

Summary of *Coordination in Transition*

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The essence of a comparison is that it highlights at which specific points the studied object diverges from other objects. Hopefully, this prevents you from emphasizing all kinds of characteristics that are not so unique at all. Many useful books are written that study one country or one phenomenon, but a comparison with other countries or regions may reveal what is really interesting, important, or unique. This can be a difficult exercise since it requires knowledge of the cases one compares with. In my book I focus on the Dutch economy and base the comparisons predominantly on comparative statistics of the sister OECD economies, in order to systematically trace when Dutch developments are exceptional or not so exceptional.

In twentieth century economic history, we have seen comparisons based on differences in economic growth and productivity, in country size, in openness, in dominant types of industry, in firm size, in welfare state regimes, and in wage bargaining systems, only to mention a few. All these aspects provide interesting comparisons. Varieties of Capitalism (VoC) adds a fresh perspective, because it focuses on differences in the economic institutions that shape markets, with the intention to distinguish between various types of advanced capitalist economies (based on the situation in the 1990s).⁵ We observe essentially two kinds of capitalist market economies: those which are predominantly liberal (Liberal Market Economy or LME), and those in which the market is to a larger extent embedded in coordinating institutions (Coordinated Market Economy or CME). In outlining their 'Varieties of Capitalism' theory, Hall and Soskice put the finger on an important dimension of modern economies: we need to decide to which extent we allow – and even may *prefer* – 'non-market coordination' to organize the market, instead of adhering a strictly orthodox neo-classical view. All modern economies coordinate their markets to a certain extent! Liberalization is advocated because markets have proved to be an efficient way to coordinate demand and supply, but simultaneously all countries wrap the market in a layer of non-market institutions: rules and laws, that intend to create level playing fields and promote fair competition,

5 Peter A. Hall and David Soskice, 'An Introduction to Varieties of Capitalism', in: idem, eds., *Varieties of Capitalism. The Institutional Foundations of Comparative Advantage* (Oxford: Oxford University Press 2001) 1-68.

or prevent collusive practices and the abuse of monopoly power, or aim at a fair distribution of income and power.⁶ So the question is: to which extent do governments, firms, and stakeholders decide to introduce, or support, non-market coordination and what is the effect of these choices?⁷

The Dutch consultative economy is often called ‘polder model’, but in fact the Dutch polder procedures in the SER (Social and Economic Council of the Netherlands) and the Labour Foundation (Stichting van de Arbeid) refer mainly to wage bargaining and do not specifically outline a general predilection for compromise or information sharing in other areas.⁸ VoC makes a point of being firm-oriented, by including the ways firms anticipate on institutions and help shaping them. Business historians may therefore look at the comparative characteristics of Dutch firms (microeconomic), but comparative capitalism is inclined to make comparisons between national economies (macroeconomic). The main reason for this is that it is essential to include government policy in the analysis, as well as welfare state arrangements, which automatically results in a macroeconomic perspective. (Since the state is also the main unit in statistical data, comparisons tend to underplay sub-national differences.)

For these reasons, my book starts out with a macroeconomic perspective. Naturally, economies are heterogeneous in types of economic activities, with regard to spatial differences, and additionally the European directives decrease the

6 Ironically, many early modern economic historians take an opposite perspective: to which extent did cities and states allow the free market to operate and which institutions safeguarded free enterprise (instead of studying which institutions substituted or constrained the market in pursue of level playing fields or social justice. Even the ‘Why Nations Fail’ perspective of Acemoglu and Robinson is based on the neoliberal idea that markets provide the best coordination and institutions serve to safeguard their functioning. Metaphors such as ‘trickle down’ effects or ‘a rising tide lifts all boats’ are at the heart of the free market paradigm, stipulating minimum government intervention. But there is also a long-standing view that undesirable side-effects of the free market should be explicitly curbed, such as power asymmetries and excessive income inequality (where Piketty builds upon a much older literature such as Barrington Moore, Karl Polanyi, or even Karl Marx). Non-market coordination analyses alternative solutions to the ‘society versus growth’ puzzle.

7 Hall and Soskice classify economies in two categories, liberal market economies (LME) and coordinated market economies (CME). Although many observers have added specific types to this typology, having merely two major categories is attractive because you can project developments over time a continuous scale between two poles, and you can speculate on movement between the two poles (as is done in my book in several places). Historians often use two extremes to lighten things up: think of absolutist versus constitutional monarchies, capital-intensive versus coercion-intensive states (Tilly) and inclusive versus extractive institutions (Acemoglu and Robinson).

8 Compromise and consensus figured, notably, in Arend Lijphart’s thesis of consociational democracy. But that idea was strongly linked to pre-war religious pillarization and has been on a gradual downward slope ever since.

autonomy of the nation-state, which I address in Chapter 3 and 6. But nevertheless the national economy is a meaningful unit of analysis, in its role as regulator of its economic actors, container of informal institutions, creator of a competitive climate for attracting inward foreign direct investment, and as the unit that negotiates international treaties.

In short, my book argues that the Dutch economy was and still is rich in *non-market coordination* – but that non-market coordination evolved and took on new shapes and roles. Fully compliant with VoC theory, the non-market institutions turned out not to be detrimental to further growth. But the underlying stream of structural economic development and technological change has to be taken into account (this is a point where the model is weak, because it was developed by political scientists who were not intrinsically interested in historical development, although they did mention that path-dependencies strengthen institutions).

A typology such as VoC is more meaningful if it not only outlines clear patterns that help the comparison and shed light on characteristic differences, but also suggests an explanation why these different patterns arise. Hall and Soskice introduce institutional complementarities and competitive institutional advantage to explain the differences. I put these to the test.

After having analyzed economic performance, in consecutive chapters I treat the business system, labor relations, the welfare state, and government economic policy and attempt to pinpoint the position of Dutch solutions in comparison with other OECD countries. This is a pragmatic interpretation of the theory. The book by Hall & Soskice was published in 2001 and an extensive body of research has shown that not all of their original claims and ideas can be empirically proven. To mention a few: Institutional complementarities suggest a certain robustness in institutional contexts that we do indeed observe, but compartmentalized change in certain areas occurred at least as frequent. The claim that CME's have a predilection for incremental innovations and LME's for radical innovations sounds interesting but does not really stand up to scrutiny. CME's do not convincingly show a stronger profile for specific skills, and LME's for general skills, and moreover skill patterns do not really explain why income distributions are generally more equal in CME's, which is claimed by some of the employer-oriented school. And the Dutch skill formation and educational system does not fit in the blueprint offered by VoC at all! Employers in CME's did not encourage the development of generous welfare states because they thought there were productive benefits for them or because they formed explicit cross-class alliances.

Despite these criticisms, VoC proved fruitful for an analysis of the typically Dutch mixture of markets and compromise. In my book I show how the institutional setting managed to successfully incorporate the global shift (the globalization of markets and capital) into the CME. Thus, the book is located at the inter-

section of two quite different literatures: modern economic history and the political science literature on different forms of capitalism.

This book presents a broad analysis of the Dutch CME, analyzing the origins of coordination and its development since circa 1950. For a large part of the twentieth century the Dutch economy was an open economy with a tight net of coordinating institutions. It was a typical CME as defined by the VoC theory, but in some regards it had an increasingly 'liberal' business system (more liberal than in Germany, but more coordinated and regulated than in the United Kingdom or the United States). This can be viewed as a hybrid mix of characteristics – practices of consultation and liberal markets.⁹ However, the Dutch economy did not suffer from this mixed character, but profited from an adaptive and flexible system of consultation in many areas.

By analyzing the Netherlands as a case study of a CME, the book finds that in most areas, coordination actually remained in place during the period under study. It was, however, constantly modified and adapted to allow the market mechanism to function and expand. Survival of coordination often depended on the degree to which it was embedded in formal rules and the degree the consulting partners shared an understanding of the problems at hand. The main hiccups occurred when rigidities slowed down taking effective measures to calibrate and adjust economic institutions. All in all, the Dutch economy managed to liberalize while preserve many forms of non-market coordination – compartmentalized liberalization as a form of compromise. Of course, in the future it is well possible that various kinds of coordination – collective labor agreements, active labor market policies, socio-economic policy consultation, employment protection, co-determination – will erode further as a consequence of pressure by multinational corporations or deliberate liberal policy choice. But the last sixty years repeatedly show creative solutions, pragmatic forms of compromise, and also show that non-market coordination is not in conflict with ongoing globalization.

About the author

See page 94.

9 See Jeroen Touwen, 'The Hybrid Variety. Lessons In Non-Market Coordination from the Business System in the Netherlands, 1950-2010', *Enterprise and Society* 15: 4 (2014) 849-884.