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ARTICLE

Reverting to Restraint: A Keynesian Intermezzo and Neoliberalism in the Netherlands (1971–1977)

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In line with recent studies revealing the role of neoliberalism in Dutch post-war history, this article highlights the influence of neoliberal ideas during the first half of the 1970s. In addition to a clear orientation towards supply-side economic policies and a firm tradition of fixed budgetary rules, the author emphasises the importance of Dutch monetarism in guiding Central Bank policies and prioritising monetary objectives such as price stability, fixed exchange rates and balance of payment equilibrium over Keynesian policy goals. A short-lived Keynesian intermezzo of countercyclical demand-management commenced in March 1974, after which rules-based, stability- and supply-side economic, financial and monetary policies started to regain the upper hand in 1976.

Introduction

'This government is committed to policy reversals across a broad front in public spending.' These words launched a legislative term dominated by budgetary cuts and sombre debates about fiscal matters, inflation and declining profits in the private sector. It evokes the image of the early 1980s, when public finance was in disarray throughout the world and neoliberal austerity was making headway. Yet, these statements date from 1971, when the incoming Dutch centre-right government of Prime Minister Barend Biesheuvel (1971–3) made fiscal retrenchment its top priority, cutting back real fixed state investments in the Netherlands by nearly a quarter, as the OECD reported, causing a budget surplus and 'underconsumption' in 1973.[1] Drawing comparison with the 1980s, one cabinet member called the administration a 'no-nonsense' austerity government 'avant la lettre'.[2]

In political and economic history, the early 1970s have been largely neglected by Dutch scholars. Instead, the much-disputed centre-left government of Joop den Uyl (1973–7) draws attention as the apogee of Keynesianism in the Netherlands, while the early 1980s are portrayed as the years in which the fiscal crisis peaked and Keynesian policies were replaced by a new pragmatic 'consensus'. In those accounts, 1982 is usually identified as a turning point, with the centre-right coalition government under Ruud Lubbers (portrayed in *Time Magazine* as Ruud 'Shock'; see also Figure 1) decisively opting for 'no-nonsense' reforms, while trade unions and employers agreed on wage moderation in the highly praised Wassenaar Accord. This accord is often hailed as the return to constructive social relations which had contributed to the 'Dutch miracle' of the 1950s. This 'polder model' was portrayed as a compelling third-way alternative to the radical neoliberalism of Ronald Reagan and Margaret Thatcher, based on a 'broad consensus over central policy goals'.[3] After jubilant accounts of this

[1] *OECD Economic Surveys. Netherlands, May 1973* (Paris: OECD, 1973).
[2] B. J. Udink, *Tekst en uitleg: Over sturen en gestuurd worden, ervaringen in politiek en bedrijf* (Baarn: Anthos, 1986), 190.
[3] Like many policy traditions, post-war corporatism had long historical roots. Maarten Prak and Jan Luiten van Zanden, *Nederland en het poldermodel: Sociaal-economische geschiedenis van Nederland, 1000–2000* (Amsterdam: Bakker, 2013); Jelle Visser and Anton Hemerijck, *A Dutch Miracle: Job Growth, Welfare Reform and Corporatism in the Netherlands*

Figure 1. Minister of Economic Affairs Ruud Lubbers during the press conference at which the supply-side stimulus plan of 1976 was presented, with Minister of Finance Wim Duisenberg in the background. Photographer: Hans Peters (Anefo). Copyright holder: Dutch National Archives, CC0. Permanent URL: http://hdl.handle.net/10648/ac85f53e-d0b4-102d-bcf8-003048976d84

new 'Dutch miracle' were challenged in the early 2000s, downplaying the degree of consensus and the role of neo-corporatism in the 1980s, recently scholars have started to reinterpret events in the early 1980s as a turn to neoliberalism in the Netherlands.[4] In line with the historiography of neoliberalism, they have highlighted the role of neoliberal ideas in Dutch policy making in the 1980s. Remarkable to the Dutch case appears to be the leading role of bureaucrats in brokering the turn towards neoliberalism and its depoliticised framing as a 'technocratic fix'.[5]

The recent focus on neoliberalism is part of a broader revision of Dutch economic history, with historians reappraising the role of Keynesianism and economic thinking in the depoliticised and technocratic Dutch discourse. Previously, ideational aspects of economic and financial politics have been largely neglected, with post-war policies often characterised as pragmatic and consensual, with Keynesian demand management being labelled a 'political success story' and a 'keystone' in historical overviews.[6]

(Amsterdam: Amsterdam University Press, 1997), 62; Frank Hendriks, *Polder Politics: The Re-Invention of Consensus Democracy in the Netherlands* (London: Routledge, 2017); J. L. van Zanden, *The Economic History of the Netherlands 1914–1995: A Small Open Economy in the 'Long' Twentieth Century* (London: Routledge, 2005).

4 Uwe Becker, 'Miracle by Consensus? Consensualism and Dominance in Dutch Employment Development', *Economic and Industrial Democracy*, 22, 4 (2001), 453–83; Wiemer Salverda, 'The Dutch Model: Magic in a Flat Landscape?', in Uwe Becker and Herman Schwartz, eds., *Employment 'Miracles': A Critical Comparison of the Dutch, Scandinavian, Swiss, Australian and Irish cases versus Germany and the US* (Amsterdam: Amsterdam University Press, 2005), 39–64; Rosa Kösters, Bram Mellink, Merijn Oudenampsen and Matthias van Rossum, 'Not So Consensual After All: A New Perspective on the Dutch 1980s', *TSEG – The Low Countries Journal of Social and Economic History*, 18, 1 (2021), 7.

5 Merijn Oudenampsen, 'Between Conflict and Consensus: The Dutch Depoliticized Paradigm Shift of the 1980s', *Comparative European Politics*, 18 (2020), 783–84; Merijn Oudenampsen and Bram Mellink, 'Bureaucrats First: The Leading Role of Policymakers in the Dutch Neoliberal Turn of the 1980s', *TSEG – The Low Countries Journal of Social and Economic History*, 18, 1 (2021), 19–52.

6 Bert van den Braak and Joop van den Berg, *Zeventig jaar zoeken naar het compromis: Parlementaire geschiedenis van Nederland 1946–2016* (Amsterdam: Bert Bakker, 2017), 81; Herman de Liagre Böhl, 'Consensus en polarisatie:

The liberal orientation of the Dutch 'coordinated market economy' was often explained by the fact that the Netherlands was a small trading nation. Only recently have scholars started to explore the role of neoliberalism in the Netherlands, highlighting its emergence among economists and politicians already during the 1940s and 1950s, involving knowledge transfers from the transnational neoliberal 'thought collective'.[7] In several key publications, Bram Mellink en Merijn Oudenampsen also pointed out strong anti-Keynesian and neoliberal traditions within institutions such as the Ministries of Economic Affairs and Finance.[8] In addition, this article will also focus on the role of Dutch monetarism and the Central Bank (DNB).

These findings are of crucial importance for the analysis of the 1970s. These years are generally interpreted as a decade of transformation. The tide of idealism was slowly replaced by a more pragmatic pessimistic outlook. All of this unfolded against the backdrop of huge economic and financial changes. The 'shock of the global' aptly epitomises the successive destabilising developments such as the collapse of Bretton Woods, the fading of the post-war boom, the 1973 and 1979 oil crisis, the ensuing stagflation and rising unemployment.[9] While historiography shows that these events caused a 'neoliberal turn', first and foremost in the United Kingdom and the United States, this article argues that the policy trajectory in the Netherlands was different.[10] Instead of a radical turn towards neoliberalism based on a blueprint of ideas provided by economists such as Milton Friedman, Dutch policy makers returned to mostly indigenous supply-side, public finance and monetarist ideas and policy traditions that dated back to the 1950s and 1960s. This conclusion is consistent with recent research on neoliberalism in the Netherlands.

However, as this article will show, this 'return' began to materialise earlier than the turning point of 1982, highlighted in recent work by Mellink and Oudenampsen. In the early 1970s, pleas for structural fiscal retrenchment and tried-and-tested supply-side policies such as wage restraint, tax cuts and private sector incentives, had already gained ground in opposition to (progressive) calls for welfarist policies and expansion of the public sector. In fact, the push for austerity dominated the centre-right Biesheuvel administration until the oil crisis ushered in Keynesian demand-side policies. At first, however, the Dutch response to the oil crisis tended towards fiscal restraint and only became markedly expansionary in the spring of 1974, following international consultations. This latter finding underlines that Keynesianism, defined narrowly as countercyclical management through fiscal policy, was an exception in the Netherlands, where budgetary rules limited the scope for discretionary action and economic policy focused on supply-side incentives instead of demand-side measures.

In its more broad definition, as the push towards public policy aimed at 'new' issues such as pollution and welfare, the confidence in states' ability to manage socio-economic issues and even the rise of the welfare state, Keynesianism had indeed started to become more dominant in the Netherlands from the mid-1960s onwards.[11] However, just as in neighbouring West Germany, this article

Spanning in de verzorgingsstaat, 1945–1990', in Remieg Aerts, ed., *Land van kleine gebaren. Een politieke geschiedenis van Nederland, 1780–1990* (Amsterdam: Boom, 2001), 281, 321–322. See also: Van Zanden, *The Economic History of the Netherlands*, 169–70; Jeroen Touwen, *Coordination in Transition: The Netherlands and the World Economy, 1950–2010* (Leiden: Brill, 2014), 7, 41, 248, 255–7, 286, 304, 327; J. J. Woltjer, *Recent verleden: Nederland in de twintigste eeuw* (Amsterdam: Balans, 2005), 260–1.

7 Bram Mellink, 'Towards the Centre: Early Neoliberals in the Netherlands and the Rise of the Welfare State, 1945–1958', *Contemporary European History*, 29, 1 (2020), 1–14; Jonne Harmsma, 'Voorbij de oude ballast: Neoliberalisme en het nieuwe marktdenken van Nederlandse economen (1945–1952)', *Tijdschrift Sociologie*, 15, 3 (2019), 253–70; Bram Mellink, 'Neoliberalism Incorporated: Early Neoliberal Involvement in the Postwar Reconstruction: The Case Study of the Netherlands (1945–1958)', *European History Quarterly*, 51, 1 (2021), 98–121; Erwin Dekker, 'An "Ordo-Thinker" on the Left: Jan Tinbergen on the National and International Economic Order', *History of Political Economy*, 54, 4 (2022), 689–718.

8 Bram Mellink and Merijn Oudenampsen, *Neoliberalisme: Een Nederlandse geschiedenis* (Amsterdam: Boom, 2022).

9 Niall Ferguson, Charles S. Maier, Erez Manela and Daniel J. Sargent, eds., *The Shock of the Global: The 1970s in Perspective* (Cambridge, MA: Harvard University Press, 2010).

10 Duco Hellema, *The Global 1970s: Radicalism, Reform and Crisis* (London: Routledge, 2019), 159–60, 195–205.

11 Mellink and Oudenampsen, *Neoliberalisme*, 95–106.

highlights that monetarist and neoliberal forces remained influential throughout these years and regained dominance early on. Midway through the four-year term of the Den Uyl administration, the most left-wing government in Dutch political history, the 'Keynesian intermezzo' ended when the centre-left coalition exchanged demand-side expansion for supply-side policies and the creation of a new budgetary norm in 1976 signalled a renewed emphasis on fiscal restraint. Almost simultaneously, the Dutch Central Bank tightened its monetary policy, pegging the guilder to the Deutsche Mark as an instrument for achieving price stability. These policy changes show that the Dutch turn towards neoliberalism commenced well before the often-mentioned year of 1982 and mainly implied a *return* to ideas, practices and policy traditions that had briefly lost their dominance.

Methodologically, this article focuses on Dutch policy making and parliamentary debates, attempting to track the influence of economic ideas and their translation into policy. By analysing three episodes of economic, financial and monetary policy making in the 1970s, this article will highlight: (1) the push for budgetary retrenchment and the influence of neoliberal ideas about economic and financial policy making in the early 1970s; (2) the prelude to a short-lived Keynesian momentum from March 1974 onwards; and (3) a return towards supply-side policies and monetary and fiscal restraint in 1976. These three episodes are addressed after a paragraph outlining the key concepts of Keynesianism and neoliberalism, and their relevance for the Dutch case. The article studies the early 1970s because those years have largely been neglected in existing historiography. Instead of the fiscal problems of the late 1970s and the ubiquitous turning point in 1982, this period shows that the influence of Keynesianism was far less profound than is often assumed and neoliberal approaches to economic, financial and monetary policy were still strongly embedded in the Netherlands in the 1970s. In addition to the use of parliamentary debates, the article is based on government and Central Bank sources, secondary literature and archival material.

Neoliberalism and Keynesianism in the Dutch Context

Defining neoliberalism has proved notoriously difficult. To clarify matters, a recent handbook outlined seven interpretations of neoliberalism, one being the ideational approach also used in this article.[12] As both Mark Blyth and Peter A. Hall have argued, economic ideas are crucial for interpreting and defining the world around us, providing politicians and policy makers with a conception of how the economy works, what generated the problems they are facing and what kind of solutions are needed. In periods of crisis and uncertainty, when old ideas are delegitimised, a window of opportunity opens for new ideas to offer alternative diagnoses and policy solutions. After coalition-building around these ideas, a fresh blueprint is created, enabling in time the return of stability around a new policy paradigm. Blyth and Hall have described such a paradigmatic shift from Keynesian to neoliberal ideas and policies during the 1970s and 1980s in the United Kingdom and the United States.[13]

However, other scholars using this ideational approach have demonstrated that the first wave of neoliberal thinking started earlier, after the Great Depression. These scholars have defined neoliberalism as a 'thought collective', a transnational network in which economists of three schools were influential: German Ordoliberalism, the Austrian School and the Chicago School. Economists from these schools all moved away from laissez-faire liberalism, shaping new visions of a 'competitive market

[12] The others being a Marxist, Foucauldian, institutional, geographical, regulation theory and philosophy of economics interpretation of neoliberalism. Damien Cahill, Melinda Cooper, Martijn Konings and David Primrose, 'Introduction: Approaches to Neoliberalism', in Cahill, Cooper, Konings and Primrose, eds., *The SAGE Handbook of Neoliberalism* (London: Sage), xxviii–xxxiii. Also Florence Sutcliffe-Braithwaite, Aled Davies and Ben Jackson, 'Introduction: A Neoliberal Age?', in Florence Sutcliffe-Braithwaite, Aled Davies and Ben Jackson, eds., *The Neoliberal Age? Britain since the 1970s* (London: UCL Press, 2021), 3–6.

[13] Mark Blyth, *Great Transformations: Economic Ideas and Institutional Change in the Twentieth Century* (New York, NY: Cambridge University Press, 2002), 35; Peter A. Hall, 'The Movement from Keynesianism to Monetarism: Institutional Analysis and British Economic Policy in the 1970s', in Sven Steinmo and Kathleen Thelen, eds., *Structuring Politics: Historical Institutionalism in Comparative Analysis* (Cambridge: Cambridge University Press, 1992), 91–2.

order constructed and facilitated by states'.[14] This 'early' or 'classic neoliberalism' must be distinguished from the neoliberalism of Thatcher and Reagan, when a new school of economic thinking replaced the initial three traditions: Friedmanite monetarism, neoclassical and supply-side economics.[15] Essential to this article is primarily the relation between these classical schools of neoliberalism and Keynesianism – a concept that can likewise be defined in numerous ways.

Even though the name of John Maynard Keynes is rightfully associated with the shift from laissez-faire liberalism to state interventionism, this fact alone does not provide an adequate definition of Keynesianism as a model for economic policy. After all, both Keynesians and neoliberals called for state intervention to prevent market failure after the Great Depression. What differentiated them was not the question of whether governments needed to manage the economy but how to do so, to what extent, towards what goals and with what tools.[16] In the edited volume *Keynesianism across Nations*, Hall highlights three key elements of post-war Keynesianism, namely the optimalisation of growth and full employment by 'demand management', a preference for fiscal above monetary policy and the propagation of deficit spending and countercyclical interventions.[17]

The interventionist toolbox of classic neoliberalism differed markedly from these Keynesian policy prescriptions. Instead of the planning and economic fine-tuning associated with countercyclical macro-economic management, the classic neoliberals put greater trust in the market mechanism and advocated policies often described as 'liberal interventionism' or 'planning for competition'. The Ordoliberals and the Austrian and Chicago School were all far more sceptical about the desirability and feasibility of detailed fiscal, demand-side and countercyclical intervention. This implied a toolbox far less discretionary, with Chicago School monetarists such as Milton Friedman focusing on the money supply and inflation instead of aggregate demand and full employment, while the Austrians – and especially the Ordoliberals – advocated a rules-based framework of order, with a strong state as a facilitator and guarantor of a competitive order.[18]

Besides these three main neoliberal traditions, scholars have also recently identified local and 'domesticated' variants for the Netherlands.[19] These studies have shown that Keynesian ideas were met with strong resistance in the Netherlands, as in neighbouring West Germany. In the post-war period, in academia, Dutch monetarism constituted an influential counterweight to Keynesianism. This indigenous school, built on the theoretical assumption of 'neutral money', a concept used by Friedrich von Hayek and elaborated on by the Dutch monetarist Johan G. Koopmans during the 1930s, provided the intellectual basis for a diagnostic model of monetary analysis developed by the Dutch Central Bank in the early 1950s. This model identified monetary disruptions in the economy in both a 'scholarly and practical effort to employ monetary policy as a means for stabilisation

14 Slobodian also discerns the Geneva School as a fourth school of classic neoliberalism. Philip Mirowski and Dieter Plehwe, eds., *The Road from Mont Pèlerin: The Making of the Neoliberal Thought Collective* (Cambridge, MA: Harvard University Press, 2009); Quinn Slobodian, *Globalists: The End of Empire and the Birth of Neoliberalism* (Cambridge, MA: Harvard University Press, 2018), 7–13.

15 Slobodian, *Globalists*, 3; Cornelis Ban, *Ruling Ideas: How Global Neoliberalism Goes Local* (New York, NY: Oxford University Press, 2016), 8–13.

16 Slobodian, *Globalists*, 2–7; Dieter Plehwe, 'Introduction', in Mirowski and Plehwe, eds., *The Road from Mont Pèlerin*, 1–41; Erwin Dekker, *Jan Tinbergen (1903–1994) and the Rise of Economic Expertise* (Cambridge: Cambridge University Press, 2021).

17 This 'narrow' definition contrasts with a 'very wide' one, wherein Keynesianism is 'a label for all economic policy, including nationalisation and sometimes even the welfare state'. Peter A. Hall, 'Introduction', in Peter A. Hall, ed., *The Political Power of Economic Ideas: Keynesianism across Nations* (Princeton, NJ: Princeton University Press, 1989), 3–26; David Edgerton, 'What came between New Liberalism and Neoliberalism? Rethinking Keynesianism, the Welfare State, and Social Democracy', in Sutcliffe-Braithwaite, Davies and Jackson, eds., *The Neoliberal Age?*, 39.

18 For a detailed elaboration of the relationship between these three traditions, see Stefan Kolev, 'Ordoliberalism and the Austrian School', in Christopher J. Coyne and Peter J. Boettke, eds., *The Oxford Handbook of Austrian Economics* (New York, NY: Oxford University Press, 2015), 419–44; Mirowski and Plehwe, *The Road from Mont Pèlerin,* 26–31.

19 Ban, *Ruling Ideas*, 5–7; Mellink and Oudenampsen, *Neoliberalisme*, 12–13; Harmsma, 'Voorbij de oude ballast', 264–6.

policy'.[20] As such, while monetarism was ignored and denigrated in the English-speaking world, 'swept into intellectual limbo' by the Keynesian revolution, the Netherlands offered 'an honourable exception'.[21] Dutch monetarism also lent scientific legitimacy to the Central Bank's operations and increased its authority and independence, both at home and abroad.[22] Monetarism even attained a 'dominant' position in Dutch academia in the 1950s, as the influential economist Jan Pen chronicled, causing Keynesian thinking to take precedence rather 'late'.[23]

Dutch monetarism remained influential until the late 1970s, when it slowly 'faded from the scene' with the revival of mainstream monetarism. This 'Friedmanite' monetarism was by and large compatible with traditional Dutch monetarism: both schools viewed politics as dangerously inclined towards chronic overspending, deemed monetary policy vital to ensure economic stability and saw inflation as a more acute threat to modern society than mass unemployment. Epitomised in the credo 'money matters', these monetary schools set forth a model of the economy that was fundamentally different from Keynesianism and implied policy recommendations that were often just as different.[24] As Central Bank historians have shown, monetary policy acted as a crucial 'signpost' for Dutch policy making, especially in the 1950s.[25]

Leading monetarist and public finance experts also provided key input for the 1961 rules-based budgetary framework labelled the 'Zijlstra-norm'. This fiscal rule, based on an *ex ante* predetermined room for government expenditures, calculated for multiple years and a prioritisation of expenses, replaced short-lived attempts at countercyclical fiscal policy and was a 'synthesis of neoclassical, Keynesian, and monetarist influences'.[26] Short-lived attempts at functional finance had been criticised by both public finance experts and the Central Bank as inept in the face of inflationary and deflationary trends due to time lags and pressure groups, while also threatening the consistency and continuity of government policies.[27] The Zijlstra-norm of 1961 built on his public finance and monetary criticism, but also expressed a Protestant and Ordoliberal preference for fixed rules over discretion.[28] During the 1960s, the Central Bank continued to warn about monetary disturbances and inflation, imposing a credit restriction in 1966 despite rising unemployment, and opposing Keynesian growth policies internationally as well, side-by-side with the Bundesbank.[29] As this article will show, the Central Bank also played a crucial role in the return to neoliberal policies in the 1970s, still guided by Dutch monetarism.

[20] M. M. G. Fase, 'The Rise and Decline of Dutch Monetarism; or, the Schumpeter-Koopmans-Holtrop Connection', *History of Political Economy*, 26, 1 (1994), 21–38.

[21] Harry G. Johnson, *Inflation and the Monetarist Controversy. Professor F. de Vries Lectures* (Amsterdam: North-Holland Publishing Company, 1972), 2–3, 51; Fase, 'The Rise and Decline of Dutch Monetarism', 30.

[22] W. F. V. Vanthoor, *The King's Eldest Daughter: A History of the Nederlandsche Bank 1814–1998* (Amsterdam: Boom, 2005); W. F. V. Vanthoor, *Een oog op Holtrop: Grondlegger van de Nederlandse monetaire analyse* (Amsterdam: DNB, 1993).

[23] Jan Pen, 'Keynes in Nederland', *Maandschrift Economie*, 50, 4, (1986), 438–51.

[24] Hall, 'The Movement from Keynesianism to Monetarism', 91–2.

[25] As Pen described, many Dutch monetarists in the 1950s and 60s 'pretended to be Keynesians'. Pen, 'Keynes in Nederland', 438, 445; Vanthoor, *Een oog op Holtrop*, 102, 114–17, 218–23; M. M. G. Fase, *Tussen behoud en vernieuwing. Geschiedenis van de Nederlandsche Bank 1948–1973* (The Hague: Sdu, 2000), 142–8.

[26] A. H. G. M. Spithoven, 'J. Zijlstra (b. 1918): The Structural Financing of Government Expenditure', *International Journal of Social Economics*, 25, 9 (1998), 1398–1410; Dik Wolfson, *Publieke sector en economische orde* (Groningen: Wolters-Noordhoff, 1988), 158–61.

[27] C. Goedhart, 'Monetair evenwicht in een dynamische volkshuishouding' (I-II), *De Economist*, 103, 1–2 (1955), 161–202, 272–312; M. W. Holtrop, 'Monetaire aspecten van de economische integratie', *De Economist*, 104, 1 (1956), 801–27; Jan Pen, *Trekken en duwen in de conjunctuurpolitiek* (Leiden: Stenfert Kroese, 1956), 10–27.

[28] Jan Middendorp, 'De Zijlstra-norm en de hervorming van het Stabiliteits- en Groeipact', *Economisch-Statistische Berichten*, 101, 4744 (2006), 742–6.

[29] Vanthoor, *The King's Eldest Daughter*, 191–2; Vanthoor, *Een oog op Holtrop*, 176–185; Aaron Major, *Architects of Austerity: International Finance and the Politics of Growth* (Stanford, CA: Stanford University Press, 2014), 47–9.

In addition to the role played by Dutch monetarism and the rules-based budgetary framework of 1961, post-war economic policy also took a 'market-conform' shape.[30] As Erik Jones summarised: 'The Dutch did not choose to pursue full employment through Keynesian instruments like deficit spending or expansionary monetary policy. Rather, they focused attention on the supply side of the economy, lowering costs, and encouraging investment in order to create more jobs.'[31] This strongly resembled the German model, where supply-side policies and price stability also took precedence over demand-side management and countercyclical fine-tuning.[32] Combining post-war orientation of economic and financial policy with the role of Dutch monetarism, embedded within a largely independent Central Bank, supports the current reconsideration of the alleged dominance of Keynesianism, a trend also taking place in other European countries.[33] Instead of the division in a phase of 'demand-side' (1945–75) and 'supply-side' policies (1975–2000), monetarism, the supply-side paradigm and rules-based views already exerted a decisive influence on policy making in the 1950s and 1960s, shaping the Dutch economic order along classic neoliberal lines.[34]

The Years 1971–3: Austerity and Reconsiderations of Public Finance

Austerity dominated both the 1971 Dutch election year and the two years of the Biesheuvel administration (1971–3). First, in the run-up to the elections, a new party, a right-wing split from the Social Democratic Party (PvdA) called Democratic Socialists '70 (DS'70), launched a successful campaign centred around large-scale cuts in public spending.[35] It capitalised on growing concerns about inflation and rising government spending after the 1964 wage boom and the (relatively late) expansion of the welfare state, the budgetary cost of which became apparent in the late 1960s.[36] Party leader Willem Drees Jr. was a former high-ranking official of the Ministry of Finance who in 1955 wrote a dissertation about the isolation of the Finance Ministry in the face of mounting budgetary demands by other departments, interest groups and Parliament.[37] This publication epitomised the Dutch public finance tradition which closely resembled US public choice theory of the 1950s and 1960s, and co-inspired the rules-based budgetary framework of 1961.[38] Building on his expertise and the image of lost frugality of the 1950s, Drees Jr. successfully presented DS'70 as 'austerity champions'.

News of an unexpected budget deficit during the election campaign catapulted Drees Jr. and his party to eight seats in Parliament in 1971. It led to participation in the new centre-right coalition, consisting of three Christian Democratic parties (the Catholic KVP, Protestant ARP and CHU), conservative-liberal VVD and the newly formed DS'70. Concrete austerity measures and a missionary

[30] Stephen Raes, Jarig van Sinderen, Pieter van Winden and Guido Biessen, 'Het maken van economisch beleid: De rol van AEP in de afgelopen 50 jaar', *Tijdschrift voor Politieke Economie*, 24, 1 (2002), 7–50; Mellink and Oudenampsen, *Neoliberalisme*, 77–94.

[31] Erik Jones, *Economic Adjustment and Political Transformation in Small States* (New York, NY: Oxford University Press, 2008), 99–100. See also Anton Knoester, *Economische politiek in Nederland* (Leiden: Stenfert Kroese, 1989), 78.

[32] Christopher S. Allen, 'The Underdevelopment of Keynesianism in the Federal Republic of Germany', in Hall, ed., *The Political Power of Economic Ideas*, 263–89.

[33] As Hall has shown, the rise of Keynesianism was inhibited in countries where rival traditions of economic thinking were present and the Central Bank played a key role in the policy-making process. Hall, ed., *The Political Power of Economic Ideas*, 379; Martin Werding, 'Gab es eine neoliberale Wende? Wirtschaft und Wirtschaftspolitik in der Bundesrepublik Deutschland ab Mitte der 1970er Jahre', *Vierteljahrshefte für Zeitgeschichte*, 2, (2008), 303–21; Edgerton, 'What came between New Liberalism and Neoliberalism?', 30–51.

[34] See, for contrasting views, Touwen, *Coordination in Transition*, 255–7; Mellink and Oudenampsen, *Neoliberalisme*, 232–6. In addition, a promising turn towards Ordoliberalism seems to be emerging in Dutch neoliberalism studies. Dekker, 'An "Ordo-Thinker" on the Left', 695–7; Jan Middendorp, 'J. Zijlstra in H. J. Witteveen: Van denken naar doen', PhD Thesis, VU University, 2023.

[35] 'Het eigene van DS'70', *De Volkskrant*, 13 Feb. 1971; 'DS'70 wil 1500 mln. Bezuinigen', *Het Vrije Volk*, 18 Feb. 1971.

[36] Touwen, *Coordination in Transition*, 7.

[37] Willem Drees Jr., *On the Level of Government Expenditure in the Netherlands after the War* (Leiden: Stenfert Kroese, 1955).

[38] Merijn Oudenampsen and Bram Mellink, 'The Roots of Dutch Frugality: The Role of Public Choice Theory in Dutch Budgetary Policy', *Journal of European Public Policy*, 29, 8 (2021), 1211.

zeal to make additional cutbacks during the term showed the determination of the Biesheuvel administration to restore fiscal order.[39] Guided by Catholic Minister of Finance Roelof Nelissen (KVP), the cabinet endorsed a set of rules for compensatory budget cuts in the case of financial 'set-backs', leading to repeating cycles of austerity. It was Drees Jr., in charge of the Department of Transport and Water Management, who began to criticise this 'unwavering fiscal discipline' as 'formalistic' and 'panicky', instead calling for a thoughtful procedure of austerity.[40] As he and several parliamentarians pointed out, Nelissen's method missed the mark with flexible expenditures such as state investments being slashed, ignoring the true cause of the fiscal problems: the upward dynamics of fixed spending on social security, health care and education.[41] Drees Jr. called for an alternative approach: a joint 'mentality of policy reversal'.[42] What both approaches had in common was the conviction that state spending was out of control and structurally excessive.[43]

Budgetary issues thus took centre stage in the early 1970s. 'The systematic and large-scale policy of budget retrenchment already began in 1971', as Catholic parliamentarian and finance spokesperson Harry Notenboom noted, a fact that most historians tend to overlook.[44] Benchmarks were introduced to augment the Zijlstra-norm and curb the increase of both social security spending and public spending in general, as a share of national income.[45] It coincided with a revival of the Dutch public finance tradition influenced by US public choice theory. Joining forces in an influential thinktank, experts such as Drees Jr., C. Goedhart and Theo Stevers publicly warned of pressure groups clamouring for benefits and the seemingly 'self-evident' growth of state spending, resulting in an ever-larger tax burden for citizens and companies. This sentiment was also voiced by Jelle Zijlstra, President of the Dutch Central Bank (1967–82), who had earlier contributed to the formation of the Dutch supply-side paradigm and the rules-based fiscal framework as Minister of Economic Affairs (1952–9) and Finance (1959–63).[46]

Although it proved impossible to truly reverse the upward trend in public spending, the rise of DS'70, the cabinet's austerity focus and the revival of the public finance tradition showed that non-Keynesian traditions were still very much alive in the early 1970s. In fact, discontent over increased public spending and looming inflation had earlier caused the fall of the centre-left Cals Government (1965–6), heralding Zijlstra into office as crisis manager (1966–7) to 'clean out the financial Augean stable'.[47] It exemplified a growing polarisation during the 1960s in which neoliberal thinking and policy practices clashed with increasingly self-assured and ambitious progressive forces. Likewise, the austerity agenda of the Biesheuvel administration enjoyed considerable support, but at the same time faced strong criticism and clashed with widespread calls for more collective services and welfare policies. Cutbacks in education and social services resulted in strikes and fierce opposition

[39] Wilfred Scholten, *Mooie Barend. Biografie van B.W. Biesheuvel 1920–2001* (Amsterdam: Bert Bakker, 2012), 379–401; Udink, *Tekst en uitleg*, 190.

[40] NA, Minutes Cabinet meeting, 3 and 6 Aug. 1971; 3, 4 and 5 Sep. 1971.

[41] Proceedings of the Dutch House of Representatives, 20 Jun. 1972, 3607–8, 3638; 11 Oct. 1972, 267.

[42] NA, Minutes Cabinet meeting, 22 Jul., 6 Aug. 1971, 14 and 17 Apr. 1972, 12 May 1972.

[43] D. A. P. W. van der Ende, 'De positie van de minister van Financiën sinds 1945. In het spanningsveld tussen twee modellen', in W. J. van Braband, eds., *Openbare Financiën in drievoud. Opstellen aangeboden aan prof.dr. Th.A. Stevers* (Zutphen: Thieme, 1989), 229–46.

[44] H. A. C. M. Notenboom, *De strijd om de begroting: Het vastlopen van de staatsfinanciën in de jaren zeventig* (Nijmegen: Valkhof, 2002), 277.

[45] The latter signalled a reformulation of another budgetary norm from the 1950s, the so-called Romme-norm, which stipulated that the growth of government expenditure should not exceed the relative growth of national income. This rule had not been formally included in the Zijlstra-norm, even though he endorsed it. Notenboom, *De strijd om de begroting*, 18–20, 36–8; *Beheersbaarheid van de collectieve uitgaven. Zevende rapport van de Studiegroep begrotingsruimte* (The Hague: Staatsuitgeverij, 1983), 17, 29, 116–22.

[46] Mellink and Oudenampsen, *Neoliberalisme*, 108–9, 146–51; Notenboom, *De strijd om de begroting*, 56–7; Udink, *Tekst en uitleg*, 175–6.

[47] Jonne Harmsma, *Jelle zal wel zien. Jelle Zijlstra: Een eigenzinnig leven tussen politiek en economie* (Amsterdam: Prometheus, 2018), 229–53.

from the left.[48] This pattern is also seen in other countries: 'two tendencies overlapped and collided, resulting in intense political conflict which . . . led to a brief period of political deadlock or "ungovernability" towards the end of the 1970s. After this impasse, the new neoliberal and conservative forces would indeed become the dominant force.'[49]

Regarding the economy, which suffered increasingly from stagflation, as was noted in Parliament in December 1970, two opposing camps were soon emerging: one in favour of cyclical measures to fight unemployment, the other focusing on structural supply-side issues. Wage restraint to fight inflation was largely a common goal, with the Dutch monetarists traditionally embracing wage policy as a 'flanking instrument' in attaining price stability, although the trade unions did not willingly collaborate in an inflationary climate. Instead of relying solely on monetary measures, Dutch 'moderate monetarism' advocated a policy mix with monetary, fiscal and wage policy jointly aimed at stabilisation.[50] In the early 1970s, the Central Bank began singling out the rising labour share of national income and the growth of the public sector as structural problems driving up inflation and undermining the profitability of the private sector. Unemployment rates were not to be 'absolutised', Zijlstra argued in meetings with the cabinet, continually triggering pleas for counter-cyclical spending programmes. Instead, the economy needed a structural approach aimed at the supply side. Government was becoming too large, raising the tax burden, squeezing firms out of the capital market and driving up inflation, all because of 'structural overspending'.[51]

The bank outlined these arguments, both publicly in its annual reports and behind the scenes, in the important Economic Affairs Council (REA), where key ministers of the coalition also stressed the need for restrictive measures, even if unemployment was rising in 1971–2.[52] The coalition did not turn away from its austerity agenda, as the Conservative administration of UK Prime Minister Edward Heath (1970–4) did, facing economic headwind, even though the Biesheuvel coalition did become increasingly divided about the rushed cutbacks that Nelissen was constantly demanding. Thus, in July 1972, the Biesheuvel administration fell after Drees Jr. opposed a new round of retrenchment, instead pressing for a coordinated approach of austerity and anti-inflation measures, including a tight wage policy. The Christian Democratic parties that were internally divided between a progressive and a conservative wing, fearing a full-blown conflict with the unions, refused, however, to intervene directly in wage formation. The coalition collapsed, with Drees Jr. and DS'70 being publicly shamed as the austerity champions who refused to make cutbacks themselves.[53] With new elections on the horizon, a reorientation within the two main Christian Democratic parties took place: the conservative stance of the outgoing government was exchanged for a more progressive image.[54] It paved the way for a centre-left government that took office in May 1973.

The Years 1973–5: From Shock Therapy and Restraint to Priming the Pump

The administration that took office in May 1973 was the most left-wing government to date, led by leader of the Social Democratic Party Joop den Uyl. Consisting of ministers from five different parties (three left-wing and two Christian Democratic), this coalition was inherently unstable since it could only count on lukewarm support from the Christian Democratic KVP and ARP. During the four-year

48 Duco Hellema, *Nederland en de jaren zeventig* (Amsterdam: Boom, 2012), 148; Van Zanden, *The Economic History of the Netherlands*, 64–5.

49 Slobodian also highlights the clash between ambitious ideas about 'worldwide Keynesianism' in the 1960s with a 'conservative anti-Keynesian backlash': Slobodian, *Globalists*, 164; Hellema, *The Global 1970s*, 141.

50 Vanthoor, *Een oog op Holtrop*, 221–2; Irene de Greef, Paul Hilbers and Lex Hoogduin, 'Moderate Monetarism: A Brief Survey of Dutch Monetary Policy in the Post-War Period', *DNB Staff Reports*, 28 (1998).

51 'Annual Report DNB 1970', 117–18; Mellink and Oudenampsen, *Neoliberalisme*, 108–9, 146–51.

52 NA, Minutes Economic Affairs Council, 5 Feb., 6 May, 3 Sep. 1971, and 10 Dec. 1971; 11 Feb., and 7 Apr. 1972.

53 Anne Bos, Jonne Harmsma and Hans Rodenburg, 'De strijd om de collectieve sector', in Carla van Baalen and Anne Bos, eds., *Grote idealen, smalle marges. Een parlementaire geschiedenis van de lange jaren zeventig (1971–1982)* (Amsterdam: Boom, 2022), 451–5.

54 Hellema, *Nederland en de jaren zeventig*, 147–9.

term of this centre-left cabinet (1973–7) parliamentarians of the two parties often leaned to the right, voting with the opposition in favour of tax benefits for households, homeowners and the private sector. Subsequently, during the centre-right Van Agt administration (1977–81), the progressive wing of these parties regularly voted alongside Social Democrats, mainly on foreign policy instead of economic issues.[55]

The frail support for the Den Uyl administration was also reflected by the fact there was no official coalition agreement. The progressive manifesto Turning Point 1972 (*Keerpunt 1972*) unofficially served as one for cabinet members of the three left-wing parties: the Social Democratic Party, Democrats '66 (D'66) and the Political Party Radicals (PPR). This raised expectations among the leftist part of the electorate. Nonetheless, rather than the progressive reformism of *Keerpunt*, economically, the cabinet's first months in office were devoted to the formulation of a coherent plan for 'a full-scale assault on inflation'. This issue was raised immediately in May 1973 by Finance Minister and future ECB President Wim Duisenberg of the Social Democratic Party, reflecting earlier ideas about a crash programme tabled by the Central Bank in 1972.[56] It marked the beginning of a heated summer in which soon two policy alternatives were discussed: a moderate one, supported by Keynesian-oriented Prime Minister Den Uyl and the Protestant Minister of Social Affairs Jaap Boersma, and a stringent option that included a revaluation of the Dutch guilder, put forward by Duisenberg and Central Bank President Zijlstra, who now dubbed it 'shock therapy'. Duisenberg and Zijlstra were supported by the Catholic Minister of Economic Affairs Lubbers, who would head three austerity cabinets between 1982 and 1994. Following lengthy discussions in the Economic Affairs Council and cabinet, with inflation slightly above that of neighbouring countries between 1969 and 1973, the stringent variant eventually won out.

This implied that the Netherlands, like its Rhineland neighbour West Germany, resorted to a relatively strict anti-inflation strategy in 1973.[57] In Germany, the 'half-turn' to Keynesianism, which had commenced when the SPD entered government in 1966, began to dwindle when its architect, SDP Minister of Economic Affairs Karl Schiller, resigned in July 1972. Instead of countercyclical management, monetary objectives started to dominate again, especially within the Finance Department, Economic Affairs and the Bundesbank.[58] In early 1973, the second Brandt administration (1972–4) imposed the first of two stabilisation programmes, aimed at fighting inflation instead of cyclical fine-tuning. This overlap in policy priorities comes as no surprise since both countries traditionally valued price stability, key to their export-oriented growth model. In both, the Central Bank was (largely) independent and a well-known bulwark of monetarist, anti-Keynesian economic thinking. Moreover, after the Bretton Woods monetary system had been abandoned in 1971–3, both countries sought new ways to ensure monetary stability. For the Dutch Central Bank, currency revaluations, a strong exchange rate and an orientation on the Deutsche Mark slowly became the new monetary model.[59]

In early September 1973, roughly a week before the stringent variant was chosen, the Dutch Central Bank had in fact reiterated its plea that 'the fight against inflation should . . . be given the utmost priority' in an official letter to the Den Uyl administration, a serious and weighty instrument of the Dutch Central Bank.[60] This unusual step is explained by the importance of a revaluation of the guilder against other European currencies in the fixed-exchange rate bloc (the Snake). In fact, after the revaluation of 1961

55 Jan Willem Brouwer and Mari Smits, 'Grote woorden, kleine stappen: De evolutie van de buitenlandse politiek', in Van Baalen and Bos, eds., *Grote idealen, smalle marges*, 712–16.

56 NA, Minutes Economic Affairs Council, 7 Apr. 1972; Minutes Cabinet meeting, 24–25 May 1973.

57 Bastiaan van Apeldoorn, *Transnational Capitalism and the Struggle over European Integration* (London: Routledge, 2002), 69.

58 Alexander Nützenadel, *Stunde der Ökonomen: Wissenschaft, Politik und Expertenkultur in der Bundesrepublik 1949–1974* (Göttingen: Vandenhoeck und Ruprecht, 2005), 307–52; Julian Germann, *Unwitting Architect: German Primacy and the Origins of Neoliberalism* (Stanford, CA: Stanford University Press, 2021), 90.

59 Vanthoor, *The King's Eldest Daughter*, 250–1.

60 Harmsma, *Jelle zal wel zien*, 326–329; 'Board of Directors DNB to minister of Finance, 6 Sep. 1973'; Archive Dutch Central Bank (ADNB) no. 2472.

(following West Germany) and the joint float in May 1971, the 1973 revaluation was the next step in the gradual alignment between the German Deutsche Mark and the Dutch guilder.[61] This peg to the Deutsche Mark was seemingly logical since stable exchange rates were beneficial for trade with the largest trading partner of the Netherlands, but worsened Dutch competitivity in global trade and was therefore criticised by industry, trade unions and most political parties. In fact, the revaluation also served another imported goal: bringing in West Germany's restrictive stance which the Dutch Central Bank deemed vital in the inflationary climate of the 1970s.[62] The Netherlands was the first European country that started moving towards this model of 'imported monetarism' that would later be followed by other (small) countries, imbuing their economy with a deflationary bias.[63]

In 1973, the 'full-scale assault' on inflation was meant to be a 'three-stage rocket' in which revaluation and reinforced price controls came first, to be followed by wage restraint brought about by a 'social contract' to be negotiated by employers and unions in the fall.[64] Apart from the fact that this wage accord failed to materialise, with employers' organisation VNO pulling out at the last moment, the oil crisis caused a complete overhaul of economic and financial priorities in late 1973: the fight against inflation lost precedence (temporarily).

Initially, as elsewhere, attention in the Netherlands focused on the acute danger of energy scarcity. This resulted in ad hoc policies such as oil rationing, car-free Sundays and the Enabling Act of December 1973, authorising the state to take sweeping measures to cope with the crisis.[65] While the eventual Dutch economic response can be described as a textbook example of countercyclical demand management, in the immediate aftermath of the oil shock, doubt about the appropriate reaction to steeply rising oil prices, looming balance-of-payments deficits and the massive accumulation of petrodollars in the Middle East was widespread, especially among financial and monetary officials, and international experts. Meanwhile, parliamentary sources show that Dutch political parties and the Den Uyl administration at first gravitated towards fiscal restraint instead of expansion.[66] This is a telling sign that budgetary restraint instead of Keynesian demand management was the embedded policy response within the Dutch economic policy model.

It was mere logic, Catholic spokesperson for Economic Affairs Rinus Peijnenburg argued in December 1973, that with a deteriorating balance of payments there would be less funds available, requiring a structural reduction in public spending.[67] Such a spending restriction (*bestedingsbeperking*) had been instituted twice in the 1950s, then also in response to balance of payments problems.[68] In December 1973, Conservative–Liberal opposition party VVD called for one billion guilders in immediate budget cuts, prompting Finance Minister Duisenberg to warn of a 'recessionary psychosis' in Parliament.[69] However, in cabinet meetings spending cuts were also advocated, after which the

[61] Fase, *Tussen behoud en vernieuwing*, 190–3.

[62] Harmsma, *Jelle zal wel zien*, 377–82; Vanthoor, *The King's Eldest Daughter*, 250–72.

[63] Vivien Schmidt, 'How, Where and When Does Discourse Matter in Small States' Welfare State Adjustment?', *New Political Economy*, 8, 1 (2003), 130; Tobias Straumann, *Fixed Ideas of Money: Small States and Exchange Rate Regimes in Twentieth-Century Europe* (Cambridge: Cambridge University Press, 2010), 223–39; Vanthoor, *The King's Eldest Daughter*, 251.

[64] To offset the negative effects of the 1973 revaluation, the Den Uyl administration announced an increase in public spending and tax breaks for the private sector. National Budget 1974 (12 600, no. 1), 17–8 and Appendix.

[65] See Duco Hellema, Cees Wiebes and Toby Witte, *The Netherlands and the Oil Crisis: Business as Usual* (Amsterdam: Amsterdam University Press, 2004).

[66] Bos, Harmsma and Rodenburg, 'De strijd om de collectieve sector', 458–62.

[67] For a similar, deflationary view, see H. A. C. M. Notenboom, 'De voorgeschiedenis van de uitgavenombuiging', *Politiek Perspectief*, May/Apr. 1976, 67.

[68] P. G. T. W. van Griensven, 'Allemaal een stapje terug. Over de besluitvorming rond de bestedingsbeperking van 1951', *Politieke Opstellen*, 13 (1993), 81–97; Johan van Merriënboer, 'Het kabinet van de bestedingsbeperking', in Jan Willem Brouwer and Peter van der Heiden, eds., *Het kabinet-Drees IV en het kabinet Beel II (1956–1959). Het einde van de rooms-rode coalitie* (The Hague: Sdu, 2004), 143–73.

[69] Proceedings of the Dutch House of Representatives, 18 Dec. 1973, 1670–5; 20 Dec. 1973, 1795–6, 1823, 1846–7, 1871; NA Minutes Cabinet meeting, 7, 10 and 11 Dec. 1973.

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administration decided to first temporarily 'block' 750 million in expenses. Unsatisfied, Parliament called for additional and more detailed measures in February 1974.[70]

In that month, while opposition party VVD proudly presented a 1.5 billion guilder austerity plan, the Den Uyl administration made a complete volte-face: the fiscal blockade was lifted and expansionary measures were announced.[71] A 'puzzling experience', Peijnenburg confessed during the debate four days later. The Protestant ARP accused the administration of 'zigzagging', while the VVD wondered if anyone still comprehended all these policy turns: after fighting inflation, austerity had been discussed, only to arrive at fiscal stimulus.[72] As Duisenberg explained, the new approach resulted from international discussions at the highest level in Washington and Rome, where heads of state, finance ministers and central banks had concluded that the world economy was in grave danger if each country were to resort to a 'beggar-thy-neighbour' policy of restraint. With consumers and firms already postponing and suspending investments due to higher costs and uncertainty, governments should maintain or even increase their spending to offset the drop in worldwide demand.[73] Baffled, Dutch parliamentarians agreed to this Keynesian line of reasoning.

Thus, in spring 1974, roughly a year after taking office, the Den Uyl administration took an expansionary turn.[74] In April, Parliament ratified the first stimulus 'package' of 2.25 billion guilders. In September, this was followed by the annual budget, which grew by 23 per cent compared to the previous year. With its trade surplus and natural gas deposits, the Netherlands was among the 'few countries in the industrialized world that could and should allow for an expansionary compensatory spending policy', the introduction stated.[75] Three additional packages followed in November 1974, April 1975 and December 1975. The OECD called Dutch policy 'highly expansionary' and a 'complete reversal of the restrictive policies in 1972 and 1973'. The total stimulus amounted to 2.5 per cent of GDP, more than the average stimulus in G7 countries.[76] Meanwhile, almost all Dutch parties pushed to enlarge the subsequent stimulus packages, with one notable exception: the PPR, smallest of the three ruling left-wing parties. If ever there was a Keynesian momentum in the Netherlands, it was now.[77] However, each time, in cabinet meetings and parliamentary debates, fierce political controversy flared up over the composition of these stimulus packages. While the left insisted on direct government spending and investments in public utilities and the welfare state, the right-wing opposition preferred tax cuts and fiscal support for the private sector. In Parliament, Christian Democrats frequently

70 Government spending blockade 1974 (12 779, no. 1–3).

71 'VVD-plan beperkt uitgaven 1,5 miljard', *De Telegraaf*, 12 Feb. 1974; NA, Minutes Cabinet meeting, 13 and 15 Feb. 1 1973; Government spending blockade 1974 (12 779, no. 4).

72 Proceedings of the Dutch House of Representatives, 19 Feb. 1974, 2558, 2561, 2563–4, 2570–1.

73 Such a policy also conformed to the ideas of (Dutch) monetarism, which supported large-scale compensatory public spending in the *exceptional* case of sudden decrease of the money supply (disrupting monetary equilibrium) due to widespread demand failure. David E. Spiro, *The Hidden Hand of American Hegemony: Petrodollar Recycling and International Markets* (Ithaca, NY: Cornell University Press, 1999), 80–7; Kazuhiko Yago, 'Before the "Locomotive" Runs: The Impact of the 1973–1974 Oil Shock on Japan and the International Financial System', *Financial History Review*, 27, 3 (2020), 418–35; Harmsma, *Jelle zal wel zien*, 74–6, 332.

74 Van Zanden, *The Economic History of the Netherlands*, 166.

75 National Budget 1975 (13 100, no. 1), 3–4.

76 *OECD Economic Surveys. Netherlands, March 1976* (Paris: OECD, 1976), 28–31; John Llewellyn, 'Resource Prices and Macroeconomic Policies: Lessons from Two Oil Price Shocks', *OECD Economic Studies*, 1 (1983), 197–212; Jonas Pontuson and Damien Raess, 'How (and Why) Is This Time Different? The Politics of Economic Crisis in Western Europe and the United States', *Annual Review of Political Science*, 15, 1 (2012), 13–33.

77 Looking back, Den Uyl himself also referred to a 'short-lived' period of Keynesianism after the oil crisis. This contradicts the view that his government resorted to 'trusted' demand-side policies under a dominant Keynesian paradigm. See, for example, Kees van Kersbergen, 'De cultuur van gelijkheid. De herverdeling van inkomen', in Jan Ramakers, Gerrit Voerman, R. S. Zwart, eds., *Illusies van Den Uyl? De spreiding van kennis, macht en inkomen* (Amsterdam: Het Spinhuis, 1998), 81–2; Wessel Visser and Rien Wijnhoven, *Baan brekende politiek: De achterkant van de massale werkloosheid* (Kampen: Kok 1989), 35–8.

sided with the opposition.[78] Even in these years Keynesian countercyclical demand management was coloured by supply-side thinking.

The Years 1975–7: 'New' Approaches to Economic, Financial and Monetary Policy

Between 1975 and 1977, the last two years of the Den Uyl administration, Dutch economic, financial and monetary policy again significantly changed direction. First, the cyclical stimulus programmes were phased out in favour of a supply-side scheme focused on tax incentives, wage restraint and boosting private sector profitability. That policy was tied to a renewed focus on curbing the growth of government spending, enshrined in the so-called 'one per cent' budget rule (*eenprocentnorm*). Separately, the Dutch Central Bank tightened its monetary policy and decisively prioritised a stable exchange rate vis-à-vis the Deutsche Mark, the ultimate objective of which was an inflation rate in line with that of West Germany.[79] Even though the stagflation crisis of the 1970s offered the opportunity for new ideas to gain prominence, as Blyth and Hall have convincingly shown, in the Netherlands it was mainly existing policy traditions embedded within institutions such as the Central Bank and the Finance and Economic Affairs Departments that thus *regained* their lost dominance.[80]

In 1975 and 1976, within the Den Uyl administration, a fundamental debate took place about the causes of the economic problems facing the country and the appropriate policy approach. In February 1975, when the government discussed its new Employment Memorandum, two distinct approaches came to light. While the Ministry of Social Affairs defended the so-called 'employment programmes', key to the countercyclical stimulus packages, Economic Affairs emphasised structural supply-side problems that were not addressed by a Keynesian demand-side approach.[81] This latter view was reminiscent of earlier discussions within the Biesheuvel administration and drew support from a new macroeconomic model launched by the Dutch Central Planning Bureau (CPB). The CPB model singled out wage costs as the main cause of rising unemployment and, even though it caused fierce debate among economists, immediately had a strong political impact.[82] In Parliament, spokespersons of the Christian Democratic parties and the right-wing opposition started pleading for a 'structural' approach.[83] According to them, the Dutch economy did not primarily suffer from external hiccups and demand failure, but from structural issues. The profitability of the private sector was threatened by high wages, burdensome social insurances and rising taxes. This account was in line with the neoliberal narrative of the Central Bank, and public finance and supply-side economists: companies were 'crowded-out' of the capital market by an ever-growing and indebted state, while rising wages and excessive public spending also pushed up inflation.[84] As several scholars have argued, with its new

78 Bos, Harmsma and Rodenburg, 'De strijd om de collectieve sector', 462–71.

79 J. M. Berk and C. C. A. Winder, 'Price Movements in the Netherlands and Germany and the Guilder-Dmark Peg', *The Economist*, 142, 1 (1994), 63–74; Harmsma, *Jelle zal wel zien*, 344–8.

80 As the literature shows, a crisis can both overhaul, augment and reinforce existing policy paradigms. Blyth, *Great Transformations*, 35–45; Peter A. Hall, 'Policy Paradigms, Social Learning, and the State: The Case of Economic Policymaking in Britain', *Comparative Politics*, 25, 3 (1993), 275–96; Arjen Boin and Paul 't Hart, 'Public Leadership in Times of Crisis: Mission Impossible?', *Public Administration Review*, 63, 5 (2003), 544–53.

81 NA, Minutes Cabinet meeting, 13 and 14 Feb. 1975; 'De ontwikkeling van de structurele werkloosheid' (13318, no. 3), 99–110; H. den Hartog and H. S. Tjan, 'Investeringen, lonen en prijzen en arbeidsplaatsen (een jaargangenmodel met vaste coëfficiënten voor Nederland)', *CPB Occasional Papers*, 8, 2 (1974). Tjan and Den Hartog's paper was published in English as: 'Investment, Wages, Prices and Labour Demand (A Clay Vintage Model for the Netherlands)', *The Economist: Quarterly Review of The Royal Netherlands Economic Association*, 124, 1–2 (1976), 32–55.

82 In 1973, Dutch inflation reached 8 per cent; in subsequent years it was 9.6, 10.2, 8.8 and 6.7 per cent. Jan Donders and Johan Graafland, 'CPB Models and Employment Policy in the Netherlands', in Mary Morgan and Frank den Butter, eds., *Empirical Models and Policy Making: Interaction and Institutions* (London: Routledge, 2010), 21–2.

83 Bos, Harmsma and Rodenburg, 'De strijd om de collectieve sector', 467–71.

84 Earlier, in the immediate post-war era, the CPB had in fact been the hotbed of Keynesiaism. Tom Kayzel, 'Towards a Politics of Restraint: Public Choice Theory in the Dutch Labour Party of the 1970s', *TSEG – The Low Countries Journal of Social and Economic History*, 18, 1 (2021), 60–7; Mellink and Oudenampsen, *Neoliberalisme*, 154–6; Pen, 'Keynes in Nederland', 441–2.

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model, the CPB was in the vanguard of a supply-side revolution that took off early in the Netherlands.[85] However, left-wing parties, unions and the progressive flank of the Christian Democratic parties were still committed to Keynesian views, making the second half of the 1970s a period of fierce polarisation around economic issues, resulting in political immobility.[86] The Social Democratic Party was also split between a Keynesian majority and an influential supply-side and public finance faction. Dissatisfied with the Keynesian orientation of his party, Finance Minister Duisenberg even campaigned with a separate manifesto during the general elections of 1977.[87] The supply-side and public finance views were a continuation of embedded ideas that had dominated economic and financial policy making in the post-war period. As one economist put it, in the Netherlands, the supply-side revolution of the 1970s was 'new wine in old bottles'.[88]

In summer 1975, the debate on economic problems became even more tangled up with budgetary issues when mounting deficits came to light in forecasts of the CPB, based on its controversial new model. These predictions caused Finance Minister Duisenberg to demand last-minute cutbacks to the new budget. Since the Central Bank refused to provide additional monetary leeway, pointing to inflation and the 'spending surge' of 1974–5, Duisenberg also confronted his colleagues with an ultimatum to curb the long-term growth of public spending. Reluctantly and only after Duisenberg threatened to resign, the cabinet agreed to the so-called 'one per cent' budget rule that would be elaborated during the next months. Once again, the Finance Ministry resorted to a rules-based framework to regain control, curb the growth of public spending and limit the room for discretionary fiscal policy.[89]

In this period, anti-Keynesian sentiments also started to gain strength in parliament and society. Before the General Financial Debate of October 1975, employers' organisations published a full-page manifesto in national newspapers calling for an immediate supply-side reversal of government policy, warning of a massive exodus of Dutch firms. In early January 1976, nine CEOs of Dutch multinationals published another manifesto, widely interpreted as a 'declaration of war' on the Den Uyl administration.[90] Employers' organisations and high-profile CEOs such as Dutch Shell Director Gerrit Wagner would continue to play a key role in the transition to neoliberal policies in the late 1970s and early 1980s, as Oudenampsen and Mellink have documented.[91] In autumn 1975, opposition party VVD also launched a new austerity plan, while the Catholic parliamentary leader Frans Andriessen (who would become Finance Minister in 1977 in the centre-right Van Agt administration) made his appearance with a trimmed haircut – a model for public spending as well, he declared.[92]

Over the next months, the cabinet discussed what was soon labelled the 'socio-economic financial complex': in other words, how to simultaneously boost the economy, fight inflation, combat unemployment and curb government spending. Despite opposition from Keynesian-oriented Prime Minister Den Uyl and Social Affairs Minister Boersma, Duisenberg and Lubbers combined forces and won their colleagues over with a pact in which the new budget rule was coupled to a massive supply-side stimulus plan totalling nineteen billion guilders between 1977 and 1980 (1.25 billion

85 Knoester, *Economische politiek*, 145–7; Tom Kayzel, 'A Night Train in Broad Daylight: Changing Economic Expertise at the Dutch Central Planning Bureau 1945–1977', *OEconomia*, 9, 2 (2019), 337–70.

86 Dietmar Braun, 'Political Immobilism and Labour Market Performance: The Dutch Road to Mass Unemployment', *Journal of Public Policy*, 7, 3 (1987), 318–22; Oudenampsen and Mellink, 'Bureaucrats First', 35; Hellema, *The Global 1970s*, 141.

87 Kayzel, 'Towards a Politics of Restraint', 58.

88 Dik Wolfson, 'Economisch herstel als maatschappelijk proces', *Economisch-Statistische Berichten*, 67, 3371 (1982), 964–5.

89 Harmsma, *Jelle zal wel zien*, 340–43; Mellink en Oudenampsen, *Neoliberalisme*, 131–5.

90 'Waar het om gaat vandaag in de Tweede Kamer', *Trouw*, *Algemeen Dagblad* and *De Telegraaf*, 7 Oct. 1975; 'Open brief Akzotop aan Den Uyl', *NRC Handelsblad*, 12 Nov. 1975; 'Open brief van bezorgde ondernemingsleiders', *NRC Handelsblad,* 13 Jan. 1976.

91 Touwen, *Coordination in Transition*, 269–73, 313; Oudenampsen and Mellink, 'Bureaucrats First', 39–40; Oudenampsen, Between Conflict and Consensus', 786–7.

92 Bos, Harmsma and Rodenburg, 'De strijd om de collectieve sector', 475–7; Proceedings of the Dutch House of Representatives, 8 Oct. 1976, 160.

wage subsidies and 3.5 billion tax incentives each year).[93] Even though the orientation of their 'joint venture' was criticised, Duisenberg and Lubbers defended their plan by arguing along supply-side lines that public investments were less effective than private ones in terms of growth and employment.[94]

On 22 June 1976, in what was called the most important debate of the year, both policy plans were ratified in Parliament. The most left-wing cabinet in Dutch history thus fundamentally adjusted both its economic and financial policy to respectively restore private sector profitability and reduce the growth of public spending. Although the so-called 'one per cent' budget rule was clearly a compromise (both the right-wing opposition and the conservative wing of the Christian Democratic parties favoured a 'zero per cent norm' while Duisenberg dubbed it a 'leftist budget rule' to convince his fellow social democrats) and the actual implementation was delayed until 1977, the overall reorientation of economic and financial policy shows that the Keynesian intermezzo was coming to an end.[95]

Also in June 1976, the Dutch guilder came under heavy attack in the exchange market. This occurred at a moment when Central Bank directors had begun to reconsider the relatively loose monetary policy of recent years. Although Central Bank President Zijlstra had continuously referred to the 'evil of inflation' and in 1974 had even started to warn that democracy was at stake when inflation hit 'galloping' rates above 10 per cent, the bank's interest rates had remained relatively low, allowing the money supply to grow.[96] The lax stance of the Central Bank was increasingly criticised by Friedmanite monetarists such as Pieter Korteweg and Eduard Bomhoff.[97] In a world increasingly dominated by capital-market liberalisation, the effectiveness of domestic monetary policy had, however, been 'seriously undermined' since the Dutch defended a fixed exchange rate.[98] In 1973–4 the bank did attempt to tighten its monetary policy but these efforts were thwarted, first by the oil crisis and then because of the Herstatt Bank failure, which shook the financial system.[99] Nonetheless, with the growing appeal of new monetarist views from across the Atlantic and inflation still high, peaking at 10.2 per cent in the Netherlands in 1975, the Central Bank started to rethink its strategy.[100] This led to a prioritisation of exchange rate and price stability over a commitment to orderly financial markets, without the bank embracing Friedmanite views. The tradition of 'moderate monetarism' retained its strength.[101]

In contrast to Friedmanite monetarism, Dutch monetarism assigned a key role to fiscal and wage policy in addition to monetary instruments in attaining and safeguarding monetary equilibrium. Also, Dutch monetarism favoured fixed exchange rates which would foster international stability and contribute to domestic policy discipline.[102] Thus, the Central Bank advocated a policy mix in which monetary policy was 'flanked' by rules-based and cautious fiscal and wage policies. This message was consistently advanced by the Central Bank after 1945.

The speculation against the guilder in 1976 thus settled internal Central Bank disputes between 'hawks' and 'doves', leading to a decisive tightening of monetary policy. While interest rates were hiked up to defend the exchange rate, this move was interpreted as a 'declaration of war on

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93 In 1976 prices, this equals roughly 57 billion euros: see www.cbs.nl/nl-nl/visualisaties/prijzen-toen-en-nu (last visited 26 Jul. 2022). Bos, Harmsma and Rodenburg, 'De strijd om de collectieve sector', 479–86.

94 This argument was based on the new CPB-model. NA, Minutes Cabinet meeting, 5 Jan. and 5 May 1976; Arendo Joustra and Erik van Venetie, *Ruud Lubbers: Manager in de politiek* (Baarn: Sesam, 1991), 135–7.

95 Knoester, *Economische politiek in Nederland*, 145–7.

96 'Annual Report DNB 1974'; 'Annual Report DNB 1975'.

97 Mellink and Oudenampsen, *Neoliberalisme*, 151–6.

98 'Annual Report DNB 1970'; Vanthoor, *The King's Eldest Daughter*, 241–2.

99 Van Zanden wondered why the Central Bank, 'focused as it was on the battle against inflation, allowed the ongoing expansion of the money supply'; see Van Zanden, *The Economic History of the Netherlands*, 166; 'Diary André Szász, 10 Jul. 1974' (ADNB) no. 88779; Harmsma, *Jelle zal wel zien*, 344–8; Cathrine Schenk, 'Summer in the City: Banking Failures of 1974 and the Development of International Banking Supervision', *English Historical Review*, 129, 540 (2014), 1129–56.

100 Mellink and Oudenampsen, *Neoliberalisme*, 151–6.

101 G. A. Kessler, 'Wisselkoersbeleid en monetair beleid', in A. Knoester, ed., *Lessen uit het verleden: 125 jaar Vereniging voor de Staathuishoudkunde* (Leiden: Stenfert Kroese, 1987), 457.

102 Paul Hilbers, *Financial Sector Reform and Monetary Policy in the Netherlands* (Washington: IMF, 1998), 10–11.

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inflation'.[103] It was a defining moment. After successfully weathering the speculation, the Central Bank reformulated its long-term strategy, prioritising a strong currency over other concerns. The exchange rate would be defended 'at all costs', Zijlstra declared.[104] Again, there was ample opposition to an ever-stronger guilder: the export sector found its competitive position threatened, the financial sector saw its credit lines restricted, (left-wing) politicians blamed the bank for pushing up unemployment and the administration also faced higher interest rates for government loans and debt. Finance Minister Duisenberg, who had regular meetings with Central Bank President Zijlstra, also feared economic troubles brought on by the tight money market. In December 1976, he opposed new credit restrictions that the Central Bank wished to impose. According to Zijlstra, these steps were inevitable: 'delay will only make the painful effects more severe and long-lasting'.[105] By 'agreeing to disagree', decisions were postponed. However, in March 1977, the bank used the collapse of the centre-left government to move forward and announce the introduction of a domestic credit ceiling. It led to a serious clash between bank and government, but monetary tightening remained in place.[106]

In 1976 and 1977, an ever-stronger orientation on the Deutsche Mark emerged, requiring a tight monetary policy. The increasing revenues of the large Groningen natural gas field, often blamed for the 'Dutch disease' (the appreciation of the exchange rate harmed exports), made this policy line possible.[107] As Touwen has pointed out, 'the strong exchange rate of the Dutch guilder was mainly the result of *the policy choice* to limit inflation and keep the guilder close to the German mark'.[108] It confronted Dutch politics with the *fait accompli* of imported monetarism: a deflationary bias resulting from the prioritising of inflation over unemployment.[109] Even if cabinet members and parliamentarians at first denounced this 'hard currency policy', slowly, they embraced the orientation on West Germany. Increasingly, the collaboration between both countries intensified with the Dutch Central Bank closely following the German exchange rate, acting as both an ally and 'stalking horse' in monetary diplomacy.[110] After September 1979, this orientation would culminate in a full-blown peg within the European Monetary System.[111] Thus, after the guilder crisis of 1976, the period of accommodative monetary policy was over and keeping up with the Bundesbank became the main goal of Dutch monetary policy. By importing German monetarism, the Dutch Central Bank took the lead in the fight against inflation.

Conclusion

By highlighting the restrictive policies of the often-overlooked Biesheuvel administration, the forgotten anti-inflation plan of the Den Uyl government and the 'recessionary psychosis' in the immediate aftermath of the oil crisis of 1973, this article proves that, even in the early 1970s, neoliberal ideas and policy traditions dating back to the 1950s and 1960s exerted a strong influence. As local or 'domesticated' variants of classic neoliberalism, supply-side policies, public finance thinking and Dutch monetarism were embedded traditions and schools of economic thinking that limited the influence of

103 'Is de gulden werkelijk zwak?', *Trouw*, 28 Aug, 1976.

104 'Annual Report DNB 1976', 247; Harmsma, *Jelle zal wel zien*, 344–8.

105 'Meeting J. Zijlstra and W. F. Duisenberg, 20 Dec. 1976' (ADNB) no. 51779.

106 Vanthoor, *The King's Eldest Daughter*, 273–6; Harmsma, *Jelle zal wel zien*, 344–8.

107 As Tobias Straumann has pointed out, 'Dutch exchange rate policy would have been quite different without this natural resource': Straumann, *Fixed Ideas of Money*, 251; Van Zanden, *The Economic History of the Netherlands*, 165.

108 Touwen, *Coordination in Transition*, 39, emphasis added.

109 Straumann, *Fixed Ideas of Money*, 223, 234, 239; Schmidt, 'How, Where and When Does Discourse Matter?', 130; Julian Germann, 'German "Grand Strategy" and the Rise of Neoliberalism', *International Studies Quarterly*, 58, 4 (2014), 709.

110 Keith Middlemas, *Orchestrating Europe: The Informal Politics of European Union, 1973–1995* (London: Fontana, 1995), 546.

111 An exception confirming the rule took place in March 1983, when the government refused to revalue alongside the German Deutsche Mark, much to the displeasure of the Central Bank. This decision harmed confidence in Dutch exchange rate policy, imploring the Central Bank to intervene harshly to uphold the value of the guilder in the market. Harmsma, *Jelle zal wel zien*, 372–6, 386–91; D. van der Wal, 'Geloofwaardigheid van het Nederlandse wisselkoersbeleid', *Maandschrift Economie*, 55, 3 (1991), 164–82.

Keynesianism in post-war policy making and academia, just as has been argued for other (continental European) countries.[112]

As recent studies have shown, in the Netherlands, these traditions evolved to a large degree within the Ministries of Economic Affairs and Finance, which is complemented in this article by highlighting the role of the Central Bank and the influence of Dutch monetarism. Taken together, it underlines the need to reflect deeper on post-war economic policies and nuance the Keynesian label that is often used, accentuating instead the role of classic neoliberal ideas. Following up on recent publications by Mellink, Oudenampsen and others, this article shows that, in the Netherlands, because of the influence of these economic ideas and policy traditions, there was no turning point towards neoliberalism during the 1970s but rather a return to embedded modes of thinking and practices that had been influential much longer.

Indeed, the 1960s and early 1970s were also a period of confidence in the potential of socio-economic management and fine-tuning, resulting in the expansion of the welfare state, calls for ambitious social reforms and additional state policies. New policy instruments with a Keynesian bent were introduced in the Netherlands as well, but monetarist and neoliberal forces remained influential.[113] When a mood of crisis started to dominate Dutch politics in the early 1970s, affected by both international events (the fall of Bretton Woods and environmental concerns) and national developments (budget deficits and inflation), the clash between these opposing forces intensified. During the Biesheuvel administration, austerity and fighting inflation took prominence in political debates and policy making, clashing with the progressive tide of left-wing reformism and Keynesian fine-tuning. This coincided with a revival of the public finance tradition and calls from cabinet members, the Central Bank and supply-side economists for 'structural' solutions to combat stagflation and safeguard the profitability of the private sector and the competitivity of the Dutch economy.

A similar emphasis on restraint also marked the initial Dutch response to the oil crisis of 1973. The momentum for demand-side, expansionary measures only came in March 1974, when Dutch policy makers were convinced of the danger of a worldwide recession at key international summits. As such, the 'Keynesian intermezzo' reached its peak, but the ideological struggle continued. While the economic downturn persisted, economic, financial and monetary policy underwent a U-turn in 1976, demonstrating that anti-Keynesian ideas and traditions gradually regained their dominance in Dutch policymaking. This materialised as a fundamental shift from demand-side to supply-side stimulus, the formation of a new budgetary norm to curb the growth of public spending and re-establish a rules-based fiscal framework, and a move towards monetary restriction under a hard-currency policy aimed at firmly pegging the Dutch guilder to the Deutsche Mark. Thus, in a climate of stagflation, which delegitimised Keynesian ideas, and well before the oft-mentioned turning point of 1982, the Netherlands started its return to well-established rules-based, supply-side and stability-oriented policies of classic neoliberal bent.

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[112] Hall, ed., *The Political Power of Economic Ideas*, 389–91; Werding, 'Gab es eine neoliberale Wende?'; Edgerton, 'What came between New Liberalism and Neoliberalism?'; Kenneth Dyson, *Conservative Liberalism, Ordo-Liberalism, and the State: Disciplining Democracy and the Market* (Oxford: Oxford University Press, 2020), 2–6; François Denord, 'The Long Road of French Neoliberalism', in C. Berthezène and J. C. Vinel, eds., *Postwar Conservatism, a Transnational Investigation: Britain, France, and the United States, 1930–1990* (Cham, Switzerland: Palgrave, 2017), 79–94.

[113] Most importantly, the 'swing tax' instituted in 1970 by Finance Minister Witteveen to make countercyclical management possible within the prevailing rules-based budgetary framework. To his dismay, it was only used twice. H. J. Witteveen, *De magie van harmonie. Een visie op de wereldeconomie* (Amsterdam: Gibbon, 2012), 152–3.

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