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The roots of Dutch frugality: the role of public choice theory in Dutch budgetary policy

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ABSTRACT

As a result of the economic fallout of the corona-epidemic, European politics is again in turmoil. Old controversies and tensions between northern and southern member states have resurfaced. The Netherlands has positioned itself as a controversial leader of northern opposition to European debt-financing, while blaming southern member states for their lack of reserves. Ever since the European debt crisis, scholars have been puzzled by the moralistic tone and strict, rule-based nature of austerity policies enforced by the Eurogroup. There has been ample discussion of German ordoliberalism as a crucial influence on the European austerity policies. The case of the Netherlands, we argue in this paper, points in a different direction. Dutch fiscal conservatism can be traced back to the market-oriented shift in the 1980s, and the Dutch uptake of Anglo-American public choice theory, which dates all the way back to the post-war period.

KEYWORDS Austerity; fiscal policy; neoliberalism; the Netherlands; public choice

Since the outbreak of the corona pandemic, the European economic recovery plan has been the subject of intense debate. In the process, old tensions between northern and southern member states have resurfaced. While Germany has opted for a more conciliatory position, a new coalition of northern member states has been formed in opposition to European debt-financing. As informal leader of the so-called frugal four – The Netherlands, Austria, Sweden and Denmark – the Netherlands has positioned itself at the head of this northern opposition. Dutch politicians sparked international controversy by chastising the hardest hit southern member states for their lack of financial reserves and by insisting on conditionality (Hennop, 2020; Khan, 2020).

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Observers have long been puzzled by the strict, rule-based nature of European austerity policy. Understandably, attention has focused on Germany, with many scholars pointing to the German ordoliberal tradition as a crucial intellectual influence (Blyth, 2013; Dullien & Guérot, 2012; Hien & Joerges, 2018; Matthijs, 2016). The position of smaller North-West European countries such as the Netherlands however, has hardly been considered. For a long time, it seemed that the position of the Netherlands did not require a distinct analysis: Dutch political leaders appeared to act in line with their northern colleagues, most notably Germany. Yanis Varoufakis famously described the role of the Dutch Finance Minister Jeroen Dijsselbloem as that of 'a soldier, a puppet', a 'cog in a machine', who 'can't make any decisions without calling Schaüble' (Cerulus, 2015). Recent developments surrounding the frugal four however, indicate that the Dutch position requires an analysis of its own.

The Dutch insistence on frugality in public spending, we argue, can be traced back to the resolute rejection of Keynesian economic policy in the 1980s (Oudenampsen, 2020). It formed part of the international breakthrough of neoliberalism, which made public spending part of the problem, rather than the solution. But in contrast to Germany, with its well-known ordoliberal tradition, the Dutch shift was inspired by public choice theory. The Netherlands has developed its own, little-known tradition of public choice theory which dates back to the 1950s (the only existing overviews have been written by Dutch public choice scholars: Schram, 1992; Van Winden, 1992). Dutch scholars working within this tradition portrayed the state as a greedy glutton, which had to be subjected to a strict diet. While this argument failed to stem the tide of rising public spending in the decades after he Second World War, it acquired a new centrality in the 1970s and 1980s and came to inform a range of initiatives that sought to bind government expenditures to strict norms and targets. Against the background of this domestic transformation, the Dutch position on European institutions and European fiscal policy was formed.

Using an approach based on comparative intellectual history and discursive institutionalism, this paper sets out to reconstruct the role played by public choice theory in the Netherlands. Methodologically, we follow in the footsteps of discursive institutionalists in emphasizing the importance of retracing the intellectual trajectory that precedes institutional change (Blyth, 2002; Hall, 1993). More specifically, the ideas and theories with which an economic 'crisis' is narrated and framed matter, as they help to determine the eventual remedies proposed (Blyth, 2002; Hay, 1996). Of course, this is not to discount material or more immediate political factors.

Various scholars have identified public choice theory as key to the framing of the stagflation crisis of the 1970s in the Anglophone world (Butler, 2012; Hay, 2007; Streeck, 2014; Thompson, 2008). Our analysis centers on a network of leading Dutch economists within the discipline of public finance, closely involved with actual policymaking at the Ministry of Finance. Based on an extensive review of the Dutch public finance literature and a revision of key economic debates in the Dutch press, we show how public choice arguments provided an influential frame for the Dutch stagflation crisis of the 1970s and 1980s.

Public choice theory and the neoliberal turn

Before we turn to the Netherlands, it is necessary to offer a short introduction of public choice theory and the political role it has played internationally. The origins of public choice theory date back to the 1950s, when it emerged in the United States as a variant of rational choice theory (Cherrier & Fleury, 2017; Hay, 2007; Herfeld, 2020). Key works of early advocates, such as Duncan Black (1948), Kenneth Arrow (1951), Anthony Downs (1957), James Buchanan and Gordon Tullock (1962) were written in reaction to the post-war dominance of Keynesianism and more particularly welfare economics, which was focused on understanding market failures. The observation that the market was bad at supplying all sorts of public goods in areas such as security, health, infrastructure and well-being, provided a broad mandate for government intervention.

In response to welfare economics and its science of market failure, public choice theorists developed what James Buchanan described as a 'theory of government failure' (Buchanan, 1983, p. 15). They sought to contest the post-war consensus that an expansion of government intervention was desirable. Their challenge to established welfare economists consisted of turning the debate on its head, by analyzing the state as if it were a market. Public choice theorists based their analyses on the neoclassical models of the *homo economicus*, and the axiom that in the marketplace individual behavior is motivated by rational self-interest. They expanded that logic and assumed a similar behavior in the political and bureaucratic sphere. Politicians, civil servants and voters were not driven by lofty ideals or some sort of public ethos, but pursued their rationally conceived self-interest.

While this self-interested behavior panned out well in the marketplace, it made the political sphere a severely dysfunctional system. Political institutions were plagued by perverse incentives. Voters had little motivation to inform themselves properly about politics, since the costs of casting an informed vote far outweighed the benefits. Lacking perceptive voters focused on the public interest, pressure groups of organized minorities decided the fate of elections. Since the primary interest of politicians was to maximize votes and win elections, they spent as much of their energy as possible to court interest groups by increasing spending. Finally, civil servants tended to further drive up spending, since it was in their self-interest to maximize the budget of their departments. As a result of these combined dynamics, democracies had a natural tendency to overspend.

When the economic and political crisis of the 1970s occurred, this new body of economic literature was able to supply a powerful diagnosis of 'state failure' in advanced liberal democracies (Butler, 2012; Hay, 2007; Streeck, 2014; Thompson, 2008). The key argument in what was to become known as 'the overload thesis', was that the state had become overburdened by popular demands and had reached a point of fiscal crisis. As a solution, public choice theorists proposed a policy of sustained austerity to unburden the state. Important aspects of policymaking needed to be depoliticized, by devising strict budgeting norms and targets, and by placing decision making at one step removed from electoral politics. This analysis, originally formulated in the academic sphere, was popularized in the Anglo-American context by a network of neoliberal thinktanks and came to inform the framing of political events in the mainstream press (Hay, 2001; King, 1987; Self, 1993).

As we will see, public choice theory served a similar role in the Netherlands, but it exerted influence along a different institutional trajectory. Important to note here is that the Netherlands, unlike the UK and the US, does not have a significant private think tank infrastructure (Campbell & Pedersen, 2011, p. 14; Zuidhof, 2012, p. 210). Instead, a lot of the intellectual work on policy development takes place within the different ministries and within affiliated bureaucratic think tanks and advisory councils, staffed by economists. At the same time, there are traditionally close ties between the ministries and the economics departments at the Dutch universities. Ever since the 1960s, Dutch scholars have pointed to the powerful role of economists in the Dutch political system. They were seen as neutral arbiters, able to objectively ascertain the public interest, over and above the different sectional interests in society (Daalder, 1966; Lijphart, 1968; Thoenes et al., 1966). This authoritative expert position allowed Dutch economists an enlarged role in public debate. The abovementioned particularities of the Dutch knowledge regime made it possible for the network of economists around the Ministry of Finance to become influential exponents of public choice theory.

Fertile soil: the post-war origins of public choice in the Netherlands

Since the end of World War II, Keynesianism and welfare economics had enjoyed a wide ascendency. The expansion of welfare state arrangements was seen as crucial in preventing a re-run of the harrowing mass employment of the 1930s. Together with West-Germany however, the Netherlands formed an initial exception to the post-war Keynesian consensus (Allen, 1989; Jones, 2008, p. 100). While Keynesian ideas were present in the Netherlands, most notably at the Central Planning Bureau led by Jan Tinbergen, they were far from dominant. Dutch policymakers had opted for a sober supply-side approach, with meager welfare services and wages fixed under the market price (Van Zanden, 2005, p. 62). With this low-wage strategy, the Netherlands was able to quickly catch up and develop a highly competitive export sector. The economic boom of the 1960s however, led to continuous pressures to increase wages and public spending. The Dutch Ministry of Finance, a bulwark of fiscal conservatism, saw it as its task to defend the soberness of the post-war model. In this context, an early Dutch version of public choice theory emerged, in close parallel with the American current.

One of the early pioneers was Willem Drees jr., a public official at the Ministry of Finance and the son of post-war social democratic Prime Minister Willem Drees. After working for the International Monetary Fund in Washington D.C., where he had been seconded in the 1940s, Drees jr. devoted his dissertation to the role of self-interested politicians and civil servants in driving up public spending. His analyses closely resembled the premises of American rational choice theorists such as Duncan Black and Kenneth Arrow, and were recognized as such: the soon-to-be Minister of Finance and later IMF-director H.J. Witteveen characterized Drees in the dissertations' preface as an advocate of social choice – the term then used by Arrow (Drees jr, 1955, p. v).

Drees' dissertation *On the level of government expenditure* (1955) focused on the relation between the Ministry of Finance and the other Dutch ministries. At its core, Drees' argument was that government spending continued to increase, because the Ministry of Finance lost out to the combined power of the other ministries that were solely interested in maximizing their budgets and pleasing the pressure groups in their sectors (Drees jr, 1955, p. 62). As a rule, ministers supported the budgetary demands of their colleagues, in exchange for support for their own budgetary claims (Drees jr, 2000, p. 117). Lacking a veto in budgetary matters, the minister of Finance thus faced the combined pressure from all sectoral ministers in government. Finally, parliament also failed to control spending, because the specialists in the different parties strongly identified with their respective sectors – a form of loyalty that transcended ideological divisions (Drees jr, 1955, p. 65).

After publishing his PhD, Drees jr. rose rapidly within the ranks of the Ministry of Finance, becoming Director-General of the Budget in 1965. For a civil servant, he had remarkably outspoken views. In the eyes of the young Drees, the Netherlands owed its post-war economic recovery to its sober, market-oriented policy, with low wages and minimal social services. By the mid-1960, a series of wage explosions had eroded the post-war model of guided wages, while public spending rapidly increased. In public lectures and newspaper interviews, Drees jr. warned that ministers and parliamentarians had been captured by societal pressure groups, above all the trade unions (De Volkskrant, 1963; Telegraaf, 1963). In this situation, Drees argued, the minister of Finance was 'virtually the taxpayer's only friend, because he is the one who constantly tries to curb spending' (Nieuwsblad van het Noorden, 1965). To support the ministry in its efforts, Drees proposed the creation of a 'pressure group against increased public spending' (Parool, 1969).

Together with his colleagues Theo Stevers and Cornelis Goedhart, Drees jr. founded the Institute for Research on Public Spending (*Instituut voor Onderzoek van Overheidsuitgaven*). It served as a watchdog against rising public expenditures and published a leading journal on public finance (*Openbare Uitgaven*). Like Drees jr., Stevers and Goedhart were leading economists, doyens of the discipline of public finance and firm believers in small government. In their leading textbooks in the field of Dutch public finance, Stevers and Goedhart developed a trenchant critique of Keynesianism, arguing that the expansion of social security led to higher wage claims and an inflationary spiral (Stevers, 1971, pp. 266–279; see also Goedhart, 1967). As early as 1963, at the yearly conference of the Dutch Economics Association, Goedhart had warned that public spending (then about 35% of GDP) was approaching a 'fatal limit', as the tax burden threatened to undermine the work ethic (Drees jr et al., 1963; NRC, 1963).

In 1970, Drees jr. joined Democratic Socialists'70, an initially successful right-wing split-off from the Dutch Labour Party (PvdA), founded in protest against rising public spending. Drees jr. became the party's leader, and soon turned into a media phenomenon. He connected the rise in public profligacy with a broader loosening of morality. The expansion of social services formed part of what Drees criticized as the 'happiness-seeking qualities' of the swinging sixties (Amerongen, 2000; Drees jr, 2000). Drees jr. advocated for a return to the frugality and work ethic of the 1950s: 'we want to look like the social democrats back then: sober, austere, hard-working. We are a Victorian party, without talk of drugs and sex, but with discipline, strictness and dedication' (NRC Handelsblad, 1971). While the electoral success of DS '70 was short-lived, the fiscal conservatism of Drees, Stevers and Goedhart would lay an important ideological basis for the austerity policies of the 1980s.

Dark prophesies

By the 1970s, public choice theory had become a standard element of the Dutch discipline of public finance. A new generation of public choice economists came to the fore, who took over the reins from the early pioneers (Schram, 1992; Van Winden, 1992). One of these bright new stars was Lenze Koopmans, who had published his dissertation on public choice theory (Koopmans, 1968). Koopmans drew on the work of Arrow and Downs and on a series of interviews with senior civil servants at the Ministry of Finance, most notably Drees jr. (Koopmans, 1968, p. iv). After obtaining his PhD, Koopmans obtained a job at the Ministry of Finance under Drees jr.

In 1972, Koopman became a full professor in public finance, at a spritely 28 years of age. In his inaugural lecture, *Controlling Public Spending*, Koopmans combined the ideas of American public choice theorists James Buchanan and William Niskanen with those of Drees jr. (Koopmans, 1973). The lecture was dry but alarmistic. According to Koopmans, state expenditures were out of control. At the time, public spending was at 40% of GDP, the oil crisis had not yet begun and the leftist Den Uyl government (1973–1977) had only just been installed. For Koopmans however, the problem lay much deeper. He suggested it was the self-interested behavior of ministers, parliamentarians, and civil servants that drove them to increase spending, encouraged by all kinds of pressure groups. As a result, the size of government had begun to expand inexorably ever since the 1960s.

The Dutch economic crisis of the 1970s was a complex event, a perfect storm caused by a wide array of factors. There was the inflationary supply-shock of the oil crisis, the global economic recession, the collapse of the Bretton-Woods system and the so-called Dutch disease of Dutch gas exports causing an appreciation of the Dutch guilder, which prized Dutch exports out of the market (Jones, 2008, pp. 135–169; Van Zanden, 2005, p. 161). The public choice analysis, however, was more selective in its focus: it saw the core of the problem as the faulty architecture of the democratic system itself. Koopmans wanted to turn the tide by centralizing the decision-making process and decisively strengthening the position of the Ministry of Finance. In 1975, he was appointed Deputy Director-General of the Budget, where he continued his plea from the inside.[1]

The initial response to the inflationary shock of the oil crisis was a coordinated international attempt to reflate the economy. In the Netherlands, the leftist Den Uyl government increased government spending to help stabilize international demand. Internationally, this was warmly received. The European Summit of 1974 (the Paris Summit) ended with a statement encouraging European countries with a balance of payments surplus to implement stimulus policies, while praising the example of the Netherlands (Warlouzet, 2017, p. 144). This reflationary policy became known as the 'locomotive' theory, and was supported by the OECD, the European Council and the Carter Administration in the US. The policy had limited success however and when the second oil crisis began in 1979, it was eventually abandoned: curbing inflation now became the top priority (Warlouzet, 2017, pp. 144–145; see also Clifton & Díaz-Fuentes, 2011; Leimgruber & Schmelzer, 2017).

To the eyes of public choice economists, however, public stimulus was above all an indication of politicians caving in to pressure groups. A first version of the overload thesis now emerged. In 1975, Milton Friedman had delivered a controversial lecture in the US, titled *The Fragility of Freedom* (Friedman, 1976). Based on public choice theory, he argued that the increase in public spending would lead to the loss of political freedom at some point between forty and sixty percent of national income.

In the Netherlands, the Institute for Research on Public Spending made a similar intervention in the autumn of 1976. The foundation organized a conference on the Budget Memorandum, titled *The State Entrapped*. Drees jr. and Stevers presented, with Cees Goedhart moderating and Lense Koopmans intervening from the audience. The conference was a major media-event (NRC Handelsblad, 1976). Drees jr. told his by now well-known story of the state captured by pressure groups. 'The citizen was no longer an individual consumer, but had become more of a social animal, living as a member of a pressure group' (Trouw, 1976). But it was above all the contribution of Theo Stevers that roused public opinion.

Stevers claimed that the Netherlands was headed towards a 'Kafka-society' based on forced labor; a historical development that seemed to be, in his eyes, almost inevitable (Stevers, 1976a, 1976b). Relying on an argument that was compared in the Dutch press to Friedrich Hayek's *The Road to Serfdom* and Milton Friedman's *The Fragility of Freedom*, Stevers identified a vicious circle of public spending and increased unemployment in the Netherlands (Zweeden, 1976). Keynesian attempts to combat the crisis through increased public spending further heightened the burden of social charges and weakened the market sector, causing ever higher unemployment. Eventually, chaos would ensue and the state would need to apply force, resulting in a 'centralist-bureaucratic society' allocating jobs, and leading to the loss of political freedom (Stevers, 1976b). Retrospectively, Stevers ascribed his views to the influence of public choice theory, in particular, the work of James Buchanan:

> The rosy view of government is changing due to the rise of so-called New Political Economy (also known as Public Choice Theory), especially in the last twenty years.[…] It has led to a much more nuanced view of government, but also less charming. (Stevers, 1984, p. 17, 1989)

The long road to fiscal discipline

In 1980, after the Second Oil Crisis and the Volcker-shock in the United States that sent interest rates through the roof, public finances in the Netherlands were in dire straits. Unemployment had skyrocketed, with as a direct result that public spending had ballooned, transcending 60% of GDP in 1983. At the same time, the budget deficit rose at an alarming rate, reaching 10% in 1982 (Knoester, 1989, p. 153; Van Zanden, 2005, p. 66). The high interest paid on government debt made debt-financing unattractive, while the peg of the Dutch guilder to the German Deutschmark made a reflationary policy impossible (Jones, 2008, p. 141).

On one side of the debate were the monetarist 'contractionists', budget hawks who prioritized bringing back the deficit and fighting inflation, even if this would deepen the crisis and increase unemployment on the short term. On the other were the neo-Keynesian 'expansionists', budget doves who prioritized employment and stabilizing effective demand over the deficit and inflation. The position of this last group, however, had been seriously weakened by the unfavorable international economic context. Until the elections of 1982, the main political parties were internally divided and the debate remained undecided.

The Ministry of Finance was at the heart of the coalition pushing for fiscal tightening. Together with Goedhart and (former) senior civil servants at the Ministry of Finance, Koopmans wrote the report *Controlling Public Spending* for the think tank of the right-wing liberal party (VVD) in 1981 (Korteweg, 1981). On the basis of public choice theory, they proposed to strengthen the position of the Ministry of Finance in the decision-making process, vis-à-vis parliament and the 'spending departments'. Taking a clear position in the ongoing political debate over austerity, the report advised to cut the deficit 'at the highest possible pace', even if this would have 'negative macro-economic repercussions' in the short term (Koopmans et al., 1981). To prevent parliament from softening austerity, the report advised new governments to permanently fix the budget in the coalition agreement at the outset. Any further changes to government policy had to be budget-neutral.

The report further proposed to amplify the role of two powerful expert committees led by the Ministry of Finance. The first was the Study Group Fiscal Space (Studiegroep Begrotingsruimte), charged with advising the political parties on the available space for public spending in advance of each election. The Study Group became an influential advocate of austerity and balanced budgets, informed by monetarist and public choice ideas. Bart Le Blanc, Director of the Budget and director of the Study Group, popularized William Niskanen's theories in interviews in the Dutch press, stating that 'budget-maximalization is for policy officials the highest goal' (Brons, 1983).

The second committee, Broad Societal Review (Brede Maatschappelijke Heroverwegingen), had been created in 1981 to identify possibilities for cutbacks and privatizations in the different departments. The reports of this taskforce, nicknamed 'the austerity bible', were coordinated by Gerrit Zalm, the future finance minister and party leader of the right-wing liberals (VVD). Koopmans and others argued that the Ministry of Finance should decree specific austerity measures based on this 'bible', rather than allowing ministries the autonomy to come up with their own austerity measures, which tended to be insufficient. Overall, the advice amounted to a significant depoliticization of budgeting policy, and a powerful increase in the policymaking role of the Ministry of Finance.

When the center-right parties CDA and VVD achieved a majority in the elections of 1982, the 'contractionists' had effectively won the debate. The Ministry of Finance got much of what it was pleading for. A new government was formed under the leadership of Ruud Lubbers and finance minister Onno Ruding. Senior officials at the Ministry of Finance had overseen the drafting of the coalition agreement. The coalition parties were pledged to abide by it, leaving parliament with little foothold (Griensven, 2009). The new government engaged in an ambitious program of fiscal consolidation, privatization, deregulation and wage moderation, under the slogan 'more market, less government'. Many of the measures from the austerity bible were implemented, some even without parliamentary review. From 1983 till 1986, the Lubbers cabinet cut public spending by about 3% of national income per year, principally by lowering wages of public sector workers and unemployment benefits (Knoester, 1989, p. 159; Van Zanden, 2005, pp. 69–70). It earned Lubbers the international nickname of Ruud 'Shock' (Oudenampsen, 2020; Time Magazine, 1984). At the same time, the government successfully pressured the Dutch trade unions to accept wage moderation in the market sector (Andeweg, 2000; Oudenampsen, 2020).

While this policy of internal devaluation was seen as successful in restoring the competitiveness of Dutch business, unemployment remained high and the deflationary effect of austerity decreased the overall tax intake. Public spending was reduced, but so was tax income, making large budget deficits and rising public debt the norm in the 1980s (Bomhoff, 1988, for an international overview see Streeck, 2014). In response to rising indebtedness, the Dutch Ministry of Finance advocated for even more ambitious cutbacks to bring back the deficit. It became the defining mission of the ministry. According to a story circulating in the Dutch press, senior officials were summoned each morning before the head of the Ministry of Finance. 'What is our purpose on earth?', the head of the Ministry would ask. 'To lower the deficit', the senior officials would answer in unison. After this morning catechism, the group went on to do their work (De Volkskrant, 1987). Critics derided the senior ministry officials as 'budget-fetishists', without appreciation of the economic impact of austerity. When confronted with this critique, Onno Ruding denied that demand-stabilization mattered and responded that 'this was a 1970s way of thinking, which has cost us dearly' (Friese & Toirkens, 1987). The Ministry of Finance increasingly collided with politicians at the end of the 1980s, who had become wary of the deflationary effects of austerity (Toirkens, 1985).

The technocratic turn in policymaking

Still, the 1980s saw a large shift in the Dutch views on economic policy, partly inspired by public choice theory. A confirmation of the shift in political climate was a visit by James Buchanan to Rotterdam in 1985. At this point, Buchanan was at the height of his influence as the leading exponent of public choice theory, as reflected in his reception of the Nobel Memorial Prize in the year that followed (Reisman, 1989). In a widely reported event, Buchanan spoke at the Rotterdam Hilton Hotel (De Swaan, 1985; De Vré, 1985; Huygens, 1985; Kinneging, 1985; NRC Handelsblad, 1985). Under the watchful eye of an exclusive audience of Dutch politicians, journalists, ambassadors, bank directors and entrepreneurs, Buchanan railed against Keynesian economics, which he accused of having undermined fiscal prudence.

There was a telling intervention by Rudolf de Korte, the upcoming Minister of Economic Affairs of the right-wing liberal party (VVD): 'The government has decided that packages of cigarettes should carry the warning "Dangerous for your health". Would it not be advisable that politicians were provided with a warning too: "This man is dangerous for the government budget?"' (Huygens, 1985). It was a sneer to the former social democratic Prime Minister Joop den Uyl also present in the audience. The take-home message of the debate was clear: Keynesianism had run its course. As the leading Keynesian economist Jan Pen observed, 'the eagerness with which [the work of] Buchanan had been received in the 1980s in Netherlands', was a 'telling sign' of the prevailing anti-Keynesian sentiment in the Netherlands (Pen, 1986, p. 451).

Around the time of Buchanan's visit, public choice theory had become an important intellectual pillar under the Dutch market-oriented reforms. When Minister of Finance Onno Ruding delivered a lecture at the end of his term to defend his austere views on public finance, there was more than an echo of Buchanan in his words. In the lecture titled *Government Debt as a Moral Burden*, Ruding gave a succinct summary of public choice theory: Dutch citizens did not understand that more government spending also meant more taxes, since taxes were passed on to future generations via rising government debt. 'Vote maximizing politicians' capitalized on this ignorance and tried to buy voter's allegiance by increasing social spending. Meanwhile, 'interest groups, pressure groups and advisory councils' were lobbying constantly to further increase expenditures (Ruding, 1989, p. 14). The result was a massive budget deficit. The growing public debt, Ruding concluded, was above all an ideological problem, 'the result of excessive expectations and aspirations in relation to government' (Ruding, 1989, p. 17).

The public choice argument that all political actors were blinded by their self-interest provided the rationale for a 'technocratic turn' in Dutch policymaking in the 1980s. As the political scientist Hans Daalder observed in a 1984 public lecture, 'muscular technocracy' had replaced the famous Dutch culture of compromise (Daalder, 1995, pp. 99–100). Since democratically elected politicians were not necessarily representative of the public interest, technocrats needed to provide a counter-weight. As Dutch Central Bank president Wim Duisenberg argued in 1984: 'Minister, MP's, pressure groups –

everybody only sees sectional interests. In reality, only the prime minister, the minister of Finance and the president of the Dutch Central Bank have the task to understand the big picture' (Grieken & Duuren, 1985).

From Dutch to European budget discipline

As the process of European unification went through a decisive phase in the 1980s, the ideas of the economic counter-revolution of the 1980s also left their mark on the European Union (EU). From the perspective of the Dutch Ministry of Finance, European institutions were seen as both a problem and a solution. They were a problem in the sense that the EU expanded the challenge of democratic profligacy and budget discipline unto new terrains. The Institute for Research on Public Spending organized a conference in the summer of 1988, with the telling title *Europe Without Frontiers, Budgets Without Frontiers?* (Gerritse, 1988) At this conference, senior civil servants from the Ministry of Finance complained about the ever-enlarging European budget. The aforementioned Gerrit Zalm compared the unwieldy European agriculture budget with a heroin addiction: 'Someone in financial trouble can be helped with advice. They could keep a household ledger and make some price comparisons. But if he spends all his money on heroin, only one advice counts: stop' (Friese, 1988).

Jan Postma, the Director of the Budget, argued for the implementation of Dutch budgeting standards in Brussels: strict norms and targets and a review taskforce to consider periodic cutbacks (Gerritse, 1988, p. 45). The tug of war between the Ministry of Finance and the 'spending departments' was seen as repeating itself once more, but now on a European scale. An additional problem was that the Ministry of Finance had a rather weak hold on the European decision-making process, since the European Council was the exclusive domain of the Dutch prime minister and Foreign Affairs.

As the Minister of Finance Onno Ruding recounts in his autobiography, 'for Dutch budgeting policy, Europe became a permanent problem case' (Ruding, 2020, p. 284). During his two terms in the 1980s, Ruding pleaded against new European taxes, against European debt instruments and against strengthening the mandate of the European Parliament, since all of these measures were seen as undermining budget discipline. In the eyes of Ruding, the expansion of the European budget in the 1980s was above all a way for national governments to escape from their own budget constraints on the national level.

The hardline position of the Dutch Ministry of Finance on the EU was initially offset by the other Dutch ministries (in particular the Ministry of Foreign Affairs). But this changed in 1992 when the Dutch government became a net contributor. From the mid-1990s onwards, the Dutch Ministry of Finance took the lead on the issue of the EU and started campaigning to lower the Dutch contribution. The effort was led by the new Minister of

Finance Gerrit Zalm (2009, p. 323), who described it as 'his crusade'. Zalm's vision on the EU, and that of his right-wing liberal party (VVD), was to have as much negative (economic) integration as possible, with as little positive (political and social) integration as possible. This moderate eurosceptical position would gradually become the official Dutch position. The Dutch Ministry of Finance started taking part in an informal group of international Ministry of Finance officials, from what Zalm (2009, p. 325) called the 'discipline countries' (Denmark, Austria, Sweden, The United Kingdom, Germany, Finland, France). The aim of the group was to strengthen European budget discipline, in the same way as had been done on the national level. This informal collaboration foreshadows the later formation of the 'frugal four'.

At the same time, European institutions were also a solution to the domestic problem of reconciling democracy with budget discipline. It made it possible to place decision-making at one step removed from the larger public and to further depoliticize economic policymaking. For this reason, public choice theorists were highly enthusiastic about the possibilities of European unification. Writing shortly after the fall of the Berlin Wall, James Buchanan welcomed the 'genuine diminution of sovereignty that nation states must experience' in a European federal union (Buchanan, 1990, p. 624). The most important requirement was that the powers of the federal state should be kept in check, through formal rules set out in a constitutional contract, and through 'an attitudinal climate that embodies generalized skepticism about both the motives of political agents and the working of political institutions, at all levels' (Buchanan, 1990, p. 628).

While more moderate in their political skepticism than Buchanan, Dutch policymakers saw European integration and monetary union as a welcome contribution to disciplining spendthrift politicians. As the Director of the Budget at the Ministry of Finance argued in a lecture in 1988, 'European integration forces budget discipline and targets upon us' (Postma, 1989). Even though the Ministry of Finance was itself one of the strongest advocates of strict European budgeting norms and targets, it presented these new constraints as a naturalized external reality, that simply had to be complied with. As Onno Ruding stated at the end of his term in 1989:

> When we have an economic and monetary union, a country like the Netherlands can no longer freely stir up the budget deficit to its own satisfaction. Brussel will enforce what is and what isn't allowed. Some will deplore the loss of that freedom. I don't, I applaud it. Of course, it strengthens the position of the Ministry of Finance. You can use Brussel to make ministers and parliament toe the budgetary line. (Ruding, 1990, p. 60)

Conclusion

The Dutch history of public choice theory stands out for four reasons. First, it expands our perspective on the intellectual inspirations for European austerity programs. Although smaller northern member states have often been depicted as mere appendages to the German ordoliberal stance, our analysis suggests that the Netherlands walked down a different intellectual path towards austerity. This is more than a side note in the history of European austerity, as it underlines that the German ordoliberal agenda is not the sole ideational inspiration for European austerity policies.

Second, it illustrates the early European reception of public choice theory, which has thus far received little attention. Public choice theory gained ground among Dutch policy makers in the mid-1950s, almost a decade before the publication of Buchanan's and Tullock's book *The Calculus of Consent,* to which the international dissemination of public choice theory is usually ascribed. Third, the spread of public choice ideas in the Netherlands followed an alternative institutional trajectory to that in the Anglophone world. Due to the lack of a private think tank infrastructure in the Netherlands, we see an enlarged role for senior officials and academics in developing and popularizing economic ideas.

Finally, the Dutch case offers an important rebuke to certain nationalist critiques of the European project, either from the left or the right, in which the European Union is cast as the domain of unelected Eurocrats, who endanger national sovereignty and enforce market discipline on unwilling nation states (López-Castellano & García-Quero, 2019; Streeck, 2020). The Dutch case, in contrast, shows how a strict, rule-based form of austerity policy was first the product of a largely domestic transformation, which was then transposed to the European level. It dovetails with interpretations of European political culture as a composite, defined more by the particular trajectories, ideas and interests of different national elites rather than a single supranational logic (Anderson, 2009; Mulder, 2019).

Note

1. In 1978, Koopmans became financial director of the Dutch business conglomerate OGEM, which famously filed bankruptcy in 1982. Koopmans and the board of directors had been mismanaging the company and cooking the books, while awarding themselves lavish wages and evading taxes through a letterbox company in Cyprus. Koopmans was later described in the Dutch press as the Gordon Gecko of the Netherlands, after the protagonist in Oliver Stone's film *Wall Street* (Trouw, 2002). It is tempting to see Koopmans' career in the 1980s as an attempt at falsification of public choice theory: in the marketplace, self-interested behavior proved dysfunctional too.

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