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CHAPTER 4

A Changing Landscape: Institutions and Institutional Change in the Dutch Economy

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When cliometrics became popular, economic historians embraced the price-equilibrium model to analyse and explain economic developments. Then when the spotlight fell on the embeddedness of markets, they threw themselves with dedication at institutions, connecting quantitative analysis with concepts and ideas that had been around since Thorstein Veblen (1857–1929). Studying institutions means studying the historical role of context, which suits the historian more than the social scientist. It has enriched the field because economic activities take place in the context of rules, regulations, and also cultural habits. Markets can be powerful drivers of change, but institutions support or slow down these developments. Old habits that stand in the way of an efficient market may have broad public support, enforced by tradition. In his inaugural lecture in 1995, aptly titled "By force of habit?", Karel Davids makes several observations that show how institutions relate to long-term economic development. He summarizes two views on economic institutions. According to one view, favourable institutions explain economic growth. According to the second, certain institutions endure without being efficient and slow down economic development.[1] There is no general principle that good institutions drive out bad institutions.

In this chapter, I explore several recent developments in thinking about how institutions change, thus facilitating or hindering economic development. First I will briefly survey current insights on institutions and economic growth. Then I will explore the connection with culture: how can we approach *informal* institutions as a useful concept in economic history? The exercise of mapping national differences in entrepreneurship is related to the field of comparative capitalism. "Varieties of Capitalism" distinguishes between liberal market economies and coordinated market economies. This typology is based on a systematic comparison of institutional differences and is therefore interesting to examine in this context. The preference of economic actors for

1 C.A. Davids, *De macht der gewoonte? Economische ontwikkeling en institutionele context in Nederland op de lange termijn*. Inaugural lecture VU Amsterdam (Amsterdam: VU, 1995), 5.

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a higher or lower degree of non-market coordination (such as inter-firm cooperation, codetermination, employment protection, and institutionalized consultation) is strongly linked to culture.

These preferences for certain solutions may lead to feedback loops, where feedback reinforces the chosen options. As we will see, this results in increasing support, because economic actors anticipate a certain context for their decisions, such as bargaining platforms or consultative structures. This observation brings us to the topic of institutional change. I will outline several typologies of institutional change and discuss the role of shocks, beliefs and supranational top-down influence. The focus here is on *how* changes came about. Were rules and laws simply replaced by new rules and laws? Or were additions made on top of the existing rules? How does this relate to the coordinated character of the market economy? From a more actor-oriented perspective, several mechanisms of change are outlined. In addition to *leadership,* I mention the importance of both *public pressure* and top-down pressure by *international treaties.*

The classic theme of *cartelization* in the Netherlands is then used to illustrate how institutions change. I summarize the changing views on cartelization and reflect briefly upon the consequences for the comparative position of Dutch capitalism in post-war Europe. Late twentieth century institutional change in the Dutch coordinated market economy was increasingly a top-down international effect, rather than the result of shock or leadership. My hypothesis is that the path of institutional change is typical of a specific institutional setting or variety of capitalism, because it reinforces or consolidates the institutional choices. Change is not uncontested, but the decision-making process is significant in relation to the type of capitalism. Over time, as a cause of institutional change, international treaties and commitments become an important complementary force, alongside the effects of leadership and social pressure.

1 Institutions and Growth

In the Low Countries, two beneficial institutions have been identified as a legacy of the late Middle Ages: a level of freedom in entrepreneurship and a certain degree of private property protection. Both of these were inspired by the nobility's wish to accumulate taxes. In later form, they may have fostered the Dutch miracle of the seventeenth century.[2] Likewise, at a somewhat deeper

2 North explicitly encouraged the study of transaction costs and property rights; Douglass C. North, "Beyond the New Economic History," *Journal of Economic History* 34, no. 1 (1974).

level, the absence of strong feudal ties was another beneficial institution.[3] In addition to this favourable heritage, there were several types of vertical and horizontal institutional structures that had a more complicated effect. These structures included guilds, urban regulations, institutions that regulated the countryside and, at the regional level, rules that restricted entrepreneurship. They are examples of economic institutions that could be either good or bad for further development and are therefore specifically interesting to the historian.[4] Broadly speaking, these forms of non-market coordination were favourable during the seventeenth century, reducing transaction costs, providing information to market parties, and allowing risk spreading.[5] Ironically, they were also key to explaining the eighteenth century stagnation of the Dutch Republic. This, Davids argues, is not the consequence of interest group lobbying, which Mancur Olson highlighted in his work on "institutional sclerosis," but rather because these institutional constraints formed an obstruction to the process of technological innovation.[6]

Fortunately, inefficient institutions that disrupt efficient economic processes or favour conservative interests will not remain in place forever. Long-term economic development sometimes shows the gradual erosion or displacement of institutions that obstruct markets, as evidenced by the industrialization in the Netherlands in the nineteenth century. Between 1795 and 1870 several old

A distinction is generally made between formal institutions (laws, etc.) and informal institutions (cultural habits, etc.).

3 Jan de Vries and Ad van der Woude, *The first modern economy. Success, failure, and perseverance of the Dutch economy, 1500–1815* (Cambridge/New York: Cambridge University Press, 1997) 33, 46, 198–205.

4 See, for example, C.A. Davids, *The rise and decline of Dutch technological leadership. Technology, economy and culture in the Netherlands, 1350–1800* (Leiden/Boston: Brill, 2008); C.A. Davids, "Regions, families, religion. Continuity and change in social contexts of entrepreneurship 1800–2000," in *Entrepreneurship in context*, eds. M. van Gelderen and E. Masurel (London: Routledge, 2011); C.A. Davids and J. Lucassen, eds., *A miracle mirrored. The Dutch Republic in European perspective* (Cambridge: Cambridge University Press, 2011).

5 Karel Davids, "Beginning entrepreneurs and municipal governments in Holland at the time of the Dutch Republic," in *Entrepreneurs and entrepreneurship in early modern times. Merchants and industrialists within the orbit of the Dutch staple market*, eds. Leo Noordegraaf and Clé Lesger (The Hague: Hollandse Historische Reeks, 1995); Karel Davids, "Technological change and the economic expansion of the Dutch Republic," in *The Dutch economy in the Golden Age. Nine studies,* eds. Karel Davids and Leo Noordegraaf (Amsterdam: NEHA, 1993). See also Jan Luiten van Zanden and Maarten Prak, "Towards an economic Interpretation of citizenship. The Dutch Republic between medieval communes and modern nation-states," *European Review of Economic History* 10 (2006).

6 Mancur Olson, *The rise and decline of nations. Economic growth, stagflation, and social rigidities* (New Haven, CT: Yale University Press, 1982).

institutions disappeared: fishing was liberalized, urban excises were abolished, and in judicial terms the countryside was made equal to the cities.[7] The abolition of the guilds in 1820 is also often mentioned in this context. Acemoglu and Robinson developed a much broader view of the economic role of "extractive" institutions, which prevent long-term growth of prosperity and concentrate power in the hands of the few.[8]

As the world turns, economies continuously adapt to changing circumstances. Economic actors try to fix a deal and earn a profit, and institutions exert an influence on this process, in order to make it more just, or to effectuate some degree of redistribution, or to exert some kind of power. Structural change occurs due to technological change or demographic transition, but change can also result from adjustments in the political economy, such as welfare state legislation, trade liberalization, the formation of trade blocs, and intergovernmental regimes.

2 Formal and Informal Institutions

The strange marriage of *formal* and *informal* institutions tempts us to make informal institutions into some kind of residual explanation for anything that has not yet been properly explained. Deeply rooted cultural traditions may form a continuous force in the background and, as ultimate causes, should in theory not be confused with the proximate causes of regulations and laws. Regulations function only within a setting of informal rules that are shared with others, and that shape a common understanding.[9] The problem is that informal institutions are difficult to operationalize and measure. They often constitute a condition, rather than a driver that shapes support for a certain solution.

After an interval of laissez-faire, in the twentieth century non-market coordination resurfaced in the Netherlands in the form of neo-corporatist or liberal-corporatist concertation. These were inspired by best practice in surrounding countries but also seem to be connected with earlier forms of consultation, prompted by an inclination to solve dispute through meetings. The idea of a deeply rooted and culturally determined "polder mentality" was suggested

7 Davids, "De macht der gewoonte?," 15.

8 Daron Acemoglu and James A. Robinson, *Why nations fail. The origins of power, prosperity and poverty* (New York: Crown Publishers, 2012) 429–430.

9 P.H.H. Vries, "The role of culture and institutions in economic history. Can economics be of any help?," *NEHA-Jaarboek voor Economische, Bedrijfs- en Techniekgeschiedenis* 64 (2001).

in Karel Davids's inaugural lecture in 1995. Jan Lucassen made a similar suggestion in the field of labour relations.[10]

This idea inspired Maarten Prak and Jan Luiten van Zanden to carry out a long-term analysis of institutionalized consultation in the Netherlands. Yet despite their wish to highlight continuity, they could not ignore the fact that the arrangements were structurally different. They came up with three different polder regimes: the *agrarian* polder model 1000–1350, with its structured assemblies; the *commercial* polder model 1600–1750, with its guilds and civil society; and the *industrial* polder model of the twentieth century, with its institutionalized bargaining.[11] Only a rigid comparison of decision-making procedures in different countries could tell us whether a typically Dutch pattern can be discerned. What we are observing may perhaps be a set of European experiments aimed at solving coordination problems that were typical of a certain day and age. Such variations may have been more similar across countries than across time. Davids, Devos and Pasture state that "at the end of the day, policy learning, transnational influences and the relational dynamics between the state, the employers and the trade unions mattered more for the development of consultation economies in Western European democracies than path dependency and the "weight of history"."[12]

3 Culture and Management

These relational dynamics bring us to the informal institutions at the micro-economic level and the way economic actors interact. This subject is explored thoroughly in management literature. In management studies, dealing with the hands-on reality of marketing products in different countries, it is widely known that culture makes a big difference. This can be seen from the tremendous interest in Hofstede's five cultural dimensions since the early 1970s.[13]

10 J. Lucassen, *Jan, Jan Salie en diens kinderen. Vergelijkend onderzoek naar continuïteit en discontinuïteit in de ontwikkeling van arbeidsverhoudingen*. Inaugural Lecture VU Amsterdam (Amsterdam: VU, 1991).

11 Maarten Prak and Jan Luiten van Zanden, *Nederland en het Poldermodel. Sociaal-economische geschiedenis van Nederland 1000–2000* (Amsterdam: Bert Bakker, 2013).

12 Patrick Pasture, Karel Davids and Greta Devos, "Introduction," in *Changing liaisons. The dynamics of social partnership in 20th century West-European democracies*, eds. Karel Davids, Greta Devos, and Patrick Pasture (Brussels: Peter Lang, 2007), 24.

13 G. Hofstede, *Culture's consequences. Comparing values, behaviors, institutions, and organizations across nations*. Second ed. (Thousand Oaks, CA: Sage, 1981). Trompenaars expanded on the theme of effects of cultural differences on management: F. Trompenaars and C. Hampden-Turner, *Riding the waves of culture* (London: Nicholas Brealey, 1997); Charles

Hofstede speaks of "mental software," the collective programming of the mind, which distinguishes members of one group of people from another. In this way, intercultural management scholars systematically analyse differences between national entrepreneurial cultures.

One might wonder whether the cultural dimensions are associated with the different types of capitalism distinguished in the literature. However, a comparison of cultural dimensions with a classification of types of capitalism does not reveal much overlap.[14] There was no obvious link between cultural dimensions and the occurrence of mechanisms of coordination in various countries.[15] The explanatory value of cultural differences seems to be limited when we are looking for the origins of non-market coordination, such as inter-firm cooperation, codetermination and institutionalized consultation. This is because there are many different ways to translate cultural preferences into institutional arrangements. At most, the analysis of cultural differences contributes to explaining why very little institutional *convergence* took place in post-war OECD economies – except for some consciously pursued, hard-won and limited convergence within the European Union. This also means that successful examples of Dutch coordination cannot be exported to other countries as a "model."

Dutch coordination in the twentieth century was highly dependent on *formal* institutions. The neo-corporatist economy was organized by administrative legislation, particularly the "PBO" Act (*Wet op de Publiekrechtelijke Bedrijfsorganisatie*). This Act came into force in 1950 and organized coordination under public law, also establishing the Social and Economic Council for regular peak-level consultations. Although the ambitions of this system of industrial organization were never quite fulfilled (planning only really took off in agriculture and fisheries), it had a powerful impact on labour relations and wage bargaining. Its roots can be found in pre-war attempts to coordinate labour relations, which were strongly supported by Christian Democrats and also largely accepted by progressive liberal employers, who had decided that laissez faire was no longer a solution.[16]

Hampden-Turner and Fons Trompenaars, *The seven cultures of capitalism. Value systems for creating wealth in Britain, the United States, Germany, France, Japan, Sweden and the Netherlands* (London: Doubleday, 1993).

14 Jeroen Touwen, *Coordination in transition. The Netherlands and the world economy, 1950–2010* (Leiden: Brill, 2014), 91–98.

15 Touwen, *Coordination in transition,* 98.

16 Ben Jackson, "At the origins of neoliberalism. The free economy and the strong state, 1930–1947," *The Historical Journal* 53, no. 1 (2010).

4 Classifications of Institutional Settings

Once certain rules have been introduced, increasing support for them may develop when economic actors anticipate a certain context for their decisions. For example, they may start to appreciate bargaining platforms or consultative structures. Since the sets of rules that are introduced characterize a certain variant of the market economy, the presence of bargaining institutions can be used as a criterion to distinguish different market economies. And although a typology is often descriptive, it helps us to uncover causal mechanisms, such as positive or negative feedback loops within types.

In 2001, Hall and Soskice introduced the concepts "liberal market economy" and "coordinated market economy", broad categories inspired by the American and German examples respectively.[17] They implicitly adopt a focus on institutional change, because they postulate an underlying mechanism of institutional complementarities and comparative institutional advantages. This explains the existence of two ideal-types of market economies. Both types are market economies that can function successfully in a competitive world economy. However, the two constellations explain different organizations of the supply side in terms of their path dependencies. Economic actors have to deal with these institutional systems in their attempts to strike a deal, but are not hindered by them – rather, they steer them in a certain direction. "Varieties of Capitalism" outlines five subfields of institutions between which so-called "institutional complementarities" occur. This means that solutions in one sphere are accompanied by a preference in another sphere. For example, investment in vocational training occurs when there is long-term employment and employment protection, and may also be accompanied by codetermination. This suggests that complementarities exist: between labour relations (consultation of employees at the firm level); inter-firm relations; corporate governance and acquisition of investment capital; vocational training and education of employees; and information sharing with employees (motivating individual workers by means of participation, human resource management). Firms' strategies in these spheres influence and reinforce each other, thus creating a comparative advantage.[18]

In critical reviews of "Varieties of Capitalism" since its publication in 2001, it has been remarked that institutional complementarities are not binding in

17 Peter A. Hall and David Soskice, "An introduction to varieties of capitalism," in *Varieties of capitalism. The institutional foundations of comparative advantage*, eds. Hall and Soskice (Oxford: Oxford University Press, 2001).

18 Hall and Soskice, "Introduction," 7.

the sense that one set of institutions cannot move in a direction different from another set of institutions. In other words, "compartmentalized change" is possible. As Deeg shows, German companies embraced shareholder capitalism while maintaining worker consultation. These institutions could develop in opposite rather than complementary directions.[19] Similarly, in the Netherlands all kinds of neoliberal policy measures are combined with traditional consultative practices.[20] An institutional setting is not a marketplace where economic actors pick pairs on the basis of a rational evaluation of gains. Institutional choice has a path-dependent nature.

An interesting question inspired by these observations is: through what kind of mechanism do existing institutions change? Does a society discard certain institutions after a while when, despite all their traditional support, a powerful group of people decide they have become obsolete? Can such renovation overrule deeply embedded cultural characteristics? Or, by contrast, will some form of collective preference predetermine the range of options from which a choice can be made? When the need is felt to organize new institutional structures to solve urgent problems, will coordinated market economies preferably vote for consultation instead of bargaining at arms' length, as a result of a culturally determined preference for non-market coordination? It seems very likely that such preferences are subject to the reigning paradigm or are manipulated by dominant actors. Both the paradigm and the power balance can change within a decade.[21] Scholars have observed that once you stick a label on a certain type of economy, the label tends to stay for a long time (="conservative bias"), but in fact institutions change – because economies change and rules and regulations have to be adapted continuously. It is therefore more logical to expect that informal institutions also have an effect on *how* formal institutions change.

5 Typologies of Change

This brings us to the topic of institutional change. Since feedback mechanisms reinforce the chosen options, institutional change – however contested, because it takes place in political arenas – will point in a direction that is

19 Richard Deeg, "Change from within: German and Italian finance in the 1990s," in *Beyond continuity. Institutional change in advanced political economies*, eds. Wolfgang Streeck and Kathleen Thelen (Oxford: Oxford University Press, 2005), 183–184.

20 Touwen, *Coordination in transition*, 317.

21 P.A. Hall, "Policy paradigms, social learning, and the state. The case of economic policy-making in Britain," *Comparative Politics* 25 (1993).

significant in relation to the type of capitalism at hand. Most obviously, change can be radical or incremental, reflecting the decision-making structure in an economy. This suggests that there is a typology of change, in which radical change is compatible with liberal market economies and incremental change is more compatible with coordinated market economies.[22] It is therefore interesting to compare trajectories of change: between radical and incremental change, or between conflict-oriented versus conflict-avoiding approaches. In a globalizing world, which has removed many barriers to the functioning of the market, institutions experience a constant pressure to adapt or reform. That free markets do not converge on one model is something that may not surprise historians, but it has been a serious topic of study.[23]

What typically happens is that either new laws and regulations are added to existing ones, or laws are replaced by other laws. These options are called *layering* and *conversion* (or *reform*) respectively. A national preference for one of these types of change can thus be connected to the variety of capitalism, as both cause and effect: in an economy with a penchant for more radical, rigorous measures, conversion will be the more frequent occurrence. For example, the change to supply-side policies in the 1980s was faster and more far-reaching in New Zealand and the United Kingdom than in Sweden and the Netherlands.[24]

Historians have pointed out that the *Rheinland* model is not a static type, but constitutes a range of choices in the political economy.[25] Although these may have a common denominator, they evolve in response to developments in technology and in the global market. We cannot uphold the idea that Anglo-American economies always favour the free market while Rhineland economies favour corporatism and networking, particularly since market-oriented reforms have taken place since the 1980s. Thus, Kathleen Thelen points out that despite their deep cultural roots, institutions should not be viewed as "frozen" residues, or "crystallizations" of previous political conflict.

22 Idem.

23 "A large body of evidence suggests that national political economies have maintained their distinctive 'varieties of capitalism,' rather than converging on the liberal market model epitomized by the United States." Pepper D. Culpepper, "Institutional change in contemporary capitalism. Coordinated financial systems since 1990," *World Politics* 57, no. 2 (2005): 173.

24 Jeroen Touwen, "Varieties of capitalism and institutional change in New Zealand, Sweden and the Netherlands in the 1980s and 1990s," in *Aspects in varieties of capitalism. Dynamics, economic crisis, new players*, eds. H. Egbert and C. Esser (Saarbruecken: Lambert Academic Publishing, 2010).

25 See, for example, Keetie Sluyterman, ed., *Varieties of capitalism and business history. The Dutch case* (London: Routledge, 2015).

"Presently a growing body of work has begun to conceive of institutional reproduction as a dynamic political process." A more detailed picture of how institutions change may be useful here.

6 Reform, Reinterpretation, Defection

Streeck and Thelen took "Varieties of Capitalism" as their starting point to show how the mutual reinforcement of institutional complementarities can be breached, and how rules can be bent or replaced. They introduced five different trajectories of gradual, transformative institutional change:

a. *Displacement*: introduction of new models, defection from old rules;
b. *Layering*: adding new institutions to existing ones;
c. *Drift*: allowing institutions to weaken or decay;
d. *Conversion*: redirecting the rules or reinterpreting them;
e. *Exhaustion*: gradual breakdown of obsolete rules.[26]

Elsewhere, Hall and Thelen distinguish between three different paths of institutional change. These three main routes are *reform*, where institutions are explicitly changed, *reinterpretation*, where entrepreneurial actors reinterpret institutions and give them new uses, and *defection,* where new styles of coordination are introduced within the existing framework by defecting from existing arrangements.[27] Both *reform* and *reinterpretation* may include layering (adding new rules to existing ones) or conversion (redirecting or reinterpreting rules and regulations). *Defection* can involve drift (institutions are allowed to weaken or decay), displacement (new models are introduced, there is defection from old rules) or exhaustion (gradual breakdown of obsolete rules).[28] Thelen also outlines three mechanisms through which institutions may *survive* over time: lock-in, conversion and layering.[29] It is clear that changes are not always the result of economic rationality. They can be driven by ideology (for example, orthodox neoclassical economics), by necessity (high unemployment, high inflation), by rhetoric (mobilizing the rank and file, shifting the consensus), by pragmatism (the profit squeeze, the need to curtail public expenditure) and by contingency (a rise to power of liberal parties, the occurrence of a financial crisis).

26 Streeck and Thelen, "Introduction," 32.
27 Peter A. Hall and Kathleen Thelen, "Institutional change in varieties of capitalism," *Socio-Economic Review* 7, no. 1 (2009).
28 Streeck and Thelen, "Introduction," 32.
29 James Mahoney and Kathleen Thelen, *Explaining institutional change. Ambiguity, agency, power* (Cambridge: Cambridge University Press, 2009).

In a thematic volume studying the period 1979–2008, Jackson and Deeg emphasize that the way forward in comparative capitalism is not to introduce more typologies, but to study *how* institutional change took place. They analyse changes in, among other things, finance, corporate governance, industrial relations and social protection. On the basis of their findings, they discern four levels that regulate the economy: international regulations, macro state policies, meso state policies and the micro level of economic actors and firms.[30] They also claim that institutional change is, after all, the phenomenon that sets types of capitalism apart.[31]

7 North, Alston, and Beliefs as Drivers

Economic processes consist of transactions made by actors who are incentive-driven, and for this reason economists prefer to focus on incentives. This provides another perspective on institutional change. In a recent article, Alston approaches institutions as rules that incentivize behaviour, and emphasizes that institutional reform must be contextual, and must fit a country's political and economic endowment.[32] After Douglass North had analysed property rights and transaction costs, by the turn of the twenty-first century he still found a full understanding of long-run change elusive. Alston writes: "It was like peeling an onion, layer by layer. Transaction costs and property rights are embedded in institutions, but institutional choice was embedded in beliefs."[33] Beliefs form a mental map (compare Hofstede's mental software), because they anticipate economic and political outcomes of formal rules. There will be competing ideas and beliefs, but one will come out on top. In brief, Alston's model portrays shocks in the economy or political situation that create a window of opportunity, which can then be used by leaders to coordinate change through a network of organizations, according to a shared belief, thus generating incremental change that ultimately results in different economic or political outcomes.[34]

30 Gregory Jackson and Richard Deeg, "The long-term trajectories of institutional change in European capitalism," *Journal of European Public Policy* 19, no. 8 (2012).
31 Gregory Jackson and Richard Deeg, "From comparing capitalisms to the politics of institutional change," *Review of International Political Economy* 15, no. 4 (2008): 699.
32 Lee Alston, "Beyond institutions. Beliefs and leadership," *Journal of Economic History* 77, no. 2 (2017): 354.
33 Ibid., 355.
34 Ibid., 359.

These dominant beliefs are an interesting element: they can be described as a shared economic understanding or as a paradigm, and are an essential component of change in democratic states. When a thorough reorientation takes place, the economic actors (helped by economic policy or economic knowledge, or technology such as ICT) may develop a new paradigm. A paradigm shift is not only a policy shift in order to re-establish political goals, but also a shared understanding of economic actors in response to changed circumstances.[35] When do these changing beliefs result in changing institutions? This may occur, according to Alston, when leaders use the windows of opportunity created by shocks in order to initiate reform.[36] Shocks open up opportunities for institutional change.

In coordinated market economies, leaders will not always jump at the chance provided by a window of opportunity, because rounds of deliberation precede reform measures. They generally prefer *layering* (or merely institutional *drift*) to radical reform, in order to pacify the rank-and-file of consulting parties with different views. For this reason, *incremental* change is sometimes framed as a different reaction to exogenous shocks compared with the traditional institutional change. "The challenge of studying institutional change is not so much to show what has changed, but how, when and why this change occurred, and what this change really means."[37] It is remarkable that the incentive-driven economists' view on institutional change does not seem to take account of the existing context. Leadership, as Alston points out, involves moral authority and is crucial for initiating change.[38] However, by focusing on leadership, we may lose sight of other mechanisms that propel change.

8 Leadership, Public Pressure, and Top-down Change

In addition to *leadership*, we could acknowledge the importance of *public pressure* and also higher level pressure by *international treaties*, which constitutes top-down change. Both have increasingly influenced the course of events in the twentieth century – because democratization gave a vote to the general public, and because the supranational level of political economy expanded substantially. *Public pressure* was an essential driver for the introduction of

35 Hall, "Policy paradigms."
36 Alston, "Beyond institutions," 359.
37 Jeroen van der Heijden, "Institutional layering. A review of the use of the concept," *Politics* 31, no. 1 (2011): 10.
38 Alston, "Beyond institutions," 355.

the post-war welfare state. Introducing welfare state laws had far-reaching economic effects and set in motion several types of incentive-based feedback loops. Of course, one can view the efforts of Lord Beveridge as an expression of leadership, and likewise the actions of politicians such as Willem Drees in the Netherlands. The Depression and the war can be seen as historic events that also form part of the explanation. In the 1950s and 1960s public pressure translated into the influence of trade unions and the influence of an electorate inclined towards social-democratic ideas. As Hemerijck writes: "The so-called "post-war settlement" between workers and employers can be viewed as the pragmatic and concerted post-war response to the disruptive, political and social crisis of the interwar period. Both organized capital and labour supported the welfare state and the Keynesian mixed economic order."[39]

Political systems also influence outcomes of the regulatory process. Proportional representation is more likely to lead to generous welfare states and consensual labour relations. Two-party systems with majoritarian rule lead to more right-wing governments and tend to allow larger changes in political trends or more radical change in formal institutions.[40] Is the nation state still the determinant force in institutional change? Yes it is, but by increasingly using their role as orchestrator of international treaties and supranational institutions, states also become subordinate to treaties they have signed themselves.[41]

9 Cartelization and Competition Policy

Let us now examine a classic example of Dutch economic history, a twentieth century topic that has received recurrent attention in the literature: cartelization and competition policy. Cartels can be placed in a tradition of entrepreneurial cooperation that we also observe in premodern guilds. As I briefly mentioned above, the debate on guilds shows that such employer cooperation can be viewed as either a positive or negative influence on economic growth.

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39 Anton Hemerijck, "Corporatist governance, the welfare state and European integration," in *Changing liaisons. The dynamics of social partnership in 20th century West-European Democracies*, eds. Karel Davids, Greta Devos, and Patrick Pasture (Brussels: Peter Lang, 2007), 41.

40 Torben Iversen and David Soskice, "Electoral institutions and the politics of coalitions. Why some democracies redistribute more than others," *American Political Science Review* 100, no. 2 (2006); Philip Manow, "Electoral rules, class coalitions and welfare state regimes, or how to explain Esping-Andersen with Stein Rokkan," *Socio-Economic Review* 7 (2009).

41 Robert D. Putnam, "Diplomacy and domestic politics. The logic of two-level games," *International Organization* 42, no. 3 (1988).

Likewise, views on cartelization develop over time and emphasize positive or negative effects of cartels on the macro economy.

In the early twentieth century Dutch economy, cartels were accepted (and embedded) in an informal context of cooperation and hierarchy. From the 1960s onward, however, they were layered and subsequently eliminated during the introduction of the common European market. Cartelization is an example of institutional change that is less dependent on leadership and more dependent on supranational policy changing the dominant beliefs. After the First World War, and increasingly during the 1930s depression, Dutch firms did not appreciate fierce competition. Employers feared a race to the bottom in prices, which would destabilize their position and favour foreign competitors. The government complied: it increasingly regulated and coached domestic competition. In 1935 an Act was passed that gave the government power to declare agreements between businesses either binding or non-binding. This Act had an impact on competition policy, as it meant that companies participating in cartels had legal protection and the other participants had to conform to the agreement. This prevented "unfair" competition. In 1937 the *Vestigingswet Kleinbedrijf* (an Act on the establishment of small businesses) was passed, creating a barrier to the entry of new firms and favouring the existing workshops and stores. In 1939 the so-called *Rijksbureaus* were introduced. These were vertical organizations that managed the value chain in a specific sector, from raw materials to distribution, forming a link between production and trade. Government interference in the private sector therefore increased, in close cooperation with lobby groups representing trade and industry.[42]

The government accepted and even favoured cartelization, because national cooperation could counter international competition. Industrial organization was encouraged and improved during the German occupation in 1940–1945, and cooperation was now used to serve the German war industry. In addition to the *Rijksbureaus*, in 1940–1942 "company groups" (*bedrijfsgroepen*) were organized parallel to the German system, in industry, trade, transport, crafts, banking and insurance. The older cartelization Acts were replaced by the *Kartelbesluit* (Cartel Decree). Thus, industrial organization in the Netherlands was strengthened during World War II, increasing the resemblance to German industrial organization.[43] In consequence of wartime planning and economic

42 Jan Bruggeman and Aart Camijn, *Ondernemers verbonden. 100 Jaar Centrale Ondernemingsorganisatie in Nederland* (Wormer: Inmerc, 1999) 165–171; Bram Bouwens and Joost Dankers, *Tussen Concurrentie en Concentratie. Belangenorganisaties, Kartels, Fusies en Overnames. Bedrijfsleven in Nederland in de Twintigste Eeuw,* Volume three (Amsterdam: Boom, 2012) 100.

43 Bouwens and Dankers, *Tussen Concurrentie en Concentratie,* 101–104.

regulation, cartels flourished. When in 1950 a preliminary framework was published for the Economic Competition Act (*Wet op Economische Mededinging, WEM*), cartelization was regarded as compatible with Dutch informal institutions and not something that required a complete overhaul. The WEM itself, which came into force in 1958, emphasized self-regulation and took a lenient stance on cartelization.

Typically, for most of the twentieth century in the Netherlands, cartels were not seen as a threat to the functioning of the market, but rather accepted as part of the traditional *laissez-faire* principle. Dutch anti-cartel laws were *anti-abuse* rather than *prohibitive* in nature: they were aimed at preventing the abuse of cartels. The fact that companies cooperated was acceptable as long as this did not harm the public interest. This also meant that their importance was usually underestimated. After the Second World War, the general climate of consensus and agreement in the Netherlands (dissenting views and open debates were not appreciated) encouraged arrangements between businessmen. The Dutch cartel situation was somewhat peculiar: cartels had to be registered, but the register was kept secret.[44] This conformed to the traditional Dutch belief in the benefits of business interest associations, and can therefore be seen as a characteristic of coordination: self-regulation was preferred to the invisible hand of the market. Change in the post-war decades came from outside: European legislation in the Treaty of Rome of 1957, particularly in the area of competition, was much more restrictive towards cartels. This caused the Dutch employers' organizations considerable concern during the late 1950s.[45] In 1964 vertical price agreements were banned. As a result of the EU's increasingly strict anti-cartel policy, a criminal connotation was attached to cartelization. Yet the practice of institutionalized consultation, the "polder model," remained unthreatened, even though it was also based on a high degree of employer organization.[46]

The Economic Competition Act (WEM) was considered much too tolerant towards cartelization, but it was a long time before it was succeeded by the Competitive Trading Act (*Mededingingswet, Mw*) of 1998, which explicitly prohibited cartels. From then on, there was a special authority to check compliance and safeguard free competition: the Dutch Competition Authority

44 R.T. Griffiths and W. Asbeek Brusse, "The management of markets. Business, governments and cartels in post-war Europe," in *Business and European integration since 1800. Regional, national and international perspectives*, ed. U. Olson (Goteborg: Goteborg University, 1997).

45 Bruggeman and Camijn, *Ondernemers verbonden*, 163.

46 Doreen Arnoldus, *In goed overleg? Het overleg over de sociale zekerheid in Nederland vergeleken met België, 1967–1984* (Amsterdam: Aksant, 2007), 42–45.

(*Nederlandse Mededingings Autoriteit*).[47] Cartel fines were energetically imposed by the European Union, and in 2016 they reached an annual record of 4.1 billion euros.[48] The new *Mededingingswet* concluded a process that had taken two decades. It represented both the effect of European integration and the acceptance of a more liberal economic paradigm.[49] During that period the number of gentlemen's agreements and cartels declined, in response to European pressure combined with the spread of new business strategies.

In fact, then, this specific type of coordination, which was not regarded as any kind of obstacle to the market, was forcefully abandoned due to top-down rules that embodied new views on international competition. It was not the choice of the private sector or the national government to reduce coordination, but rather the consequence of the larger move towards a common European market.

The reason behind the European pressure for free markets is that firms should not be allowed to organize themselves to boost profits and gain protection against the disciplining force of the market. But in response to foreign competition, cartelization could be a way to protect firms against the risk of a sudden loss of sales. Coordination had other advantages, too, some of which were even in the interest of the consumer, such as dense retail networks and secure jobs. While this may not have lowered prices or encouraged innovation, it certainly served the strategic purpose of ensuring the firm's continuity, allowed domestic innovative investment, and protected jobs. In the food and drink sector, cooperation supported a dense retail network that was very convenient for consumers, especially in times when people were much less mobile and there were fewer cars. By setting fixed prices for quality brands, the system allowed keen cost calculation.

In more recent times, a policy inspired by external threats and intended to safeguard international competitiveness of the national economy by encouraging cooperation between employers is a component of so-called *strategic*

47 In 2013 it merged with OPTA (*Onafhankelijke Post en Telecommunicatie Autoriteit*, which supervised and regulated the telecommunications market) and CA (*Consumentenautoriteit*, which checked that companies trade fairly with consumers) to form the *Autoriteit Consument en Markt* (ACM, Consumer and Market Authority).

48 This includes a 3 billion euro fine that EU Commissioner Margrethe Vestager imposed on a cartel of truck manufacturers, including DAF, for fixing prices. See *Het Financieele Dagblad,* 5 January 2017. In 2007 three of the most important Dutch beer breweries, Heineken, Grolsch and Bavaria, were fined 273 million euros for an illegal pact sharing out the Dutch market and keeping prices at a high level.

49 Bouwens and Dankers, *Tussen concurrentie en concentratie,* 218–226.

trade theory.[50] Regulating or obstructing free markets in an open economy is not as exceptional or foolish as the neoliberal paradigm suggests. "Strategic Trade Theory" (or "New Trade Theory") provides the rationale for interfering in the free market through subsidies, protectionism or domestic industrial policy, to assist producers in the global competitive market. During the pre-war decades and the 1950s, there was a certain pragmatism, aimed at securing business interests in an open economy. Sluyterman writes: "The cross-class coalition between employers and employees, which was supported by the government, encouraged the persistence of cartels in the Netherlands. [...] Only reluctantly did the Dutch accept the EU view that cartels were negative instruments and had to be curtailed."[51]

For a long time, institutional change in the area of business cooperation consisted of *layering*, adding new laws on top of older laws. Cartel agreements were made generally binding (similar to wage negotiations in collective labour agreements), so that practices that had developed in the private sector were enforced by law. New legislation, such as the 1958 Economic Competition Act, built upon this. However, the U-turn came from the European Economic Community, which had an entirely different view on cartels, introducing a *displacement*. Here the traditional consensus-seeking coordination was disrupted by a strong external force, disturbing the institutional path dependency. There are many similar top-down influences, through the communication of best practice and through international treaties. Examples include the climate treaties, but also multinationals introducing performance-related pay. In broad terms, national institutions are increasingly changing as a result of international influences.

10 Conclusion

Comparative capitalism classifies countries into categories on the basis of their economic institutions. Another criterion is the way institutional change is implemented in the national economy. The path of institutional change is typical of a specific variety of capitalism, since it reinforces or consolidates

50 Robert Gilpin, *Global political economy. Understanding the international economic order* (Princeton 2001) 122–123, 214–215; Chang, Ha-Joon, *Kicking away the ladder? Development strategy in historical perspective* (London: Anthem, 2002).

51 Keetie Sluyterman, "Introduction: Changing business systems in the Netherlands in the twentieth century," *Business History Review* 84, no. 4 (2010): 749.

the institutional choices. This is not uncontested, but the outcome of the decision-making process is significant. In the course of time, institutions are modified in response to structural changes in the economy. These changes can be the result of technological developments or demographic change, but also of changing beliefs, social pressure or intergovernmental agreements. Institutional change is associated with a specific institutional setting, because the very institutions that set economies apart also influence the type of institutional change that takes place. However, this connection is not clear-cut. Institutional change is also influenced by other factors, such as political systems, crises, internationalization of the economy and contingent events that require radical policy measures.

Immediately after the Second World War, the industrialized countries introduced institutional arrangements to improve the stability of their economies and prevent a breakdown of the kind that happened in the 1930s. Coordination and regulation were introduced in various ways. In each country a specific outcome resulted, a mixture of both existing traditions and new policy ideas.[52] Assessing the implications of institutional change for comparative capitalism, we suspect that coordinated market economies are more susceptible to *layering* and *conversion*, because their decision-making structure involves more stakeholders, whereas in liberal market economies the decision-making structure is leaner, so there are more possibilities for radical reform. In addition to leadership, propelling institutional change on the basis of changing ideas or beliefs, I outlined other mechanisms that drive change. Public pressure has become increasingly important in forcing institutional systems to change, as too has pressure from international treaties, which constitutes a top-down influence.

With an examination of the demise of Dutch cartels, I reviewed the international effect on institutions. Applying Streeck and Thelen's classification of types of change to the formal institutions relating to cartels, I observed a rather radical *displacement*, or formal change, in these institutions, after a lengthy period consisting mainly of *layering*. Defection from the old rules took place and a new approach was introduced. The change came from the European Economic Community, whose view on cartels was entirely different from that of the Dutch coordinated market economy. Consensus-seeking coordination was disrupted by a strong external force and a new economic understanding, which disturbed institutional path dependency. Only the slow pace of reform was a sign of persisting Dutch coordinating, consultative or deliberative institutions.

52 Barry Eichengreen, *The European economy since 1945. Coordinated capitalism and beyond* (Princeton, NJ: Princeton University Press, 2008), 419–420.

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