Ruthless neoliberal reform or pragmatic adjustment to globalizing markets: that's the question

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Since the fall of the Berlin Wall in 1989 and the ensuing end of communism in the Eastern Europe countries, scholars have discussed the merits of various forms of capitalism with renewed enthusiasm. Over the 1990s and 2000s, these academic discussions resulted in a vast literature on national business systems and VoC. The main issue of debate was the question whether or not the organisation of all developed economies would move in the same, liberal, direction, as a logical consequence of the challenges of globalisation and technological change.

A landmark in this discussion was the 2001 volume *Varieties of Capitalism*, edited by Peter Hall and David Soskice. In this volume, Hall and Soskice introduced the terms Liberal Market Economy (LME) and Coordinated Market Economy (CME) as two contrasting ways of organising the market economy. They argued that both ways could function equally well in their own right, and that there was no need for convergence to one 'best practice'. But there are other approaches to discuss capitalism, as well as many follow-up studies.

Jeroen Touwen's important book *Coordination in Transition: The Netherlands and the World Economy, 1950-2010* addresses the vast literature on the different manifestations of capitalism, and analyses the changes (or endurance) of institutions. Touwen did not built a database of his own, or use a specific archive as core source for his examination. Instead, he has analysed the developments in the Netherlands with the help of the extensive literature that has been published in the last two decades. Not only has he used an impressive number of books and articles, but he has also combined works from many different fields, including economic history, business history, political economy, sociology and political science, which all have their own traditions and scholarly discussions. Most of what these authors have written comparatively about the Netherlands has found its way into this book, so that it has become a rich source in its own right. But this wide-ranging approach comes at a (small) cost. The reader can easily become somewhat confused by the many different theoretical approaches to compare countries, and the large number of different criteria to judge the various aspects of the countries.

In his densely written but highly informative book, Touwen explores the Netherlands and its institutions in five, partly overlapping domains: economic development, business system, labour relations, welfare system and economic policy. He shows how the CME developed since 1945. From the massive material he presents, three conclusions stand out:

First: Over the last 30 years, Dutch institutions changed, as they did in many other countries, to adapt to the new challenges of globalisation, changes in the industrial structure, and in technology (including ICT). Touwen considers these changes as 'unavoidable'. Not all, but most changes implicated a greater reliance on market mechanisms. In the various chapters he illustrates the institutional changes, such as the end to cartels, increased power to shareholders, a reduction in take-over defences, and more flexibility in labour contracts.

Second: Not only the Netherlands, but also all OECD countries became more market oriented. As all countries changed, the relative differences remained the same. Because the Netherlands remained more coordinated than, for instance, the United Kingdom or United States, the Netherlands can still be seen as a CME. Third: as the book unfolds, he concludes that non-market coordination and market coordination are not really opposites. A country can have more of both. And indeed, that is what happened in the Netherlands.

How do Touwen's conclusions relate to the original VoC framework? Hall and Soskice argued that many economists quite wrongly supposed that globalisation would affect all countries in a similar way and thus lead to institutional convergence. Hall and Soskice disagree with this 'conventional view of globalization', because in their opinion firms are not similar across nations. Because firms in CMEs and LME's are different, they will also react differently to similar global challenges. Not all firms will move to low wage countries, or demand deregulation. The strategies of companies will depend on the comparative institutional advantages of their home countries, and by adjusting their strategies to those advantages they will strengthen the existing institutions. Thus, CME's will very likely remain CME's. Adjustment is far from self-evident. In contrast, Touwen shows right at the start of his book with a number of comparative figures that globalisation did indeed change the Dutch institutions considerably. Therefore, Touwen could have underlined more forcefully that his findings clearly differ from to the original supposition of the VoC framework.

But how can he at the same time argue for institutional changes leading to more market-orientation and still contend that the Netherlands remained basically a CME? This seems to be a contradiction. He solves this contradiction by questioning the relation between market and non-market coordination. At the start of his book (11), Touwen seems to agree that coordinating and using the price mechanism are opposites. In the VoC framework the contrast between those two is key. For instance, Hall and Soskice clearly argue that companies have the choice between markets and coordination. They can choose the one or the other, but they can't have more of both at the same time. But in the course of the book, Touwen claims that the Netherlands became both more market oriented and more coordinated. This can only be true if the concepts are interpreted differently. Because of the use of literature from different scholarly traditions, the concepts seem to have become somewhat diffuse.

Touwen argues that all countries became more liberal in response to the forces of globalisation and technological change, and that therefore the relative position of the Netherlands compared to other countries remained the same. He follows up this conclusion with claiming that, because some national differences persisted, the Netherlands has thus remained a CME. This last conclusion doesn't follow logically. If two people have a different age and both grow older, a difference in age will remain, but that doesn't follow they both stay young. They grow older, just as the Dutch economy has become more market oriented. That is the reality on the ground, and as he shows, jobs have become less secure and welfare arrangements far less generous.

During the 2000s, scholars working on the VoC framework increasingly concluded that national institutions are not static but flexible, and that in recent years they did indeed change, predominantly in a liberal direction. Touwen follows those new insights, and argues for change in a liberal direction, though not for convergence. On page 339 he concludes: 'In hindsight, in the Netherlands the period 1980-2010 was not a period of ruthless neoliberal reform, but a period of pragmatic adjustment to globalizing markets'. That raises the question at what stage a pragmatic adjustment becomes a ruthless neoliberal reform.

Why does he see the Netherlands still as a CME? Because the Dutch still try to accommodate change through negotiations, in part because the consultative institutions are implemented by laws. Though indeed the country has become more market oriented, the various social groups have agreed to those changes in good consultation. In this argument, he seems to underestimate the differences in power during negotiations.

At the end of his book Touwen offers the suggestion that a CME can better deal with problems as sustainability or social inequality than a LME. At the same time, he shows that with regard to sustainability the Dutch CME didn't reach great successes, though perhaps that should not come as a surprise as 'nature' cannot take a place at the negotiating table in the same way as employers and employees do. His optimism about social solidarity in the Netherlands is also not supported by his own evidence. Why should the 'tradition of coordination' suddenly save the welfare system from further decline, when it was instrumental to the system's decline in the previous decade? Perhaps we can derive more optimism from the fact that the Netherlands as an open economy will certainly profit once the international economy starts growing again. Whatever the case, one of the many strengths of Touwen's book is that it offers ample thoughts, facts and figures to engage in such discussions about the country's past and future.

About the author

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