

## The evolution of the Dutch CME and different political coalitions

Dennie Oude Nijhuis

In this excellent book on the postwar evolution of the Dutch political economy, Jeroen Touwen deals with a question that has long puzzled political economists: how is it possible that small, open economies like the Netherlands have been able to develop and maintain such strong non-market institutions without an apparent loss in competitiveness? This question, which first put forward in a systematic manner in David Cameron's late 1970s study on the relationship between trade openness and social spending levels, has received new urgency following the rise to prominence of the so-called Varieties of Capitalism approach to the study of comparative capitalism during the first decade of the twenty-first century. In *Coordination in Transition*, Touwen builds on and critically engages with this approach. By doing so, he seeks to explore whether the institutional structures of the Dutch economy have undergone major changes during the postwar period.

And he has done so for good reason. Following the rather enthusiastic reception of Peter Hall and David Soskice's *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage* during the early 2000s, there has recently been much criticism of this approach' static nature. The main thrust of this criticism is that it is rather unclear how various institutions in different domains of the economy can emerge and change (which they evidently do) when they rely on so-called 'institutional complementarities' between different subsystems. At first sight at least, these complementarities seem to prevent the coming about of path-breaking change. In response to those criticisms, various prominent adherent of the *Varieties of Capitalism* have recently set their attention to explaining the emergence of so-called coordinated market economies (CME's), in which firms rely heavily on non-market solutions to solve coordination problems, and more market-oriented liberal market economies (LME's) during the first half of the twentieth century.<sup>10</sup>

In *Coordination in Transition*, Touwen instead explores to what extent the

10 See, for instance, Torben Iversen and David Soskice, 'Distribution and Redistribution: the Shadow of the Nineteenth Century', *World Politics* 61: 3 (2009) 438-86; Cathie-Jo Martin and Duane Swank, *The Political Construction of Business Interests. Coordination, growth and equality* (Cambridge: CUP 2012).

Dutch CME has acquired more 'liberal' features during the second half of the twentieth century and beyond. This development, as Touwen points out, started during the last two decades of the twentieth century and has gained pace since. While most scholars would probably agree that there has been a trend towards liberalization in recent decades, there has been much disagreement over the origins and extent of this development. The Netherlands is an excellent example of this. In this country too, there has been a strong tendency towards welfare retrenchment, deregulation, and privatization – especially since the 1990s. In addition, a great variety of long- and short-term processes ranging from the process of depillarization and associated tendency towards greater political party fragmentation, to the ongoing decline in union membership and more recent surge in small self-employment, have all worked to undermine the foundations of the Dutch polder model – or so it is often claimed.

Touwen's analysis of the postwar development of the Dutch economy relies on an impressive amount of quantitative and qualitative data, which are mostly extracted from existing secondary sources. The first empirical chapter of the book sets out the argument, and describes how changes in the production process and the related process of globalization were accompanied by (pressure for) institutional change. Despite these pressures, the chapter emphasizes, non-market coordination has continued to exist in the Netherlands. The chapter is followed by four chapters that each deal with important domains of the Dutch political economy. These are, respectively, the field of inter-firm relations (or business system), the area of industrial relations, the welfare state, and the arena of government economic policy. These four areas partly overlap with the five 'spheres' in which firms need to develop relationships according to the Varieties of Capitalism approach.

Each of these chapters has much to offer. The chapter on inter-firm relations shows how Dutch business practices were rooted in culture, became formalized over time through legislation, and differed among firms depending on their size. The chapter also contains an excellent treatment of the Dutch tolerance towards cartelization in the immediate postwar period, which disappeared only in response to outside pressure in the form of the internal European market. In addition, it explains how corporate governance developed in response to American practices. The chapter on industrial relations describes how the guided wage policy of the late 1940s and 1950s consolidated the neo-corporatist system that emerged in this period (or was it the other way around I wonder?), and shows how after a period of increased conflict between and among labor unions and employers during the 1960s and 1970s, the social partners during the early 1980s once more managed to agree on a the creation of a new wage policy, which was to provide the basis for renewed economic success in subsequent decades.

The chapter on the postwar welfare state convincingly debunks the myth that

the generous nature of the Dutch welfare state can be attributed to natural gas earnings, and instead emphasizes the (partly overlapping) importance of concertation, (de)pillarization, and emerging cross-class alliances among business and labor groups. While these insights are not new, they are combined in a convincing manner. The chapter also explains how the involvement of the social partners in the administration of social insurance schemes made their use for dismissal purposes possible and how concerns over labor market participation led to welfare retrenchment. Because of its critical view of recent privatization, deregulation, and other supply side efforts, the chapter on economic policy is definitively also worth reading. This chapter also deals with the recent development of active labor market policies.

The book also suffers from a number of limitations. The most important among these is the decision to refrain from investigating how the evolution of the Dutch CME in the second half of the postwar period was shaped by different political coalitions in this period. This is surprising, as the author himself acknowledges that the 'structures and the path-dependent role of institutions (found) much of their origin in political coalitions (31)'. As a result, the book is not always equally convincing in its explanation of major developments. Take for instance the recent turn towards 'neoliberalism', which the book mostly explains through general processes such as globalization and technological change. These processes certainly played a role. Yet without an analysis of cross-national and longitudinal changes in the preferences and influence of major actors in this period, it is not possible to explain why neoliberal policies were embraced with much more zeal in some countries than in others, why 'immobile corporatism' transformed into 'responsive corporatism' during the 1980s in the Netherlands, and why welfare retrenchment went much further in some countries than in others. It is also unclear whether globalization 'call(s) for (...) non-market arrangements' in the labor market as well, as the author earlier argued that coordination in this areas 'was invented to support trade openness' (5, 140).

The book also contains some (minor) flaws. Contrary to what the author seems to believe, comparisons between capitalisms were much in vogue among scholars before the early 1990s (17). Indeed, the VoC approach leans heavily on neo-corporatist writings of the 1970s and 1980s, which are hardly mentioned in the book. It also goes much too far to describe the United Kingdom and United States as having been 'highly centrally coordinated' before the 1980s (144-145). These minor flaws do not do away with the fact that this is an excellent book though. It is a must-read for all students and scholars who are interested in the (comparative) development of the Dutch political economy in the postwar period.

## About the author

**Dennie Oude Nijhuis** (Ph.D., Leiden University 2009), is assistant professor at the Department of History. He specializes in the comparative political economy of labor markets and welfare states, and the political economy of European integration. Among other things, Oude Nijhuis is the author of the book *Labor Divided in the Postwar European Welfare State* (2013).

Email: [D.M.Oude-Nijhuis@hum.leidenuniv.nl](mailto:D.M.Oude-Nijhuis@hum.leidenuniv.nl)