How Political Economies Change: The Evolution of Growth Regimes in the Developed Democracies

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Abstract

This paper characterizes and explains the evolution of growth regimes in the developed democracies, understood as the public policies and firm strategies used to secure economic growth, with an emphasis on government policy in the decades after 1950. The argument is that growth regimes change in response to political as well as economic challenges. I identify three significant shifts in economic challenges associated with eras of modernization, liberalization and knowledge-based growth. Because economic policy-making entails coalition-building, the response to economic challenges is mediated by parallel shifts in the political challenges facing governments, associated with developments in the cleavage structures of electoral politics. I identify significant cross-national similarities in the movement of growth regimes but also national adjustment trajectories consequential for how economic growth is secured and distributed. These trajectories are generated by national frameworks of institutions and ideas that mediate the response to parallel challenges, giving rise to a dynamic of path dependence rather than convergence. Case studies of changes to growth regimes in Sweden, France, Germany and Britain illustrate the analysis.

A note to readers:

Those seeking the gist of the argument with less reading might skip the country cases presented in Section VI and simply read the introduction and closing part of that section.

The strategies used by the governments of the developed democracies to secure economic growth have changed dramatically over time. In 1967, the French relied on a system of economic planning in which the influence of the state over flows of funds in the financial system was used to funnel investment into industrial sectors deemed the most dynamic. By 1987, French financial markets had been liberalized and the government was implementing a strategy of competitive deflation designed to make French firms more efficient by forcing them to compete in a more open European market under a high fixed exchange rate. In 2007, French economic strategy was built around an extensive set of wage subsidies designed to persuade firms to hire new employees despite a high minimum wage.[1] Equally significant movements can be observed in many other OECD political economies since 1950.

How should these movements be characterized and how are they to be explained? The object of this paper is to develop a synthetic model of change that speaks to these questions for the political economies of the developed democracies in the years since 1950. Of necessity, the argument remains general and only limited evidence for it is presented. However, it speaks to two perplexing puzzles in comparative political economy.

The first is how to understand the relationship between developments in the political economy and changes in the realm of electoral politics. Despite the pioneering work of Kitschelt and a few others, these have long been studied as separate topics . As a result, we have only a limited sense of how electoral politics and the political economy co-evolve.[2] The second puzzle animating this paper is the classic dilemma of understanding whether change has produced convergence or preserved national variation in the political economy. From my perspective, resolving this issue entails rendering a varieties of capitalism analysis more dynamic, with a view to understanding whether countries move along distinctive adjustment trajectories over time.[3]

Rival Views

This analysis is framed by two alternative perspectives, each with real value but serious limitations. The first is a set of works in mainstream economics that identify secular developments in the international economy shifting the challenges facing governments. These include processes of 'globalization' that have moved the locus of manufacturing toward emerging economies and rendered services a more important component of the developed economies, and processes of skill-

[1] Zysman 1984; Fitoussi *et al*. 1993; Palier 2012
[2] Kitschelt *et al*. 1999; Iversen and Soskice 2009: Beramendi *et al*. 2015
[3] Hall and Soskice 2001; cf. Thelen 2014

biased technological change that alter their occupational structures.[4] Such processes play an important role in my analysis. However, the account given by mainstream economic analysis of the political response to such developments is typically limited by a tendency to see politics as a process dominated by efforts to extract rents and thus primarily as a source of inefficiencies in the political economy.[5] Of course, powerful groups do use their political leverage to extract rents, but this circumscribed image of politics misses many features of the dynamic whereby governments pursue growth in contexts of electoral competition.

Another influential set of accounts analyze these processes as the reflection of a gathering crisis of capitalism.[6] Streeck, for instance, portrays changes in the developed political economies as the outcome of efforts by states to cope with the twin imperatives of accumulation and legitimation, seeing in them a movement from the democratic capitalism of the 1950s and 1960s toward a mode of capitalism dominated by the 'debt state' of the 1970s and 1980s and the 'consolidation state' of the recent era.[7] This panoramic view of capitalism illuminates many distinctive features of its movement. As an account of how political economies change, however, it suffers from two limitations. Mesmerized by commonalities among the developed political economies, it contains an implicit convergence theory that ignores enduring differences between the developed economies, with important consequences for how they secure and distribute economic growth.[8] Moreover, these accounts of how political economies change is built on an abstract functionalism that sees countries responding relatively automatically to systemic needs for accumulation and legitimation via processes in which the only significant agent is a disembodied set of capitalists.[9] The result is an impoverished view of the role played by politics in the process whereby developed political economies change.

The Approach

In this account the principal units of analysis are the 'growth regimes' operated by countries for delimited periods of time. Their constituent elements are the sets of policies pursued by governments and corresponding strategies of firms. The paper focuses on public policies and discusses their contributions to growth regimes in the next section.

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[4] Antras *et al*. 2006; Autor and Dorn 2013

[5] For a review see: Congleton et al. 2008.

[6] Crouch 2011; Streeck 2014; cf. Sewell 2008.

[7] Streeck 2014; cf. O'Connor 1979.

[8] Streeck (2014: xii; 2011) argues that "the parallels and interactions among capitalist countries far outweigh their institutional and economic differences."

[9] cf. Streeck 2014: 43, 63, 68

These growth regimes shift over time, as governments and firms react to secular developments that alter the economic challenges facing them. To simplify the account, I associate the relevant challenges with three eras in the postwar experience – eras of modernization, liberalization, and knowledge-based growth. However, policies are never simply a response to economic challenges. The steps taken by democratic governments are mediated by several factors. Chief among them is the need to assemble coalitions of support for new policy regimes from within the electorate and producer groups. Institution-building typically entails coalition formation.[10] Therefore, I trace the ways in which political support was assembled for new growth regimes, with a focus on electoral coalitions. I argue that the basis for coalition formation changed across these three eras, because of shifts in the cleavage structures of electoral politics. In short, the political challenges facing governments moved in tandem with economic challenges – and the evolution of growth regimes reflects this double movement. The subsequent three sections of the paper explore developments in each of the three postwar eras.

Finally, although new growth regimes are a response to changing economic and political circumstances, inspired by images of the economy that evolve with them, they are not written on a *tabula rasa*. The appeal of new policies and the capacities of governments to implement them are conditioned by the ways in which existing policy regimes and institutions structure relationships within a national political economy that act as countervailing forces to the pressures for convergence otherwise emanating from common economic or political shocks. I argue that the frameworks of institutions and ideas built up over time in each country mediate national responses to similar challenges, thereby generating distinctive national adjustment trajectories consequential for how economic growth is secured and distributed. Using four country cases, the penultimate section of the paper explores how these frameworks push national political economies along path dependent tracks.

II. Growth Regimes

A 'growth regime' is the central set of techniques, encompassing policies and the institutions they support, used by the core actors in the economy – governments, firms and organized producer groups – to secure higher rates of economic growth.[11]

[10] Thelen 2004

[11] I use this term because these regimes are not always animated by the strategic vision implied by the concept of a 'growth strategy' and they are less static than implied by the term 'growth model'.

Assuming it is oriented to securing growth over the medium-term, the core elements of a growth regime can be derived from a Cobb-Douglas function based on the standard Solow model for economic growth, which specifies that $Y = A \times K^{\alpha} \times L^{\beta}$ where Y is gross domestic product (GDP), K is the input of capital, L is the input of labor, and A represents total factor productivity, which turns on the level of technology employed and how efficiently inputs to production are utilized, while α and β are the capital input share of contribution for K and L respectively. In short, the rate of economic growth turns on three sets of variables: the level of resources utilized in economic activity, understood as inputs of labor and capital, and the productivity of those resources, namely how much one unit of them yields (for a given unit input of the other).

Since the emphasis of this paper is on the public policies constitutive of growth regimes, we can use this model to enumerate the policy approaches governments might deploy to increase rates of economic growth, although there is variation across time and space in which approaches are given priority and how each is implemented.

1. Governments might attempt to increase growth by improving total factor productivity. The literature suggests there are three approaches to this problem. The first is to increase the level of human capital used in production by improving the education or skill levels of the workforce. The second is to increase the quality of the technology used in production, by promoting innovation or inducing firms to use the latest technology. Endogenous growth theory suggests that productivity-enhancing innovation can also be stimulated by removing barriers to entry into product markets or increasing competition within them.[12]

2. To secure higher levels of growth, governments can also increase inputs of labor. That entails increasing employment as a share of the adult population by reducing rates of unemployment or increasing rates of labor force participation. There are at least four approaches to this problem. Some are associated with the supply-side of the economy. Governments might simply increase public employment, which can improve growth if that labor is deployed efficiently and generates goods for which there is demand. Second, governments might reregulate labor markets to make it easier for a variety of people to enter the labor force or to increase their incentives to do so. Although there are debates about the efficacy of each, measures with such effects include ones that loosen restrictions on part-time or temporary work, press people into employment by restricting social benefits or raising the retirement age, lower the cost of labor or increase its returns by subsidizing the taxes or social charges of employers and employees, or

[12] Aghion and Howitt 2006.

making provisions for child care or parental leaves that facilitate the entry of parents, typically women, into the labor force.

The demand side of the economy also matters, since employment rises when demand for an economy's products increases. Here, the focus might be on domestic demand. Although the incremental gains in employment associated with a stimulus to domestic demand are conditioned by the current state of demand and constraints on the supply-side of the economy, many economists agree that expansionary fiscal and monetary policies can bolster rates of employment in contexts of depressed domestic demand; and, for limited periods of time, loosening restrictions on flows of consumer credit may have similar effects.[13] Alternative approaches focus on demand for an economy's exports. Governments can increase demand for a country's exports by promoting forms of trade liberalization that reduce barriers to them. A second approach is to lower the price of those exports – by encouraging coordinated wage bargaining to depress unit labor costs or by depreciating the exchange rate to lower the price of a country's exports in foreign markets. Finally, demand for a country's exports can be sustained by improving their quality so as to render them less sensitive to fluctuations in price via support for continuous innovation and quality control within firms.

3. The Solow model suggests that governments can also improve growth by increasing the volume of capital investment.[14] In the developed democracies, governments can approach this problem in several ways. Since demand is a central determinant of levels of investment, governments can encourage it by expanding domestic demand or demand for exports as outlined above. They can also do so in more direct ways, by providing tax incentives or subsidies for certain kinds of investment or by investing public money in infrastructure, state-owned enterprises or investment funds oriented to specific purposes such as the provision of venture capital. Since capital often comes from abroad, efforts to attract foreign investment – by relaxing restrictions on capital inflows, making the acquisition of local companies easier or reducing the rate of corporate tax – can be a component of government efforts to secure inputs of capital.

Some approaches to improving rates of growth are substitutes for one another; others are complementary. But efforts to increase inputs of labor or capital and improve the efficiency with which they are used are the basic building blocks from which the postwar growth regimes of the

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[13] Bayoumi 1993.

[14] This has often been a more pressing problem in developing countries, where measures to improve the security of property rights play a larger role than they do in the developed democracies.

developed democracies were constructed. The analytical challenge is to show how and why the approaches that were deployed varied over time and across political economies. In the first instance, my focus is on variation over time. I argue that the growth regimes of the developed democracies shifted over time in response to changes in the principal economic and political challenges facing them. In order to capture general movements in the OECD economies, the postwar period can be divided into three 'eras' – each of which is characterized by a different set of challenges. However, although these eras are associated with specific time-periods, it should be noted that the borders of these periods are fuzzy: the timing and pace of the relevant developments vary to some extent across countries.

III. The Era of Modernization, 1950-1975

Shortly after the end of World War II, the OECD economies entered what might be described as an era of modernization, marked by a distinctive set of economic challenges. In Europe and Japan, the initial imperative was to rebuild the industrial infrastructure destroyed by the war. Only two bridges still crossed the Rhine or Elbe in 1945; a third of the French railroad system had been destroyed; and Britain rationed goods well into the 1950s. In many countries, such as Britain, France and Italy, the challenge was also seen as one of modernizing an industrial infrastructure widely-deemed inefficient – a challenge rendered imperative by the industrial might of an American economy that escaped the war unscathed and in a position to dominate the struggle for world trade unleashed by the opening of markets envisioned in the General Agreement on Tariffs and Trade.[15]

The economic challenges of this era were also defined by the central role that manufacturing still played in the OECD economies. Industrial economies always had a service sector: as late as 1900, forty percent of the female British labor force worked as domestic servants. In the 1950s and 1960s, however, the motor for exports and economic growth was manufacturing, whether along Fordist lines built on economies of scale, as in the U.S., France and Britain, or leavened by methods of 'diversified quality production' employed in Germany and Italy.[16]

[15] Landes 1949; Servan-Schreiber 1969; Eichengreen 1996.
[16] Boyer 1990; Piore and Sabel 1984; Streeck 1991; Herrigel 2000

Securing Productivity

The nature of those economic challenges conditioned the growth regimes of this era. In Europe and Japan, improvements in productivity were to be achieved by moving large segments of the labor force from low-productivity agriculture into manufacturing, where Fordist modes of production did not require high levels of skill and gains could be secured through economies of scale.[17] European growth could also be built on a process of catching-up to the technology frontier set in America. The American government itself devoted substantial resources to improving human capital, through the G.I. Bill and state university systems, as well as to research and development in para-public labs closely linked to the defense industries.[18] By the 1960s, many European governments were expanding higher education and vocational training at rapid rates as well.

Securing Capital

Motivated by the immediate imperatives of reconstruction, governments in Europe and Japan played an active role in channeling investment toward industry through state-owned enterprises, systems of industrial planning and publicly-owned banks. Government intervention made sense when the principal goals were often simply to rebuild a manufacturing base decimated by war and achieve economies of scale.[19] Governments interested in persuading firms to invest in large-scale production also began to see the management of aggregate demand as a crucial component of their growth regimes. Firms were likely to invest on this scale only if they could be assured of a steady demand for their products; and activist macroeconomic management, which had been tested during the war, seemed to provide the tools for accomplishing this.[20] Although his fiscal prescriptions were greeted with varying degrees of enthusiasm across countries, John Maynard Keynes' contention that governments had a responsibility to manage aggregate demand became widely accepted.[21]

Securing Labor

Full employment became a central objective of policy in this period, gradually seen as attainable, if construed largely in terms of a male breadwinner model. Sustaining demand was seen as crucial to employment; but countries varied in the relative emphasis placed on domestic demand versus demand for exports. Although all countries sought more exports, moves to sustain domestic

[17] Crafts and Toniolo 1996.
[18] Block 2011.
[19] Shonfield 1969.
[20] Aglietta 1979; Boyer 1990.
[21] Hall 1989.

demand through counter-cyclical fiscal policy played a greater role in the U.S. and Britain than in many European countries, such as Germany and Sweden, where serious efforts were made to manage the exchange rate and hold down unit labor costs with coordinated wage bargaining so as to enhance the price competitiveness of their exports, even at the cost of suppressing domestic demand.[22] Most countries strengthened their systems for collective bargaining in order to secure industrial peace and sustain an appropriate division between wages and profits.[23]

In general, growth regimes in this era of modernization were marked by relatively-high levels of state intervention in the economy, aimed at building public infrastructure, channeling investment into industry, promoting research and development and sustaining wage coordination, as well as active efforts at demand management. As always, there were important national variations. The American and British governments were never as enthusiastic about intervention, although the U.S. built a military-industrial complex and Britain experimented with an Industrial Reconstruction Corporation.[24] Mindful of their experience with authoritarianism, German governments also set clear limits on state intervention in the name of ordo-liberalism, but that did not prevent them from implementing intrusive policies, such as measures establishing co-determination, designed to construct coordinating capacities in the private sector.[25]

Economic Ideas

The architects of these growth regimes found support for them in the most prominent economic doctrines of the day. At the heart of many was the Keynesian notion that governments have both a responsibility and the capacity to promote growth via the management of aggregate demand, doctrines popularized after the war by scholars such as Alvin Hansen and Paul Samuelson, whose textbook sold more than 4 million copies in 41 languages.[26] Those views were codified in econometric models that became a staple of policy analysis and were adapted to support distinctive national growth strategies, such as industrial planning in France and the Swedish growth model, which owed much to the economists Gösta Rehn and Rudolf Meidner. In the wider universe of political discourse, these economic doctrines were reflected in widespread acceptance of what

[22] Katzenstein 1978.
[23] Eichengreen 1996.
[24] Block 2011; Kuttner 2013
[25] Katzenstein 1987.
[26] Johnson 1971.

became known as the 'mixed economy' – a phrase with growing currency used to describe a set of growth regimes in which the state and private sector both played active roles.[27]

Politics

Although conditioned by economic challenges, growth regimes cannot be understood simply as a response to them, because they are also influenced by politics. Democratic governments respond to two sets of political pressures – those coming from producer groups and electoral politics. Which of these two is more influential varies with the structure of the political system, the organization of the political economy, and the relevant issue area.[28] In this paper, I focus on electoral politics with a view to suggesting that movements within the electorate were as important as shifts in the economy to changes in postwar growth regimes.[29]

My core point is that economic policy-making is also coalition-building. Democratic governments will adopt a set of policies only if they can assemble an electoral coalition supportive of them or, at the very least, forestall the rise of a coalition opposed to them; and the terms on which such coalitions can be formed move over time with changes in the composition and preferences of the electorate that are themselves conditioned by changes in the economy.[30] From this perspective, the most important feature of electoral politics is the structure of political cleavages, which influences what issues become most salient to electoral politics and shapes the alignment of social groups vis-à-vis those issues.

During the era of modernization, the most important cleavage in electoral politics in most OECD countries was a class cleavage, dividing manual and lower-level non-manual workers from a middle class composed of white-collar employees in supervisory, professional or managerial positions. During the 1950s and 1960s, the prominence of this cleavage made fundamental issues about how a capitalist economy should be managed highly salient to electoral politics. In Europe, one side of this divide was occupied by social democratic and communist parties claiming to speak for the working class and committed to using the full levers of state power, including central planning and the large-scale nationalization of enterprises, to achieve full employment. On the other side, were conservative or Christian Democratic parties more representative of the middle class and opposed to high levels of state intervention in the name of securing prosperity through

[27] Stilwell 2006.
[28] Culpepper 2011.
[29] For illuminating discussions of producer politics and their relationship to electoral politics, see Thelen 2014 and Martin and Swank 2012.
[30] See the seminal work of Iversen 1999.

free enterprise. These contrasting viewpoints defined many of the issues on which elections were fought.

In this context, the growth strategies of the mixed economy emerged as a political compromise, just interventionist enough to draw support from the center-left but grounded enough in private ownership and market competition to win support from the center-right. Keynesian ideas were an important vehicle for this compromise because they offered a recipe for securing full employment, through active macroeconomic management, without having to nationalize the means of production.[31] Influenced by such ideas and the need to draw support from across the class divide in order to win elections, the social democratic parties of Europe gradually dropped their insistence on nationalization and embraced the mixed economy in landmark party conferences from Bad Godesberg to Blackpool.[32] For analogous reasons, conservative and Christian Democratic parties gradually accepted active economic management and some elements of industrial intervention as the most viable way to operate a modern capitalist economy.

In this setting, modernizing the economy became a valence issue that parties on both sides of the political spectrum embraced in order to draw support from median voters – exemplified by Harold Wilson's promise in the 1964 British election campaign to 're-forge Britain in the white heat of the scientific revolution.' In the realm of social policy, the corollary to the mixed economy was a set of collectively-funded pension, unemployment and health insurance schemes that laid the groundwork for contemporary welfare states. The policies of each nation were inflected, of course, by the relative power of the political left and right; but it is striking how much cross-national convergence on the growth regimes of a mixed economy emerged from the class-oriented politics of this era. Government intervention could be as extensive in polities dominated by the center-right, such as Italy and France, as in those dominated by the center-left, such as Sweden and Denmark.

IV. The Era of Liberalization, 1980-1995

The era of modernization reached its economic apogee and political perigee in the 1970s, when simultaneous increases in unemployment and inflation marked the end of the rapid growth achieved since the war. In subsequent decades, rates of growth in most of the developed democracies were barely half those enjoyed between 1950 and 1975. The immediate triggers for this stagflation were sharp increases in the price of oil and other commodities, following the 1973-4 Yom Kippur war

[31] Offe 1983.
[32] Przeworski and Sprague 1986.

and again in 1978-79; but the basis for inflation was laid by increases in the world money supply following the collapse of the Bretton Woods monetary system in 1971, as the U.S. tried to fund a Great Society and war in Vietnam at the same time.[33] In Europe, however, stagflation was also endogenous to developments within the previous growth regime. Strengthened by more than a decade of virtually full employment, trade unions pushed for wage increases that the collective bargaining systems established to allocate income between wages and profits could not contain. In that respect, inflation was a reflection of the failure of existing social institutions to contain mounting distributive conflict.[34]

The tools of the existing growth regime proved inadequate for addressing the economic problems of the 1970s. Keynesian policies designed to reduce unemployment offered no effective antidote to inflation; and the efforts of governments to rescue ailing industries by providing further subsidies yielded few results.[35] Mistaking structural shifts in the economy for cyclical fluctuations, governments responded with more generous social assistance on the premise that they could pay for it out of high rates of growth that would return. When they did not return, social expenditure as a percentage of GDP soared; and many governments began to run deficits in order to pay for it, pushing up levels of national debt. In order to cope with high rates of inflation, some governments resorted to hastily-arranged social pacts backed by statutory incomes policies, which fostered widespread resentment as workers saw their wages squeezed by fiat amidst rising prices.

The result was a political climacteric for the growth regimes of the mixed economy. When prosperity did not return, electorates threw out virtually every government in office during the crisis of the 1970s. Officials looked desperately for new means to reduce inflation; and politicians, once happy to take credit for full employment, now sought ways to shift responsibility away from the state for rising rates of unemployment. In countries such as Britain, where arm's length economic management had given way to statutory incomes policies, the crisis began to raise questions about the legitimacy of state intervention.[36] Americans worried that their nation was in decline, and Europeans became anxious about 'Eurosclerosis'.[37]

The shifts in policy that followed were initially a reaction to the failures of previous policies during the economic crisis of the 1970s. Since states had failed, markets were to be given a chance.

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[33] Keohane 1978; Ferguson *et al.* 2010.
[34] Crouch and Pizzorno 1978; Goldthorpe 1978; Glyn and Sutcliffe 1972.
[35] Berger 1981; Hall 1993.
[36] Crozier et al. 1974.
[37] Krieger 1986.

In short, the economic crisis of the 1970s was midwife to the birth of a new set of growth regimes that I will describe as those of the era of liberalization.

If the immediate impetus for the shift toward new growth regimes lay in the failures of the 1970s, however, the economic challenges those regimes addressed had been gathering force for some years and were to deepen after 1980. Three developments that reinforced one another altered the economic problems facing the developed democracies in ways profound enough to merit an adjustment in their growth regimes: the shift of employment from manufacturing to services, the growth of international finance, and rising competition from economies emerging within the world trading system.

Employment in the service sector had been rising in the OECD countries since the 1950s, but it did not constitute half of all employment in most until the end of the 1970s, when governments began to realize that, if they wanted to create jobs, those would have to be in services.[38] The shift in employment followed from secular trends: as incomes rose and the price of manufactured goods fell, services comprised a growing proportion of people's consumption. However, the impact of this trend was reinforced, during the 1980s, by rapid growth in the developing world, which drew investment and jobs in manufacturing away from the developed democracies.[39] Their problem became how to create jobs in services.

Foreign direct investment had been growing since the 1960s, as the overseas dollar markets expanded; but it took off in the 1980s and this changed the terms on which firms could raise finance. By the middle of the 1980s, governments in the developed democracies began to realize that a significant proportion of the capital invested in their economies was going to come, as direct or portfolio investment, from foreign rather than domestic sources.[40]

Securing Productivity

The watchword of the growth regimes of this era became 'market competition'. In reaction to the failures of the 1970s, many policy-makers moved toward the view that markets could allocate resources more efficiently than states. Governments sought higher levels of productivity by liberalizing markets, albeit at different speeds across countries and sectors. The Single European Act of 1986 exemplified this shift in emphasis. With it, the member states of the European Community agreed to remove remaining barriers to trade, so as to create a single continental market

[38] Wren 2013; Cusack and Iversen 2000.
[39] Wood 1994: Keohane and Milner 1996; Rodrik 1997.
[40] Berger and Dore 2006.

in goods by 1992, and effectively turned the European Commission into an agent for market liberalization – equipped with a mandate and wide-ranging powers to increase product market competition.[41] The explicit premise was that these steps would improve the efficiency of European firms. At the national level, analogous initiatives were taken to privatize state-owned enterprise, contract out public services, and alter regulations so as to promote more competition in markets ranging from air transport to telecommunications.[42] The pioneers of this move to the market were Margaret Thatcher, who became British prime minister in 1979, and Ronald Reagan, elected American president in 1980; but many governments followed suit in the course of the 1980s and early 1990s.[43]

Reagan and Thatcher believed that achieving a more productive economy also entailed reducing the power of the trade unions; and they took steps in that direction by breaking the American air controllers' strike of 1981 and the British miners' strike in 1984-85. Many European governments could not manage coordinated market economies without relatively-strong unions; but, under pressure from firms seeking the flexibility to meet more intense international competition, even they encouraged significant changes in collective bargaining that shifted more influence over wages and working conditions, from the peak or sectoral level, to firm and plant levels.[44] The premise was that wage flexibility would allow firms to adapt more efficiently to competitive pressure.

Securing Labor

The focus of government efforts to increase employment also shifted during this era from the demand-side to the supply-side of the economy. Disillusioned by the experiences of the 1970s and influenced by new classical theories of economics, which held that fiscal and monetary policy have few durable effects on the real economy, governments moved away from the view that the management of aggregate demand was the key to securing high employment. This was one reason why many were willing to make their central banks more independent of political control and to target monetary policy on inflation rather than unemployment.[45] In order to expand employment, governments turned, instead, to reforms on the supply side of the economy that included efforts to

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[41] Jabko 2006; see also Moravcsik 1998.
[42] Riddell 1991; Thatcher 1999.
[43] Krieger 1986.
[44] Pontusson and Swenson 1996; Lallement 2007.
[45] McNamara 1998.

liberalize labor markets by reducing employment protection and promoting the use of temporary contracts or part-time work.

A concern to create service sector jobs lent impetus to such reforms. During the 1980s, as Iversen and Wren noted, there seemed to be two routes to creating jobs in services.[46] One was to expand employment in the public provision of education, healthcare and other social services, a path along which several Nordic countries embarked as early as the 1970s.[47] The other route was to create jobs in private services, including restaurants, tourism, retailing and domestic services, typically at low wage levels on the premise that there was not much scope for productivity increases there. This entailed keeping minimum wages low, encouraging part-time work, and restricting social benefits so as to lower the reservation wage, a strategy pursued in Britain and the U.S.

Initially, some European countries were hesitant to go down either path, especially because Christian Democratic parties were reluctant to expand public employment or countenance the levels of wage inequality associated with the expansion of private services. Therefore, the governments of France, the Netherlands and Germany initially responded to unemployment in this era with programs designed to reduce the numbers of people seeking work, through generous early retirement programs and benefit programs whose design limited female labor force participation. However, it soon became apparent that reducing the size of the labor force would impair growth; and these governments began to promote part-time employment. In some cases, such as France, they developed dual labor markets of precarious low-wage employment alongside a primary labor market offering relatively secure and well-paid jobs; in others, such as the Netherlands, they provided more social benefits and security for part-time workers.[48]

Securing Capital

The approach taken by governments to securing adequate levels of capital investment also shifted in this era. With the move to the market, most efforts to channel funds directly to industry ended. The emphasis on the supply side of the economy shifted from industrial policy to manpower policy. Governments privatized state-owned enterprises partly so that those firms could draw funds from private capital markets rather than the state and to provide them with shares to be used for acquisitions abroad that would expand their international market share. As international financial markets grew, governments became increasingly concerned to ensure that their national firms could

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[46] Iversen and Wren 1998; Scharpf 2000.
[47] Esping-Andersen 1990.
[48] Palier and Thelen 2010; Thelen 2014.

draw on them. Following the lead of Britain in 1979, most OECD governments eliminated exchange controls; and many governments strengthened protections for minority shareholders and loosened rules on foreign ownership in order to encourage inflows of foreign direct investment.[49]

Indeed, some countries built entire growth regimes around foreign direct investment during this period, based on light-touch regulation and low rates of corporate taxation designed to make their nation an attractive platform for such investment. Ireland was the first large OECD country to shift its growth model in this direction in 1986; and several East European nations followed in the early 1990s.[50] Although efforts to promote investment by sustaining domestic demand remained a component of growth regimes in some nations, such as the U.S. and Britain, all OECD countries in this era looked toward the international economy for sources of capital.

Economic Ideas

These shifts away from demand management toward market-oriented reforms on the supply side of the economy were encouraged by the growing popularity of a 'new classical economics' that emphasized the role of rational expectations in economic behavior. Although related monetarist ideas had been advanced by a few economists since the 1960s, new classical perspectives gained adherents during the 1980s and early 1990s. The result was a wave of work skeptical about the value of active macroeconomic management and inclined to the view that 'natural' levels of unemployment are set by the structure of labor markets and reducible only by structural reforms. These doctrines were appealing to politicians interested in shifting the blame for stubbornly high levels of unemployment from governments to markets; and they fueled popular support for a 'supply side economics' that extolled the efficiency of markets and denigrated the efforts of states to regulate them. [51]

Moreover, as governments adopted a new rhetoric to justify their liberalizing initiatives during the 1980s and 1990s, popular discourse shifted in neoliberal directions on multiple levels. As more value was attached to the role of markets in the economy, more value became attached to the personal attributes deemed appropriate for successful competition within them, a shift much like one that had occurred in the Victorian era. It was no longer enough to be a 'hard worker' to sustain conceptions of self-worth, for instance; one had to display the networking skills, entrepreneurial abilities and fierce instincts for competition that markets demanded. As a market

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[49] Culpepper 2005.
[50] Regan 2014; Nölke and Vliegenthart 2009.
[51] Stein 1981; Stockman 1986; Dornbusch 1990; McNamara 1998.

rhetoric pervaded more and more spheres of social life, it reinforced support for the liberalizing regimes of this era.[52]

Politics

Once again, there is a political side to this story. The shift to new growth regimes was a response to new economic challenges, but developments in the electoral arena helped to make the liberalizing initiatives of the 1980s and early 1990s possible. By intensifying competition in markets for products and labor, these initiatives had adverse effects on many workers. They made many jobs more insecure, reduced social benefits, and increased income inequality – in effect reversing the direction of policy in the previous era which had been dominated by a class-oriented politics. What made this reversal possible? Why was liberalization not resisted effectively by parties acting in the name of social solidarity or working class defense?

In large measure, the answer turns on the declining electoral salience of class. The liberalizing policies of this era were made possible by the disorganization of an electoral space that became more fragmented in social and ideological terms. By the end of the 1970s, longstanding social differences rooted in class or religion no longer created clearly-recognizable political camps.[53] The result was a permissive electoral dynamics, in which durable electoral coalitions to promote neo-liberal policies were rarely formed but the opposition that might have been mounted to them on behalf of the working class was undercut, allowing governments to pursue new approaches to the economic challenges facing them.

Moreover, the decline of the class cleavage had roots in three sets of economic and political developments that took place in the preceding era. In that respect, it was endogenous to the operation of the previous growth regime. The first of these was an important set of socioeconomic developments that the growth regimes of the era of modernization helped foster.[54] Thirty years of prosperity improved the living standards of ordinary workers enough to mitigate the sense of grievance that had been central to politics during the 1950s and 1960s. During the 1970s and early 1980s, deindustrialization decimated formerly-cohesive working class communities, and increasing levels of employment in services blurred the social lines that once separated blue and white-collar workers.

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[52] Boltanski and Chiapello 2007; Hall and Lamont 2009; Centeno and Cohen 2012.
[53] Dalton *et al*. 1984, Clark and Lipset 2001.
[54] Lipset 1964.

The Keynesian welfare state – the principal political accomplishment of the preceding era – also sowed the seeds of change. Its social programs nurtured feelings of entitlement that consolidated political support for them, but those programs also reduced the material insecurity that had once been central to working-class mobilization.[55] Even if they were not its sole sponsors, the welfare state can be seen as the historic postwar achievement of social democratic parties. But, once its programs were in place, those parties were left without a distinctive political mission around which to mobilize voters, just as the policy failures of the 1970s discredited their interventionist tendencies. The decline of the class cleavage reflected the exhaustion of the social democratic mission.

The most important development behind the declining salience of class in the 1970s and early 1980s, however, was the rise of a new cleavage cross-cutting it. This is the values cleavage that Kitschelt has labeled a right-authoritarian/left-libertarian divide.[56] On one side of it were those who embraced post-materialist values associated with the new social movements of the early 1980s that focused on the environment, human rights and social identities. On the other side were those attached to more traditional values, rooted in concerns about material security, safety and familial practices. Green parties and radical right parties speaking to each side of this divide became important political actors in Europe during the early 1980s. In the U.S., a similar cleavage began to separate social liberals in the Democratic party from others who associated post-materialist values with a lack of patriotism, disregard for religion or sympathy for waves of immigration that were changing the racial complexion of the country.[57] The roots of this cleavage lay in economic developments during the preceding era. Three decades of prosperity had weaned the generations that grew up in relative affluence away from the material concerns that preoccupied their parents, drawing them toward a search for personal fulfillment that found expression in the liberation politics of the 1960s and the new social movements of the 1980s.[58]

This values cleavage had significant implications for the growth regimes governments would adopt because it cross-cut the class cleavage from two directions. On the one hand, because right-authoritarian voters were likely to come from the working-class, it drove a wedge through the working-class constituency that social democratic parties might otherwise have mobilized in opposition to neo-liberal reform. By the end of the 1980s, significant proportions of the European

[55] Pierson 1996.
[56] Kitschelt 1997.
[57] Frank 2004.
[58] Beer 1982; Inglehart 1990.

working class were voting for parties of the radical right; and many Americans were reacting against activist government in the name of preserving family values.

On the other hand, as post-materialist values drew a growing middle class constituency toward social democratic parties and the American Democrats, the likelihood that those parties would operate as parties of working class defense declined. By the early 2000s, social democratic parties were drawing more of their votes from the middle class than from the working class; and many of those middle class voters benefited from liberalizing reforms.[59] Indeed, the platforms of center-left parties moved farther in neoliberal directions during this era than platforms on the center-right; and, in the eyes of many voters, parties of the center-left and center-right began to appear increasingly similar, further eroding the prospects that they could speak for any one class and the salience of a cleavage that once underpinned the distinction between political left and right.[60]

V. The Era of Knowledge-Based Growth, 1995-2015

By the end of the 1990s, the growth regimes of the developed democracies were shifting again, in tandem with the new economic challenges of an era of knowledge-based growth. Once again, there is variation across countries in the timing and pace of this shift. However, the inception of this era can be dated to about 1995, when a revolution in information and communications technology (ICT) began to transform business practices across sectors and growth became more dependent on the effective diffusion and implementation of this technology. Indeed, after several decades in which productivity had grown faster in Europe than in the U.S. largely as a result of economic catch-up, the rate of growth of productivity in the U.S. leaped ahead in the mid-1990s, as American firms learned how to use the new technologies developed a decade earlier.[61]

The economic challenges facing firms and governments changed in other ways as well during this era, partly as a result of developments facilitated by ICT. Since it allowed firms to outsource more of the services they once performed in-house and revolutionized how some were accomplished, the share of employment in firms devoted to business services began to grow rapidly. If the problem of the 1980s was how to create jobs in low-wage services, the significant challenge of the 2000s was how to take advantage of these new opportunities to create well-paid

[59] Gingrich and Häusermann 2014: 58.
[60] Iversen 2006; Mudge 2011; Evans and Tilley 2012.
[61] Brynjolfsson and McAfee 2014; van Ark *et al*. 2008.

jobs in high-end services. Moreover, the share of services in exports also rose exponentially, rendering the viability of export-led growth models increasingly dependent on success in such sectors.[62]

At the same time, what became known as skill-biased technological change made possible the automation of many routine jobs, both in manufacturing and services; and improvements in ICT allowed firms to stretch their value chains around the world.[63] As a consequence, economic growth no longer turned on how many products a nation shipped, but on what proportion of the value-added in them it supplied.[64] In the developed democracies, the result has been a polarization in occupational structures, marked by the growth of high-skill positions and of low-skill positions in personal services which cannot readily be automated, while jobs based on the performance of routine tasks in the middle of the income distribution have disappeared.[65] The challenge facing governments has become how to cultivate the levels of skill required for non-routine positions and how to shift production toward the higher value-added links in global supply chains.

Parallel developments in financial markets also created new challenges for governments. At their heart were a series of innovations in financial instruments, often made feasible by ICT, which outpaced the capacity or willingness of governments to regulate them. Following the invention of credit default swaps in 1994, the central development was a proliferation of many kinds of financial derivatives, namely securities whose value is tied to the value of other securities. In theory, and to some extent in practice, these derivatives made it possible to diffuse risk among counterparties, thereby allowing financial enterprises to operate at much higher leverage ratios. The ancillary effects were: (i) to expand the levels of debt held by the corporate, financial and household sectors of many nations, (ii) to increase the interdependence of banks and other financial enterprises both nationally and transnationally, and (iii) therefore to increase by an order of magnitude the systemic risks present in national financial sectors.

Fueling such developments, of course, were the higher profit levels that higher leverage ratios made possible. That led, in turn to a substantial expansion in the share of national profits, value-added, and employment associated with the financial sector, especially in countries such as the U.S. and U.K. that had internationally-important financial sectors. Although the financial sectors of continental Europe were smaller, these developments made remarkable – and risky –

[62] Wren 2013.
[63] Antràs et al. 2006.
[64] Berger 2005; Tassey 2014
[65] Autor and Dorn 2013; Oesch and Menes 2010.

levels of growth possible in many of them, including Ireland and Spain. In 1999, the formal establishment of European monetary union increased financial interdependence across Europe even further, without providing a common regulatory framework for finance or the lender-of-last-resort capabilities typically wielded by national central banks. Therefore, although corporate finance in Europe is still largely bank-based, increasing financial interdependence exposed it, like the U.S., to higher levels of systemic risk.

Securing Productivity

In response to these challenges, the governments of the developed democracies have begun to shift their growth regimes once again, in a process that is still on-going. Contemporary approaches to improving productivity reflect a growing consensus that the most effective ways to do so in this new knowledge economy are to increase the human capital embodied in the workforce, by expanding vocational or tertiary education and to promote the diffusion of ICT across multiple sectors in the economy. Rates of tertiary education have increased substantially in the OECD since 1990. On taking office in 1997, for instance, Tony Blair made it a commitment to expand university enrollments to fifty percent of the cohort. Some governments have also made serious efforts to promote continuing education, especially in subjects related to ICT. In the late 1990s, Sweden enrolled almost ten percent of the adult population in two such initiatives. While tertiary enrollments have leveled off in the U.S, one of the priorities of the Obama administration has been to make college more affordable.

Persuading firms to adopt ICT has been a more complex task. The contribution ICT makes to value-added in Europe still lags American levels, notably in retail services and distribution, where an understandable attachment to local shops and bakeries inhibits efforts to secure economies of scale.[66] However, the European Commission has pushed hard for a services directive that would advance this goal; and it has promoted competition designed to improve ICT capabilities on the continent, ensuring, for instance, that European broadband providers enjoy far less monopoly power than their American counterparts. Some governments have also increased the public funds devoted to research and development with a view to contributing new technologies to this revolution.

[66] van Ark *et al*. 2008.

Securing Labor

With regard to the labor supply, the watchword of the growth regimes developed in this era was 'social investment' – reflecting a significant reorientation in social policy. In previous periods, social policy was provided primarily as a form of social insurance, oriented toward income replacement for people unable to work because of economic circumstances, disability or age. By the end of the 1990s, many governments were construing social policy in different terms – as 'active labor market policy' (ALMP) designed to improve skills and draw people, including the long-term unemployed and women with children, into employment.[67]

Although some OECD governments moved in this direction during the 1980s, ALMP became a transnational focal point for policy only toward the second half of the 1990s, when it was enshrined in the influential Lisbon Strategy agreed by EU member states in 2000. The founding document for that Strategy linked these policies to the challenges of the knowledge economy, declaring that the goal was to make the EU "the most competitive and dynamic knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion" by 2010.[68]

There are several ways in which governments can pursue an active labor market policy.[69] One approach is to provide more substantial resources for those searching for jobs, as Germany has done following the lead of pioneering programs in Denmark and Sweden. Another focuses on the provision of training for those without work. A third approach, characteristic of France, supplies public employment or incentives to firms for hiring youth or the long-term unemployed on the premise that participation in the labor force confers contacts and skills necessary to secure permanent employment. Each of these approaches entails devoting more public funds to social investment. However, governments have also added teeth to their active labor market policies by restricting the duration of unemployment benefits and requiring those on social assistance to engage in active job search or retraining. The initiatives of the Clinton administration to turn 'welfare' into 'workfare' and parallel moves by the Blair government exemplify this dimension of the new policy regime.

In many cases, governments have pursued social investment policies that extend beyond ALMP. Increased spending on education or vocational training can be seen as an investment in the

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[67] Jenson and Saint Denis 2003; Morel *et al*. 2012
[68] European Union 2000.
[69] Bonoli 2005.

human capital of the nation, as can measures making it more feasible for women to enter the workforce and secure better jobs, including the provision of more extensive support for daycare and extended parental leaves. The added advantage of some of those programs is that they contribute simultaneously to improving the conditions of early childhood, which can be seen as an investment in human capital, because educational achievement is closely related to the support a child receives in the early years.[70]

Securing Capital

Given the centrality of new technology to growth in this era, the attention of some governments has shifted away from securing higher volumes of industrial investment toward the problem of how to provide adequate sources of venture capital for start-ups seeking to innovate.[71] The French government, for instance, has encouraged the growth of venture capital firms and taken steps to make it easier for entrepreneurs to start small enterprises, while Swedish governments have shifted sums out of regional development funds into new pools of venture capital.[72]

However, with respect to capital markets, the dominant feature of growth regimes in this era has been the tolerance governments have shown for new financial instruments and higher leverage ratios, accompanied by a substantial expansion of debt, notably in the household sectors of many economies. In a landmark move of 1999, the American government repealed the Glass-Steagall Act, thereby allowing financial firms to engage simultaneously in retail and commercial banking, insurance, and riskier forms of investment banking. Some governments took advantage of securitization to encourage higher volumes of mortgage lending; and they did little to dampen down housing booms, which buoyed the constructions sectors of Ireland, Spain, the Netherlands, Britain, the U.S., and parts of Eastern Europe, where borrowing in foreign currencies was also common and lightly regulated.

The flows of capital across national borders encouraged by the establishment of a single European currency in 1999 also influenced the growth regimes of several countries. The cost of capital fell especially dramatically in southern Europe, as the financial institutions of northern European countries looked for places in which to invest the funds generated by their growing trade surpluses.[73] Buoyant housing markets and higher levels of domestic consumption induced many southern European governments to pursue growth strategies led by domestic demand, rather than

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[70] Heckman and Masterov 2007.
[71] Trumbull 2004; Breznitz 2007; Ornston 2012.
[72] Schnyder 2012.
[73] Blyth 2013.

exports, thereby generating current account imbalances that contributed to the onset of the Euro crisis in 2009.

Of course, accumulating risk in the international financial system culminated in the global financial crisis of 2008-09. Since then, financial policy-making has been a balancing act, as governments seek to reduce the systemic risks of another financial crisis by raising capital ratios and restricting the activities of their financial institutions without inhibiting lending to the rest of the economy. Within the Eurozone, where the solvency of many banks is tied up with sovereign debt and remains in doubt, this has proven to be an especially perplexing problem. The approach adopted to it has been to create a banking union, which is still in an embryonic state and has not yet restored the flows of funds across borders envisioned by EMU.[74]

Economic Ideas

A number of new currents in economic thought encouraged the shift to new growth regimes in this era. Most fundamental was the development of endogenous theories of growth, designed to replace the exogenous variable for technology in Harrod-Domar and Solow growth models with factors endogenous to the economy that could explain rates of technological change. The early models developed by Romer and Lucas in the 1980s, which focused on human capital, were subsequently expanded by Aghion and Howitt and Grossman and Helpman to incorporate the impact of market structures on research and development and the diffusion of technology.[75] By the 1990s, these models had become central to contemporary understandings of growth. Following the pioneering work of Becker, human capital came to be seen as crucial to economic growth. Goldin and Katz could describe the dynamic behind American growth as a race between education and technology; and Heckman popularized the view that the roots of educational achievement and ultimately the productivity of the economy lie in the support provided during early childhood.[76]

By the turn of the century, debates about economic growth began to revolve around the implications of the revolution in ICT. On one side, a group of techno-optimists saw unlimited potential in the new technology, while another group of techno-pessimists doubted that it could sustain growth for a longer period.[77] However, there was broad-based consensus that skill-biased technological change was having major effects on the developed economies; and improving the

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[74] In 2013, cross-border flows of funds in the Eurozone were still only at 40% of the level in 2007. McKinsey Global Report.
[75] Lucas 1988; Romer 1990; Grossman and Helpman 1993; Aghion and Howitt 2006.
[76] Goldin and Katz 2009; Heckman and Masterov 2007.
[77] Brynjolfsson and McAfee 2014; cf. Gordon 2012.

skills of the workforce was widely seen as the solution to ensuring high levels of employment in what was increasingly described as a new knowledge economy.[78] In Europe, the studies of innovation produced by analysts such as Freeman, Dosi and Lundvall had considerable influence over the approaches governments were taking to it.[79]

Developments in economic theory also had some influence over the approach governments took to capital markets. Many economists suggested that the new financial instruments devised in this era would make the operation of markets more efficient, effectively reducing rather than increasing risk. The foundation for many was the 'efficient market hypothesis' developed by Fama which exemplified arguments persuading policy-makers to regulate these new financial instruments only lightly.[80]

Politics

Once again, the shift toward new growth regimes has been conditioned by developments in electoral politics with roots in economic changes during the previous era. Three developments opened up new sets of coalitional possibilities, which parties on the center-left and right have sought to exploit, in particular by promoting policies of social investment.

One was a movement in the policy preferences of women, largely inspired by the rising rates of female labor force participation promoted by the growth regimes of the era of liberalization.[81] For much of the postwar period, women voters in Europe had been a mainstay of Christian Democratic parties. They were likely to be more religiously observant than men and were widely seen as a conservative force in politics. However, as church attendance declined and increasing numbers of women entered the labor force, their preferences over policy began to change. By the 1990s, working women had become some of the strongest supporters of subsidized childcare, parental leave, programs for early childhood development and steps to expand educational opportunities. Since they often worked part-time, many women also favored active labor market policies that made part-time work more feasible.[82]

In the first instance, social democratic parties were the beneficiaries of this development. In the Nordic world, working women became one of the key constituencies for parties that had expanded public employment for women early on; and social investment grew more rapidly there.

[78] Autor and Dorn; 2013; Oesch 2013.
[79] Freeman and Soele 1997; Dosi et al. 1990; Lundvall 1992.
[80] Fama 1970.
[81] By 2000, for instance, more women than men were members of British trade unions.
[82] Marx and Picot 2013.

In the U.S. where rates of female labor force participation were also high, a significant gender gap opened up in favor of a Democratic party embracing parallel measures. But Christian Democratic parties, such as the German CDU, also bid for women's votes with policies such as the von der Leyen reforms of 2006 that expanded daycare facilities, extended paternity leave, offered new childcare benefits and tied family allowances to income.[83]

A second important development was the emergence in this period of a new cleavage within the electoral systems of the developed democracies, sometimes labeled an 'integration cleavage' because it divides people who expect to benefit from rising levels of international economic interdependence from those who see themselves as the losers in this process.[84] To some extent, this cleavage parallels the values cleavage that opened up during the 1970s; but it is more firmly rooted in material concerns that became increasingly salient to politics in the wake of the liberalization initiatives of the 1980s. Those initiatives accelerated the processes of economic dislocation associated with more intense international competition, which rendered many jobs less secure; and concerns about dislocation rose as skill-biased technological change polarized national occupational structures. The European Union became the political face for these processes in Europe, because it spearheaded the liberalizing efforts to create a single continental market. Across the Atlantic, resentment was often targeted at the outsourcing of jobs and immigration. Broadly speaking, this cleavage has aligned voters with higher levels of education and the skills to prosper from more open markets against those with fewer skills, whose jobs and social status are under threat.

The effect of this cleavage has been to draw further segments of voters, mainly from the working class, away from mainstream parties of the center-right and center-left toward new parties rising on the radical right and left of the political spectrum.[85] In Europe, the growing importance of this cleavage was reflected in a shift in the platforms of radical right parties: many that once rallied support mainly in opposition to immigration began to mobilize as well on the basis of opposition to the European Union. With support enhanced by the overlapping values cleavage, they have had considerable success. In the first round of the 2002 election for the French presidency, for instance, a majority of the manual working class voted for the candidate of the National Front.

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[83] Seeleib-Kaiser *et al*. 2008.
[84] Kriesi *et al*. 2008.
[85] Kitschelt 1997.

Electoral politics in Europe has been reorganized, to some extent, along this integration cleavage. Shorn of major components of their working-class base, parties of the mainstream center-right and center-left have become representatives for a coalition of groups broadly supportive of economic interdependence and the knowledge economy, facing a protectionist challenge from opponents on both edges of the political spectrum. To an increasing extent, support for mainstream parties comes from voters dependent on the export sectors of the economy and equipped with the linguistic or technical skills to prosper in more interdependent and competitive international markets.

However, the policies and electoral fortunes of center-left parties, in particular, have also been conditioned by shifts in the occupational structure that increased the number of well-paid jobs in services and, in particular, by the growth of a new group of socio-cultural professionals, whose work in education, healthcare and some segments of business services entails high levels of interpersonal interaction.[86] People in those occupations now form 15 to 20 percent of the electorate in most European countries, and they are strong supporters of social investment. Support for more spending on education and daycare, for instance, is higher among this group than among the industrial working class.[87] That is one reason why mainstream parties in Europe have become proponents for policies of social investment. Under that umbrella, they can bring coalitions of working women and socio-cultural professionals together.

The capacity of mainstream parties to hold such coalitions together has been challenged, however, by divisions within the middle class that are linked to further changes in the economy. Along with socio-cultural professionals, the ranks of managerial and technical professionals have also grown during this era; they are not as supportive of social investment or of state intervention more generally. A strain of political libertarianism runs especially strongly through entrepreneurs in the younger generations and those working with new technology, in enclaves such as Silicon Valley.[88] Such divisions complicate the process of coalition formation in the era of knowledge-based growth.

Moreover, as Gingrich and Ansell observe, there is a distributive politics of social investment, which is shaped by the character of existing policy regimes.[89] The character of those regimes influences which policies of social investment are likely to be advocated by parties of a

[86] Kitschelt and Rehm 2014.
[87] Gingrich and Häusermann 2015; Marx and Picot 2013; Beramendi *et al*. 2015.
[88] Wren and Rehm 2013.
[89] Gingrich and Ansell 2015.

given political hue. Parties choose which kinds of social investment to support based, in part, on whether their own longstanding constituencies will benefit from them. Where only a small proportion of the middle class attends university, as in Germany for instance, center-right parties are more likely to increase university funding on the grounds that their core constituents will benefit. Once tertiary enrollments begin to cover a majority of the relevant age cohort, however, social democratic parties become more inclined to fund higher education, because larger parts of their core constituency are now benefiting.[90] This dynamic can give rise to national variations in the kinds of social investment that are funded.

In short, the growth regimes of the knowledge economy have been fueled by efforts to build new coalitions within a fragmented electoral arena that is gradually being reorganized by socioeconomic developments. Mainstream parties of the right and left have constructed platforms around social investment in order to bid for new adherents, whether among women, those seeking better jobs, or parents concerned about the future of their children. But, in this fluid electoral setting, the loss of some voters to parties or factions on the edges of the political spectrum have made it more difficult for mainstream parties to hold the center ground, especially in Europe where the aftereffects of the Euro crisis have driven many voters toward new and more radical parties.[91]

VI. Distinctive Adjustment Trajectories

In short, there have been broad commonalities in the movement of growth regimes over time. These commonalities are rooted in national responses to parallel sets of economic and electoral developments that have affected all the developed democracies to a greater or lesser extent. Some analyses treat these common movements as a complete account of the important developments in modern capitalism.[92] If we want to understand how political economies change, however, such an account would be radically incomplete. Although important, these developments did not have homogenous effects in every political economy. Some countries moved more rapidly in certain directions than others, and there are clear limits to the extent to which national growth regimes converged. If we want to understand how political economies change, we need to understand enduring divergence as well as convergence, and that is the objective of the analysis that follows.

When governments address new economic and political challenges, they do not operate from a blank slate. Instead of seeing them as free-floating actors or the agents of transnational

[90] Ansell 2010; Busemeyer 2015.
[91] Gidron 2014.
[92] Streeck 2010; 2014.

capitalist forces, we should recognize that they are actors socially-embedded within distinctive national frameworks of institutions and ideas that color the character of the otherwise common challenges facing them and condition the feasibility and attractiveness of particular policy options. Much the same could be said of firms, although I do not discuss this side of the problem here.

The institutions conditioning the development of national growth regimes at any one point in time include: electoral rules, existing policy regimes, state capacities, and features of the political economy that structure the behavior of economic actors. In some cases, these institutions are of long standing. In others, they are artefacts of the policies adopted to address the economic and political challenges of previous eras. In that respect, the movement of growth regimes in any political economy is always to some extent endogenous: new growth regimes are usually conditioned by the effects of preceding regimes.

These institutions influence governments' responses to new economic and political challenges in three ways. First, they can inflect the intensity of the problems posed by common economic developments. The shift of employment from manufacturing to services, for instance, posed more serious dilemmas for the coordinated economies of continental Europe than for liberal market economies that already had significant low-wage sectors.[93]

Second, these institutions can affect the attractiveness of the options available to a government confronted by new economic or political challenges. Redistributive policies are politically more attractive to governments elected by proportional representation, for example, than to those elected under majoritarian electoral rules.[94]

Finally, institutions condition a government's capacities for pursuing particular kinds of growth regimes. In some cases, state capacity is the issue. The institutional relationship between states and banks, for example, conditioned the kinds of strategies governments were able to implement during the era of modernization.[95] In other cases, the institutional structure of the political economy conditions what we might think of as the 'strategic capacities' of producer groups, namely their abilities to make credible commitments and to take concerted action to resolve a problem; and strategic capacities of this sort can be crucial to the types of growth regimes

[93] Iversen and Wren 1998.
[94] Iversen and Soskice 2006.
[95] Zysman 1984.

governments can pursue. The growth regimes of southern Europe, for instance, have been restricted by the absence of substantial capacities for wage coordination there.[96]

Although their impact is sometimes more difficult to establish, cross-national variations in frameworks of ideas also condition the development of growth regimes, by affecting how economic challenges are diagnosed and rendering some responses more or less politically attractive. Effects of this sort are associated with three types of ideational frameworks: economic doctrines, party ideologies and the ideals embodied in a wider universe of national political discourse.

Although economics is a transnational science, various lines of analysis have long been more popular in some countries than in others. These differences generate variations in how economic problems are diagnosed and influence which types of solutions seen as most viable.[97] The growth regimes of Germany, for example, have been colored by ordo-liberal doctrines, while Keynesian ideas have had more impact in Britain.[98]

Different political parties often advocate distinctive kinds of policies and, while these differences may be rooted in appeals to particular constituencies, they also reflect longstanding orientations, bearing on issues of state intervention, redistribution and the like, which can become durable because they are intrinsic to the maintenance of a party's reputation.[99] As a result, long periods of governance by one type of political party tend to leave an imprint on a country's growth regimes. Extended periods of Christian Democratic or Social Democratic governance, for instance, gave rise to different types of welfare states, not only because the constituencies for these parties were different, but because they espoused different ideologies.[100]

Cross-national variations in the ideals at the core of national discourse may also inflect the choices governments make about growth regimes.[101] Especially relevant here are popular beliefs about social justice and the appropriate role of the state in the economy. There is evidence, for instance, that systematic differences in beliefs about social justice condition national variations in economic policy.[102] Strong egalitarian commitments have had an enduring influence on Swedish policy made by governments of both the left and right; and French growth regimes reflect a

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[96] Johnston *et al*. 2014; cf. Martin and Swank 2012.
[97] Fourcade 2009.
[98] Hall 1993, 2014.
[99] Boix 1998.
[100] Esping-Andersen 1990; Iversen and Wren 1998; Huber and Stephens 2001.
[101] Schmidt 2008; Jenson 2010.
[102] Benabou and Tirole 2006; Alesina *et al*. 2004; Hall 2015.

tolerance for activist government whose pedigree lies in Republican philosophies of governance that portray the state as the defender of the public interest.[103]

Under the influence of these national frameworks of institutions and ideas, growth regimes tend to move along distinctive paths that I label adjustment trajectories. Within these paths, there can be moments of rupture – but, even at such moments, new policies are likely to be influenced by the distinctive nature of the failures under the previous regime. The movement of the developed political economies over time is better construed as a branching tree than as a series of waves washing away everything that has gone before.

In order to show how national political economies take divergent paths, even in the face of common challenges, this section provides a brief outline of the postwar adjustment trajectories of four nation: Sweden, France, Germany and Britain. My objectives are to delineate the growth regimes pursued in each and to show that they were responses to the economic and political challenges common to each era, but also to indicate how national adjustment trajectories emerged from distinctive national frameworks of institutions and ideas.

Sweden

Sweden left the Second World War with some singular attributes. On the one hand, because it had been a neutral party, its industrial infrastructure was largely intact. On the other hand, based on the *Saltsjöbaden* accords of 1938, it had already developed a system of industrial wage bargaining coordinated at the peak level, based on producer groups with important strategic capacities, understood as the capacity to reach agreements with other producer groups and the government that could be enforced on the rank and file.[104]

However, Sweden faced economic challenges characteristic of the era of modernization. Chief among these were how to move labor out of what was still a large agrarian sector into industry, how to enhance industrial productivity so as to compete effectively within more open world markets where American competition was formidable, and how to maintain levels of demand for its products adequate to ensure that investment would grow.

The growth regime Sweden developed in response to these challenges took full advantage of the institutional capacities for strategic coordination in its political economy. Often labeled the 'Rehn-Meidner model' after two economists influential in its design, that growth regime rested on

[103] Hayward and Shalom 1983; Tilton 1991; Berman 1998.
[104] Martin 1979; Pontusson 1992.

three pillars. The first was solidaristic wage-bargaining. Wages across most sectors of the economy were determined by peak-level negotiations between the Swedish labor confederation, LO, and the employers' confederation, SAF. Moreover, it was agreed they would have a solidaristic element: the wages of low-paid workers were to rise faster in percentage terms than those in higher wage brackets. The objective was to increase productivity, by putting pressure on firms using low-wage labor in anticipation that they would either become more efficient or go out of business. Because lay-offs were expected, the second pillar of the model was an active labor market policy, marked by generous public support for the job search and retraining. The third pillar of the model specified a relatively- austere macroeconomic stance, so as to maintain pressure on firms to become more efficient. This growth regime embodied a balanced approach to demand: exports were to be sustained by coordinated wage bargaining to restrain unit labor costs in the export sector, while domestic demand was to rise with the wage gains made possible by solidaristic bargaining.[105]

In political terms, this strategy was based on the complementarity between skilled and semi-skilled workers characteristic of mass manufacturing, the dominant mode of production of the era.[106] Because either group could hold up production, they had interests in cooperation that were internalized by the institutional structures for peak-level bargaining and exploited by the Social Democratic party to assemble an electoral coalition that came to dominate Swedish politics. As the numbers of white collar workers increased during the 1950s, the Social Democratic party integrated them into that coalition with the offer of earnings-related pensions.

This growth regime foundered during the 1970s, when rising rates of unemployment induced the government to subsidize industries in distress and mount a more expansionary macroeconomic policy; and the Social Democratic party was voted out of office for the first time in the postwar period. However, decisions taken during the late 1960s to create a distinctive welfare state helped Sweden cope with the principal economic challenge of the next era, namely the shift of employment to services.

The initial impetus for those decisions was a labor shortage generated by rapid economic growth in the 1960s. While other countries such as Germany and France addressed this problem by importing 'guest workers', Swedish governments did so by drawing women into the labor force, as public employees delivering and expanding a set of health, educational and social services. As a result, by the end of the 1980s, the percentage of the working age population in employment in

[105] Martin 1979.
[106] Iversen 1999; Iversen and Soskice 2009b.

Sweden was among the highest in the world. Although this strategy segmented the labor market by gender, it generated well-paid jobs in services without creating a low-wage service sector that might have threatened Sweden's commitment to egalitarian wage structures; and it consolidated the electoral coalition of the Social Democrats.[107]

As global competition became more intense during the 1980s, however, high levels of public employment generated strains inside the industrial relations system, as the growing power of public sector unions threatened the capacity of the metalworking trade unions in the export sector to lead the coordination of wages. As a result peak-level bargaining collapsed, as employers and unions in the export sector sought more flexibility to set wages in response to these new competitive pressures.[108] By the middle of the 1990s, however, stable patterns of wage coordination were reestablished at the sectoral level, albeit in terms that left firms with more wage flexibility. Thus, Sweden saw a devolution in the locus of wage bargaining characteristic of the era, but one that did not altogether eliminate the strategic capacities of Swedish producer groups.

In other respects, however, Swedish governments struggled to find an effective growth strategy in this period. To shore up investment and its own political coalition, a Social Democratic government moved to establish wage-earner funds that were to invest a portion of enterprise profits on behalf of employees.[109] However, that antagonized employers and, when they failed to revive investment, the government resorted to expansionary macroeconomic policies that fueled an asset boom. Its collapse saw the era of liberalization end in Sweden with a deep economic crisis that brought bank failures and a sharp decline in GDP.

Thus, the government and producer groups of Sweden entered the era of knowledge-based growth with a strong sense of crisis, convinced they had to find a new growth regime in order to prosper now that the nation's traditional strengths in manufacturing were no longer adequate to sustain growth. The growth regime that emerged was a testament to the country's strategic capabilities and a textbook case of how to build a knowledge economy through concerted action by highly-organized producer groups.[110] In cooperation with government, firms doubled their investment in research and development. Public investment in education grew from 5 percent of GDP in 1990 to 7 percent by 2000; and two extensive programs of continuing education, focused

[107] Esping-Andersen 1990; Iversen and Wren 1998.
[108] Pontusson and Swenson 1995; Iversen 1999.
[109] Pontusson 1992.
[110] Ornston 2013.

on enhancing the skills required by ICT, enrolled almost ten percent of the adult population between 1997 and 2000.

With the agreement of producer groups, the government also abolished the tax advantages enjoyed by large corporations in order to stimulate investment in small start-ups, and it diverted regional development funds to jump-start an emerging market in venture capital. By 2003, the value of private equity funds in Sweden was close to American levels, at 26 percent of GDP. Partly as a result, the share of high technology products in Swedish manufactures rose from 10 percent to 17 percent between 1980 and 2007, while the share of low technology products dropped from 34 to 23 percent. Important clusters for high technology production have grown up around several Swedish cities; and the contribution of ICT to value-added in Sweden ranks among the highest in the OECD.[111]

At the same time, important changes were made to the Swedish welfare state. On the initiative of a center-right government initially elected in 1991, and in response to popular demands for more choice, the delivery of social services has gradually been privatized. However, the state continues to fund these social services at one of the highest levels in the world, reflecting the centrality of egalitarian ideals the Swedish universe of political discourse. One effect of these reforms has been to inspire further innovation in services, and levels of social investment in Sweden remain high. But the organization of Swedish producer groups, which is marked by divisions between blue and white-collar trade unions, has made it difficult for producer groups to agree on how to revise the vocational training system and support workers at the margins of the labor market. As a result, Swedish initiatives in this realm have been less successful than those pursued by a more unified labor movement in Denmark.[112] Moreover, as governments struggle with the problem of how to create jobs for large numbers of recent immigrants, the prospects are rising that the country may have to tolerate the growth of a secondary labor market, currently being encouraged by tax deductions for those employing domestic labor.[113] Despite these problems, however, the Swedish economy has recently generated some of the highest rates of employment and growth in the OECD.

France

The growth regime France developed during the era of modernization is a classic example of the interventionist impulse of that period. It was built around a system of indicative economic

[111] Schnyder 2012; van Ark *et al*. 2008.
[112] Thelen 2014.
[113] Dolvik *et al*. 2015.

planning, in which public officials developed priorities for investment and channeled funds to the sectors deemed most central to growth and to firms with the potential to be 'national champions' on world markets.[114] This regime was made possible by the influence large state-owned banks exercised over flows of funds in the financial system.[115] The official vehicles for planning were the modernization commissions of the *Commisariat au Plan*, which brought representatives of firms and trade unions together with public officials to discuss how each sector could modernize. Although the tripartite nature of these commissions reflected the prominence of the class cleavage in postwar politics, the trade unions were largely marginalized within them because the government feared the influence of a powerful communist union. As a result, planning became a "conspiracy between big business and the state" largely by a civil service insulated from the fissiparous politics of the Fourth Republic.[116] With the advent of the Fifth Republic in 1958, however, planning became a totem for the cross-class coalition that Charles de Gaulle built around the idea that France had to modernize if it was to play a commanding role on the world stage.

Within this growth regime, increases in productivity were to be achieved by funneling finance only to the most productive sectors and firms; and the regime took a balanced approach to demand. Exports were promoted through support for national champions, while domestic demand was sustained by active macroeconomic policies and a statutory minimum wage to which forty percent of French wages were eventually tied. The system was inflationary – as Giscard d'Estaing once said '*la planification, c'est l'inflation*' – but governments devalued the exchange rate periodically to off-set the effects of inflation on the competitiveness of exports.

This growth regime also foundered during the 1970s, as the government began to divert funds to declining sectors in order to sustain employment.[117] When a political backlash against the economic failures of the 1970s brought a Socialist-Communist coalition to power for the first time in the Fifth Republic, the initial strategy of President François Mitterrand was to intensify intervention – via a *politique de filières* designed to deploy public investment as a substitute for declining levels of private investment.[118] In order to sustain exports, the value of the franc was also reduced on successive occasions, to the consternation of France's partners within the European monetary system (EMS) established in 1979.

[114] Cohen 1977; cf. McArthur and Scott 1969.
[115] Zysman 1977, 1984.
[116] Shonfield 1969.
[117] Berger 1981.
[118] Hall 1986.

The turning point for French policy came in 1983, when the prospect of another devaluation that would take France out of the European monetary system loomed. By this time, Mitterrand had concluded that the public coffers were simply not large enough to substitute public for private investment and that further devaluations would require extended deflation. As a result, he shifted gears and took a series of policy initiatives that would see France develop a new growth regime for the era of liberalization.

This new growth regime was built on four pillars. First, French capital markets were deregulated so as to facilitate inflows of foreign investment, by eliminating the stakes in privatized enterprises still held by the state and implementing rules to make mergers and acquisitions easier.[119] Second, the government passed a set of laws, ostensibly aimed at improving worker representation, which made it easier for firms to set wages at the plant rather than the sectoral level.[120] These were complementary measures: firms gained wage flexibility that improved their capacities to sustain share prices in the face of economic fluctuations and thereby hold off hostile takeovers that reforms to corporate governance had made more feasible.[121]

The third pillar of the strategy was strong French support for the creation of a European single market, an initiative of the former French Finance Minister, Jacques Delors. By this time, French officials had concluded that, although indicative planning could increase the sheer size of firms and their volumes of production, economies of scale were not enough to ensure that French firms remained competitive in a more open international economy. Moreover, in that contest, they decided markets were likely to be more effective than the state at picking the industrial winners. The reigning idea was that French firms would be forced to become efficient by the more intense competition that a single European market would generate.

The fourth pillar of this growth regime saw the government forsake periodic depreciations of the exchange rate in favor of maintaining a high and stable exchange rate – the '*franc fort*' – which would also require a more austere fiscal stance. The idea was that this strategy of competitive deflation would further increase the pressure on French firms to rationalize their operations and move toward higher value-added lines of production because they would have to meet the intense competition posed by a continental market under the handicap of a relatively high exchange rate.

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[119] Culpepper 2005.
[120] Lallement 2007.
[121] Goyer 2012.

Although this strategy relied on market competition rather than public directives to enforce change on French industry, in many respects, it reflected the ideological legacy of French planning. The new regime was put in place by an activist state with relatively little input from producer groups, as a highly strategic attempt to rationalize the economy in line with central ideas in French political discourse that held the state responsible for the performance of the economy.[122] If planning had been based on modernization from above, this was an equally forceful effort at modernization from below.

Moreover, French governments never assembled an electoral coalition behind these policies. They were initiated by a Socialist government that had been elected on an entirely-different platform and, when it was voted out of office, ushering in an unprecedented period of governmental *co-habitation*, the policies were continued by a center-right government, whose only open advocate for neoliberalism, Alain Madelin, was a marginal figure who secured less than four percent of the vote in the 2002 presidential election. Just as the planning commission had been insulated from the fray of domestic politics, many of the responsibilities for liberalizing the French economy were delegated under this new growth regime to the European Commission acting under the aegis of the Single European Act of 1986. This approach allowed the leaders of successive French governments to rail against neoliberalism and globalization even as they endorsed the liberalizing initiatives of Brussels behind closed doors.[123]

Although this growth regime pushed some French firms toward higher-valued-added production, its impact on employment was negligible.[124] French rates of unemployment hovered around double digits for most of the 1980s and 1990s – a problem that was to condition the new growth regime for the era of knowledge-based growth toward which France moved in the second half of the 1990s.

This new growth regime had several key features. At the macroeconomic level, it turned on an initiative to press Germany into agreeing to the creation of a single European currency. Although the rationale for monetary union was marked by a great deal of wishful thinking, French officials hoped that the new European central bank would be more responsive to unemployment, and to economic conditions outside Germany, than the conservative Bundesbank dominating the EMS had been, thereby improving the demand-side conditions for growth.

[122] Levy 1999; 2006.
[123] Hall 2005.
[124] Hancké 2002; Fitoussi *et al*. 1993.

On the supply side, successive governments undertook steps to improve the training of French workers. The opening article of the *loi Jospin* of 1989 declared that "education is the first national priority." Subsequent measures were designed to improve the fit between vocational training and the needs of firms and to ensure that all young people had at least two years of training after the *baccalauréat.*[125] At the same time, funding for tertiary education grew and enrollments increased. The explicit objective of these efforts was to increase the human capital available to the nation.

On the premise that youth and the long-term unemployed needed, not only training, but a foothold in the workforce from which to acquire the skills and contacts that would lead to stable jobs, the government initiated a series of measures aimed at inducing firms to hire the unemployed. However, those measures took a particular form as a result of the role the minimum wage (or SMIC) had come to play in the French economy. It was still central to what remained of wage coordination and to the maintenance of 'purchasing power' – a goal commonly accorded a high value in French political discourse.[126] These considerations inhibited French policy-makers from letting the minimum wage fall in order to expand employment. Instead, the French approach became one of encouraging firms to hire and employees to work at that minimum wage, by reducing the high social charges paid by employers and workers. The Socialist government elected under Lionel Jospin in 1997 instituted a series of taxes on income designed to reduce the rate of growth of social charges and firms that hired the young or long-term unemployed were given special forms of tax relief. By the early 2000s, these tax breaks were worth almost 6 billion Euros a year.[127]

French governments presented these policies as social investment, designed to improve the country's capacity to compete in an era of knowledge-based growth. But, as Palier has noted, by subsidizing low-wage jobs, these measures discouraged firms from moving into higher-valued-added forms of production offering higher wages.[128] Moreover, these subsidies and further support for the poor took public spending toward Nordic levels. Between 1990 and 2005, social spending rose from 24 to 29 percent of GDP. From a neoliberal perspective, French economic policy in this era appeared paradoxical: initiatives to liberalize the economy were accompanied by a vast expansion in social support. And, from a social investment perspective, these policies did relatively

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[125] Culpepper 2003.
[126] Trumbull 2014.
[127] Carbonnier *et al*. 2014.
[128] Palier 2012.

little to increase the skills of the workforce or to move production regimes closer to those of a knowledge economy.

The efforts of French governments to address the challenges posed by the ICT revolution were equally mixed. On the one hand, steps were taken to increase the availability of venture capital and make it easier for entrepreneurs to start small firms.[129] State-sponsored efforts to use ICT, including the *Minitel*, gave France an early start toward the diffusion of the new technology. On the other hand, levels of investment in research and development languished well below OECD norms during the 2000s. As it has since the 1960s, the French economy remains unusually dependent on a few national champions in energy, armaments and aerospace whose sales are often as much a diplomatic as an economic achievement.[130]

Germany

Devastated and divided by the war, West Germany rebuilt its economy in an ‘economic miracle’ that within twenty years had become a source of national pride. Exploiting capacities for collaboration at regional and sectoral levels in place before the war, its growth regime in the era of modernization centered on the construction of institutions for strategic coordination in the private economy -- between workers and employers, among firms, and within the financial sector. In the industrial relations arena, coordination on wages, working conditions and vocational training was underpinned by a balance of power between trade unions and employers, secured by co-determination legislation that established powerful works councils in larger firms, and based on industry-wide bargaining usually led by the metalworking sector.[131] Along with vocational training schemes built around apprenticeships managed by employers and the trade unions that conferred high levels of industry-specific skills, these arrangements gave German manufacturers formidable capacities for continuous innovation in products and production processes that sustained the quality of their exports and demand for them.[132] Flows of investment into industry were orchestrated by a few large universal banks entrusted with shares in firms and networks of regional banks often sponsored by regional governments.[133]

These high levels of private-sector coordination were made possible by legislation – in the form of framework policies that delegated many decisions to specified producer groups in classic

[129] Trumbull 2004; Stevens 2012.
[130] Cohen 1977.
[131] Thelen 1991; Streeck 1994.
[132] Hall and Soskice 2001,
[133] Shonfield 1969; Deeg 1999.

neo-corporatist fashion.[134] But German policy was less interventionist in some respects than the policies of its neighbors. In keeping with an ordo-liberal philosophy of economic governance, popularized by the Christian Democrats in reaction to the state interventionism of the Third Reich, the center of economic dynamism was to remain in the private economy and the role of the state was seen as one of promulgating rules to ensure that economic behavior was orderly.[135] However, those rules produced results far from those of laissez-faire. They nurtured a 'social market economy' and systems of diversified quality production at the regional level that depended on high levels of collective goods provided by firms and other actors.[136]

At the macroeconomic level, the complement was a set of policies that were relatively restrained, aside from a brief flirtation with Keynesianism in the late 1960s. The key actor was the Bundesbank, highly independent of political control and focused on limiting inflation, seen as the curse of the 1920s. The Bundesbank disciplined wage negotiations by threatening monetary retaliation if bargains exceeded a modest set of norms; and governments were mindful that expansionary fiscal policy might also loosen wage discipline and provoke a monetary correction.[137] However, the Bundesbank also encouraged export-oriented growth by holding the exchange rate at undervalued levels until the 1970s when continued efforts to do so threatened to import inflation.[138]

Some of these policies, such as the legislation on co-determination, emerged out of political conflict along the lines of the class cleavage. But much of that conflict was successfully transferred to the industrial arena where a balance of power between capital and labor was established. Subsequent policy was largely the work of a cross-class coalition in the electoral arena that brought employers and workers in the manufacturing sector together under the aegis of the Christian Democratic Union (CDU) in periodic alliance with the Liberal Democrats (FDP). Like other Christian democratic parties, the CDU drew support from both sides of the class cleavage, initially on the basis of a religious appeal but increasingly on the promise that it could deliver prosperity along with relatively-egalitarian distributive outcomes. When the social democratic party (SPD) finally became a strong challenger in the 1960s, it governed on similar terms, initially in a Grand Coalition with the CDU.

The German growth regime was robust enough to survive the economic turmoil of the 1970s largely unscathed. After some outbursts of conflict in industrial relations, when profits rose

[134] Schmitter and Lehmbruch 1979; Katzenstein 1987.
[135] Sally 2007.
[136] Streeck 1991; Herrigel 2000.
[137] Hall 1994; Hall and Franzese 1998; Carlin and Soskice 2009.
[138] Kreile 1978.

unexpectedly following bargaining rounds that restrained wages, an effective system of coordinated wage bargaining managed to reduce inflation at modest cost in terms of higher unemployment, and West Germany looked like an economic success story in the early 1980s.[139]

However, the economic challenges of the era of liberalization were to prove trying for this German model. It had been overwhelmingly successful at manufacturing but provided no easy formula for creating jobs in services. German Christian Democrats were ideologically opposed to expanding public employment; and proposals to expand low-wage services evoked the ire of the trade unions and threatened the relatively egalitarian wage structures on which the cross-class coalition of the CDU had depended. Therefore, successive governments temporized in the face of stagnating employment with a series of steps to promote early retirement, on the premise that moving older workers out of the labor force would open up jobs. They also leaned against the rising tide of female labor force participation by increasing maternity benefits in lieu of daycare and retaining regulatory regimes that kept women out of the workforce, including a limited school day. As a result, employment in services rose only slowly in Germany during the 1980s.

The growth of international finance also disorganized the longstanding system whereby firms had secured capital on the basis of close relationships with a few key banks. The universal banks long central to this system realized that, in order to take advantage of growing international markets, they would have to free up the funds they held in German shares in order to operate investment banks on a transnational scale. Between 1990 and 2002, a series of legislative changes made it possible for them to do so and easier for industrial firms to secure funds on international markets.[140] In order to do so, these firms became become more attentive to 'shareholder value' – a development that threatened to disrupt their close relationships with other stakeholders, including employees. If German firms had to maintain their share price by laying off workers to cut costs during market downturns, as their Anglo-American counterparts did, they would have had trouble holding onto a workforce with high levels of specific skills and eliciting its cooperation in continuous innovation. Accordingly, some predicted the demise of the German industrial system.

However, disaster was averted. Many German firms found stable sources of funding from international institutional investors less worried about fluctuations in share price because they were looking for long-term, rather than short-term, returns.[141] And German parliamentarians watered down impending European legislation on mergers and acquisitions to limit the prospect of hostile

[139] Kreile 1978; Cameron 1984.
[140] Deeg 2005.
[141] Goyer 2012.

takeovers that might have forced firms to become more attentive to their share price.[142] Meanwhile, the close relationships between regional banks and firms in the *Mittelstand*, the segment of medium-sized business that is the bedrock of the German economy, remained largely intact. The German stock market expanded and protections for minority shareholders were increased, but in the end only minor moves to improve 'shareholder value' were taken in Germany, and mainly as a smokescreen behind which some companies rationalized their operations.

For German industrial relations, the economic challenges of this era proved more disruptive. As international competition grew and global value chains lengthened, German firms came under pressure to respond to changing market conditions more expeditiously. As a result, many sought more flexibility to adjust wages and working times than standard industry-level agreements allowed. Rifts opened up between large firms with the financial wherewithal to cede higher wage increases or tolerate strikes and smaller firms that lacked this margin for maneuver.[143] As a result, some firms dropped out of employers' associations; and, in the interest of retaining jobs, trade unions began to accept agreements ceding more control over wages and working conditions to negotiations at the firm level, where works councils assumed a greater role. Some see these developments as major shifts in the German growth regime.[144] However, German employers and workers still retain considerable strategic capacities, and the contrast with wage-setting in liberal market economies remains striking.

Of course, the era of liberalization was punctuated by German reunification in 1990 – in some respects both a geopolitical triumph and potential economic disaster. Reunification added sixteen million people but relatively little economic strength to the *Bundesrepublik*. The preeminent question was whether the eastern Länder were to become sites for a new low-wage economy or forced to conform to the existing German model. That issue was largely resolved when Chancellor Helmut Kohl announced that *Ostmarks* would be exchanged for *Deutschmarks* at par and the West German trade unions insisted on a solidarity pact that would see eastern wages rise to western levels.[145] The effects put many east German plants out of business, generating unemployment rates that are still twice those in the west and a bill for social assistance and development aid from the west totaling more than 1.3 trillion euros over twenty years. However, reunification did not shift the German growth regime appreciably, even though a construction boom

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[142] Callaghan and Höpner 2005.
[143] Thelen and Winjbergen 2003.
[144] Streeck 2009.
[145] Sally and Webber 1994.

in the east fed demand-led growth and wage increases that rose above historic norms over the next decade.

Partly because of reunification, Germany entered the era of knowledge-based growth with an endemic unemployment problem; and by the middle of the 1990s it had become apparent to German policy-makers that an economy with an aging population could not prosper indefinitely without increasing its active labor force. Accordingly, they introduced a series of measures to make temporary labor contracts, agency employment and part-time work more feasible. However, the major step in this direction came in 2002-03 when a coalition government of the SPD and Greens under Gerhard Schröder implemented the recommendations of the Hartz commission. These measures reduced the duration of unemployment benefits, so as to push people into work, and created part-time 'mini-jobs' whose occupants could earn up to 450 euros a month with limited taxes or social charges on their earnings but correspondingly few social benefits. By the end of the decade, more than five million people held such jobs, many of them women.

These measures took levels of female and total employment in Germany toward European averages, but at the cost of increasing wage inequality, as a large secondary labor market of precarious employment arose alongside more secure positions in manufacturing.[146] While resisted by the trade unions, these steps brought more women into the electoral coalition of the SPD and pleased many manufacturers who found they could contract out services to firms employing lower-cost labor.[147] However, rising levels of wage inequality also fed support for *Die Linke*, a new party to the left of the SPD with significant levels of support in the eastern *Länder*.

Focused on activation, these measures entailed only modest levels of social investment mainly in the form of more extensive aid for job searches; and they did little to increase the skills of the workforce. German governments were also slow to increase enrollments in tertiary education.[148] To some extent, this can be explained by the extent to which the German growth model relied on an effective system of collaborative vocational education, which trains many people who might otherwise go to university. At the insistence of the government, that system was revamped to accommodate the growing role of ICT. However, Germany's efforts at human capital formation remained focused on serving the needs of a large manufacturing sector, whose managers

[146] Thelen 2014.
[147] Dustman *et al*. 2014.
[148] Busemeyer 2015.

and workers still formed the core of the cross-class coalitions underpinning German governments of the center-left and right.[149]

Nevertheless, competition within an increasingly fragmented electoral system had some effects on the growth strategies of successive governments. A substantial Green party, born of the new social movements of the 1980s, induced those governments to make serious efforts to exploit alternative forms of energy and reduce the country's reliance on nuclear power. Intensifying competition for the votes of women brought some forms of social investment, such as the von der Leyen reforms to expand daycare facilities and extend paternity leave in 2006; and competition from Die Linke led the SPD to propose a minimum wage important to workers in sectors where unions were less powerful.[150]

The country's formidable capabilities for coordination were used with some success to diffuse ICT. Reforms to vocational training, negotiated between trade unions and employers, improved the ability of the workforce to use it, while para-public research agencies continued to sponsor research and development. As firms began to contract out more operations, Germany also began to develop a significant presence in business services, an important adjunct to its manufacturing strengths.

Much of Germany's success after 2000, however, is attributable to the effectiveness with which coordinated wage bargaining held down unit labor costs in order to offset the losses in competitiveness that followed reunification and to expand German exports in the context of a new monetary union that the Deutschmark had entered at a high value.[151] The effect of these steps was to shift a growth regime, which had been based on domestic demand to some extent in the previous decade, toward one exceptionally reliant on exports. For a decade after 2000, real wages barely increased and restrictive fiscal policy compressed domestic demand. Public investment stagnated as budgets were cut; and levels of private investment suffered from the high real interest rates that followed from low rates of inflation and the strict monetary policies of the new European central bank (ECB). Since wages were barely rising, German firms faced few incentives to engage in labor-saving investment and increases in productivity remained low. Germany became the world's largest exporter in this period, but those exports were achieved at the expense of both its European trading partners and the living standards of its workforce.

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[149] Thelen 2014.
[150] cf. Rueda 2005.
[151] Carlin and Soskice 2009; Dustman *et al*. 2014.

Britain

Although it had invented the laissez-faire economy, Britain entered the era of modernization with a burst of state intervention. Elected on a tidal wave of demands for a break with the policies of the interwar years, a postwar Labour government nationalized leading firms in key industries, including the Bank of England, established a National Health Service managed by the state, and imposed wage and price controls.[152] In order to secure working-class votes, succeeding Conservative governments accepted many features of this mixed economy; and, based on growing fears that Britain was in decline, the 1957 Conservative government even tried to emulate the French system of economic planning by establishing a National Economic Development Corporation. However, the producer groups in Britain's liberal market economy lacked the capacities for strategic coordination present in many other European economies, and this effort foundered on the failure of business groups and the trade unions to agree on a way forward.[153]

Modernization was again the watchword of a Labour government elected under Harold Wilson in 1964 and it too embarked on ambitious plans to reorganize the manufacturing base, under the direction of a new Ministry for Economic Affairs and an Industrial Reconstruction Corporation.[154] Once again, however, the latter's accomplishments were restricted by the limited capacities of an arm's length state and the difficulties it encountered securing the cooperation of business. A landmark effort to reform the trade unions, based on the 1969 White Paper *In Place of Strife*, also collapsed in the face of union resistance.

At the macroeconomic level, the British growth regimes of this period turned on efforts to sustain domestic demand via the countercyclical policies inspired by Keynes. However, weak growth in exports and an insistence on maintaining the exchange rate so as to protect the value of overseas balances of sterling, on which the standing of the financial center in the City of London depended, meant that most efforts at expansion ended in premature stops as a result of endemic balance of payments crises.[155] It was only a slight exaggeration to say that Britain was a small open economy trying to behave like a large, closed one.

The contradictions implicit in this growth regime reached a climax during the 1970s, when the government found itself entirely unprepared to cope with simultaneous increases in unemployment and inflation. The efforts of a Labour government to reduce inflation by forcing a

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[152] Beer 1969.
[153] Leruez 1975.
[154] Hall 1986.
[155] Brittan 1971; Hansen 1968.

Social Contract on employers and trade unions backed by statutory controls on wages and prices provoked a mammoth backlash, marked by bitter strikes during the 'winter of discontent' in 1978-79 that brought a new Conservative government under Margaret Thatcher into office.[156]

Thatcher became a pioneer for the signature policies of the era of liberalization, but those policies did not figure prominently in her 1979 election manifesto, and her subsequent electoral successes were based heavily on the momentary popularity generated by the Falklands War and splits within her opposition, following the debacle of the 1970s, between a new party of Liberal Democrats and a Labour party that had turned to the left. Electorally-insulated by these developments, Thatcher was able to impose a series of policies on the trade unions and a business community initially highly-resistant to them.[157]

Britain's new growth regime was based on the privatization of national enterprises, which brought windfall profits into government coffers, and of public housing, which brought windfall profits to some of its tenants, as well as regulatory steps to increase competition within many sectors, such as public transport, water supply, telecommunications, health and the provision of energy. The premise was that higher levels of competition would inspire increases in productivity, while sales of public housing and shares in privatized enterprises would create new groups of property owners likely to vote for the Conservative party. In some measure, both results followed.

However, the goal to which these Conservative governments were most committed was to break the power of the British trade unions, widely seen as an impediment to industrial productivity and a source of British economic decline.[158] With a series of industrial relations acts and bitter resistance to the coalminers' strike of 1984-85, Thatcher succeeded in reducing the influence of the unions. The rest of the job was completed by an accelerated decline in manufacturing, under the impact of an exchange propped up by sales of North Sea gas, which left Britain with few of the industries that had once been enclaves of trade union power. Trade union membership fell from 54 percent of the workforce in 1979 to 23 percent by 2013.

Although unable to generate employment in manufacturing, Britain was well-placed to create jobs in services, both at low-wages in retailing, restaurants and personal services, and at higher wages in financial and business services. Low levels of means-tested benefits in Britain's liberal welfare state held down the reservation wage and Conservative governments reduced those

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[156] Sandbrook 2010.
[157] Gamble 1994.
[158] Riddell 1991.

benefits further.[159] As international flows of funds increased, the City of London consolidated its position as a financial center; and the Conservative government shook up the City with a 'big bang' of reforms that attracted inflows of capital by improving the regulation of finance, but also gave firms relatively free rein to develop and exploit new financial instruments.[160]

With a platform revamped to appeal more effectively to a cross-class coalition of working and middle-class voters, the Labour party under Tony Blair took office again in 1997 under Tony Blair, as the era of knowledge-based growth dawned. Acknowledging the popularity of home ownership among middle-class voters and of weaker trade unions among employers, he rolled back few of Thatcher's reforms, while appealing to median voters with increased funding for public services such as education and the NHS as well as programs of social investment that blunted the inegalitarian edge of Conservative policies. Labeled a 'third way', this approach was encapsulated in Blair's declaration that Labour favored 'a market economy but not a market society' and exemplified by movements in the distribution of income across deciles that saw the 90/50 ratio rise and the 50/10 ratio fall during his term in office.

The Labour government made priorities of activation aimed at getting people into the workforce and social investment to improve the nation's human capital. It implemented a 'Fair Deal' program, modeled on the Clinton administration's effort to turn welfare into workfare, which provided more support for job searches but required recipients of social benefits to engage in active job search or training. Social benefits for single mothers were increased with a view to enhancing early child development. The government increased overall spending on education by 25 percent and on tertiary education by 30 percent, on the premise that the general skills tertiary education supplied would be crucial to employment in the better-paid parts of the service sector. Among those was the financial sector which the Blair and subsequent Cameron governments defended assiduously against European efforts to regulate it more strictly.

Because of these investments in human capital and the speed at which technology diffuses in a liberal market economy, where it is driven by high levels of product-market competition, Britain prospered in the early years of the knowledge-based economy. ICT currently contributes more to value-added in Britain than it does in many other countries. Overall rates of employment remain relatively high and exports in business services have grown rapidly.[161]

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[159] Esping-Andersen 1990.
[160] Busch 2008.
[161] Timmer *et al*. 2011.

Commonalities and Divergences

These country cases indicate that the movement of growth regimes across eras displays important commonalities. The operation of markets was circumscribed in the 1950s and 1960s during the era of modernization by relatively forceful government action, based on assertive state intervention in France and Britain and the development of dense networks of rules to govern coordination by producer groups in Sweden and Germany. All four governments also adopted social policies in this period that laid the groundwork for the contemporary welfare state. Asserting democratic mandates, they took steps to ensure that markets were embedded within the social orders over which they presided.

During the era of liberalization that followed in the 1980s and 1990s, governments relaxed that stance. Growth regimes shifted to accommodate some liberalization in product, labor and capital markets. This movement was most marked in Britain and France, but all four countries saw a devolution of wage bargaining toward the firm-level and changes in the regulatory environment for finance. As they entered the era of knowledge-based growth after 1995, their growth regimes shifted again toward policies emphasizing activation, social investment and efforts to increase the skills of the workforce.

Moreover, there is ample evidence in these cases that economic policy-making is usually a matter of coalition-building. The German growth regimes of the postwar period were built on a cross-class coalition centered on workers and employers in manufacturing. The CDU assembled that coalition most effectively until the 1970s, when a surge of post-materialist sentiment increased support for the SPD and rising rates of female labor force participation set off a race for the political allegiance of women. Postwar policy-making in Sweden is also a story about how a social democratic party built its electoral coalition with successive sets of socioeconomic reforms, including income-related pensions, state-sponsored social services, and investment funds, designed to draw in new groups of white collar workers while retaining its blue collar base.

In some respects, the governments of Britain and France during the era of liberalization supply the limiting case. Electoral circumstances continued to dictate what they could do, but neither government built a stable coalition around the liberalizing policies at the heart of its growth regime. Although Thatcher rallied support with the privatization of council housing, her party depended heavily on divisions among its opponents for the leeway to implement policies of dubious electoral appeal. Successive French governments also used the declining salience of class and growing middle-class support for the left to implement policies of liberalization. But French

governments also relied on deepening political integration in Europe to transfer the initiative for liberalization to agencies that French voters could not readily hold accountable and from whose actions French governments could distance themselves.[162]

A number of scholars argue, with some reason, that democratic governments are no longer as responsive to electorates as they once were.[163] But economic policy-making in the era of knowledge-based growth has reflected attempts to build new electoral coalitions, in which the votes of women and of middle-class professionals are important stakes.[164] In Germany, the CDU and SPD are battling for the allegiance of women with escalating offers of benefits; and many governments have increased funding for education in order to construct cross-class coalitions from the high-skill professionals in interpersonal services who are a natural constituency for such policies and aspirational segments of the working class who may not have had a tertiary education but hope their children will.[165]

In addition to such commonalities, however, these cases also reveal how nations move along different adjustment trajectories under the influence of frameworks of institutions and ideas that become central to their political economies. In Sweden, for instance, influential ideologies of social justice with roots in Per Albin Hanssen's invocation of the 'people's home' inspired a solidarism that was to characterize wage bargaining for three decades and to influence decisions in the 1960s and 1970s to expand the welfare state.[166] The presence of that welfare state, in turn, shaped the response of Swedish governments in the 1980s and 1990s to the problem of how to create jobs in services. Public agencies providing education, health care and other social services became natural venues for the expansion of employment, even as the taxes required to support them squeezed disposable incomes enough to inhibit the expansion of private services. In much the same way, institutions developed to coordinate wage bargaining in the era of modernization facilitated the emergence of a coordinated approach to the problems of a knowledge economy during the 1990s and 2000s.[167]

In France, a *dirigiste* growth regime, based on modernization from above during the 1950s and 1960s, reinforced French views of the state as the strategic actor responsible for economic success that underpinned the willingness of policy-makers in the 1980s to take forceful steps to

[162] Hall 2005.
[163] Mair 2013; Streeck 2014.
[164] Gingrich and Häusermann 2015.
[165] Geering and Häusermann 2013. I owe the last point to conversations with David Soskice.
[166] Berman 1998.
[167] Martin and Thelen 2007; Kettunen 2012; Ornston 2013.

modernize the economy from below.[168] Similarly, once the minimum wage acquired a central role in the French growth regime of the 1950s, its abolition became economically and politically difficult, thereby conditioning the approach to social investment taken by France in the 1990s and 2000s. Although states and producer groups are important to all growth regimes, the contrast between the institutional infrastructures of Sweden and France are especially apposite here. Swedish growth regimes depended on coordinating capacities among producer groups that France lacked, thereby pushing France along state-oriented paths toward growth for which it had institutional capacities that Sweden lacked.[169]

In Britain, a weak employers' association and divided union movement stymied the growth strategies of governments in the 1950s and 1960s, and laid the ground for the Thatcher government's assault on trade union power. The Thatcher years in themselves are testament to the fact that states can sometimes alter the organization of the political economy; and they clearly influenced the 'third way' subsequently taken by the Blair government.[170] However, the British case also suggests that it is easier to liberalize a liberal market economy than it is to institutionalize coordination within a setting not conducive to it.[171]

Of these country cases, German growth regimes display the greatest continuities across eras, despite some important shifts. From an early date, German regimes put an emphasis on export-led growth, underpinned by the powerful institutional capacities for coordination of German producer groups at the economic level, and by a relatively-stable cross-class coalition rooted in manufacturing interests at the political level. Despite flirtations with demand-led growth in the late 1960s and early 1990s, German fiscal policy was usually restrained, under the influence of an entrenched central bank and ordo-liberal doctrines that still had adherents in the 2000s. As a result, by cross-national standards, the liberalization of German markets during the 1980s and 1990s looks relatively restrained. However, the growth of a secondary labor market in the early 2000s marked a clear break with the past, revealing the limits to which any economic model can remain static amidst secular changes in the economy.

Indeed, the most striking divergence in these adjustment trajectories lies in how different governments coped with the problem of creating service sector jobs. After trying for some years to suppress the problem, German governments finally mandated the creation of a secondary labor

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[168] Levy 2006.
[169] Levy 1999; Culpepper 2003.
[170] Gamble 1994.
[171] Wood 2001.

market marked by low-pay and few social benefits. French governments also expanded low-wage employment but at a relatively high minimum wage that firms are induced to pay because of tax subsidies.[172] British governments exploited a minimalist welfare state and large financial sector to foster the expansion of employment both in low-wage sectors and high-wage business services, while Swedish governments relied, instead, on high levels of public funding for social services and education to expand well-paid jobs in services.

VII. Conclusion

The evolution of these political economies is a story of both commonalities and divergence. The growth regimes of all the developed democracies have shifted in some similar ways over the past seven decades. But these four countries also display divergent adjustment trajectories rooted in the forms of path dependence created by national frameworks of institutions and ideas.

Moreover, this systematic divergence in adjustment trajectories may also be present at a higher level of analysis – between different types of political economies. To some extent, these four countries are representative of four varieties of capitalism, namely, the *Nordic economies*, comprising Sweden, Denmark, Norway and Finland; a set of *continental coordinated economies*, exemplified by Germany, Austria, Belgium, and the Netherlands; *liberal market economies* which include Britain, the U.S., Canada, Ireland, Australia and New Zealand; and the *Mediterranean economies* of France, Italy, Spain, Portugal and Greece. The origins of this typology lie in the distinctions between coordinated, liberal and mixed market economies drawn by theories about the varieties of capitalism, refined by the observation that different cleavage structures have given rise to important differences between the coordinated market economies of the Nordic world and continental Europe.[173] This classification mirrors Esping-Andersen's distinction between four types of welfare states; and it conforms to categories widely used in the literature.[174]

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[172] Palier and Thelen 2010.
[173] Hall and Soskice 2001; Hall and Gingerich 2009; Pontusson 2005; see also Manow 2009.
[174] Esping-Andersen 1990, 1999; Whitley 1999; Amable 2003; Beramendi et al 2015. Some smaller economies fit within these categories and I do not consider other types of political economies, such as the Asian economies of Japan, South Korea and Taiwan, or the dependent market economies of East Central Europe, which were still in the midst of development during the initial period covered by this analysis. But, elements of it may apply to them.

Although it is beyond the scope of this paper to show that differences in the trajectory of these country cases represent the divergent trajectories taken by four types of political economies, there are some tantalizing indications that this may be so. Throughout the postwar period, for example, the Nordic political economies have all operated export-oriented growth regimes, built on high levels of coordination between strong producer groups and the state, and distinguished at least since the 1970s by high levels of social spending and social investment. The continental coordinated economies have also operated growth regimes oriented to export-led growth, built on high levels of coordination among producer groups with intermittent intervention by the state. However, instead of relying on public funds to create jobs, many have created secondary labor markets based on part-time employment in services, with or without significant social benefits.

By contrast, the growth regimes of liberal market economies rely more heavily on the expansion of domestic consumption, relative to exports, to fuel increases in demand and investment. Many have created jobs, not only by promoting low-wage services with minimalist social policies whose meager benefits force people into them, but also by expanding financial and business services. Although France has a larger and more robust economy than many of its neighbors, it displays some of the features characteristic of growth regimes in the Mediterranean political economies. All are marked by early experiences with high levels of state intervention and display a tendency to rely relatively-heavily on domestic demand to stimulate growth, partly because they lack the institutions for wage coordination necessary to sustain export-led growth. Moreover, many have also used government subsidies to create jobs in services, although most have been much slower than France to invest in research and development and education, the requisites for knowledge-based growth.

Of course, a full analysis would reveal national differences within these groups. Although it has a liberal market economy, for instance, Ireland has developed an export-oriented growth strategy built on efforts to attract foreign direct investment, akin to others in Eastern Europe. Similarly, Germany and the Netherlands have both expanded part-time employment in recent years, but the Dutch have moved into business services at a more rapid rate and provide full benefits for part-time employees. The trajectories of Sweden and Denmark also diverge to some extent: the Danish government has retained relatively high unemployment benefits but reduced employment protection, for instance, while Sweden has done the reverse. Nevertheless, there remain some striking similarities in trajectory within each type of political economy.[175]

[175] Thelen 2014.

Focusing on national differences would also direct more attention to the role played by producer group politics in the processes whereby political economies change – a topic that is beyond the scope of this paper.[176] However, I have noted how important coordination among producer groups is for some key dimensions of these growth regimes, including nations' capacities to mount export-oriented strategies, improve the skills of the workforce and promote the diffusion of new technology. Producer group politics also plays an especially important role in determining how the fruits of economic growth are distributed. Its impact is visible at both ends of the income distribution. Top income shares turn on tax policies that are strongly affected by business lobbies, while levels of income inequality toward the bottom of the income distribution are often affected by the kinds of alliances that can be formed among trade unions.[177] The contributions of producer group politics to growth regimes deserve further investigation.

The overall objective of this paper, however, has been to show how the growth regimes of the developed democracies evolved over time in response to changes in the economic and political environments facing governments. This movement has been marked by co-evolution in economic developments and cleavage structures. It displays some broad commonalities across nations and distinctive adjustment strategies conditioned by national frameworks of institutions and ideas. Economics and politics both play important roles in the processes out of which new growth regimes emerge.

[176] For an excellent analysis of producer group politics, see Thelen 2014.
[177] Hacker and Pierson 2010; Culpepper 2011; Thelen 2014.

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