CHAPTER 1

Introduction

A Tension between Coordination and Competition?

Coordination in the Netherlands

In the twentieth and early twenty-first centuries, the Netherlands has had a relatively high degree of economic non-market coordination but also an open, competitive economy. In fact, in many areas more competition was introduced, while in others non-market coordination remained intact, continuing institutionalized consultation and a practice of deliberative commitment. This is a puzzling mix that often gives rise to debate. Is coherence in Dutch society corrupted by the increasing role of the private market, or are the persisting mechanisms of coordination inefficient and slow, a liability, an annoying fetter to the smooth functioning of the economy? In 1969, John Windmuller wrote: ‘For Dutch society, segmented vertically into blocs and horizontally into the modern counterparts of classes and estates, the practice of institutionalized consultation has constituted a more desirable way of attaining social goals than aggressive competition and overt social conflict’.1 One may wonder to what extent, if it was true in the first place, this has changed since then.

The image of a country characterized by a tight web of organized consultation was, by and large, still valid in 2010. But this profile did not remain unchanged. A superficial observer could make the assumption that the Netherlands is still a highly neo-corporatist and networked economy, but many Dutchmen would argue that the Netherlands became much more liberal (or market-oriented) during the last quarter of the twentieth century. Who is right?

Examining the historical perspective goes a long way to answering this question. The Dutch economy is still highly coordinated, although over time the influence of the market has increased in many areas. In fact, an overarching system of coordination accommodated these changes.

Explaining from a historical perspective how and why Dutch coordination changed is the theme of this book. In a terminology that has evolved since Windmuller, we may state that the Dutch economy in the second half of the twentieth century was a coordinated market economy. The term ‘coordination’

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gained fame from its definition in the ‘varieties of capitalism’ theory that was formulated by Hall and Soskice in 2001, which I apply and criticize.²

The goals of this book are:

1. To analyze the types of coordination that were applied in the Netherlands in the second half of the twentieth century and to evaluate their effects on economic growth.
2. To analyze Dutch economic development in connection with the development of the world economy, focusing on technology and globalization, and to observe how the Dutch economy adapted to these changes. How successful was the Dutch economy in combining coordination and the market mechanism?
3. To reflect upon the changes in ‘varieties of capitalism’ and to find out whether non-market coordination was replaced by liberal capitalism in the era of globalization. How did national coordinative mechanisms react to and incorporate globalization?

Non-market Coordination as a Criterion

Coordination means that there are various types of non-market solutions for organizational problems in the market economy. It refers to a range of institutional choices that characterize the economy, in the business sector, in government policy, and particularly in the field of labor relations. Coordination points, for example, toward the organization of an annual ritual of wage bargaining between social partners on the national or industry level, but also at obligatory consultation by company boards of works councils. The existence of company networks and company associations is also part of it. Coordination may also comprise cooperative research consortia, government-subsidized vocational training programs and active labor market policies. It may lead to the construction of a platform in which firms and the government cooperate in an attempt to stimulate innovation. From another perspective, some macroeconomists point at the fact that coordination may be important to help the calibration of aggregate employment. In that case, coordination refers to mechanisms whereby the employment implications of wage determination are taken into account when wage bargains are struck. Generally, coordination

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² ‘Coordination’ has been used by others with a narrower meaning, for example referring to central wage bargaining (which is better expressed by ‘neo-corporatism’). ‘Varieties of capitalism’ is described in Peter A. Hall and David Soskice, ‘An introduction to Varieties of Capitalism’, in Hall and Soskice, eds., Varieties of Capitalism. The institutional foundations of comparative advantage (Oxford: Oxford University Press, 2001), 1–68.