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The price of political crisis : Economic Adjustment and Political Transformation in Belgium and the Netherlands.

Erik Jones

Political crisis is no longer news in Belgium or the Netherlands. Indeed, it has been going on for so long now that we are more tempted to see what else the countries are doing than to focus on the details of the crisis itself. Meanwhile the costs of this prolonged crisis continue to mount. These are not monetary costs and they are unlikely to show up in long-term interest rates either. Although there are resources wasted and opportunities missed while politicians focus on areas of disagreement, the real toll of the crisis is felt in the style of politics and not in the content of policy. There was a time when politicians in both countries worked together to forge an effective response to the problems of the day. They did so not because consensus was good for its own sake. Anyone who is familiar with the practice of consociational democracy (or verzuiling) that predominated in Belgium and the Netherlands during the early post- Second World War period will know that if was often elitist, undemocratic, cumbersome, and constraining. Nevertheless, consociational democracy made some things possible that are no longer available to politicians today. And as much as the Belgians and the Dutch may celebrate their liberation from the requirements for consensus-building they may soon regret that they can no longer do what they could in the past.

One way to illustrate the problem is to focus on how prolonged political crisis is constraining the possibilities for economic policymaking. To do so, however, you have to pull away from the current narrative of crisis and take a somewhat longer view. The basic argument is that Belgium and the Netherlands used to rely on consensus to construct and reform welfare state institutions – unemployment and disability insurance or old age pensions, for example – and to underwrite national competitiveness. This no longer seems possible. As a result, both countries are less flexible and more vulnerable than ever since the end of the Second World War. Worse, they may never recover the ability to foster economic consensus and their economic performance may suffer considerably as a result.

The importance of this assertion is not existential. Belgium and the Netherlands are not going to disappear from the map – at least not anytime soon. Nevertheless, Belgium and the Netherlands are becoming very different places than they were in the past. And that difference matters, not just in terms of the quality of life in both countries, but to their underlying performance as well. This is true particularly in the face of ever increasing globalization. Where once large countries turned to small ones to find models for success in world markets, now the experience of small countries like Belgium and the Netherlands suggests there may be nowhere to turn.

The General Case: Small Is Beautiful

We are used to taking as read that globalization is making states smaller. With the expansion in trade and capital flows, national governments are increasingly unable to control domestic macroeconomic conditions and national firms have ever less influence on market prices. Of course some countries remain global actors and others seek to assert a more prominent world role. Similarly, even the smallest countries can spawn world-class firms. Still the exceptions only confirm the rule. The expansion of global finance and commerce condemns most countries to shrink.

Being small is not all that bad. For some countries at least, small is beautiful. With cohesive societies and consensual governments, a few of the small countries in Western Europe have managed to mark up impressive gains over time. The governments of these small countries not only have generated huge improvements in income per capita, but some also have succeeded in encouraging firms to specialize in relatively secure (inelastic) niche markets and nurturing an impressive capacity for actors across the economy as a whole to engage in flexible adjustment in response to external shocks. The results are not uniform across small countries. Switzerland and Austria are better at promoting niche markets; Sweden and Denmark specialize in flexible adjustment. But they are general enough to attract attention to the small state model.

Lasting success in the small states of Western Europe is not due to government action alone and it is no accident that the more successful states are the more cohesive and consensual ones. Rather the people in smaller states recognize their vulnerability to world market forces. They agree to overcome their differences. And they work together to build institutions for the collective management of economic performance. Some of these institutions help to steer the economy; others help to compensate those parts of society that fall off the rails.

Focus on Consensus

Reasoning like this explains why many came to regard the more successful of the smaller West European states as models for how other countries could adapt to the challenges of a global economic future. Given that the influence of globalization is manifest, people should work together to strengthen national performance. Politics should be more inclusive than divisive and markets should be more flexible than rigid. Most important, countries of all sizes should avoid becoming obsessed with facile trade-offs between states and markets. Instead they should value equity as well as efficiency–because by doing so they have a real chance at achieving the best of both worlds.

There is no easy teleology in this conventional wisdom.

On the contrary, and at its best, these insights were garnered through painstaking and original empirical research. Scholars like David Cameron (1978), Peter Katzenstein (1984, 1985), and Arendt Lijphart (1975, 1984) helped students of comparative political economy to look at the world beyond the large pattern states and to avoid focusing too narrowly on the idiosyncrasies of individual country cases. They used country-specific case study material, but they showed how this material could be transformed into more general and testable hypotheses. In turn, their work attracted the attention of scholars like Jelle Visser and Anton Hemerijck (1997), Paulette Kurzer (1993), and Herman Schwartz (1994), who scrutinized the link between size and success and who tried to strike the balance between fortune, policy and context, or–borrowing from Schwartz (2001)–luck, pluck or stuck.

The resulting literature on the political economy of small states constitutes an impressive body of research with a much larger number of significant contributors than I have mentioned so far. When grafted onto a parallel and complementary literature on patterns of welfare state development, it leaves very few stones unturned and most questions answered. The answers are not all complete and there is much contention (and therefore interest) in the field. Nevertheless, it is a branch of comparative political economy that has matured nicely. The only wonder is whether there is anything we can say that is new.

Even Great Beauty Fades over Time

Sometimes it is events rather than scholarship that point the way. While we have developed a good understanding of small country success, the small countries themselves have been experiencing periodic bouts of turmoil. Sweden and Finland went through severe economic downturns at the end of the Cold War. Denmark vetoed the Maastricht Treaty and Norway turned down European Union (EU) membership. Austria flirted with Joerg Haider's Freedom Party and the Netherlands flirted with the List Pim Fortuyn. Switzerland has seen the growth of support for its right-wing people's party and now Belgium is going through the most difficult government formation in recent memory. Indeed, there is real talk that Belgium might someday (not today, but someday) fall apart.

These episodes are not all the same and there are clear differences from one country to the next. Nevertheless, there is a common theme that unites them as well: either they reflect problems that can be traced back to globalization writ large, or they reflect a breakdown in domestic consensus; usually there is some element of both.

There is nothing surprising in the fact that the smaller countries of Western Europe have difficult moments. No-one ever suggested anything to the contrary. Bad things happen to all states, including the more successful ones.

The bouts of turmoil have not been fatal to the small country model either. On the contrary, in many cases the smaller states of Europe have quickly reclaimed their reputation for success. Still the fact that these things have happened suggests that we should know more about the relationship between external vulnerability and domestic consensus. By the same token, we should also know more about what it means to be small.

There are two ways to square the circle. One is to define the size of nations in terms of vulnerability and then show the link from vulnerability to consensus; the other is to define the size of nations in terms of homogeneity and then make the link from homogeneity to consensus to vulnerability. Peter Katzenstein's work goes down the first route. Countries are small, therefore they are vulnerable and the recognition of that vulnerability fosters consensus (see also, Katzenstein 2003). Alberto Alesina and Enrico Spolaore (2005) go the opposite direction.
Countries are small, therefore they are homogenous. Small, homogenous countries are not, however, self-sufficient. As these small countries look outside their borders to find things they cannot provide for themselves (or to achieve economies of scale), they become dependent upon world markets and therefore vulnerable to world market influences.

Both arguments offer important insights that help to explain small country success.

Katzenstein (2003) highlights the importance of awareness. If people in small countries are not aware of their vulnerability they may ignore or overlook the advantages of consensus.

Alesina and Spolaore (2005) underscore the role of diversity. If small countries are not homogenous, then they may suffer from conflicting societal preferences which in turn may make it more difficult for these countries to engage with the outside world.

Success and Failure

At the juxtaposition of these insights, we can begin to speculate about the conditions under which small countries would experience failure rather than success. An easy formula would see small countries torn by domestic distributive conflict.
As different groups mobilize around sub-national identities, political elites might become more concerned with the struggles taking place at home than with the potential threat represented by market forces abroad. In that situation, the country would not be flexible in responding to external shocks and may even break apart if enough pressure is brought to bear.
Belgium might be a good example, but we could also extend the argument to more extreme cases like Czechoslovakia or Yugoslavia.
The point is not that Belgium is just like these other cases. Rather, and more simply, it is that despite their populations size, geographic scale, dependence on world markets, etc., none of these three countries reveals the advantages of being small.
Still, small multi-ethnic countries are relatively exceptional in Western Europe. Therefore, it would be useful to consider other possible negative scenarios as well. A more complicated story might start with a perceived threat to national identity. Such a threat could bring the country together, but it would be to reject rather than to embrace relations with the outside world. There would be consensus of sorts, but it would be of a different kind from that examined by Katzenstein or by Alesina and Spolaore. For examples, we could look at populists like Fortuyn or extremists like Haider, not because the two are equivalent–they are not–but because each sought to mobilize the people against a threat to their identity emanating from the outside world.

The point of such speculation is not to provide a new set of descriptive categories for current events. There is plenty that has been written on the different small countries and any thumbnail sketch of events or individuals provides an oversimplification at best. Rather, such speculation is useful because it suggests where we should focus attention in our analysis of the success and failure of small states. How sure we can be that politicians and voters in small countries pay attention to the fact that their country is small rather than being distracted by something else? Even if they are aware of their vulnerability and they choose to embrace world markets,

can we be confident that world market forces will not encourage new political cleavages, enhancing domestic diversity and taking away the advantages of being small? Of course, the question can be made simpler: Small West European countries have a tradition of political consensus, but what if that situation changes?

Why Belgium and the Netherlands?

My research on Belgium and the Netherlands (Jones 2008) tries to suggest answers to these questions about the underlying stability of any formula for economic policymaking that relies on political consensus in small states by focusing on the paired comparison of Belgium and the Netherlands. The two countries are interesting for three reasons:

- Belgium and the Netherlands are extremely open to world market forces;
- they have well established reputations for being both consensual and diverse; and,
- the political formula for managing diversity through consensus has changed significantly over time and with the breakdown in consociational democracy (or verzuiling).

The analysis starts with an empirical question: "How did the break down of consociational democracy during the post-Second World War period affect the ability of Belgian and Dutch policymakers to foster economic adjustment in response to external shocks?"

My prior assumption was that once the governments of the two countries lost the means to foster consensus through the traditional practices associated with consociational democracy, then they would lose much of their leverage over the economy as well.
To appreciate the significance of the question it is necessary to introduce consociational democracy as the formula for consensus building in deeply fragmented societies. In his general elaboration of the argument, Lijphart (1969) explained how different elements in society organize in vertical pillars that institutionalize social life from cradle to grave.

Each pillar is controlled by a group of political and economic elites that command the loyalty and support for their followers. Ordinary members life their lives within the groups, sharing geographic space but not social interaction with members of other groups.
Meanwhile, elites must learn to cooperate across the pillars, making concessions to one another to avoid conflict breaking about between the groups. The imperative in the word 'must' derives from the vulnerability of these deeply divided societies with respect to the outside world.

Elite cooperation in the consociational pattern helps to mitigate that vulnerability; any breakdown in consociationalism should therefore bring vulnerability to the external influences to the fore.

What I found out was much more complicated than I first imagined. The real world always is. To begin with, I discovered what schoolchildren in both countries learn early on: there were important moments in the post-World War II history of Belgium and the Netherlands when politicians in both countries turned away from cooperation or consensus-building long before consociationalism's demise. There were vertically integrated groups in society, but they did not work together in the common interest. For Belgium, this went on almost without stop from the abdication of King Leopold III in 1950 to the end of the schools crisis in 1958. As a result, the government's control over the economy was weak and its desire to engage with the outside world was limited. When Belgium joined the European Coal and Steel Community, for example, it demanded reassurance that it could leave again if domestic conditions required. The story is a familiar to anyone who has read Alan Millward's chapter on "coal and the Belgian nation".
Nevertheless it is important as an illustration of the limits of consensus building through consociationalism.

The Netherlands experienced moments of domestic conflict as well. They were not so prolonged as in Belgium, but they were enough to underscore that consensus is a practice that politicians choose to follow. Given the right incentives political elites may also opt for conflict.

As a consequence, policymakers in both countries learned early on that their ability to foster consensus depended upon their willingness to enforce what Dutch prime minister Willem Drees once ominously referred to as "the rules of the game".

Focus on Wages

The importance of elite cooperation and consensus-building is most apparent when the focus is on the use of corporatist wage bargaining to implement price-incomes policy. Here I will provide an abbreviated version of an argument that is much more lengthy and much less formalized in the book. It starts with policy preferences for fixed exchange rates and open goods markets.

These preferences are not hypothetical or arbitrary; they are real. Consecutive governments in Belgium and the Netherlands–right and left–reaffirmed their choice for both. Other options were available. Indeed the early postwar Dutch Finance Minister responsible for stabilizing the guilder, Pieter Lieftinck, was openly suspicious of the merits of free trade. In the end, the advocates of fixed exchange rates and open markets won out. And, since the two countries are small in the economic sense of the word, this means that their traded goods

prices and nominal interest rates are set abroad.
So the question is: How can macroeconomic policymakers influence the direction of the economy?

The fact is that neither the Belgians nor the Dutch were eager to use fiscal policy for aggregate demand stabilization. As with the promotion of free trade and fixed exchange rates, this aversion to Keynesian-style demand management was by choice and not by necessity. The preference was due in part to the recognition that trade openness tends to mitigate the influence of government spending on aggregate demand and in part due to the fear that domestic capital markets were too small and foreign borrowing is too risky.

From one government to the next, politicians argued instead that fiscal deficits and government borrowing should be kept in check. Eventually, however, events overtook these assertions. From the middle of the 1970s onward, the governments of Belgium and the Netherlands experienced ever higher fiscal deficits and an exploding level of public debt.

The deficits that Belgium and the Netherlands experienced in the 1970s were not some change of heart about the merits of Keynesian-style aggregate demand management. They signaled a loss of control and not an attempt to reassert it.

With the rise in unemployment and the slowdown in economic activity, the welfare state institutions created to redistribute the burdens of trading with the outside world became a source of burden–and a drain on competitiveness–in their own right.
Lacking confidence in the use of fiscal policy, the Belgians and the Dutch focused on the investment channel for aggregate demand stabilization.
So the question has to be rephrased: Once having given up control over nominal interest rates, how can macroeconomic policymakers influence the level of investment?

A Simple Formula

The answer can be sketched using a very simple investment function like the one found in Gregory Mankiw's (2007: 492-493) popular textbook on macroeconomics. Firms invest when the net returns from adding to the capital stock exceed the cost of capital. If we focus on capital-per-worker, these net returns equal the marginal product of capital (MPK) times the price of manufactures (Pm) less the nominal wages paid to a single worker (W).

Meanwhile the cost of capital (per worker) is nominal interest rate (i) times the price of capital (Pk) less any change in the replacement cost (ΔPk) plus depreciation (δ) times the price of capital (δPk).

The difference between revenue and cost is the profit (Π) from making new investments. When this profit is greater than zero, the firm will invest until the resulting decline in the marginal product of capital eliminates all profits. When the profit is less than zero, the firm will allow its capital base to deteriorate until the marginal product of capital increases to bring things back into balance. You can put everything together in a formula like equation [1]. And you can isolate the price of capital and divide by the general price level (P) to bring things into real terms in a formula like equation [2].

$$\Pi = (MPK*Pm - W) - (iPk - \Delta Pk + \delta Pk) \quad [1]$$

$$\Pi / P = (MPK * [Pm / P] - [W / P]) - (Pk / P) * (i - [\Delta Pk / Pk] + \delta) \quad [2]$$

This is where policy preferences become important. So long as nominal interest rates (i) are set abroad, the government cannot use them to raise or lower the level of business investment. The fact that the country trades freely with the outside world means that the price of manufactures (Pm) are set abroad as well. The same is true of the price of capital (Pk) since capital goods are manufactured and traded. By implication, the rate of capital price inflation (ΔPk / Pk) is set abroad as well. The rate of depreciation (δ) is not a policy instrument. The marginal product of capital (MPK) is a function of the supply of capital and labor and so it responds to the level of investment (or net capital change) rather than driving it.

That leaves only general prices (P) and nominal wages (W). Relatively high domestic prices lower the relative cost of capital (Pk / P) and the real wage (W / P), but they also lower the relative price of manufactures (Pm / P) and therefore revenues.
Low prices have the opposite effect. The only unambiguous instrument, therefore, is the nominal wage rate.

If the governments of Belgium and the Netherlands want to stabilize macroeconomic performance by influencing the level of business investment, then they have to control nominal wages.
But to control nominal wages, they have to win agreement from wage negotiators–meaning employers and trade unions. In turn that means they also have to win control over prices. While the impact of relatively high domestic prices on the incentives for investment are ambiguous (for the reasons sketch in the preceding paragraph), the impact of high prices on real wages (W/P) are not. Workers lose. Therefore, they insist on using prices as a guide to wages and they will agree to moderate wage claims provided that prices changes will be moderate as well.

The trade-offs in price-incomes policy are well known. Nevertheless, the implications for small countries like Belgium and the Netherlands bear repetition.

So long as everyone agrees to set wages and prices to serve the common good (meaning to stabilize aggregate demand), the government has a viable policy instrument. When either employers or trade unions refuse to go along, the viability of the policy instrument comes into doubt.

The Problem of Diversity

It is possible to narrate the early postwar macroeconomic history of Belgium and the Netherlands as a long attempt to get politicians to accept the principles of consociational democracy so that employers and trade unions–the social partners–could be coaxed into supporting a corporatist price incomes policy.

When politicians could agree to work toward consensus and they could succeed in bringing the social partners along, then the economy could flourish. When politicians fought one-another or the social partners rebelled, that was not the end of the world. But it did mean that the government lost an instrument for aggregate demand management–which also means it lost a lever for fostering economic adjustment.

The problem with this model is that not all firms produce traded goods and so not all firms face the same incentives or constraints. For example, non-traded goods or service sector producers can have an independent domestic price (Ps). The investment formula for these firms remains much the same (see equation [3]).

$$\Pi / P = (MPK * [Ps / P] - [W / P]) - (Pk / P) * (i - [\Delta Pk / Pk] + \delta) \qquad [3]$$

Nevertheless, the interpretation differs. The reason for the difference is that the general price level (P) is a composite of traded (Pm) and non-traded prices (Ps):

$$P = a\ Pm + (1 - a)\ Ps \qquad [4]$$

So long as traded goods prices are set abroad, any increase in non-traded or service sector goods prices will have a less than proportional effect on the general price level. As a result, the incentives for firms are no longer ambiguous.

Higher non-traded goods prices increase revenues and any resulting increase in the general price level lowers costs–at least to the extent that it reduces real wages (W / P) and relative capital goods prices (Pk / P). Even worse, these non-traded or service sector providers may be willing to pay higher wages so long as they know they can increase the price of their outputs in domestic markets by enough to make it pay. In turn this incentive among certain employers strengthens the hands of trade union wage negotiators who are eager to secure nominal wage increases and wary that firm pricing behavior will push real wages the opposite way.

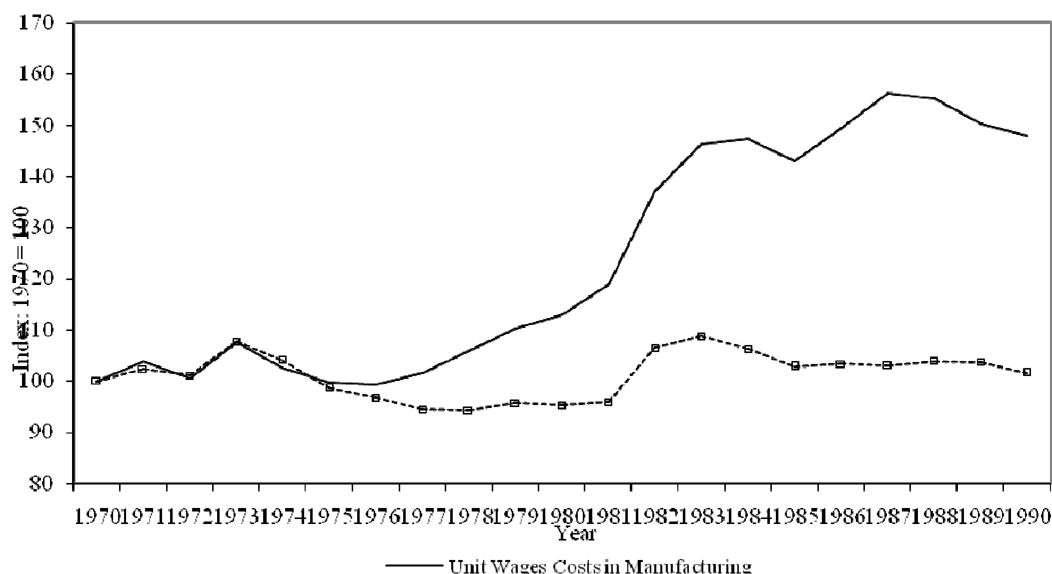
The narrative of Belgian and Dutch postwar economic history shows these adverse incentives at work.

While politicians sought to cooperate with one-another in order to gain control over prices and wages, some employers and some labor organizations sought to escape from the constraints of government nurtured price-wage control. Predictably the strongest defectors came from the non-traded sectors. Their impact on prices not only aggravated domestic inflation, but also undermined confidence in the price-incomes policies as a whole.

During the course of that decade, wages and prices increased while investment declined. Meanwhile both unemployment and government deficits began to mount.

The problem for both the Belgians and the Dutch was two-fold. First, they could not go back and reconsider their initial preferences for open markets or fixed exchange rates. The reason has to do with European integration. Over time,

Figure 1: Belgian Real Deutschemark Exchange Rates



As consociational democracy began to break down, things got immeasurably worse. Politicians stopped working together and their ability to foster effective price wage bargaining vanished as a result.

This was the experience of the 1970s.

the Belgians and the Dutch promoted the idea of European integration–at least in part–as a way to spread their policy preferences to other countries. They were early and staunch advocates for the customs union and the common market; and they were equally enthusiastic about monetary integration and the European monetary system (EMS).

The second problem was that efforts to get control over fiscal policy only exacerbated tensions among political elites and complicated negotiations between the social partners.
Yet, as both countries learned by experience, losing control over fiscal policy is even worse. The crisis of the early 1980s was a fiscal crisis as much as anything else.
Indeed real wages had already started to move in the right direction by the time the governments of either country had managed to reassert control. Even so the success of Wilfried Martens in Belgium and Ruud Lubbers in the Netherlands at reasserting effective price-wage policy is striking. It was not easy in either country, but the crisis was averted in both.

Bringing back the Exchange Rate

Here is it useful to re-introduce the preference for fixed exchange rates. Although the argument so far is that Belgium and the Netherlands were staunch advocates of the European Monetary System, both countries allowed for some exchange rate flexibility in the early 1980s.

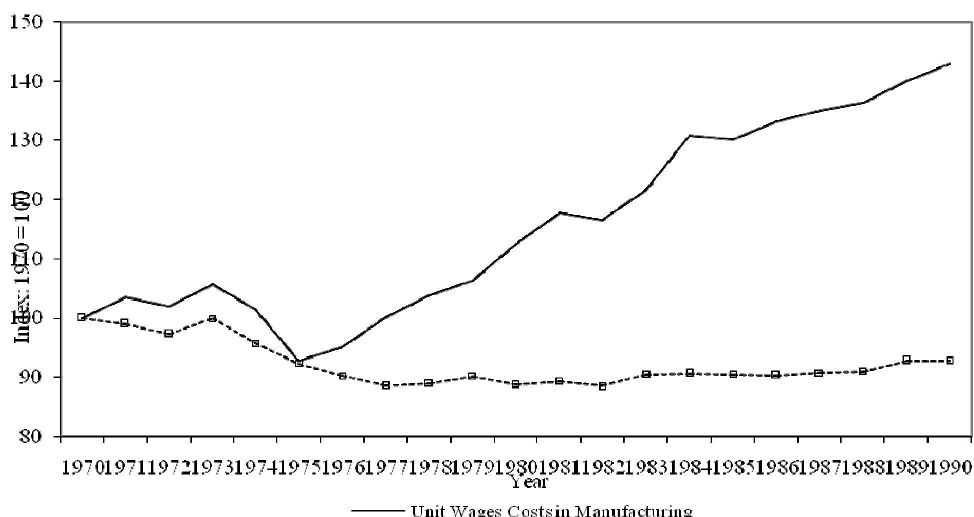


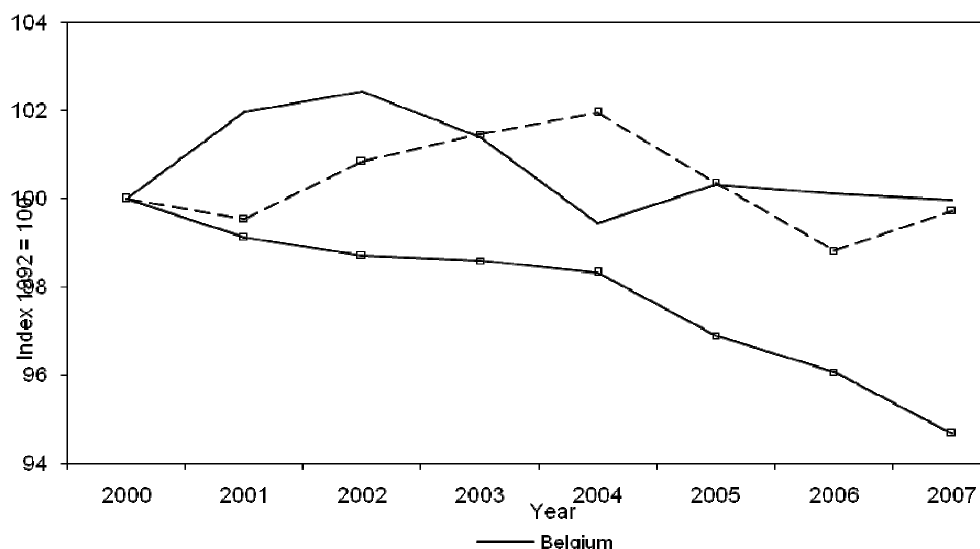
Figure 2: Dutch Real Deutschemark Exchange Rates

Belgium famously devalued the frank in 1982 and the Netherlands failed to follow the Deutchemark as it revalued in 1983. Both events were watershed moments in economic policy making.
The question is whether they had any effect on national competitiveness. The answers can be seen in Figures 1 and 2, which show different measures of the real Deutschemark exchange rate for Belgium and the Netherlands.

One real exchange rate is deflated using relative consumer prices and the other is deflated using relative labor costs. The nominal exchange rate is common to both. Hence if movements in the nominal exchange rate are responsible for the increase in competitiveness, that should be reflected in both measures of the real exchange rate. If only relative labor costs are responsible, then one exchange rate should depreciate while the other does not.

Clearly the bulk of any improvement in competitiveness came from movements in relative labor costs and not movements in nominal exchange rates.
The interesting point about the early 1980s is that the adjustments made did not come about through consensus in any traditional sense of the word. They did not derive from some sort of consociational resurgence either.
Instead the governments of Belgium and the Netherlands used old political institutions and relationships to intervene–or, in the Dutch case, to threaten to intervene–directly in wage bargaining, promoting competitiveness, investment, and, ultimately, economic growth. The macroeconomic results were impressive even if they took a long time in coming. The political results were not. Although Martens and Lubbers managed to avert the crisis, they left behind a legacy of bitterness among the mainstream political parties and between voters and elites.

This is a strong accusation and it is at best only partly deserved. The fact of the matter is that politics was changing in Belgium and the Netherlands over the whole of the postwar period.



Consociational democracy lasted much longer as a heuristic model than as a political formula
and it was less a continuous experience than a set of stochastic moments. By the early 1990s, the era of consociational democracy was over and the old bonds between political elites, social partners, and the general electoral were gone along with it. The implications were felt first by the Christian Democrats, who lost power in both countries for the first time in decades. Later, these effects became more general as each of the traditional parties experienced its own personal rout.

Government control over wage bargaining has suffered as a result. Now, the Belgians depend on a law on competitiveness to try to keep relative wage growth in check. The Dutch rely on the lack of alternatives and the general fear of unemployment.

Both formulas are good for maintaining the status quo. Neither is useful to foster adjustment. This can be seen in Figure 3, which shows the movements in relative unit labor costs in Belgium, the Netherlands, and Germany, since the year 2000. What is clear from the picture is that Belgium and the Netherlands remain in much same condition even as German competitiveness improves. This figure is very different from the experience of the 1980s.

Economic Policymaking beyond Consensus

Nobody seems to care much. If you look at political debates in Belgium and the Netherlands, concerted wage bargaining is not high on anyone's priority list.

Instead they are focused on domestic political differences–between immigrant and national, urban and rural, old and young, or just about any one group and another. Even consensus itself has become an object of political debate. Of course there were always concerns that consensus building took too long, that decisions were only partial, and that the policy process was congested.

Now, however, the fear is that consensus is elitist, unrepresentative, undemocratic, and illegitimate. Contestation is heralded as a virtue and external vulnerability is an excuse for further conflict rather than common concern.

Of course it is easy to paint a dark picture of countries that most people know little about. If you were to go to Belgium and the Netherlands, they would be likely to paint an even darker picture of themselves. Things really are not all that bad in either place. They are not all that exceptional either. And that is precisely the point. With the political transformation of the postwar era, Belgium and the Netherlands have grown up to face their own diversity.

Meanwhile, the influence of world market forces have made matters worse. The division between traded and non-traded sectors is only one example. The role of immigration is another, particularly if we accept claims by writers like Cas Mudde (2007) who argue that much of the concern about immigration is really just a reflection of the wider insecurities of living in a globalized, post-industrial world.

Then too there is the selective interdependence between different parts of Belgian and Dutch society and specific buyers, suppliers, investors, or commodities that are located in particular parts of the outside world.

By engaging so enthusiastically in the world economy, Belgium and the Netherlands show the symptoms of this new–or newly rediscovered–diversity.

For example, trade and investment lie at the heart of the division between Flanders and Wallonia just as the decline of traditional manufacturing and the rise of part-time service sector work is a defining feature of the Dutch model.
Such influences are not malignant in their own right, but they do complicate consensus-building no matter what the degree of external vulnerability. Belgium and the Netherlands are no longer exceptional cases among small countries. Instead, they are more like the normal case among big countries. Government influence over the process of economic adjustment in Belgium and the Netherlands–and, arguably, across much of Western Europe–has diminished as a result.

Where Next?

The political crisis in Belgium and the Netherlands cannot go on forever. And, as Herb Stein once remarked, if something cannot go on forever, it will stop.
Once the political crisis is over, the two countries will find themselves in a much changed position vis-à-vis the rest of the world – with less flexibility, less responsiveness, less control.

To get a sense of the implications, it is enough to look at how long it takes for politicians to engineer economic adjustment in large countries like Italy, Germany, or France. Belgium and the Netherlands used to be much more nimble; now they are not. Indeed, some large countries like Germany may even be (or becoming) more flexible and so more competitive.

This is the true price that Belgian and Dutch politicians are paying at the moment. And it is one that they will continue to pay for generations to come.

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