition; one could think of consumer organizations. This market tends to improve the quality of carrying out the function itself. Furthermore, bottom-up monitoring of quality of businesses and entrepreneurship has the secondary consequence that it keeps incumbent businesses resilient.

4. Findings and conclusions

In the last 30 years–roughly 1983-2011–a spectacular rise in entrepreneurial activity occurred in the Dutch economy: the number of self-employed entrepreneurs rose from 0.5 million in 1983 to almost 1.1 million in 2010 (EIM, 2011). As a percentage of the labor population entrepreneurs constituted 8% in the mid-1980s and 12% in 2010. Increased business entry caused this rise in the rate of entrepreneurship. Also the total stock of businesses has risen dramatically in the 30-year period, and according to the Global Entrepreneurship Monitor 2010 the Netherlands now occupies first place qua early-stage entrepreneurship in the EU-15 (Hartog et al., 2011) .

The number of self-employed without employees (ZZP-ers) has increased from 400,000 in 1996 to 640,000 in 2008. ZZP-ers constitute 70% of the total self-employed entrepreneurs. While ZZP-ers are an immensely heterogeneous bunch their increase vis-à-vis the self-employed and the total businesses stock signifies the increased importance of ZZP-ers for the Dutch economy, illustrating its entrepreneurial flexibility and dynamism.

Qua employment creation SMEs have been the major contributors; new business entry and discontinuation have had a net positive effect on total employment. Between 1994 and 2004 SMEs were the major contributor to employment creation by incumbent businesses. The relative importance of new business entry in the employment creation of SMEs has increased. Because high-growth businesses are often younger than 15 years, the decrease of the age of the average business and SME implies future employment creation–although comparatively Dutch SME start-ups are less likely to become high-growth businesses.

The causes of the development toward more entrepreneurship lie in the dispersion of the use of ICT, which dissolves the boundaries between businesses and provides economies of scale to smaller businesses. Secondly, the service sector has grown dramatically, which is associated with smaller businesses and lower (internal and external) entry barriers. Additionally niche markets have increased, the differentiation of consumer demand favors smaller business structures that tend to be more flexible and adaptive and are easier to discontinue when the niche dissolves. From a supply-side perspective toward entrepreneurship the perception of entrepreneurship has become more favorable over the years; becoming an entrepreneur has become a part of the aspirations of people. Immigration has added to the rate of entrepreneurship as immigrants are more likely to start-up a business and become self-employed–as a result of culture and practical obstacles to enter the labor market as a newcomer qua education, language, culture et cetera. Additionally, the emancipation of the individual had led to an increased demand for autonomy from hierarchy and as a way to better combine work and care tasks. The demand and supply-side perspectives constitute the concept of the Entrepreneurial Economy, which has been facilitated by government policy both by getting out of the way–think Establishment Act–and by providing entrepreneurship facilities qua taxation, loan guarantees and education.

There exists a strong qualitative correlation between the shift toward offensive entrepreneurship policy and the increase of the business ownership rate qua self-employed without employees (ZZP-ers), increased business dynamics, and

employment capacity of SMEs.[60] Our policy effect analysis implies that especially the gradual abolishment of the Establishment Act has contributed to this development. Fiscal facilities and financing policies such as the Loan Guarantee contributed to the promotion of economic activity in smaller business set-ups, which within the trend of more intricate structures of production probably has contributed to efficiency and economic growth. As these more intricate structures of production are more vulnerable for exogenous shocks–say failure of fiat currency unions, government debt systems, and financial systems–governments should on a more general level consider the influence of public policy and policy failure on the fragility of highly integrated economies.

While a definite causal relationship cannot be proven, the policy shift probably did contribute to a definite change in perception of the public regarding the value of entrepreneurship and entrepreneurship as a valuable alternative to wage employment. The policy program probably has both caused and anticipated the increased desire for personal growth of the individual by means of autonomous pursuits, the perception of working life as a valuable end in itself rather than merely a means to put bread on the table, and the exploitation of economic activity outside traditional welfare systems. Regarding the last phenomenon, government policy could promote entrepreneurship by lowering the costs of choosing for alternative insurance and social security systems.

As the emergence of ZZP-ers can be perceived as an autonomous phenomenon –more ZZP-ers does not necessarily constitute more effective and efficient economic production–it can at least partly be explained by extant rigid labor market regulation. Increased labor market flexibility may entail a more efficient and effective allocation of both labor and capital. As tacit and specialized knowledge constitutes one of the most important ingredients of modern economies, initiatives to better integrate knowledge producing institutions with the rest of the economy should remain one of the main objectives of government policy. Also here, deregulation has an important role to play.

In this report, we focused on the policy effects of the shifts in the Dutch SME and Entrepreneurship Program during the period 1982-2003, both at the program level and at the level of specific policy instruments. In this section we restate the research questions and answer them using a selection of the findings presented above.

- *Which (implicit) policy assumptions (i.e., the policy theory) have existed to justify the means (i.e. the Establishment Act and the Loan Guarantee) vis-à-vis the ends sought (i.e. sustainable development of the SME sector and financing viable new and existing business activities)?*

- *Which policy effects do these (implicit) assumptions imply and to which extent are these policy effects consistent with the formal policy objectives, i.e. ends sought?*

Generally, the policy assumptions underlying the policy means are clear-cut. More market and less government underlie the policies. The operationalization has been described extensively above.

The causes of more entrepreneurship and favorable outcomes such as economic growth, employment creation, and dynamism are addressed either by the

[60] Kuiper (2010).

dictum “less is better,” or, “more is better.” Fewer obstacles for business and the start-up of new business (activities) are better than more obstacles. And more entrepreneurship is better than less entrepreneurship. The reform of the institutional framework casu quo SME Instrumentarium casu quo Establishment Act addressed the cause of fewer obstacles for business, which was also illustrated by the reduction of the administrative burden and compliance costs for small(er) businesses. The reduction of the tax burden for SMEs and specifically start-ups addresses the time preference of entrepreneurs as well as the quantity of resources to be allocated by entrepreneurs. The Loan Guarantee addresses natural obstacles of finance, as well as market failure in the sense of a loanable funds market that seems to favor big(ger) business, as the fixed costs of a loan to a small business proved to be higher than the revenue. Cultural, education, and information and advice provision policies address the (past) negative supply side effects of the institutional framework; the more information on entrepreneurial opportunities, the more skills learned, and advice given the more entrepreneurs will be successful.

Labor market policy seems to hamper entrepreneurial activity and is least coherent with the SME and Entrepreneurship policy program; labor market flexibilization currently–2011–still is an issue to which the implementation is hampered by lack of political agreement. The inter-ministry commissions with regard to administrative burden, taxation, and education illustrate a high degree of coherency of general government policy with regard to SMEs and entrepreneurship.

Establishment Act

The abolition of the Establishment Act resulted in a business environment more conducive for start-ups. Therefore entrepreneurial activities can flourish more than otherwise would have been the case. Start-ups now almost completely rely on consumer preference–except for some business compliance regulations and an administrative burden that still is subject to economies of scale in administrative compliance. Incumbent SMEs experience more competition than otherwise would have been the case. Therefore more dynamic efficiency is in place as incumbents also compete with nascent entrepreneurs, which have not yet entered the market but could enter rather easily–of course when we non-precisively abstract from natural obstacles such as entrepreneurial foresight, skills, knowledge, and resources to be invested. That the abolition of the Establishment Act has been a positive development for entrepreneurship is a crystal clear case.

Loan Guarantee

The Loan Guarantee as such constitutes more loans and credits for SMEs than otherwise would have been the case. The facility constituted €356 million in guarantees in 2002 and €1.3 billion in total; Economic Affairs had to pay €12.1 million in claims to the banks and received €10.7 million in provisions. We conclude from this that the Loan Guarantee cost Economic Affairs €1.4 million in 2002, which is 0.11% of the total guaranteed principles.

The average guaranteed loan increased over the years, which is due to a reduction in guaranteed loans under €70,000. This might constitute an increase of risk-averse behavior of the banks or an increase in fixed costs, which excludes small loans being profitable and thus excludes small businesses from being approved.

Whether the Loan Guarantee constitutes a net benefit for the economy is hard to determine as one cannot know what the 67,000 start-ups (in 2002) that were

approved a start-up guarantee would have produced as employees. Additionally it is hard to say whether the 164,000 that were approved an ordinary guarantee would have produced when they would not have obtained the guarantee. Would they have had to discontinue the business? And if so, would the assets have been transferred to another business that would have directed the assets to more productive ends? These are all counterfactual hypotheses that are relevant, but make any quantitative outcome benefits hard to determine.

We do know with certainty that the Loan Guarantee as such might displace other possible ways of financing a start-up or activities of an incumbent SME, including market solutions that circumvent the big commercial banks. Additionally, the total guaranteed principle sum constitutes more SME activity than otherwise would have been the case. Whether this also constitutes an overabundance in SME activity displacing employeeship (in which these loan applicants might be more productive) is hard to determine.

The interest deduction within the Loan Guarantee might induce laziness among applicants of the facility. Although the deduction is temporary and the parties are mutually aware of the pay structure, the artificial stimulus might induce more risky behavior by the loan applicant. As these interests are not paid, and the guaranteed sum has to be reserved by the government, the opportunity costs also should be considered when determining the costs and benefits of the facility.

Which policy objectives were being addressed?

As discussed above the policy objectives largely refer to output objectives and much less or merely implicitly to outcome objectives like economic growth, employment creation, and dynamism. An exception is the abolition of the Establishment Act, which was meant to increase business dynamics. The Trend Study (EIM, 2011) shows that this has been achieved, and our coverage of the implied policy effects of the Establishment Act determined that this increase is strongly linked with the policy.

The Loan Guarantee aims to solve natural obstacles in the loanable funds market, which then should lead to productive and employment creating businesses. It remains the question whether the Loan Guarantee constitutes a net gain for society and the economy, but the expenditure vis-à-vis the total loans guaranteed suggests that–if so–it would not constitute a large net loss. However, it is hard to determine what the displacement of funds from alternative policy objectives would have yielded vis-à-vis the funding of the SMEs that use the Guarantee.

Appendix I: Chronologic Integration Policy and Functional Policy overview

Integration Policy[61]

1982a: Income policy
1982a: Price policy
1982a: Fiscal policy (general)
1987: Social economic and fiscal policy
1995: Fiscal policy aimed at reducing profit and investment taxation and cost of labor

1982a: Social policy
1982a: Zoning policy
1987: Support structure
1987: Regional policy regarding establishment permits
1999: Regional and local policy with regard to business housing, information and advice provision, and business networks.

1987: Informal economy
1987: Self-employment policy
1987, 1995: Deregulation
1999: Market regulation: Bankruptcy Law, Market Competition Law, and Establishment Act
1999: Regulation and public services: Regulation evaluation and deregulation, administrative burden, quality of public services

Functional Policy

1982a: Information and advice provision: Evaluation Wittebrug Agreement 1965 that constituted the KNOV, NCOV, CIMK consultancy services structure
1982b: Information, advice, and assistance policy
1987: Ondernemershuizen for start-ups and InnovatieCentra for (potential) Gazelles; evaluation subsidy for management assistance (SMO)
1995: Ondernemershuizen for start-ups and InnovatieCentra for (potential) Gazelles; regional start-up support; expertise center foreign entrepreneurs; SME desk on the internet
1999: One-stop shop information and public service desk; improving market for professional advice; focus on entrepreneurial skills in education and training; improving supply of information
2003: Facilitate business transfer via information provision and advice

1982a: Financing and subsidies–Credit Arrangement 1976
1982b: Finance and need for equity–Credit Decision for SMEs; evaluation 1985 Credit Decision.
1987, 1995: Financing policy–Loan Guarantee, Loan Guarantee 1988
1995: Seeder and informal investor agency exploration; technology rating for (potential) investors in Gazelles and high-tech businesses
1999: Productive Economic Climate: Financing and fiscal measures

1982b, 1987: Fiscal and social insurance aspects
1995: Fiscal aspects of start-ups and exports and R&D for (high) growth businesses
1999: Productive Economic Climate: Financing and fiscal measures
2003: Report fiscal aspects of business transfers

1982b, 1987: Establishment Act and training; evaluation Act in 1988, abolition creditworthiness within EA54

[61] The Integration-Functional Policy dichotomy was dropped in Werk door Ondernemen (1995) and later notes; the policies of 1995-2003 are categorized as either general SME policy (and put in the Integration Policy category) or policy aimed at sub-groups within the SME sector.

1995: Modernization Establishment Act
1999: Proposal abolition Establishment Act in two steps
2003: Execution trajectory EA abolition
1987: Deregulation (start-ups)
1995: Decreasing rules and regulations (start-ups); simplifying business transfer fiscally
2003: Transparent rules, public service provision for start-ups and (growing) SMEs
2003: Labor market deregulation efforts for (growing) SMEs

1982a: Structural SME policy
1982a: Development and business discontinuation aid
2003: Three action lines business transfer and discontinuation policy
1982a, 1987: Export policy
1995: Start-ups program by EVD
1999: New markets: Continuation start-ups program by EVD
2003: Family business internationalization

1982a, 1987: Education and labor market alignment policy
1987: Education and entrepreneurship
1999: Interdepartmental commission entrepreneurship and education, Mini Business Project, and stimulatory policy regarding entrepreneurship in curriculum and intermediary activities regarding business-education cooperation
2003: Entrepreneurial culture: increasing awareness, roadshow, international aspects of entrepreneurship in education

1982a: Innovation policy
1987: Technology policy
1999: Best-practice booklet; inter-public-organizational cooperation to promote high-tech business activities.

1982a, 1987: Public procurement
1982a: Orderly economic trade policy and establishment laws

1982b, 1987: Business housing

1982b: Income support for start-ups

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