

7 Market government

Neoliberalism and the transformative power of 1989

Bram Mellink and P. W. Zuidhof

Introduction

The fall of the Wall in 1989 has had an unmistakable effect on the political and ideological landscape in Europe and elsewhere. One only needs to refer to Francis Fukuyama's *The End of History and the Last Man* to see how it sparked a sense of implosion of long-worn ideological oppositions, while at the same time spurring a clear triumphalism within Western liberal thought.¹ While 1989 never delivered the promised end of history, it continues to constitute a formative moment in the history of modern political thought. This chapter seeks to examine the effect of 1989 in one particular corner of liberal political thought and practice: its effect on the history of neoliberalism, specifically in Western Europe.

The ambition to trace the effects of 1989 on Western European neoliberal political thought and practice immediately raises various difficulties. The first set of difficulties derives from the very notion of neoliberalism itself, for the concept tends to elude easy definition and refers to an incongruous set of policy recipes and ideological positions. It is variously associated with the liberalization, deregulation, and privatization policies of Reagan and Thatcher, with Reagan's embrace of supply-side economics and political experiments in Chile.² It signals the demise of Keynesian macroeconomic policy and the upsurge of Milton Friedman's monetarist policies.³ Neoliberalism has become synonymous with the rollback of the welfare state and the erosion of any kind of social policy. It also stands for a rollout of market-based or market-like social policies, such as the introduction of school voucher systems and market-based solutions in health-care.⁴ Intellectually, neoliberalism could be seen as having many fathers (most of them indeed male), most notably Friedrich Hayek and Milton Friedman, although both only rarely and hesitantly self-identified as leaders of the neoliberal movement. The word *neoliberalism*, although used by its advocates in the past, since the late 1970s has served primarily to criticize the market.⁵ However, the most fundamental aspect that has made neoliberalism so highly elusive, and that continues to confound scholars to this day, is that it has proved difficult to identify exactly what distinguishes the 'more markets, less state' formula of neoliberalism from pre-existing liberal ideological formations, most notably economic classical liberalism, economic liberalism, and libertarianism. Neoliberalism is thus often

imputed a political and intellectual integrity that it hardly lives up to and that requires further historical unpacking.

The second set of difficulties concerns the fact that existing accounts of the effects of 1989 mostly assume an unambiguous relationship between the collapse of Eastern European communism, the downfall of Western European social democracy, and the subsequent rise of neoliberalism. This relationship is all but self-evident. As Cornel Ban recently argued, social democrats adhered to a mixture of social liberalism and Keynesian policy interventions far before the Berlin Wall was even built.⁶ Apart from a shared Marxist legacy, which most Western European social democrats had dismissed since the 1930s, they had little to do with Eastern European socialists. Therefore, the eventual ‘neoliberalization’ of Western European political thought after 1989 is hardly a simple effect of the downfall of Eastern European socialism and requires further examination.

Our exploration of the effects of 1989 on neoliberal thought in the Western world therefore starts with a brief analysis of the concept of neoliberalism. We will demonstrate that neoliberal ideology, though often associated with the retreat of the state, privatization, cuts on social benefits, and austerity politics, presupposes an active, interventionist state that sets the parameters for the market rather than allowing it to run its course. Some of the ideological underpinnings of this particular relationship between state and market were first developed during the economic crisis of the 1930s, when the failures of laissez-faire liberalism seemed paramount. The first section of this chapter exposes these historical roots and thus sheds light on some of the key ideological assumptions behind neoliberal thought, which are crucial for our understanding of the neoliberal reforms of the 1980s.

To survey the possible effects of 1989 on the development of neoliberalism we visit two sites in the Western world. The second section of the essay focuses on a telling post-1989 moment in the history of America. We study the post-1989 discourse of one particular policy think tank, the Cato Institute, as an example of how the fall of the Wall created a sense of market triumphalism among American neoliberals and neoconservatives in the early 1990s.

While one would expect a similar sense of neoliberal triumphalism in Western Europe after the Berlin Wall came down and the Cold War was seemingly won, the contrast could hardly be starker. To understand a distinctly Western European response to the fall of the Wall, the third and fourth sections focus on a Dutch government think tank in the 1980s and 1990s respectively. The case of the Netherlands provides a striking contrast to the United States. On the one hand, the proportion of public expenditure on the public sector in the Netherlands dropped from being at the level of Sweden in 1980, to the level of the United Kingdom in 2000.⁷ Welfare retrenchment in the Netherlands dwarfed the austerity programs of comparable OECD countries, and *Time Magazine* dubbed Ruud Lubbers—the Dutch prime minister throughout the 1980s—‘Ruud Shock,’ due to his rigorous socioeconomic reforms.⁸ All of this seems very much in line with the market triumphalism that allegedly characterized the post-1989 era. However, on the other hand, explicit forms of market triumphalism were almost completely absent in

Dutch political circles; Lubbers himself became known as a ‘no-nonsense’ politician in national politics, and austerity reforms passed parliament without the overt ideological contestation that characterized the Anglo-American experience.

While these two cases from the United States and the Netherlands can hardly be taken as representative of the attitude in Western Europe at large, there emerges, despite their seemingly unmistakable differences, one important similarity in the transformation of neoliberalism at the time. Drawing on Jamie Peck’s distinction between ‘rollback’ and ‘rollout’ neoliberalism, we will argue that 1989, in both cases, acted as a catalyst for the transformation of neoliberalism toward new forms of market government that rather resemble a novel type of ‘roll-in’ neoliberalism. This ‘neoliberal transformation’ of the 1990s, however, can only be properly understood by taking the longer history of neoliberalism, as well as its various local trajectories, into account.⁹

Neoliberalism: the intertwining of market and state

As the 1970s ended, politicians and policy elites became enmeshed in a fierce battle of ideas. Controversial right-wing politicians, most notably Margaret Thatcher and Ronald Reagan, symbolized a new political era, described by the American historian Daniel Rodgers as the ‘age of fracture.’¹⁰ As Thatcher and Reagan battled against labor unions, criticized welfare arrangements, and announced extensive cuts on social benefits, a new political language came into vogue. Fundamental academic debates on the effects of societal structures on human behavior, so characteristic of *les trente glorieuses* and the rise of the social sciences, were increasingly replaced by actor-centered approaches. Microeconomics replaced macroeconomics, structure was replaced by agency, and faith in the market mechanism reemerged, as the stagflation crisis of the late 1970s and the subsequent crisis of the welfare state unfolded. It is this combination of a shifting political language, market-oriented institutional change, and the rise of a new generation of politicians that most people commonly associate with the emergence of neoliberalism.

This particular depiction of neoliberalism is not without consequences. First, it depicts neoliberalism as a new political era, subsequent to the heyday of the welfare state. The rise of market-oriented reforms thus appears as a logical, if not necessary, response to the economic crisis of the 1970s. Second, it relates the demise of the welfare state to a withdrawal of state influence and a renewed confidence in the market, equating the neoliberal agenda with privatization, budget cuts, and austerity measures. Finally, through its emphasis on these economic measures, it depicts neoliberalism as both a worldview and historical phase in which politicians and policy elites seem to limit their attention to economic issues, and economic issues alone. This understanding has also been key to criticism of neoliberal thought, namely the idea that neoliberals confine their understanding of humankind to that of *homo economicus*. However, this particular understanding of neoliberalism mistakes a particular phase in the history of neoliberalism, its

rollback phase, for the history of neoliberalism at large, and consequently fails to grasp some of the key assumptions underpinning much neoliberal thought.

Neoliberal thought did not first develop in response to the crisis of the welfare state, but, rather, was tied up with the welfare state's emergence. The Wall Street crash of 1929, together with the rise of mass unemployment during the 1930s, contributed to an unprecedented ideological crisis of liberalism. 'From the wreckage of liberalism, nothing can be saved but its values,' Karl Mannheim stated shortly after the outbreak of the Second World War.¹¹ Even devoted liberals such as Friedrich Hayek grudgingly conceded that 'probably nothing has done so much harm to the liberal cause as [...] the principle of laissez-faire.'¹² Contemporaries asserted that the stumbling block for the pre-1929 economy had been the rise of monopolies and cartels, which had curtailed free competition and produced a series of economic booms and busts. Despite the agreement on its causes, expert opinion differed on how to prevent similar crises in the future. Social democrats and social liberals held unrestrained capitalism accountable, arguing that the market should be curtailed by the state, and that the state should also provide basic socioeconomic security to its citizens.¹³ By adopting a program of economic state intervention to realize full employment, accompanied by state-provided social security, advocates of the so-called 'welfare state' hoped to avert in the future the conditions that had caused the crash of 1929.

A group of self-proclaimed 'neoliberals,' who also held that the principle of laissez-faire was untenable for the future, adopted a different view on the relation between market and state. As the crisis of 1929 and the subsequent rise of totalitarian states had been caused by the rise of monopolies and cartels, they argued, the concentration of economic power in the hands of the state should be prevented at all costs, as a political and economic state monopoly would be even more dangerous than the classical liberal night-watchman state. According to some of these neoliberals, the principle of free competition—and free competition alone—was able to secure individual freedom, as it prevented the concentration of power in the hands of the few.¹⁴ As the free market had clearly been unable to guard itself against monopolies and cartels in an era in which it had been allowed to run its course, neoliberals proposed that the state should foster the market by combatting monopolies and cartels, thereby securing its ability to produce economic growth and democratic freedom through the principle of competition. Their particular focus on creating a competitive order, or as Hayek called it, 'planning for competition,' set neoliberals apart from classical liberalism and laissez-faire.¹⁵

Despite this shared agenda, neoliberals did not necessarily agree on the nature of monopolies and cartels, or the way in which they should be combatted. Early neoliberals, most notably those belonging to the continental European *Freiburger Schule*, shared the Marxist assumption that free markets have a tendency toward monopolies and cartels, and believed therefore that the state should actively intervene to prevent power concentrations in the economy.¹⁶ This line of thought has continued over the years and left deep institutional footprints—the appointment of a European Commissioner for Competition, for instance.¹⁷ Other neoliberals, most notably those of the American Chicago School, asserted that monopolies

and cartels were a *product* of intervention by the state, and therefore prescribed economic non-intervention.¹⁸ In adopting this line of non-intervention, they came close to the previously dominant policy of *laissez-faire*, in which the abstinence of the state in the economy is the norm.

Despite clear resemblances between *laissez-faire* liberalism and neoliberalism, both branches of liberal thought differ fundamentally. Whereas classical liberalism separates state, market, and society, neoliberalism emphasizes the intertwinement between market and state. According to neoliberals—and despite their differing views concerning the extent of state intervention—economic freedom underpins individual freedom, meaning that democratic government relies on the mechanism of free competition. This also implies that neoliberalism does not confine itself to *homo economicus*, as other aspects of economic life (according to neoliberal theory) are dependent on, and therefore inseparable from, the market.¹⁹ Neoliberals thus forged new connections between state, market, and democracy, and the resulting new branch of liberalism was heavily influenced by the battle against totalitarianism, which early neoliberals equated with the battle against the welfare state.²⁰ These old connections would resurface as the ‘rollback’ phase of neoliberalism commenced with the ascension of Margaret Thatcher and Ronald Reagan in the late 1970s and early 1980s. Some insight into the ideological roots of neoliberalism might help us to understand why this rollback phase, which was basically confined to privatization and austerity programs, was immediately accompanied by a sense of democratic crisis, a renewed interest in civic responsibilities, and shrill warnings against the ‘totalitarian’ pitfalls of welfare politics.

Transforming market government in the United States: markets against states

The election of Margaret Thatcher in the United Kingdom and Ronald Reagan in the United States was to inaugurate a new phase in the history of neoliberalism. As stated above, this period was marked by a combination of great ideological shifts as well as momentous changes in policy. The Thatcher and Reagan administrations, seemingly directly, translated intellectual input from economists like Hayek and Friedman into new and far-reaching policies. Propelled by the global economic downturn of the 1970s and the legwork of international networks, these neoliberal policies were by no means confined to the United Kingdom and the United States, but gained appeal all around the world.²¹ The global set of free market reforms of the 1980s are today considered to represent the heyday of neoliberalism.

Following Jamie Peck and Adam Tickell, this period is now commonly referred to as the phase of ‘rollback neoliberalism.’²² Policy measures adopted during this period of ‘shallow neoliberalism,’ generally abide by the simple adage of ‘more markets, less state.’²³ This is reflected, for instance, in the regulatory agendas of Thatcher and Reagan that aimed to liberate markets from state intervention through deregulation, liberalization, and privatization. Policy-makers swapped macroeconomic Keynesian interventions for monetarist policy precepts, aiming

to regulate money supply rather than striving for the full employment of production.²⁴ Other measures were directed at rolling back the welfare state through the reduction of a host of social protections, budget cuts, and limits put on forms of social organization, such as labor unions. Internationally, too, the Washington Consensus represented a shift away from government aid and toward a focus on trade liberalization and market policies imposed by structural adjustments.²⁵ In contrast to the era of early neoliberalism discussed above, in which market and state were seen as intertwined, neoliberalism now merely represented a rolling back of the state at the expense of the market.

When the Berlin Wall came down in 1989, the rollback phase of neoliberalism was well underway in the Western world, if not reaching its peak. This is an important factor for any assessment of the effect of 1989 on neoliberalism. Given this context, it is indeed tempting to see 1989 as both confirmation of and a victory for rollback neoliberalism, and as ushering in a neoliberal end of history. Indeed, it is not hard to see how 1989 further reinforced the embedding of rollback neoliberalism on a global scale. The age of economic globalization brought a further entrenchment of rollback neoliberalism during the 1990s and well into the 2000s. But even though 1989 represented a clear victory for rollback neoliberalism, its market triumphalism also appears to have invited a novel mutation of neoliberalism.

The relation between this new form of neoliberalism and the rollback neoliberalism that preceded it is illustrated by looking at a set of publications from the Cato Institute, an American conservative policy think tank with a clear libertarian bent. It presents an interesting example of how the market triumphalism of 1989 need not merely entrench rollback neoliberalism but could also give way to ideological renewal. Quite unlike the mixed-economy discourse in Western Europe, the political economic discourse of conservative institutions such as Cato is traditionally cast in stark Cold War binaries that oppose markets to central planning, capitalism to socialism, and democracy to authoritarianism. A typical move in such circles is to equate any form of government intervention in markets—take, for example, Obama’s system of healthcare insurance—with socialism.²⁶ How did such a discourse with a near dichotomous opposition between markets and states change when one of the two ideological antagonists collapsed?

A short time after 1989, Cato’s presidents, Edward H. Crane and David Boaz, put together a volume titled *Market Liberalism: A Paradigm for the 21st Century*, which could be considered Cato’s perspective on the post-1989 world.²⁷ As the title indicates, for Cato, 1989 inaugurated a new paradigm, dubbed ‘market liberalism.’ According to the authors, a new form of liberalism was ‘sweeping the world, from Eastern Europe to Latin America, to Asia,’ and the volume aimed to discuss ‘how to bring the market-liberal revolution to the United States.’²⁸ The editors presented the fall of the Berlin Wall as ‘the most significant change of the late twentieth century,’ and argued that it represented a powerful confirmation of a ‘collapse of the statist vision.’²⁹ But, much to Cato’s dismay, the fact that markets and economic growth had been on a steady rise meant that governments were growing too. Notwithstanding ‘a few tentative steps toward deregulation in 1978

and tax reduction in 1981,' the authors charged that 'the free-market revolution in the United States has failed to stop the inexorable growth of the omnivorous federal government.'³⁰ The revolutionary power of 1989 thus inspired Cato to develop the market liberal vision as part of a renewed attack on the government. Without calling it as such, the libertarians of Cato used the momentum of 1989 to put the erstwhile neoliberal project of the 1980s on a new footing.

What characterized the new, twenty-first-century paradigm of market liberalism that Boaz and Crane unwittingly promoted as a new phase of neoliberalism? Market liberalism, according to them, was a post-1989 variety of conservatism, libertarianism, and classical liberalism. The latter tended to be backward looking, as classical liberals presented the free market, liberty, and the ideas of individual rights or limited government as passive guarantees for liberalism. In contrast, by superimposing the idea of free markets onto liberalism, the Cato authors presented their own market-oriented set of assumptions as a 'forward-looking philosophy, comfortable with a changing world, tolerant, and enthusiastic about the market process and individual liberty.'³¹ They thus mobilized market principles in order to combat the status quo, in which the government was perceived as the standard solution to social problems, instead of its cause. Only markets could plausibly provide sufficient checks on the ever-encroaching power of government. With this notion of market liberalism, the Cato scholars positioned the market as the only viable political principle to be leveled against government overreach and statism. Where rollback neoliberalism focused on rolling back the state in order to liberate markets, the events of 1989 stimulated the Cato Institute to design a stepped-up version of market liberalism that subtly inverted this logic by rolling out the market *against* the state and coercive government.

With Cato's idea of market liberalism, 1989 market triumphalism not only served to confirm and continue attempts at rolling back the state, but in fact rolled *into* government as its guiding principle. *Market Liberalism* contains numerous essays that continue to make ordinary rollback arguments, but also includes contributions that advocate roll-in measures to actively limit coercive government. One such example is a chapter by Edward Crane on the political process. The political system, according to Crane, had become ever more closed, only 'to protect the status quo.'³² To open the political system up again, Crane turned to market principles, arguing for term limits as well as the removal of campaign contribution limits. Note how both arguments were predicated on market principles. The idea behind term limits for Congress is that an increased degree of competition for seats in Congress would prevent the emergence of career politicians that 'end up not telling the government what the people want, but instead lobbying the people to support more government.'³³ Crane made a similar market argument for the removal of limits on campaign contributions. Just like innovative entrepreneurs could break into the market, politicians with novel ideas should be allowed to garner the resources to break the two-party cartel and enter the political stage: 'Americans have a right to expect as dynamic a political system as they do an economic system.'³⁴ As this example shows, market liberalism no longer represented a simple rollback, that is simply more markets and less state, but instead

advocated market principles to be rolled *into* the state so as to limit government from the inside out.

Another contribution to the book, this time on education policy and aptly titled ‘The Learning Revolution,’ once more referred to ‘the collapse of the Soviet empire’ to underpin the need for rolling market principles into government. According to its author, there was an urgent need for ‘commercializing (not just privatizing) the economy of academia, the biggest and probably the last great socialist empire on earth.’³⁵ In order to ‘[break] up the socialist monopoly of the government-controlled education system,’ merely privatizing the education system through school choice and voucher systems was not enough, as this would only entail a redistribution of public money over different non-profit organizations. Instead, the author advocated a system of micro-choice, micro-vouchers, and family learning accounts that would enable families to purchase ‘learning products and services,’ and would ‘create a true, wide-open, location-free, competitive market for learning.’³⁶ The switch proposed in the article was not just a rollback of government but signified a further rolling-in of market principles to education policy in an attempt to further limit the reach of government. This logic of roll-in is neatly summarized by Cato’s president David Boaz:

In every sector of the economy, competition produces better results than bureaucracy and monopoly. (Not just the economy, in fact; liberalism involves competition in political and intellectual life as well as economic life.) That’s why the public schools don’t work very well. They offer about as much scope for flexibility, innovation, consumer responsiveness, and experimentation as did Soviet factories.³⁷

This passage acutely illustrates how, at Cato, 1989 helped to elevate neoliberalism to a new level. Cato’s market liberalism was no longer merely about shifting the boundaries between the market and the state, reminiscent of how the Cold War represented a territorial battle between capitalism and socialism. In Cato’s case, neoliberalism’s next level was to roll market principles into all corners of political and intellectual life. The state itself, whether it governed education, health-care, social policy, international relations, or the economy, should be liberated by market principles from any traces of ‘socialism,’ and this should happen from within. In this way, Cato’s market liberalism is exemplary of how 1989 helped provoke a switch from plain rollback neoliberalism to an intensified form of roll-in neoliberalism.

State-led response to rollout neoliberalism: the Netherlands during the 1980s

While the fall of the Wall no doubt encouraged some form of market triumphalism in Western Europe, one did not immediately see raving pleas such as those encountered at the Cato Institute. In the Netherlands, for instance, the response was

much more reserved. A quick review of *Economische en Statistische Berichten* (ESB), a major professional economic policy journal in the Netherlands, shows no indication that 1989 prompted a renewed debate over the role of markets and government. In the immediate aftermath of the fall of the Berlin Wall, articles discussed the promises and pitfalls of applying shock therapy in Eastern Europe, but none of them related this back to Dutch policies. Instead of opening new ideological terrains, 1989 was at best a catalyst in an ongoing debate about the puzzles posed by the increasing dominance of markets and globalization. The effect of 1989, if any, should therefore be read against the longer development of neoliberal practices and thought in the Netherlands.

Much research today emphasizes that the ascendance of neoliberal policies follows distinct and diverse national trajectories. While seemingly similar neoliberal policy measures get adopted around the globe, the precise dissemination and embedding of these policies is highly local and follows closely existing national policy traditions.³⁸ Any account of how the events of 1989 may have had an effect in Western Europe should thus always be read against the background of ongoing developments in the various national policy contexts. To get a more exact sense, therefore, of how 1989 may have served as a catalyst in the political trajectory of neoliberalism in the Netherlands, we will trace the development of governmental thought about the state and the market from the late 1970s up until the early 2000s, as expressed by the Scientific Council for Government Policy (WRR). The Dutch government established the WRR in 1972 as an independent scientific think tank that would provide policy advice to the state. Since its establishment, the council has consisted of a small number of high-profile members drawn from the academic field and, together with a scientific staff, has published two to three reports a year and a large number of preliminary studies. One of the foremost bodies of government policy, the WRR constitutes an interesting source of governmental self-reflection on policy.

When reviewing the development of market-state discourse at the WRR in the decade preceding 1989, three aspects stand out: first the types of questions that were taken up by the WRR; second the hesitance of the WRR to embrace roll-back policies; and, third, the alternative ways in which the WRR envisioned more room for markets. During the period running up to the events of 1989, one can identify four main types of questions or problems that were evidently of national economic policy concern. The first of these was an ongoing concern with declining economic growth and its consequences for unemployment, as represented in reports on industrial policy in 1980, economic growth in 1987, and issues surrounding unemployment and labor market policies in 1987 and 1990.³⁹ The second, related, topic that was important at the time was that of economic planning, which runs through some of the reports and was addressed separately in a study on the future of economic planning.⁴⁰ A third major theme during the 1980s was the supposed 'crisis of the welfare state,' which was raised in reports on welfare policy in 1982 and social security in 1985.⁴¹ A fourth theme, which emerged during the second half of the 1980s, relates to questions about European integration.⁴²

In all four cases, the WRR asks what policy adjustments are required. These four policy questions are, on the one hand, typical for a period of rollback neoliberalism, which typically featured a concern for declining economic growth and the crisis of the welfare state. However, the reports also contain many concerns that are more specific to the Dutch debate, such as the limitations of state-led economic planning, the disappointing performance of the Dutch economy throughout the 1980s, and the demise of the Dutch welfare state. If anything, the WRR during this period was busy formulating a response to the onset of rollback neoliberalism in the Netherlands, one that was decidedly local in nature.

The response to these issues by the WRR thus differed strikingly from, for instance, the approach of the American Cato Institute. While the Netherlands was going through a phase of economic restructuring that was in many ways comparable to that of other Western European states or the United States, it is remarkable to witness the hesitant and measured nature of the Dutch response to these changes. Especially when compared to the outspoken ‘more markets, less state’ rhetoric associated with rollback neoliberalism in the United States and the United Kingdom—the accounts of the WRR hardly matched up. Take, for example, its response to the question of economic growth. In an immediate response to the decline in growth of the late 1970s, the WRR published a report in 1980 entitled *The Place and Future of Dutch Industry*, which examined how the state could stimulate economic growth through structural industrial policies.⁴³ These policies were directed at developing strategic manufacturing sectors of the economy, such as the automobile industry, shipbuilding, machinery, or electronics. Industrial policy as a form of government policy steering certain sectors within the economy is typically considered a hallmark of embedded liberalism.⁴⁴ At a time when, in the United States, industrial policy came abruptly into disrepute, the Netherlands firmly clung to it to solve its problems of economic decline. A further example of the WRR’s difference in response can be seen in a 1983 report entitled *Planning as Undertaking*, in which the WRR was considering the future tenability of economic planning.⁴⁵ Containing numerous references to Hayek and the public choice theorist, James Buchanan, the report reflected the demise of planning, but nonetheless argued for a modernization of planning practices by making planning more entrepreneurial, rather than abolishing it altogether. In a 1987 report, *Room for Growth*, the WRR considered whether there were structural limitations that prevented the economy from returning to its golden age of growth. The report argued that such a return to growth is both feasible and desirable, but that this was precluded because of societal constraints put on the market mechanism. It therefore claimed:

Structural relations in the economic process do not preclude a simultaneous realizing of objectives with regard to employment, levels of consumption, balance of payment equilibria, reduction of government deficits, and some aspects of the environment. In practice these generally accepted objectives are less realized than what is possible in theory. The limitations of the market mechanism and the intertwinement of the public and private sector are

in part to blame that decentralized decisions lead to suboptimal outcomes. According to the Council, better results can be reached when the decisions of economic actors are better adjusted.⁴⁶

One would expect this to result in a resounding plea for more markets and less state. Instead, the WRR concluded: ‘This [...] requires policy coordination. To achieve policy coordination, one could turn to institutionalized consultation between social partners [i.e. labor and employers’ organizations] and the government.’⁴⁷

At a time otherwise known for its rollback neoliberalism, the Dutch response was, not entirely unsurprisingly, founded in consultation and state policy. While economies in the 1980s were undergoing major restructuring, the policy response of the WRR was still beholden to the idea of embedded liberalism and hardly showed any signs of rollback neoliberalism. A similar attitude underpinned the WRR’s perspective on European integration. In a report aptly titled *Uncompleted European Integration*, the council repeated well-known arguments in favor of market integration, assumedly required to defend Europe against increased competition in the world economy. European integration was especially necessary to regain effective public control over the economy: ‘Put boldly these developments require a rapid completion of a common market on which substantial public interventions can be effective.’⁴⁸ Quite paradoxically, at a time that is associated with rollback of the state, the WRR responded with policy options that would give the state a renewed control over the economy.

In the end, while the WRR appeared hesitant to embrace the precepts of rollback neoliberalism, it was all but oblivious to the lure of the market. This became most evident in the council’s publications on the future of the welfare state. In the 1982 report, *Revaluing Welfare Policy*, which focused on making welfare policy more efficient and effective, market measures only featured in the background. However, a report of 1985, entitled *Safeguards for Social Security*, sought to revalue social security policy in the light of changing social and economic conditions. This required, according to the report, a new balance between solidarity and individual freedom. While the report advocated a basic income scheme, it simultaneously aimed at a social security system more finely attuned to the needs of flexible labor markets, implicitly advocating a form of neoliberal ‘flexicurity,’ *avant la lettre*.

From the late 1980s, one witnesses a reluctant emergence of more of these new types of market-oriented policy solutions. These arrangements featured most explicitly in reports on labor market policy of that period. The 1987 report entitled *Activating Labor Market Policy* marked a shift in how the question of unemployment was approached. It abandoned more traditional approaches that focused on cyclical and structural causes of unemployment. Instead, policy shifted to a focus on better preparing the unemployed for the labor market through training, intermediation programs, and other ways of making labor more flexible. This way, the report championed a neoliberalization of labor market policy, in which the burden of unemployment policy turned into the responsibility of the individual, at the

expense of addressing structural causes of unemployment. In addition, the policies appear to have adopted the notion of a flexible labor market as the norm to which labor has to adjust. Furthermore, the policies insisted on market measures and market solutions as a means of procuring labor market retraining, intermediation, or reintegration. As a report on labor market policy from 1990 summarized the WRR's new position: 'it is recommended that market principles will direct the organization of training.'⁴⁹ Hence, toward the end of the 1980s, market principles hesitantly started to make their way into the policy vocabulary of the WRR in the Netherlands. Up to that point, policy discourse at the WRR in the Netherlands had been primarily concerned with the typical questions accompanying the rollback phase of neoliberalism. These included declining economic growth, unemployment, and the sustainability of the welfare state. It had also been concerned with a number of more unique questions pertaining to Dutch national economic traditions, for instance, questions about planning or European integration. In finding answers to these questions, the WRR did not straightforwardly advocate the liberation of markets or the rolling back of the state. Instead, the council sustained its confidence in the state to remain in charge of controlling a political prerogative over the market. In those scant instances where market principles were called upon for policy purposes, these remain—in contrast to the examples drawn from Cato—firmly state-led, and directed at achieving public goals.

Neoliberalism rolling in: the Netherlands during the 1990s

Whereas Dutch socioeconomic debates throughout the 1980s focused primarily on the relation between market and state, the year 1990 marked the onset of a decade in which the distinction between market and state seemed to dissolve. In the preceding years, the Lubbers administration had initiated an extensive privatization program, which included the Dutch postal services (1986), telecommunications (1989), and the only state-owned retail bank of the Netherlands (1986).⁵⁰ Although privatization programs were also extended to the railway sector and social housing, the 1990s primarily stood out as the decade in which the market mechanism was deliberately applied *within* the public sector. Policy-makers now applied the classical Hayekian creed of 'planning for competition' *within* state bureaucracy: neoliberalism 'rolled in.'

This striking shift was not an immediate effect of the fall of the Berlin Wall, nor was it accompanied by the optimistic pro-market rhetoric that we saw from the Cato Institute in the United States at the time. In its 1990 report *A Workable Perspective*, dedicated to labor market reforms, the WRR recommended that the Dutch government reconsider 'the rules and institutions developed to protect [citizens] from the unrestrained effects of the market mechanism.'⁵¹ The council argued that a shift in state policy was inevitable, given the low participation of Dutch citizens (especially women) in the labor market, which the WRR ascribed to the absence of the laws of supply and demand. These recommendations were neoliberal in nature but were not sold with pro-market rhetoric. Rather, the council

developed a problem-oriented approach closer to Margaret Thatcher's famous statement 'there is no alternative.'

Whereas the WRR's proposals in *A Workable Perspective* were very much in line with its earlier rollback approach, the position of the council started to shift in the middle of the 1990s. When the WRR published its report, *Interest and Policy*, in 1994, the council argued that cutting back on social benefits was in itself insufficient to preserve the Dutch welfare state; new measures, most notably the introduction of various kinds of market incentives (*marktwerking*) and state-fostered competition were required.⁵² Note that the council presented these market incentives in line with the preservation of the welfare state, and did not oppose the market to the state. In one of its subsequent reports, in which the WRR observed the rise of an 'entrepreneurial society,' the council went as far as to argue that the distinction between state and market itself was unproductive and outdated:

The Entrepreneurial Society does not require a choice between state and market, but a synthesis of both: the state establishes the framework, sets priorities, discusses the results, takes care of public debate, acts as referee, et cetera. The market plays the game.⁵³

The proposed synthesis between state and market provides a fascinating insight into the ways in which the WRR conceptualized the harmonious relationship between market and state. The authors of *The Entrepreneurial Society* predicted a social order in which citizens would no longer experience work as a 'scourge' or duty. Instead, the council predicted that future generations would experience work as 'the framework in which people can establish their ideas as well as their lives.'⁵⁴ As a result, the distinction between work and leisure time would dissolve, while 'human capital' would 'mitigate power concentrations within the labor market.'⁵⁵ While these assertions (underpinned by a belief in the leveling effects of markets, for which the WRR did not provide evidence) are striking in themselves, they also expose the council's assumptions regarding the relationship between market and state. Not only did the council propose a synthesis between market and state, it also stated that the market should 'play the game,' while the government aligned itself with the market mechanism. Rather than emphasizing the key role of the state in planning for a competitive order in the economy, the authors of *The Entrepreneurial Society* reversed the relation between market and state: the state should use the principle of free competition to its own advantage.

Such optimism concerning the blessings of the market was apparently short-lived. When the WRR published *Safeguarding the Public Interest* in 2000, the authors adopted a much more modest tone, claiming that 'privatization is not a competition [between] state [and] market,' while the private sector was not confined to the market, and depended on more coordinating mechanisms than competition alone.⁵⁶ The report focused on market management, rather than on the magic of markets as such. It suggested that although the market remained of key importance, the state should confine itself to its role as market manager when

aiming to safeguard public interest. Reflecting on the ideological change of the last two decades, the council therefore concluded:

A new mix between the government and market as coordination mechanisms ... had emerged. To put it differently, a renegotiation of public and private responsibilities took place. In foreign countries, this transition was accompanied by unrest (Thatcher, Reagan). In the Netherlands, a debate seemed almost absent. [...] However, this does not necessarily signify absence of change. Silently, impressive transitions have been made in various domains, such as the shift of responsibilities with regard to public utilities in the previous decade.⁵⁷

This reflection on the recent past aptly summarizes the WRR's stance toward neoliberal interventions throughout the 1980s and 1990s. The council advocated pro-market reforms of the labor market, encouraged the introduction of market incentives in the public sector, and aimed at a form of governance in which the state set the boundaries while the market played the game, underlining the roll-in phase of neoliberalism. However, rather than opposing state and market, the WRR aimed to remove the boundaries between both, and presented the introduction of market incentives in line with the preservation of the welfare state. Initially developed in response to the disappointing performance of the Dutch economy during the 1980s, the council pursued this approach during the 1990s when the Dutch economy performed significantly better, arguing that the satisfactory development of the Dutch economy provided no more than a 'breathing space' from fierce international competition.⁵⁸ In this sense, market-oriented reforms acted both as utopia and scourge.

Conclusion

'Triumphalism?' was the title of the editorial that opened *Socialism and Democracy's* first issue of the new decade in January 1990. The editors of the Dutch social democratic journal briefly reflected on the recent political events across the Iron Curtain and observed that the fall of the Berlin Wall was predominantly celebrated as a triumph of liberalism over socialism at home.⁵⁹ Such sentiments should not cause social democrats to lose faith, the editors argued, but only underlined the urgency of a social democratic answer to 'neo-conservative' calls for privatization and deregulation—an answer that should not depart from the assumption that the market had outmatched the state.

The editorial of *Socialism and Democracy* unknowingly provided a reasonably accurate outline of the neoliberal approach that would take root in Dutch policy circles in the decade that followed, an approach that departed from 'roll-back' policies, such as austerity measures and privatization in the 1980s, but stopped short of market triumphalism like that of the American think tank, the Cato Institute. The Dutch government policy think tank, the Scientific Council for Government Policy (WRR), however, shared with the Cato Institute a very

deliberate push toward forms of neoliberal market government. While aiming at a synthesis between market and state, it defended its position by arguing that the introduction of market principles *inside* the state was key to the preservation of the welfare state. Rather than opposing market and state, the WRR aimed at a mutually beneficial relationship between the two. In so doing, it succeeded in depoliticizing welfare reforms, while simultaneously pushing an agenda that was, in many respects, in line with the reforms of Thatcher and Reagan, as the council itself observed.⁶⁰ Thus, the WRR became a key player in translating neoliberal ideological ideas into policy proposals that, because of their consensual and depoliticized tone, suited the complex Dutch multiparty system. This depoliticized approach, in which the boundaries between state and market were downplayed or denied, is characteristic of the roll-in phase of neoliberalism in the Netherlands.

This chapter hence argues that, around 1989, a transition took place in neoliberalism and that the fall of the Wall coincided with a transition from rollback neoliberalism to roll-in neoliberalism. After 1989, we can observe a decided change in neoliberalism, which is no longer only about pushing back the state, but entails the introduction of market principles and market measures within the state. This is not to claim that roll-in neoliberalism was an immediate consequence of the fall of the Berlin Wall or any of its side effects. While the fall of the Wall may be an attractive marker for this transformation in neoliberalism, and may have been exploited by some as its inspiration, this transition is part of a much larger transformation in neoliberal thought and practice. Like Cornel Ban, we dismiss any direct linkage between the fall of socialism in Eastern Europe and the demise of social-democratic resistance against neoliberalism.⁶¹ Apart from some explicit references to the demise of socialism and expressions of market triumphalism like the ones observed at the Cato Institute, these have been largely absent in Western European political discourse, as our examples from the Netherlands show. We have not encountered much evidence of large ideological shifts provoked by the fall of the Wall. If anything, our case studies show that the most important neoliberal transformations occur at the level of concrete policy interventions.

Underlining this warning against ideological oversimplification, it is also important to point out that the effects of 1989 did not develop in a historical vacuum. As this chapter has demonstrated, the emergence of neoliberal thought and practice dates back to the economic crisis of the 1930s. Key assumptions of these earlier strands of neoliberal thought—most notably the belief that the market mechanism contained state power, the belief that competition secured human freedom, and the idea that totalitarianism was an effect of power concentration—played an important role during the roll-in phase of neoliberalism, but were originally developed in the aftermath of the Wall Street crash. As Mark Blyth has claimed in *Great Transformations*, ideas play a key role in politics, especially in times of political crises, but this does not necessarily imply that ideas that come to play a major role during a crisis are always new.⁶² Quite often, journalists, politicians, and policy-makers adapt and reapply ideas in a new context. Although 1989 certainly acted as a catalyst in the dissemination and applicability of neoliberal thought, it certainly did not produce a neoliberal shift by itself.

Therefore, we have aimed to demonstrate that local contexts matter. While a neoliberal shift practically affected all countries around the globe, the local trajectories in which these political transformations occurred differed significantly. While our limited comparison does not allow for too-sweeping conclusions, the differences between the Cato Institute's market triumphalism and the cautious, depoliticizing tone of the Dutch WRR are nevertheless telling. Even while neoliberalism was undergoing a major transformation around 1989, our case studies show that the exact shape and form of these transformations were highly localized and dependent on historical and political contexts. As such, our findings fit well with recent literature on neoliberalism in the Netherlands, for instance, which emphasizes the consensual nature of the Dutch neoliberal transformation, especially when compared to that of the United Kingdom or the United States.⁶³ Another striking local difference was the political motives for the move to roll-in neoliberalism. Where the Cato discourse clearly reflected anti-statist sentiments, the WRR in the Netherlands, on the other hand, defended neoliberal proposals by emphasizing that market incentives were necessary for preserving the welfare state. The changeover to roll-in neoliberalism hence had different implications in different political contexts.

While it would be an overstatement to claim that 1989 was the immediate cause of the transformation in neoliberalism from rollback to roll-in neoliberalism, it has been an important catalyst in the process. On an ideological level—as seen in the examples offered by the Cato Institute—the fall of the Wall helped further undermine the market/state opposition and legitimized the infusion of the state with market principles. In policy practice, furthermore, the fall of the Wall quietly prompted renewed and reinvigorated attempts at reforming the state after the image of the market.

Notes

- 1 Fukuyama, *The End of History and the Last Man*.
- 2 See, for example: Klein, *The Shock Doctrine: The Rise of Disaster Capitalism*; Harvey, *A Brief History of Neoliberalism*.
- 3 Hay, 'The Normalizing Role of Rationalist Assumptions in the Institutional Embedding of Neoliberalism,' 5078.
- 4 Peck, *Constructions of Neoliberal Reason*, 22–23.
- 5 Boas and Gans-Morse, 'Neoliberalism: From New Liberal Philosophy to Anti-Liberal Slogan.'
- 6 Ban, 'Was 1989 the End of Social Democracy?'
- 7 WRR, *De Verzorgingsstaat Herwogen*, 78; Green-Pedersen, *The Politics of Justification*; Siegel, 'Jenseits der Expansion?' 54–89.
- 8 Hellema, *Nederland en de Jaren Zeventig*, 289.
- 9 Peck, *Constructions of Neoliberal Reason*, 22–23.
- 10 Rodgers, *Age of Fracture*.
- 11 Mannheim, *Man and Society in an Age of Reconstruction Studies in Modern Social Structure*, 364.
- 12 Hayek, *The Road to Serfdom*, 18.
- 13 See for instance: Beveridge, 'Social Insurance and Allied Services (The Beveridge Report),' 6; Commissie-Van Rhijn (Londen), 'Sociale Zekerheid. Rapport van de

- Commissie, *Ingesteld bij Beschikking van den Minister van Sociale Zaken van 26 Maart 1943, Met de Opdracht Algemeene Richtlijnen vast te Stellen voor de Toekomstige Ontwikkeling der Sociale Verzekering in Nederland*, ' 14.
- 14 Röpke, *Civitas Humana*, 15.
 - 15 Hayek, *Road to Serfdom*, 43.
 - 16 Lemke, "'The Birth of Bio-Politics": Michel Foucault's Lecture at the Collège de France on Neo-Liberal Governmentality,' 192–193.
 - 17 Gerber, 'Constitutionalizing the Economy: German Neo-Liberalism, Competition Law and the "New" Europe.'
 - 18 Van Horn, 'Reinventing Monopoly and the Role of Corporations: The Roots of Chicago Law and Economics.'
 - 19 Foucault, *The Birth of Biopolitics: Lectures at the Collège De France, 1978–1979*, 82.
 - 20 Mellink, 'Politici Zonder Partij. Sociale Zekerheid en de Geboorte van het Neoliberalisme in Nederland (1945–1958).'
 - 21 Harvey, *A Brief History of Neoliberalism*.
 - 22 This distinction was first introduced in Peck and Tickell, 'Neoliberalizing Space.'
 - 23 Peck and Tickell, 'Neoliberalizing Space,' 384.
 - 24 Hay, 'The Normalizing Role of Rationalist Assumptions,' 507–508.
 - 25 Saad-Filho, 'Growth, Poverty and Inequality: From Washington Consensus to Inclusive Growth.'
 - 26 Cannon, 'ObamaCare: "Everything That's Wrong with the European-style Democratic Socialist State."'
 - 27 Boaz and Crane, *Market Liberalism: A Paradigm for the 21st Century*.
 - 28 *Ibid.*, inside flap.
 - 29 Boaz and Crane, 'Introduction: The Collapse of the Statist Vision,' in *Market Liberalism: A Paradigm for the 21st Century*, 2 and 1 respectively.
 - 30 *Ibid.*, 2.
 - 31 *Ibid.*, 9.
 - 32 Crane, 'Reclaiming the Political Process,' *ibid.*, 53.
 - 33 *Ibid.*, 56–57.
 - 34 *Ibid.*, 62. The quote continues: 'Contribution limitations have been passed in to law for the same self-serving reasons that corporations lobby for protectionist bills of their own, complete with all the "public interest" rhetoric,' *ibid.*, 62–63.
 - 35 Perelman, 'The Learning Revolution,' *ibid.*, 159.
 - 36 *Ibid.*, 167.
 - 37 Boaz, 'Reviving the Inner City,' *ibid.*, 197.
 - 38 See, for example: Fourcade-Gourinchas and Babb, 'The Rebirth of the Liberal Creed: Paths to Neoliberalism in Four Countries'; Prasad, *The Politics of Free Markets: The Rise of Neoliberal Economic Policies in Britain, France, Germany, and the United States*; Swarts, *Constructing Neoliberalism: Economic Transformation in Anglo-American Democracies*; Cornel, *Ruling Ideas: How Global Neoliberalism Goes Local*.
 - 39 WRR, *Plaats en Toekomst van de Nederlandse Industrie*; WRR, *Ruimte voor Groei: Kansen en Bedreigingen voor de Nederlandse Economie in de Komende Tien Jaar*; WRR, *Activerend Arbeidsmarktbeleid; Een Werkend Perspectief: Arbeidsmarktparticipatie in de Jaren '90*.
 - 40 Den Hoed, Salet, and Van der Sluijs, *Planning Als Onderneming*.
 - 41 WRR, *Herwaardering van Welzijnsbeleid; Waarborgen voor Zekerheid*.
 - 42 *De Onvoltooide Europese Integratie*.
 - 43 All translations of Dutch reports are the authors' own.
 - 44 Blyth, *Great Transformations: Economic Ideas and Institutional Change in the Twentieth Century*; Harvey, *A Brief History of Neoliberalism*, 10–11.
 - 45 Den Hoed, Salet, and Van der Sluijs, *Planning als Onderneming*.
 - 46 WRR, *Ruimte voor Groei: Kansen en Bedreigingen voor de Nederlandse Economie in de Komende Tien Jaar*, 15–16.

- 47 *Ibid.*, 16.
48 *De Onvoltooide Europese Integratie*, 20.
49 *Een Werkend Perspectief: Arbeidsmarktparticipatie in de Jaren '90*, 13.
50 Stellinga, *Dertig Jaar Privatisering, Verzelfstandiging en Marktwerking*, 33 and 35.
51 WRR, *een Werkend Perspectief: Arbeidsmarktparticipatie in de Jaren '90*, 127.
52 *Belang en Beleid: Naar een Verantwoorde Uitvoering van de Werknemersverzekeringen*, 81.
53 *De Ondernemende Samenleving*, 9.
54 *Ibid.*, 50.
55 *Ibid.*, 9.
56 WRR, *Het Borgen van Publiek Belang*, 11.
57 *Ibid.*, 17.
58 Gelok and De Jong, *Volatilisering in de Economie*, 9.
59 Koch, 'Triomfalisme?' 2.
60 WRR, *Het Borgen van Publiek Belang*, 17.
61 Ban, 'Was 1989 the End of Social Democracy?'
62 Blyth, *Great Transformations*, 35–37.
63 Oudenampsen, 'Opkomst en Ondergang van de Derde Weg. Het Raadsel van de Missende Veren,' 34.

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