

Two explanations?

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In this book on the Dutch CME, Jeroen Touwen emphasises that in the post-war period such coordinated economies did not perform less than Liberal Market Economies (LME's). He tries to prove that by analysing the Dutch CME and contextualizing 'the Dutch case in the comparative literature'. For a number of topics, he examines the literature on differences between CME's and LME's, and uses the literature on the Dutch post-war economy to check how this economy fits in. Finally he uses all kind of statistics to compare developments in the Netherlands with those in other highly developed countries. Thus the book surveys the economic history of the Netherlands since 1950 from a perspective of non-market coordination.

According to Touwen the second half of the twentieth century is atypical in Dutch economic history as there was more non-market coordination and a higher level of government spending than in earlier periods. Nonetheless, a trading mentality persisted. While in the last few decades all over the world the tendency is towards more liberal economies, regulation and coordination sustained. Dutch post-war growth, its upward tendency in productivity, the shift from industry to services, globalisation; all developments were comparable with those in other OECD countries. Everywhere these tendencies resulted in an increased role for the market, but not necessarily in less coordination. Although CME's became more market oriented, they remained CME's and never became LME's. According to Touwen this is a consequence of robust institutions, guaranteeing a high level of continuity.

After he thus made his position clear, Touwen explores the Dutch business system characterized by corporatism and a high level of coordination between firms. The two-tier model with a supervisory board controlling the executive board often resulted in close networks of persons who at the same time were members of diverse supervisory boards within the same branch. In a similar way banks could wield influence, while employers organizations further strengthened the links between firms. Consequently, cartelization was common, but as long as cartels did not raise consumer prices, this was not considered harmful. Only the EU would end this tolerance towards cartels. Although corporatism and a high level of coordination could easily result in a hardly competitive rigid system, it did not. As the Dutch market was and is extremely open, a lack of competitiveness

would be ruinous. To understand how a high level of competitiveness could go hand in hand with regulation and coordination between firms, Touwen's interpretation of labour relations is essential.

After World War II a neo-corporatist structure of coordination between employers, unions and the state was formalized in institutions like the Social and Economic Council of the Netherlands (SER) and the Labour Foundation (Stichting van de Arbeid), top-level organisations where employers, unions and the government discuss labour politics and welfare, and social security. The intention was to find compromises acceptable for all. As these institutions not only have a position in wage negotiations, but also in legislation and as governmental advisory boards, they gave the system a high level of continuity. Touwen analyses their role in the guided wage policy of the years 1950-1963. Then wage moderation kept the economy competitive and employment high. This period was followed by the 1963-1980 years of polarization. Then neo-corporatist structures did what is often feared, they defended settled interests against necessary measures. From the late 1970s there were attempts to reconstruct the social pact again, but only in 1982 employers and trade unions agreed on wage moderation again to keep the economy competitive and improve employment. The question is how this Wassenaar agreement was possible? Touwen emphasises that institutions created a high level of continuity, but as an explanation for the Wassenaar Agreement it is not completely convincing, as the agreement was not negotiated in the SER or Stichting van de Arbeid, but in informal meetings of the unions and employers not attended by governmental representatives. The question should be asked whether it was the threat of governmental interference in wage levels, the economic situation, or some wise individuals that saved Dutch neo-corporatism?

In a next chapter, Touwen then asks the question why the Dutch welfare state became and remained so generous, making clear immediately that gas profits (alone) cannot explain this. His explanation is political, and rather convincing. Touwen thinks that while in a two-party democracy the focus is on political principals and ideology, in an electoral system with proportional representation, giving a dominant position to centre parties as in the Netherlands the Christian-Democrats, the focus is on finding compromises acceptable to all. That post-war corporatism resulted in formal institutions, making it necessary to find compromises acceptable to employers and unions, was an expression of this political situation. Touwen does not explain why the Dutch had a LME before the war and what changed during the war, to transform this in a CME. However, as in this period the social democratic party became acceptable as a potential coalition partner, a new political landscape resulted. Now power was concentrated in the centre parties. That the formal institutions developed in the first years of the post-war period survived until today, was not just an expression of their rigidity, but

also of the fact that not ideology but compromise determined developments. Late twentieth century neoliberal reforms did not change that. When it was clear that reforms were necessary they were discussed within these institutions, resulting in a smooth implementation of such reforms. It was necessary to stop the ever-increasing demand for social security of the 1970s, while all over the Western world it was thought that tax pressure should decrease. By not just changing the social-security system in the so-called *stelselherziening* (system review) of the 1980s, but also focusing on a higher labour market participation, costs were reduced more than in other CME's, while the GDP increased. In this again wage moderation played a central role.

Jeroen Touwen wrote a book that not just tells the story of post-war non-market coordination in the Netherlands, but at the same time places Dutch developments in the international literature on differences between liberal and coordinated market economies. This makes his work important for everyone who wants to understand the relevance of the debate on such topics. As an explanation for Dutch developments he is not completely convincing, as he did not discuss other explanations. In this I especially think of Peter Katzenstein's 1985 *Small States in World Markets*, in which this social scientist explains a high level of coordination and corporatism as instruments for small, highly developed countries with extremely open economies to remain competitive in international markets. As such economies need a combination of wage moderation to guarantee competitiveness and a good social security system to safeguard the economic position of the working classes in a situation highly vulnerable for fluctuations on world markets, democratic corporatism seemed the natural answer. Touwen mentions Katzenstein's work, but did not discuss it, thus leaving the reader with two explanations in two different works for the same phenomenon, not confronting these with each other. This, and some minor points as a high level of repetition, does not change the fact that this is an important book.

About the author

Hein A. M. Klemann studied history at the Free University Amsterdam and economics at the Free University and the University of Amsterdam. He got his Ph.D. in economic history at the Free University. He has published on Dutch international economic relations in the 1930s, Dutch economic relations with Germany, the political consequences of close economic ties between a small and a much larger country, and the economies of Nazi occupied Europe occupation. Klemann is a full Professor in Economic History at Erasmus University Rotterdam.

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