

# The Contingency of Corporatist Influence: Incomes Policy in the Netherlands

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## ABSTRACT

This paper examines the hypothesis that corporatist intermediation by party governments facilitates incomes policy formation and is effective in reaching agreements between employers and trade unions as well. A social democratic party in government would positively enhance this process. Investigating this for the Netherlands between 1965–2000, two puzzles emerge. The first puzzle is that coalition governments of Social and Christian Democracy fall short of expectations despite their commitment to corporatism. The second puzzle is that the relationship between Social Democracy and effective corporatist intermediation is positive but cannot sufficiently account for the variation in agreements on Dutch incomes policy. That variation can be better understood as induced by institutional change, economic development and external vulnerabilities. The Dutch case study shows that the performance of a social democratic party in government in a corporatist context is less directly effective than the literature often has suggested.

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## *Introduction*

The emergence of the purple coalition<sup>1</sup> governing the Netherlands (1994–2002) aroused new interest for corporatism in relation to partisan control of government (Slomp 2002; van Waarden 2002; Hemerijck 2003; Vergunst 2004; Woldendorp 2005). In large part this is related to the remarkable recovery of the Dutch economy from the Dutch disease to a Dutch miracle (Visser and Hemerijck 1997; Becker 2001). And its performance was remarkable: the Netherlands comfortably met the requirements for the introduction of the Euro in 1999 (the state debt was reduced and deficit spending disappeared); unemployment and inflation (the misery index) was comparatively low over time and across Europe (Woldendorp 2005: 225–6). In other words, politics mattered (again) in

the Netherlands and party government appeared capable of producing a comparatively successful performance by means of corporatist intermediation.

In the literature a number of factors are mentioned to account for this success: the first-ever emergence of a purple coalition between Social Democracy (PvdA) and conservative liberals (VVD) that heralded a fresh approach of party government without Christian Democracy (*Christen-Democratisch Appèl* – CDA) that always occupied the centre of gravity within the Dutch political system until 1994. This shift appeared as a result of a Third Way approach *avant la lettre*, and a more left-liberal leaning of the VVD (Pennings 2005). Another factor is the international recovery of the world market, and in particular of world trade (Scharpf 2001; Keman 2003). Lastly, the successful transformation of the employment structure in the Netherlands as a result of the continuing trend of de-industrialization (Esping-Andersen 1996; Keman et al. 2006).

Yet, although partisan factors may well have shaped the context for a successful recovery of the Dutch economy, these are insufficient to account for the Dutch miracle *per se*. For we have a puzzling situation at our hands: an essential component of Dutch socio-economic policy formation concerns corporatist interest intermediation, which has always been negotiated at the central level by means of party government. This phenomenon, often labelled the *polder model*, seems to have been conducted more effectively under the aegis of the Left (PvdA) and Right (VVD), and less when the CDA – the pivot of the Dutch party system until 1994 (Keman 1997: 103–110) – has been involved in government. This is surprising, for Christian Democracy is generally considered to be in favour of corporatist modes of policy concertation (Wilensky 1981; van Kersbergen 1997, 1999; van Waarden 2003; see also Smith 1988; Cox 1989, Lijphart and Crépez 1991). As Figure 1 illustrates, corporatism features prominently in Christian Democratic party programmes since the mid-1970s when the Dutch disease was considered to be at its worst.

Nevertheless, a PvdA-VVD coalition has been more capable to find consensus on incomes policy than coalitions in which the CDA was involved (Woldendorp 2005: 188). At first glance the Dutch case supports the comparative literature claiming that Social Democracy and corporatism act together in a favourable manner to produce a positive economic policy performance (Cameron 1984; Marks 1986; Kurzer 1991; Crépez 1992; Woldendorp 1997).

Why is it that coalitions dominated by the CDA are outperformed by coalitions dominated by the PvdA when it comes to a corporatist mode of incomes policy,<sup>2</sup> when this christian democratic party advocates corporatism and has been in government uninterrupted between 1965 and 1994?<sup>3</sup> In addition, how come that its competitors do not only do

better by using corporatism as a means to develop consensual types of incomes policy formation, but also appear to be more effective in reaching a Central Agreement<sup>3</sup> on incomes policy among the actors involved?

In order to find an answer to these puzzles we introduce a classification of corporatist behaviour of the three actors involved – government, employers’ organizations and trade unions – in the annual process of negotiations aiming at a Central Agreement on incomes policy. The classification allows for systematically comparing through time how the negotiations were conducted. The government’s strategy is operationalized as facilitating consensus formation or not (policy concertation). The attitude of the employer’s organizations and the trade unions is classified as more or less co-operative. In addition we recorded whether or not the strategy and attitudes of the actors involved did change during the negotiations (Woldendorp 2005: 109–10).

Based on the Table Appendix (annual scores) we have calculated the aggregated relationship between corporatist concertation and reaching a

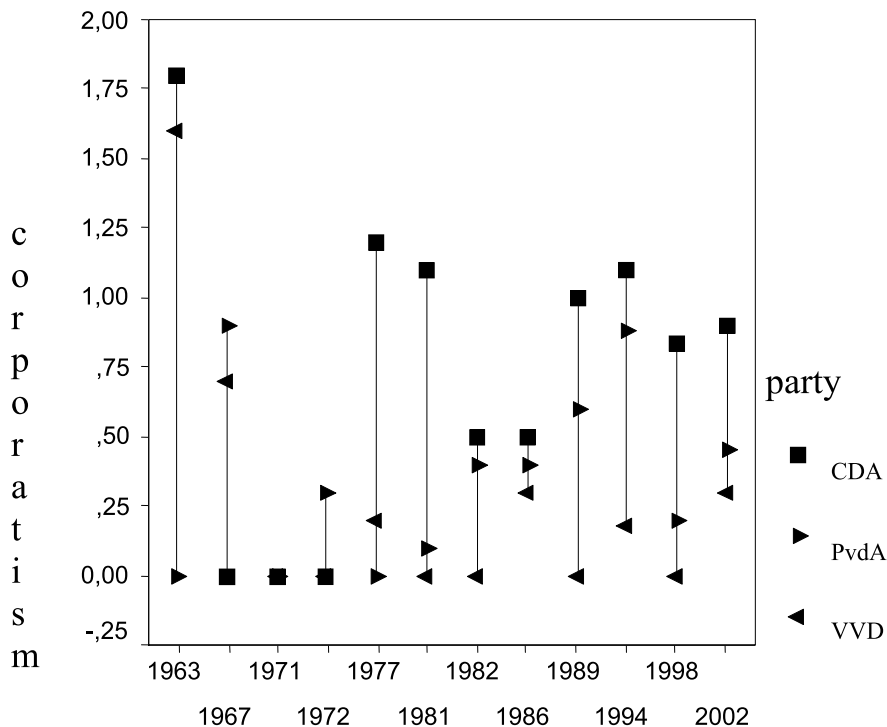


FIGURE 1 *Corporatism as an issue in election programmes of government parties*  
 Note: Corporatism based on Budge et al (2001: 224). CDA prior to 1977 is KVP, ARP, and CHU combined (see note 6).

Central Agreement by all governments. When government has been active to promote a corporatist strategy (53% of all cases), it appears this is indeed conducive to a positive outcome (31% of all cases). Conversely, when a corporatist strategy is not conducted then in only 8 per cent this is the case. Corporatist intermediation appears to matter in the Netherlands. This finding confirms the comparative literature.

What is puzzling, however, is the performance of the different coalition governments. First with regard to the implementation of a corporatist mode of incomes policy and second with regard to reaching a Central Agreement. When the PvdA was in coalition with the CDA a corporatist strategy was implemented in 63 per cent of the years, whereas a coalition of PvdA and VVD did so in all years (100%). Coalitions of CDA and VVD on the other hand employed a corporatist strategy in only 32 per cent of the years. The presence of a social democratic party makes a difference, whereas this is not the case with Christian Democracy.

The same goes for achieving a Central Agreement. When the PvdA is in coalition with the CDA, the success rate of *corporatist* strategies is 71 per cent (14% of all cases), whereas in coalitions with the VVD it is 67 per cent (11% of all cases). When the CDA is in coalition with the VVD the success rate of *corporatist* strategies drops sharply to 33 per cent (6% of all cases), but these coalitions appear to be more successful with their non-corporatist strategies: a success rate of 23 per cent (8% of all cases), bringing the overall success rate of all strategies of these coalitions to 26 per cent (14% of all cases).

In the Netherlands corporatist intermediation appears effective when government actively seeks this type of policy performance (31%), but CDA involvement does not live up to expectations, although CDA-VVD coalitions score some success with non-corporatist strategies as well. Conversely, Social Democracy in coalition with CDA as well as with VVD appears to perform better, both with respect to corporatist strategies as with Central Agreements. These puzzles beg for an explanation, for if different party coalitions and social partners do not consistently matter, other factors ought to be taken into account as well to explain the variation over time.

In line with other explanations we propose that these puzzles may be solved by focusing on macroeconomic development, institutional changes within the incomes policy framework, and limitations arising from the EMU requirements (Katzenstein 1985; Scharpf 2001; Cameron 2001; Iversen 2001). We argue that these exogenous factors allowed the coalition governments of PvdA and VVD of the 1990s to implement more corporatist strategies than many expected (and immediately labelled part of the Dutch miracle – see also Delsen 2002). We contend that the combination of macroeconomic circumstances and institutional changes

is quite important for a proper understanding of the eventual effectiveness of corporatist strategies of the different coalition governments in reaching Central Agreements. The main indicators with respect to economic development and institutional change are reported in Tables 1 and 2.

The Dutch disease in the 1970s and 1980s is indeed closely related to the increasing and lasting level of unemployment, deficit spending and a growing level of public debt. At the same time the openness of the economy increased considerably whereas economic growth was moderate. Together with the effects of the EMU requirements this has led to a reorientation of fiscal policy formation, whereas wage formation remained at the core of economic policy formation (Scharpf 2001; Keman 2003).

The institutional framework of incomes policy has been regularly changed since 1965. The formal context (Law on Wage Formation) has been conducive to a relaxation in the mode of industrial relations in the Netherlands. Gradually, the guidance by the state has been replaced by a structure that allows more freedom to the social partners to negotiate. An important element is the decentralization of negotiations and the development of bi-partite agreements (in particular since the 1980s: the Wassenaar Agreement in 1982 and the amendments to the Law on Wage Formation in 1986). Finally, the linkage of market sector wage levels to the public sector (including income transfer entitlements) is introduced during the 1970s and changes regularly.<sup>4</sup>

TABLE 1: *Indicators of macroeconomic vulnerabilities (1965–2000)*

<i>Year</i>	Macroeconomic Indicators					
	Unemployment	Inflation	Openness	Growth	Deficit	Public Debt
1965	0.6%	4.0%	84.7%	5.2%	− 1.4%	39.2%
1970	0.9	3.6	91.5	5.7	− 1.4	49.4
1975	4.0	10.2	96.1	− 0.1	− 2.2	40.2
1980	6.0	6.5	112.5	1.2	− 4.2	45.1
1985	7.9	2.3	116.8	3.1	− 3.6	68.7
1990	5.9	2.5	113.6	4.1	− 5.1	75.6
1995	6.6	1.9	108.9	2.3	− 3.7	75.5
2000	2.7	2.3	129.6	3.5	+ 0.4	55.9
Mean	4.3	4.2	106.7	3.1	− 2.7	56.2
Change 1965/2000	3.7	− 1.7	44.9	− 1.7	1.8	16.7

Sources: Woldendorp (2005) based on OECD and Comparative Political Dataset I (Armingeon et al. 2005). Note: *Unemployment*: Standardized unemployment rates as per cent of the total labour force. *Inflation*: Consumer price index, per cent change from previous year. *Openness*: Sum of total import and export in per cent of GDP. *Growth*: Annual real economic growth in percentage of GDP. *Deficit*: Public expenditures minus total revenues in percentage of GDP. *Public Debt*: General government gross public debt in per cent of GDP.

To sum up: we contend that Dutch corporatism is at best a favourable institutional arrangement for developing and implementing an incomes policy. The political room for manoeuvre (composition of coalition), on the one hand, and the economic circumstances, on the other hand, are important factors determining both party government's pursuit of a (non) corporatist strategy as well as its success (Central Agreements).

This line of argument implies that we – unlike other students of corporatism<sup>5</sup> – see corporatism and its policy related performance as a variable based on strategic choices of party government and social partners and not as a more or less static institutional arrangement within a polity (but see Siaroff 1999; Vergunst 2004). To underscore this empirically we will analyse the Dutch performance by examining the annual outcomes of the negotiations on incomes policy in relation to the role played by government and social partners.

The structure of this paper is as follows. Section 2 discusses the formation of Dutch coalition governments. Section 3 deals with part one of the puzzle: the use of various corporatist and non-corporatist strategies across different party coalitions after 1965. In section 4 part two of

TABLE 2: *Institutional change within bargaining framework on incomes policy*

Year	Law on Wage Formation	Decentralization of negotiations	Linkage mechanism	Strike Behaviour
1965	Relaxation of guidance nation-wide wage levels	Decentral agreements optional	None	7.7
1970	Free negotiations formalized by law with restrictions: Clause 8 and 10	No change	None	13.6
1975	Clause 8 'frozen' and 10 operational	No change	Linkage	35.2
1980	No change	No change	No change	26.0
1985	Wassenaar Agreement between social partners enforced and endorsed by government	Bi-partite negotiations encouraged and market sector decentralized	Delinkage	19.0
1990	Law of 1970 amended (1986) reducing government interference	No change	Temporary relinkage	11.2
1995	No change, but reduction role of SER and EMU requirements enforced	No change	Temporary delinkage	28.6*
2000	No change	No change	Temporary relinkage	4.4

Note: Derived from Woldendorp 2005. Strike behaviour: number of working days lost per 1.000 employees (average for the previous five years: 1965 = average 1961–1965 and so on) taken from Armingeon et al. 2005.

\*The average 1991–1995 is mainly due to one strike of long duration in 1995. The average for 1991–1995 corrected for this outlier would be 10.5.

the puzzle is discussed: assessing for the variation in effectiveness of corporatist strategies of the various coalition governments. By way of conclusion, in section 5 the role of corporatism and Social Democracy will be reassessed in view of effective policy concertation.

*Dutch coalition government: Governing from the centre?*

Although Christian Democracy and Social Democracy have often been together in government, this does not mean that they are by definition coalition partners. In Figure 2 the relative distances on the Left-Right dimension between the three main governmental parties in the Netherlands are pictured. The CDA has been the party of the centre ever after 1965. After 1982, policy distances between Left and Right have diminished and the three main parties were converging.

Due to the multi-party system the CDA has been able to dominate government formation. Until 1994 the CDA alternated between Left and

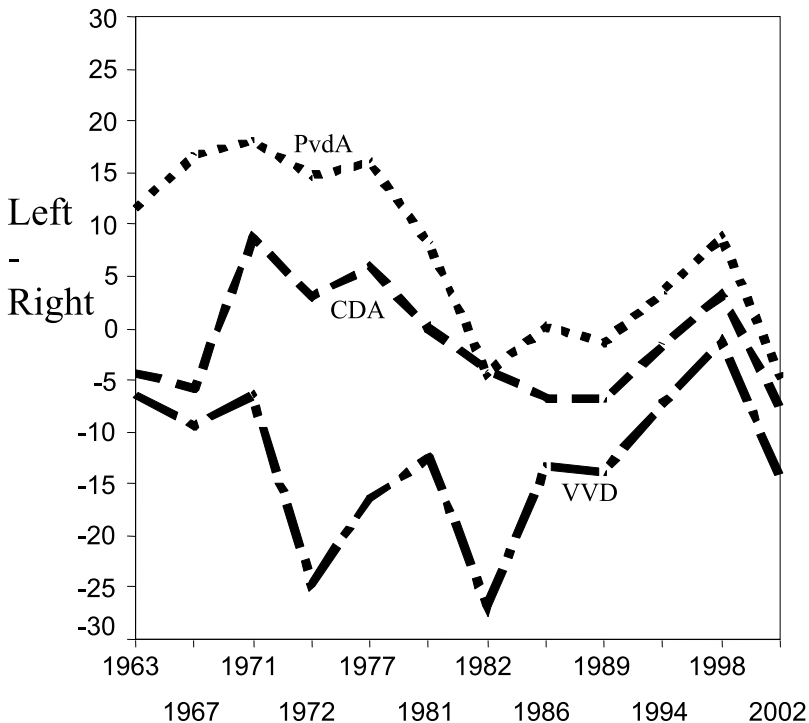


FIGURE 2 *Left-Right differences between parties of government*

*Note:* Left-Right index developed by Pennings and Keman (2003: 55), based on Budge et al (2001). CDA prior to 1977 is KVP, ARP, and CHU combined (see note 6).

Right. Contrary to the comparative literature, assuming that the relationship between Social Democracy and corporatism is based on its dominance in government, the Dutch labour party was hardly in a commanding position in government. In addition, the PvdA did not prevail in the so-called socio-economic policy sector in government (i.e. controlling the ministries of Finance, Economic Affairs and Social Affairs – the latter responsible for matters of incomes policy). Only after 1994 – the era of PvdA and VVD coalitions – this situation changed to some extent: the social democrats held the Premiership as well as the Ministry of Social Affairs (Woldendorp et al. 2000: 400).

The political landscape already underwent certain changes before that time. These developments involved the fragmentation of the established, pillarized party system after the 1960s. During the 1970s the three confessional parties<sup>6</sup> always chose to govern with the VVD unless they lost their combined majority in parliament. Under these circumstances the PvdA conducted its polarization strategy, believing that the eventual decline of the confessional parties would result in a transformation of the party system in which both the PvdA (left) and the VVD (right) could prosper. In addition, the natural allies of Social Democracy – the trade unions – not only merged (the Catholics and the Social Democrats), but also were quite militant in the 1970s (Table 2). This did not help tri-partite negotiations until the 1980s. In sum: in the 1970s and early 1980s, coalition governments went back and forth between centre-left coalitions of CDA and PvdA and centre-right coalitions of CDA and VVD and had to negotiate with social partners that were reluctant as well as hostile (Andeweg and Irwin 2005).

In the 1980s and early 1990s, the CDA remained both the dominant and central party in parliament and government and determined whether it was to be a centre-right coalition with the VVD, or a centre-left coalition with the PvdA. After 1982, when the PvdA had abandoned its polarization strategy following the short-lived coalition in 1981–1982, the CDA considered the PvdA to be a potential coalition partner again. This led to a coalition between CDA and PvdA in 1989. The next election (1994) turned out to be disastrous for both parties. However, the CDA lost more seats than the PvdA, which became the largest party in parliament. The centre-left coalition of CDA and PvdA was replaced by the purple coalition in which PvdA and VVD co-operated. For the first time since 1917, the CDA (or one or more of its forebears) was not in government. And for the first time since 1951, PvdA and VVD were together in government. Figure 2 illustrates that this novelty was slowly in the making: both parties were never so close to each other in terms of the Left-Right distance since the 1960s. Finally, it should be realized that a change was needed in view of mediocre economic



circumstances and the high levels of deficit spending and public debt compared to the EMU requirements that were set in 1992. These circumstances led to debates on welfare state retrenchment and active labour market policies (Keman et al. 2006).

In most coalition governments not only the party composition is at stake, but also the distribution of portfolios among the participating parties. In particular for government coalitions with more or less equally strong partners (Laver and Shepsle 1996; Müller and Strøm 1999; Keman 2006). The Netherlands is not different in this respect. In Dutch coalition governments, the distribution of portfolios is in general largely proportional to the respective party’s seats in parliament. Larger parties usually get slightly fewer portfolios than their seats in parliament, smaller parties slightly more (Woldendorp et al. 2000: 395–401). With respect to the ministries claimed by respective coalition parties, the largest party usually takes the post of Prime Minister. Equally relevant is, that in coalition with the PvdA or the VVD, the CDA (or its precursors) always took the portfolio of Social Affairs (which includes Labour relations), the ministry that is directly responsible for incomes policy<sup>7</sup> (see Table 3).

It was only in the purple coalition after 1994 with the VVD and D66 (*Democraten66*), that the PvdA became the dominant party in government and held both the office of Prime Minister and the Ministry of Social Affairs. But the PvdA did not dominate the socio-economic policy sector, as the CDA used to do. In coalition governments before 1994, the CDA was the dominant party in government and primarily responsible for incomes policy. In other words, the hypotheses governing international research into the relation between Social Democracy and corporatism appear to apply in the Netherlands mainly to the years after 1994. However, as both Social and Christian Democracy are in favour of

TABLE 3: *Features of party government and policy control (1965–2000)*

Indicators	Government party		
	CDA	PvdA	VVD
Years in government	83%	47%	69%
Having the Premier-ship [N = 36]	70%	30%	0%
Parliamentary support [average]	56%	67%	56%
Control of Social-Economic Policy Sector	52%	9%	39%**
of which Social Affairs (including Labour)	75.0%	25.0%	0.0%

Sources: Woldendorp et al. (2000: 395, 399–401); Andeweg and Irwin (2005).

Note: Calculated by Number of years (36) and Number of governments (12).

\*\*Includes ministers of D66 (N = 2), a minor secular party positioned between PvdA and VVD.

corporatism, the variation across all coalition governments between 1965–2000 as regards corporatism and effective incomes policy concertation makes our puzzles only more intriguing.

*The Dutch puzzle part one: Accounting for variation in government strategies*

In this section we focus on the relationship between the partisan composition of government and their use of a corporatist strategy to develop and implement incomes policy. The puzzle is that although there is a strong tradition of corporatist policy concertation in the Netherlands which is promoted by its two largest parties (Fig. 1), this appears not as effect producing when both parties are in government together. This observation is in contrast with much of the literature on corporatism and the role of party government (in which the Dutch case is almost always prominently present). Therefore, so we argue, other factors ought to be taken into account to explain the inter-temporal variation in the Netherlands. We shall first scrutinize the way the three coalition types have utilized the corporatist mode of interest intermediation to further incomes policy formation in terms of their opening and concluding strategies.<sup>8</sup>

*CDA and PvdA in coalition: Good intentions but limited success*

Between 1965 and 2000 CDA and PvdA were in coalition for 11 years. As the table in the Appendix shows this coalition pursued respectively an opening (7 times – 64%) and a concluding corporatist strategy (7 times – 64%). However, in four years (36%) these coalitions concluded with a non-corporatist strategy. In these four years (1966, 1974, 1976, and 1992) social partners were either unable or unwilling to come to an agreement on incomes policy on the central level.

In 1966, trade unions and employers' organizations looked to the government to break the deadlock in their negotiations. The government therefore determined incomes policy in this year. That government intervention has to be viewed against the backdrop of the demise of the centralized, government directed incomes policy since 1965. All actors had some difficulty in adjusting to the new institutions. The inability of social partners to reach an agreement made them look to the government to solve their problems. The government in turn did not hesitate to act as a principal by determining incomes policy as all coalition governments of all persuasions had been accustomed to do prior to 1965. To put it in other words, old habits die slowly. Clearly, the new institutions were not yet internalized.

The non-corporatist government strategy in 1974 and 1976 on the other hand, must be understood within the context of the macro-

economic effects of the first oil crisis of 1973. As social partners could not come to an agreement in 1974 and 1976 due to their widely differing preferences and views how to react to the effects of the oil crisis, the government felt compelled to take over incomes policy in an effort to counter these negative macroeconomic effects (see Table 1).

Sixteen years later, in 1992, the context for negotiations on incomes policy was markedly different. Negotiations were decentralized, whereas deficit reduction (in view of the EMU (European Monetary Union<sup>9</sup>) restrictions) was the government's primary concern. All three parties went their separate ways. Central negotiations did not take place. Negotiations at that time were decentralized and resulted in compromises between trade unions and employers' organizations in which trade unions managed to get their way to a large extent. As the government's policies with regard to the (semi-) public sector (deficit reduction) were not in jeopardy – the linkage<sup>10</sup> between market sector and (semi-) public sector was only partially restored (see Hemerijck 2003: 53ff; Woldendorp 2005: 160–61), the government left responsibility for incomes policy in the market sector to social partners.

The non-corporatist government strategies employed by coalition governments of CDA and PvdA can be explained by the peculiarities of negotiations on incomes policy in the years in which these strategies were employed. In all four years, social partners could either not come to an agreement on the central level, or did not want to negotiate on the central level. In 1966, the government reacted by reverting to the trusted pattern of the centrally directed incomes policy and imposed incomes policy. In 1974 and 1976, the government also responded by imposing incomes policy, but this time it was an emergency policy to boost the economy in order to counter the macroeconomic effects of the 1973 oil crisis. Lastly, in 1992, the government remained passive with regard to incomes policy in the market sector because there was no immediate threat of a spill over from that sector to the (semi-) public sector.

This discussion of the non-corporatist government strategies of governments of CDA and PvdA indicates that it was a combination of macroeconomic circumstances and institutional change with regard to incomes policy (from guided to free incomes policy, linkage-delinkage and EMU) that seems to account for the actors' behaviour and led these governments to implement non-corporatist government strategies. Our conclusion is that there is reason to argue that when Social Democracy is in government together with Christian Democracy co-operation and consensus is indeed promoted, but that this endeavour is quite sensitive to economic mishaps, the attitude of social partners and institutional constraints.

*CDA and VVD coalitions: Inactive, passive or directing?*

Recall that we hold the low performance of the CDA with regard to corporatist government intermediation as puzzling. Although the CDA was the dominant party whilst in government (see Table 3), a CDA-VVD coalition actively pursued an opening corporatist strategy in 56 per cent (10) of the 18 years they were in office together (Table Appendix). This figure decreased to 33 per cent (6), implying that apparently centre-right coalitions tended to choose the stick rather than the carrot for the concluding strategy. The non-corporatist strategies of these governments were concentrated between 1967 and 1972 and between 1980 and 1986. What happened in these periods?

*From government control to free negotiations: 1967–1972*

During these years the institutional context of industrial relations shifted quite strongly. After 1965 there was a gradual transition from a centralized, government directed incomes policy to a free incomes policy. After the demise of the centralized, government directed incomes policy of the period 1945–1965, the search was on for a new system and procedure of central negotiations on incomes policy. The aim was to find a system that left negotiations between trade unions and employers' organizations free from continuous binding government intervention, but at the same time produced a moderate incomes policy. In 1970, the system of free negotiations on incomes policy between trade unions and employers' organizations was formalized in the Law on Wage Formation. However, government reserved the authority to intervene in these negotiations. Based on clause 8, government could still intervene directly in individual collective contracts, as opposed to not declaring them binding. And clause 10 gave government the authority to impose binding general measures. Due to stiff opposition by the trade unions, clause 8 was in effect not used.

Trade unions and employers' organizations had some difficulties to adjust to the new situation after the demise of the centralized, government directed incomes policy. Their continued inability to reach agreement reinforced the habitual tendency of governments of all persuasions to take over again the determination of incomes policy as they were used to do from 1945 until 1965. This seems to have been the case in 1967, 1969, and also 1970 when the government concluded its involvement in the negotiations on incomes policy with a binding non-corporatist strategy.

However, 1970 is a special case. Negotiations on incomes policy were easily concluded with a bipartite Central Agreement between trade unions and employers' organizations. The conflict between trade unions

and the government on clause 8 of the Law on Wage Formation spilled over to incomes policy negotiations as well and resulted in trade unions and employers' organizations refusing to co-operate with the government on incomes policy. This induced the government to unilaterally intervene in the Central Agreement on price indexation with a binding intervention. This time, it was *not* the unwillingness of social partners to reach an agreement, but there was a political conflict between trade unions and the government that got in the way of the implementation of the Central Agreement that was reached.

In 1968, 1971, and 1972, on the other hand, the government concluded its involvement in negotiations on incomes policy by means of a passive strategy to give social partners the opportunity to come to a negotiated agreement. In 1971 and 1972 the negotiations between social partners broke down in large scale strikes and other industrial conflicts.

Incomes policy in 1971 was completely determined by the effects of a number of wild-cat strikes that started in the ports of Rotterdam and were taken over by the trade unions. The government started with taking a firm stand on wages, but retracted its proposed package to give trade unions and employers' organizations a chance to come to an agreement. In addition, the government promised not to make use of clause 8 of the Law on Wage Formation to facilitate central negotiations. However, central negotiations broke down, employers' organizations refused to negotiate and asked the outgoing government to intervene. The government duly intervened with a policy package that included a binding wage measure. Trade unions resented this intervention and redressed its effects after expiration. The incoming government wanted to patch-up relations with the trade unions and to give a new procedure for negotiations on incomes policy devised by the SER (*Sociaal Economische Raad* – Social and Economic Council), a fair chance. Consequently, the previous government's binding policy package was retroactively abolished, and the incoming government refrained from further intervention in incomes policy.

In 1972, the government did not intervene in incomes policy in order to give the new procedure devised by the SER a fair chance, although central negotiations broke down before they had even properly started. Employers' organizations refused to negotiate a Central Agreement. Negotiations continued on the decentral level, accompanied by strikes.

In this period, it was the combination of institutional changes in the annual process of negotiation and implementation of incomes policy and the behaviour of the actors involved that determined the outcome of that process. Government strategy aimed at bringing social partners to a Central Agreement, either by force (a binding top-down strategy) or by persuasion and negotiation (corporatist strategy). Due to the different

preferences of social partners, the process of negotiations frequently led to deadlocks, making Central Agreements not feasible. There was, apparently, little trust (den Butter and Mosch 2003) and communication between actors. The government, therefore, in the end was left with two options. Either to take over incomes policy to end the confrontations and deadlocks between social partners by reverting to the trusted pattern of the centralized, government directed incomes policy of before 1965, or to leave social partners to their own devices and refrain from intervention. Before 1970, the government usually opted for directing incomes policy. After 1970, with the introduction of the new Law on Wage Formation, the government opted for the passive strategy and refrained from intervention in an effort to give the new system of negotiations on incomes policy a fair chance.

*Crisis management of a changing economy: 1980–1986*

Government strategy in this period has to be understood within the context of the effects of the two oil crises in 1973 and 1979/80 on economic developments and incomes policy. After 1974, incomes in the market sector and in the (semi-) public sector had become firmly linked. However, in the wake of the severe economic recession between 1981 and 1983, government delinked the (semi-) public sector from the market sector (1983–1989) and reduction of the budget deficit by reducing the (semi-) public sector became the government's main policy aim, albeit with little success (Table 1; Green-Pedersen 2001).

In the period 1980–1982, the economic situation gradually worsened, as an effect of the second oil crisis in 1979/80 and the emerging de-industrialization (Maddison 1991). Incomes policy in these years was determined by the government's policy programme that aimed at a reduction of the rapidly increasing budget deficit. To that effect, incomes policy in the market sector had to result in moderation. Because of all the linking mechanisms between the market sector and the (semi-) public sector, a moderate incomes policy in the market sector made it more feasible to achieve moderation in the (semi-) public sector as well. This in turn would contribute to a reduction of (the rate of increase of) the deficit. To reach this objective, co-operation *and* collaboration of social partners was required.

Trade unions and employers' organizations were, however, unable to reach any Central Agreement, although they came quite close in 1980. The main obstacle was their widely differing views on how to tackle the economic problems that led to the ever growing budget deficits. Neither party was prepared to give an inch on the issue of incomes. Consequently, to reach its objective of a reduction of the deficit, government took the lead in incomes policy in these years. Given the combined effect

of the economic crisis and the linkage between market sector and (semi-) public sector on macroeconomic performance and the government's budget on the one hand, and social partner's inability to reach agreement on the other, leaving incomes policy to social partners was no option. In addition, a corporatist strategy seemed not feasible.

Nevertheless, government refrained from intervention in incomes policy between 1983 and 1986. This behaviour was the effect of the *Wassenaar* Agreement that determined incomes policy in the market sector in these years. The *Wassenaar* Agreement was struck between trade unions and employers' organizations in 1983 under strong pressure by the incoming government led by Lubbers (CDA). The main aim of social partners was to keep the government out of incomes policy in the market sector that had been completely government directed between 1980 and 1982. The agreement effected an exchange between price compensation and working hours. This exchange resulted in wage moderation in the market sector. Through all linking mechanisms this moderation extended to the (semi-) public sector as well. All in all, this gave the government some breathing space to develop a new policy package as regards incomes policy for the (semi-) public sector. First, in 1983, all linking mechanisms were put on hold. Next, in 1984, a cut in real terms of wages, pensions and benefits in the (semi-) public sector was implemented. On the issue of incomes policy, negotiations in the market sector were minimal as most collective contracts struck in 1983, covered 1984 as well. The government, therefore, did not need to intervene in incomes policy in the market sector.

In 1985 and 1986, the government continued its programme of cuts in the (semi-) public sector. Some of these cuts affected the market sector as well. Central negotiations did not result in any bipartite or tripartite agreement. Decentral negotiations were characterized by strikes and other industrial conflicts in which trade unions tried to redress at least part of the government's policy package. For example, the collective contracts were in fact tit-for-tat compromises: government cuts in social security were repaired, but at the cost of the trade unions' demands for a 36-hour working week. Instead, they had to agree to the continuation of other forms of reducing the working week, like early retirement, part time jobs, more holidays, and the like. Real wage rises were no real issue and quite a few collective contracts struck in 1985 again covered two years instead of one. Although trade unions managed to redress the effect of the government's policy package, and costs for employers went up, the net result remained wage moderation, which was the aim of government policy. The scarce resources available in the market sector had to be used to redress the government's austerity measures, instead to increase wages. And, with all linking mechanisms put on hold, there was no danger of a

spill-over to the (semi-) public sector. Consequently, for the government there was no incentive to intervene actively in incomes policy in the market sector.

In the 1980s centre-right governments clearly choose a different mode of involvement in incomes policy. Rather than attempting to actively guide the process of reaching an agreement that we characterize as corporatist, it developed a new set of guidelines (institutions) in order to manage the crisis of the budget deficit in a situation of a recession that was graver than ever before. This very period can thus be characterized as both passive and directive, but not corporatist. This resulted in an institutional change, where government allowed decentralization of negotiations, and forced a delinkage of market induced incomes from the (semi-) public sector. Institutional change and macro-economic developments obviously have been conducive to a different pattern of government intervention in incomes policy in the Netherlands (Table 2).

*PvdA and VVD governments: The era of purple politics (1995–2000)*

In contrast to the 1980s, the purple coalition took a different road to coalesce social parties into its policy-making efforts. Instead of controlling from a distance, but setting (strict) rules that defined the room to manoeuvre of the social partners, the coalition returned to the strategy of a corporatist government intermediation in all years it was in office (see Table Appendix). Several reasons can be mentioned to understand this change of mind and policy. Government strategy in this period has to be understood within the context of the preparation for the Euro in 1999, coinciding with the economic recovery after 1994. Applying the EMU criteria meant that the government's policy continued to aim at a reduction of the budget deficit and the state debt. Economic recovery at the same time ensured the continuation of a partial and ad-hoc relinking of the market sector and the (semi-) public sector during this period, but for the year 1995 (Table 2; Slomp 2002; van Waarden 2003).

In 1995, central negotiations on (un)employment and wage moderation did not lead to a Central Agreement. Especially the government's delinking of wages and benefits in the market sector and the (semi-) public sector was rejected by the trade unions. Nevertheless, parties agreed to a joint investigation how to create more jobs as an input for negotiations in 1996. In exchange, social security premiums and other levies were lowered to prop up buying power. Although decentral negotiations on incomes policy were characterized by strikes and other conflicts, the wage demands were met to a large extent. In other words, without a Central Agreement consensus and compromise were found at the decentral level.



Apparently, the first year of economic policy-making by the purple coalition has been – in retrospect – characterized by developing a new practice of negotiating incomes policy. Instead of developing overall packages at the central level another game was played: government more or less kept its distance, but provided guidelines (derived from the EMU criteria), on the one hand, and, on the other hand, means to develop active labour market policies (Visser and Hemerijck 1997; Keman 2003). The negotiations were shaped in two ways: one, tit-for-tat became a rule of the game that was practiced; two, if a stalemate arose then another rule was introduced: taking-it-in-turns – meaning that the one-year round of negotiations were less constraining than before to come to an agreement (Scharpf 1998; Keman 1999).

Taking into account the positive economic circumstances and the enlarged institutional room for all actors to manoeuvre, the purple approach has clearly paid off in terms of corporatist intermediation. In our view, this results from the institutional changes in the annual process of negotiation and implementation of incomes policy through the partial and ad hoc relinkage of incomes in the market sector and incomes in the (semi-)public sector. Together with a strict budgetary discipline enforced by the EMU criteria, and the economic recovery, the behaviour of the actors involved could be disciplined to play the new game. In the end, this determined the outcome of that process. Non-corporatist government strategies appeared not an option. A passive attitude by government was no option given the requirements of the EMU that demanded active intervention in a relinked incomes policy to uphold budgetary discipline. A binding strategy was also no option given the conditional character of the relinkage and an economic recovery that precluded binding government interventions in incomes policy. In summary: we contend that both government and social partners played the game that was most likely the best practice.

#### *Conclusion of the Dutch puzzle part one*

The combination of macroeconomic circumstances and the institutional rearrangement of the process of negotiations on incomes policy are important to understand the puzzle of variations in government strategy. In our view it is the socio-economic context of an open economy (Katzenstein 1985) that is contingent on complex policy-making (Scharpf 1998). In the 1960s macroeconomic circumstances were favourable, but the change from a centralized, government directed incomes policy to a free incomes policy frequently led to conflicts between social partners. Coalition governments of CDA and VVD tried to solve these conflicts during negotiations, but as that proved usually unsuccessful, in

the end these governments quite often reverted to a non-corporatist strategy.

In the late 1970s and early 1980s, these coalition governments had to contend with a severe deterioration of macroeconomic performance that was exacerbated by the institutional linkage between the market sector and the (semi-) public sector. Despite all attempts, these governments usually did not succeed in bringing social partners to an agreement (Table Appendix). In the end they therefore usually reverted to the *binding* strategy. After the de-linkage in 1983–84, these governments reverted to *passive* strategies.

In summary, we have demonstrated that the annual negotiations leading up to finding an agreement between government and social partners are influenced by macro-economic developments and the institutional changes that were introduced by the government (a change from guided to free incomes policy, decentralization of negotiations, linkage and delinkage of market and semi-public sectors as well as reformations of laws covering wage settlements). It is this patterned variation over time that allows us to understand the puzzling relationship between the colours of coalitions and their choice of strategy. 'It is', to quote Clinton, 'the economy, stupid!'. The cyclical developments as well as the openness of the Dutch economy shape the political room for manoeuvre of government. This interplay of circumstances and political action to a large extent solves the puzzling variation of the politics of corporatist intermediation that we have analysed.

#### *The Dutch puzzle part two: Social Democracy and corporatist policy performance*

It is obvious from the Dutch data that social democratic participation in government appears to be more effective in achieving a Central Agreement. Corporatist strategies of coalitions in which Social Democracy participated were twice as effective (71% and 67% respectively) as other coalitions (33%) (calculations based on Table Appendix). It appears that the international hypothesis as regards the positive role of Social Democracy is a tenable one. However, the data also show that non-corporatist strategies of CDA-VVD governments were more effective (23%) than non-corporatist strategies of coalitions in which Social Democracy participated (0%). In this section we shall therefore focus more closely on policy performance when the PvdA is in office and when not.

#### *Social Democracy and effective corporatist intermediation*

Arguably, if the relationship between Social Democracy and corporatism is to be scrutinized in view of the eventual results, we ought to distinguish

between coalition governance by the PvdA before and after 1995. Before, the PvdA was never dominant in the socio-economic policy area.

Bearing this in mind, two conclusions can be drawn from the data. First, corporatist intermediation by itself does not necessarily lead to Central Agreements. Second, the interaction between concluding corporatist strategies and resulting Central Agreements is not dramatically different in both periods: 71 per cent as compared to 67%. The *polder model* of the purple coalition of PvdA and VVD was not more effective than previous coalitions of CDA and PvdA.

The main difference between Social Democracy in government and not is that governments with the PvdA have been more persistent than those without the PvdA in pursuing a corporatist solution throughout the whole period. To illustrate this point: the percentages for the whole period are: CDA and a corporatist opening strategy is 57 per cent versus the PvdA 76%. In addition, CDA and a corporatist concluding strategy is 43 per cent and for the PvdA again 76%. In other words: governments with the PvdA are clearly more persistent in finding a consensual solution, whereas governments without the PvdA revert to a more authoritative type of problem solving (calculations based on Table Appendix).

We conclude from this comparison that Social Democracy in the Netherlands matters as regards corporatist intermediation and ensuing Central Agreements. The performance rate of Social Democracy is higher over the whole period. But how can we explain the difference between governments with and without the PvdA? And how can we explain that these governments' non-corporatist intermediation was more effective?

#### *Corporatist intermediation of CDA and VVD governments*

We will discuss the effective corporatist strategies of CDA and VVD coalition governments in 1965 and 1987, as well as the ineffective corporatist strategies of these governments in 1973, 1979, 1988, and 1989. This elaboration will support our contention that the combination of macroeconomic circumstances and institutional changes appear to be related to the effectiveness of the behaviour of both governments and social partners.

Effective corporatist intermediation by CDA-VVD coalitions were few and far between. In addition, the macroeconomic and institutional contexts were markedly different. In 1965, in the context of a positive macroeconomic performance (Table 2), the first steps toward a free incomes policy were tentatively taken. The government was consistently involved as a third party in the annual process of negotiations on incomes policy and tried to broker at least a bi-partite, but preferably a tri-partite

Central Agreement between trade unions, employers' organizations and the government. When negotiations bogged down in a deadlock, it was the government that resolved the deadlock with a proposal that was grudgingly accepted by both parties. Social partners were testing each other's strength and had to be assisted by the government to reach a compromise.

In the late 1980s, in a context of severe macroeconomic and budgetary problems, incomes policy in the (semi-) public and private sectors had been delinked. The government's main policy aim was reduction of the budget deficit, and reducing the levels of social security benefits was an important policy instrument. As a consequence, negotiations on incomes policy in the market sector were decentralized, whereas central negotiations primarily featured employment (and social security) issues. In 1987, the government finally managed to get trade unions and employers' organizations to participate in a tripartite Central Agreement in which parties renewed their commitment to previous bipartite and tripartite agreements on employment policies. Decentral negotiations on incomes policy resulted in a tit-for-tat exchange between working hours and social security benefits.

Ineffective corporatist intermediation by CDA-VVD coalitions were all due to disagreement with and between social partners, although the macroeconomic and institutional contexts differed. The Central Agreement in 1973 was a classical case of reordering or compensating preferences based on each actor's agenda. The successful reordering at the national level, however, ran into difficulties with the rank and file of the national organizations during implementation. Although social partners at the national level had agreed to a reordering of preferences, arranged by the government's corporatist intermediation, they could not deliver at the decentral level.

In 1979 social partners refused to conclude a Central Agreement based on the government's policy package that included public sector spending cuts as well as incentives for the trade unions. These remained opposed to an agreement. The government stuck to its corporatist strategy and even enlarged its proposed package as it did not want to sour its relations with the trade unions any further so soon after it had come to power (see Table Appendix).

In the 1980s, in a context of severe macroeconomic and budgetary difficulties, incomes policy in the (semi-) public sector had been delinked from that in the market sector. The government's main policy aim was reduction of the budget deficit. Reducing social security benefits was an important policy instrument. In that context, the government's corporatist strategy was unsuccessful in bringing social partners to an agreement. In 1988, employers' organizations rejected any Central Agreement. Their

agenda differed fundamentally from that of the trade unions. Government policy could not bridge the gap and central negotiations on incomes policy broke down. Nevertheless, based on the government's policy package, a number of joint working parties on employment issued reports that served as a basis for decentral negotiations. The government encouraged decentral negotiations on incomes policy as well as central consultations on employment issues by offering compensatory corporatist policies. As the linkage between the market sector and the (semi-) public sector was still severed, the government's policy aim of reduction of the budget deficit was not in jeopardy.

In 1989, despite various attempts and offers by the government, central negotiations again did not result in a Central Agreement. Tripartite negotiations on the long-term unemployed foundered on the FNV (*Federatie Nederlandse Vakbeweging* – the main trade union organization in the Netherlands), while tripartite negotiations on the issues of sick leave and disability only resulted in the institution of a working group that was to devise concrete policies for the future. Social partners again disagreed on the major issues of incomes policy. Like in 1988, government policy could not bridge the gap between their agendas, but at least managed to keep negotiations and consultations more or less going. And the linkage between the market sector and the (semi-) public sector remained severed.

#### *Effective non-corporatist intermediation of CDA and VVD governments*

Non-corporatist strategies of governments without the PvdA were more successful (23%) than non-corporatist strategies by PvdA governments (0%) in 1970, 1983 and 1984 (calculations based on Table Appendix). In 1970, in a favourable macroeconomic context, a political conflict between trade unions and the government over the Law on Wage Formation spilled over to incomes policy of that year and induced the government to unilaterally intervene in the Central Agreement that had been reached by corporatist intermediation.

In 1983 and 1984, in the midst of the most severe post war recession, the *Wassenaar* Agreement was forced upon social partners by the government. The government announced it would continue to determine incomes policy unilaterally as in 1980, 1981, and 1982 if no agreement in the market sector would be reached. And despite their continued differences of opinion social partners indeed favoured a bipartite agreement on incomes policy in the market sector more than the continuation of a completely government directed incomes policy that made them redundant. Incomes policy in the (semi-) public sector, however, remained firmly under government control, despite heavy opposition by the trade unions.

*Conclusion of the Dutch puzzle part two*

The puzzle of the variation in effectiveness of corporatist and non-corporatist strategies of coalitions with and without the PvdA should be understood by the games played by the social partners. These games were based on adversarial preferences which emanated mainly from the context of macroeconomic problems, and were also partly driven by the institutional changes in the framework of incomes policy formation that were effected by the government. When social partners were unwilling to come to an agreement, based on their widely differing preferences, Central Agreements usually could not be struck, despite all efforts by the government to find consensus. In this respect there is little difference between coalitions with or without the PvdA.

Effective corporatist strategies of governments of CDA and VVD were few and far between: 1965 and 1987 must be considered as idiosyncrasies. Effective corporatist strategies of governments of CDA and PvdA in the early 1990s were due to the annual flexibility of government regarding the (re)linkage that induced trade unions to sign up to Central Agreements within a context of macroeconomic ups and downs. Effective corporatist strategies of governments of PvdA and VVD were due to the same context and effect, but also driven by the EMU requirements and helped by an accelerating economic growth. The effectiveness of corporatist strategies was not enhanced when the PvdA became the dominant partner in government after 1994. In other words, participation of the PvdA in government after 1994 with VVD did not produce a more effective *polder model* in terms of Central Agreements. As far as the data allow we conclude that the PvdA played an important role in enhancing corporatist intermediation when in government, but not one completely different from the other parties as many Dutch and other authors have suggested.

Finally, effective non-corporatist government strategies of CDA and VVD governments can be explained by the effect of the macroeconomic context on the behaviour of the actors involved as well.

*The Dutch puzzle resolved: Social Democracy and corporatist policy formation reviewed*

During the 1990s, Dutch government was internationally applauded with respect to its apparent capabilities to restore the economy and public sector in such a fashion that its performance looked almost a miracle (see: Becker 2001; Keman 2003). In large part, so the story went, this was due to successfully utilizing its corporatist mode of policy formation (Visser and Hemerijck 1997). At first glance, this success story appears indeed

as miraculous and the corporatist explanation as fitting the facts. In addition, the recovery of the Dutch economy and adjustment of the welfare state seemed to underscore the idea that politics matters and concerted policy-making makes a difference. Finally, the crucial role of parties in government was recognized, in particular of Dutch Social Democracy: the PvdA.

In this paper we set out to examine both the role of corporatist intermediation and that of parties in government with respect to the formation of incomes policy in the Netherlands between 1965–2000. The aim was to assess the claims as regards the usefulness of corporatism for incomes policy formation and whether or not parties in coalition government, Social Democracy in particular, do play a differential role in this. The dependent variable has been the achievement of a Central Agreement as a result of the annual tri-partite consultations and negotiations (Woldendorp 2005). On the basis of preliminary findings two puzzles arose. One, that there is a relative underperformance in making corporatism work despite the fact that governments are dominated by Christian Democracy, often together with Social Democracy. Two, the noticeable difference in reaching a Central Agreement when Social Democracy participated in government in comparison with coalitions without Social Democracy.

Our analysis has shown that governments of CDA and VVD scored comparatively low with respect to the number of corporatist strategies as well as Central Agreements due to the combination of fluctuating macroeconomic circumstances and institutional changes regarding the negotiation process of incomes policy. However, these circumstances and constraints were prevalent in times that the PvdA has been in office as well. Both coalition governments found themselves constrained by the economic vulnerabilities (openness and de-industrialization), on the one hand, and the indirect effect of welfare related entitlements (linking private sector wage levels to the (semi-) public sector), on the other hand. Our main conclusion as regards the first puzzle is therefore that corporatism, as a governmental strategy, should not be treated as an effect-producing variable but rather as an intervening variable. This conclusion also implies that on the basis of this case study we dispute that corporatism is a policy arrangement that is highly institutionalized and constant over time. We think this wrong and claim that the Dutch case – generally considered as a typical case of corporatism – reinforces the point that corporatism must be understood as an intervening variable to analyse the process of economic policy formation in pluralist democracies.

That governments in which the PvdA participated scored relatively better on both corporatist government strategies and Central Agreement

is due to the fact that these governments usually persevered in the initial strategy or opening bid within the tri-partite negotiations instead of reverting to a passive or binding strategy in the concluding stage of negotiations on a Central Agreement. Of course, the effects of economic circumstances and institutional changes also had their impact. Yet, the fact remains that Social Democracy has performed better in the Netherlands when in government.

If one looks at the whole pattern of incomes policy co-ordination by means of corporatist concertation, it is immediately clear that the majority of cases (annual rounds of negotiating a Central Agreement) appear to have been conducted by the social partners as if it were one-shot games. In other words, the puzzles become less puzzling if it is recognized that the time horizon of each actor involved differs. In addition, governments increasingly lacked institutional means and – when the economic situation was seen to be deteriorating – were faced with a reduced policy room for manoeuvre. So we argue that corporatist intermediation needs certain conditions to be able to operate as intended. The combination of insufficient room to manoeuvre due to external factors (like the economy and EMU requirements), delinkage measures and decentralization of the tri-partite negotiations (institutional constraints) and the differences in time horizons produced a variation of outcomes that cannot solely be attributed to social democratic participation in coalition government. Like corporatism, social democratic participation in government does matter, but rather as an intervening variable. This conclusion, put forward on the basis of our empirical examination of the Dutch case, is too often overlooked in other studies claiming a direct relation between Social Democracy, corporatism and incomes policy-making in European democracies.

### *Appendix*

In this study we use a classification of corporatist intermediation between government and the recognized social partners (employers' organizations and trade union federations) in the Netherlands. Its basic structure is to relate governmental strategy with respect to incomes policy concertation to styles of decision-making pursued by social actors (Scharpf 1998; Keman 1999). Four options of government involvement and three styles of decision-making are distinguished:

#### *Government strategy*

- I – Passive
- II – Co-operative
- III – Congruent
- IV – Guiding

#### *Style of decision-making*

- A – Confrontation
- B – Bargaining
- C – Problem solving



Government's fourfold strategy involves two choices: corporatist involvement in incomes policy or not, and active and passive. The difference between strategy I and II is referring to active (II) or not (I) as well as to corporatist involvement (II) or not (I). Strategies III and IV are also

TABLE APPENDIX: *Annual scores for strategic behaviour of actors and outcome in Central Agreements*

Year	Opening strategy corporatist intermediation	Concluding strategy corporatist intermediation	Central Agreement on incomes policy	Composition of party government
1965	IIIA	IIIB	Yes	CDA-VVD
1966	IB	IVB	No	CDA-PvdA
1967	IVB	IVB	No	CDA-VVD
1968	IVB	IB	No	CDA-VVD
1969	IVA	IVA	No	CDA-VVD
1970	IIIC	IVC	Yes	CDA-VVD
1971	IVB	IA	No	CDA-VVD
1972	IIIB	IA	No	CDA-VVD
1973	IIIB	IIA	No	CDA-VVD
1974	IIA	IVB	No	CDA-PvdA
1975	IIIB	IIIB	No	CDA-PvdA
1976	IIA	IVB	No	CDA-PvdA
1977	IIIB	IIIB	Yes	CDA-PvdA
1978	IIA	IIIB	No	CDA-PvdA
1979	IVA	IIA	No	CDA-VVD
1980	IIIB	IVB	No	CDA-VVD
1981	IIIA	IVA	No	CDA-VVD
1982	IB	IVB	No	CDA-VVD
1983	IIIA	IC	Yes	CDA-VVD
1984	IC	IC	Yes	CDA-VVD
1985	IVB	IB	No	CDA-VVD
1986	IA	IA	No	CDA-VVD
1987	IIIB	IIIB	Yes	CDA-VVD
1988	IIA	IIA	No	CDA-VVD
1989	IIIB	IIIB	No	CDA-VVD
1990	IIIC	IIIB	Yes	CDA-PvdA
1991	IVA	IIIB	Yes	CDA-PvdA
1992	IA	IA	No	CDA-PvdA
1993	IIIB	IIIB	Yes	CDA-PvdA
1994	IVA	IIIC	Yes	CDA-PvdA
1995	IIA	IIA	No	PvdA-VVD
1996	IIIB	IIIB	Yes	PvdA-VVD
1997	IIIB	IIIB	Yes	PvdA-VVD
1998	IIIB	IIIB	Yes	PvdA-VVD
1999	IIIB	IIIC	Yes	PvdA-VVD
2000	IIIB	IIIB	No	PvdA-VVD

Source: Woldendorp 2005: 276–354.

defined in terms of corporatist involvement (III is yes and IV is no), but government is always active.

The styles of decision-making can be understood in game theoretic terms and are derived from Scharpf (1998: 54–57; see also Scharpf 1987). Confrontation represents conflict with little room for agreement (A). Bargaining is based on self-interested behaviour, however, with a possible outcome that represents an equilibrium (B). Finally, problem solving is a different game; here we assume that all actors have an eye for the collective outcome (C). It should be noted that we allow for changing styles and strategies during the process of annual negotiations.

As a result we have  $12 (4 \times 3)$  possible situations that characterise these negotiations in relation to the outcome: a Central Agreement is achieved or not. These are categorized and classified for each annual round of negotiations between 1965 and 2000. The results of the data analysis are reported below and are used throughout the text.

#### NOTES

1. Purple is the result of mixing the red of Labour (PvdA – *Partij van de Arbeid*) with the blue of the conservative liberals (VVD – *Volkspartij voor Vrijheid en Democratie*).
2. Incomes policy is part of a broader macroeconomic programme in the Netherlands after World War II and is identified as the key policy instrument for co-operative management of the economy by party government, trade unions and employers' organisations (Molina and Rhodes 2002; Slomp 2002; van Waarden 2002; Woldendorp 2005).
3. The policy agreement on incomes policy between the three actors involved. Bi-partite agreements are directly struck between social partners (trade unions and employers' organisations), whereas tri-partite indicates an agreement between social partners and the government. The latter type prevails in the Netherlands. Central Agreements are annually negotiated (Woldendorp 2005 and Appendix).
4. The linkage came in force in 1974 with the policy package of the government Den Uyl (CDA-PvdA). Wages, benefits and pensions in the (semi-) public became linked to the statutory minimum wage (1969) and to the average rise in collectively agreed wages in the market sector. In 1979 this linkage became statutory (Law on Adjustment Mechanisms). Consequently, incomes policy in the market sector had a direct effect on incomes in the (semi-) public sector and on the government's budget (deficit). From 1983, the linkage was put on hold; since 1992 it is conditional (Law on Conditional Indexation) (Visser and Hemerijck 1997: 132 ff.).
5. In the international debate on corporatism most researchers view corporatism as an (independent) institutional variable indicated by consensus between government and social partners that explains a.o. economic performance. See for instance Schmidt 1982; Alvarez et al. 1991; Kurzer 1991; Western 1991; Crépez 1992; Penning 1997; Lijphart 1999; Siaroff 1999; Traxler and Kittel 2000; Kenworthy 2002.
6. It concerned the KVP (*Katholieke Volkspartij*), ARP (*Anti-Revolutionaire Partij*) and CHU (*Christelijk Historische Unie*) that decided to merge in 1975 and in fact did so in 1980 as CDA (*Christen-Democratisch Appèl*).
7. Only in the CDA-PvdA coalition of 1973–1977 that was responsible for incomes policy in 1974–1978 the situation was different for the CDA. The PvdA held the premiership (Den Uyl) and the ministry of Finance (Duisenberg, the later president of the ECB). KVP and ARP held the Ministries of Economic and Social Affairs. The CHU did not participate in the coalition. Moreover, the coalition was not solidly based on a policy agreement and not fully supported in parliament by the constituent parties (Andeweg and Irwin 2005).
8. As reported in the Appendix the classification is divided into an opening and concluding strategy of government. This indicates the first bid in the annual round of negotiations and subsequently whether or not this changed during the process.

9. EMU criteria included a public debt of not more than 60 per cent of GDP; an annual budget deficit of not more than 3 per cent of GDP; and an inflation rate on or very near the European average.
10. The government's main instrument for deficit reduction had been the delinkage of wages and benefits (including pensions) in the (semi-) public sector from wages in the market sector between 1983 and 1990. The linkage had been restored on an ad hoc basis since 1990, but as a consequence of the third oil crisis of 1992 and the subsequent world recession of 1992–1994 in the wake of the first Gulf war, the linkage was only partially in force in 1992.

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