The Electoral Politics of Growth Regimes

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Abstract

This paper explores the role of electoral politics in the evolution of postwar growth regimes, understood as the sets of socioeconomic policies that governments adopt in order to pursue economic growth. It charts changes in those growth regimes in the developed democracies across four eras: one of modernization, running from 1950 to 1970, a turbulent interregnum during the 1970s, an era of liberalization from the early 1980s through the end of the century, and a subsequent era of insecurity. I argue that growth regimes respond, not only to changing economic circumstances, but also to specific electoral circumstances. The overarching claim is that the inclination and capacities of democratic governments to pursue distinctive growth regimes depend on the evolution of electoral cleavages and how they condition partisan electoral competition. This electoral dynamic also affects the relative influence of actors in the electoral and producer group arenas. I explore the implications for contemporary politics and current growth regimes as well as for the construction of the social contract.
In 1966, the largest American employer was General Motors and compensation for its workers averaged $40 an hour (in 2016 dollars). Chief executive officers of big American firms at that time earned about 21 times as much as their average workers. By 2016, the largest American employer was Walmart, which paid its workers $8 an hour on average, while the CEOs of large companies earned 271 times as much as their employees. Although more muted, parallel developments can be found across the developed democracies. In the span of a single lifetime, the developed political economies have changed dramatically.

Some of those changes are rooted in secular economic developments, driven by technological change, the opening of world markets and shifting patterns of consumption, which have seen employment shift from manufacturing to services. However, those developments have been accompanied, and often deeply affected, by dramatic changes in the economic, social and regulatory policies that governments deploy in pursuit of economic growth. We can think of this complex of policies as the ‘growth regimes’ that governments implement, which condition both the pace of growth and the distribution of its fruits. As such, they can be seen as one component of an implicit social contract specifying how economic growth is to be generated and its benefits distributed.

The objective of this article is to explore how the growth regimes of the developed democracies have changed over the post-war years and how those changes can be explained. Its argument stands in contrast to two conventional approaches to such questions. One of these sees socioeconomic policies as efforts to find efficient means for promoting growth, so that secular economic developments, such as changes in technology and the opening of international markets, become the pivotal drivers of policy. That response is not altogether wrong, because
many policy-makers see their task in these terms and governments ignore economic developments at their peril. Growth regimes respond to secular changes in the economy. But efficiency explanations neglect the political dimensions of the problem, born of the fact that economic policy-making always has distributive implications. Thus, it is a conflictual enterprise based on coalition-building. Democratic governments must construct coalitions to mobilize consent for their policies.

Moreover, there is rarely only one ‘efficient’ response to a given set of economic developments. Conceptions of what policies will be efficient are dependent on bodies of economic doctrines that are contestable and have been contested over the course of the postwar years. In policy-making circles those contests are not conducted in purely scientific terms. Because economic policy-making entails coalition-building, doctrines that become influential are usually chosen for their political as well as their economic appeal. We can think of the popular versions of these doctrines used to mobilize support for them as the ‘economic gestalt’ of a given era.

The approach of this article also differs from the one most commonly taken to such issues in the literature of comparative political economy, which sees growth regimes as the outcome of producer-group politics, in which various segments of labor and capital agitate for policies that benefit them. Producer-group politics clearly matters. Many political parties have ties to segments of labor or capital whose interests they are expected to advance; and the capacities of producer groups to coordinate with each other on endeavors such as wage-setting or vocational training provide governments with instruments for economic management – important because the number of outcomes policy-makers can target depends on the number of
instruments they have at hand.\textsuperscript{5} Indeed, some scholars have argued that producer-group politics is so influential in some settings that all else is merely “electoral spectacle”.\textsuperscript{6}

However, democratic governments face pressure, not only in the arena of producer-group politics, but also in the electoral arena; and the objective of this article is to explore the role that electoral politics plays in the evolution of growth regimes. There are three reasons for looking into this more closely. First, electoral politics has received less attention than producer-group politics in the literature of comparative political economy.\textsuperscript{7} Second, instead of assuming that electoral politics is always merely ‘spectacle’, we need to understand why it might be more influential at some times than at others.\textsuperscript{8} Third, because electoral politics is a realm in which broad social compromises constitutive of something like a social contract can be formed, by considering its role in more detail, we can consider the implications of shifting electoral conditions and corresponding growth regimes for the viability of that contract.

I examine the movement of growth regimes in the developed democracies over the decades since the Second World War and suggest that this movement has been marked by four distinctive eras: one of modernization, running roughly from 1950 to 1970, a turbulent interregnum during the 1970s, an era of liberalization stretching from the early 1980s through the end of the century, and an era of insecurity that followed. I will chart changes in growth regimes through these years, arguing that these regimes correspond, not only to specific sets of economic circumstances, but also to particular electoral circumstances. My overarching claim is that the inclination and capacity of governments to pursue distinctive growth regimes depends upon the evolution of electoral cleavages and how they condition partisan electoral competition.
This dynamic also affects the relative influence of the electorate and producer groups over policy. In closing, I explore the implications of the analysis for contemporary politics.

This summary belies the fact that these developments are riddled with endogeneity. In each era, secular economic developments and growth regimes condition each other; and both affect the evolution of electoral cleavages. Because some of these factors are usually in flux at any one time, the results cannot be described as equilibria. But this analysis points to the ways in which economies and polities co-evolve. Of necessity, the analysis is also somewhat stylized. At any given time, there is significant cross-national variation in growth regimes. Therefore, although I argue that the growth regimes of the developed democracies have moved in broadly parallel directions over the postwar decades, they do so at different paces and to varying extents across countries. A more extensive analysis would model these developments as movements along distinctive trajectories conditioned by the institutional structures of different varieties of capitalism. However, I focus on parallel movements over time in order to identify commonalities in the processes through which economic and political developments shift growth regimes.

An era of modernization, 1950-1975

Shortly after the Second World War, most of the developed democracies entered what might be described as an era of modernization. Seen in historical perspective, the growth regimes of this era were marked by four distinctive features: (i) relatively-assertive state intervention oriented to ensuring higher levels of investment, (ii) demand management along broadly Keynesian lines aimed at ensuring full employment, (iii) efforts to promote collective bargaining between employers and trade unions, and (iv) the gradual expansion of social
insurance programs designed to mitigate poverty and underpin peaceful industrial relations. We might think of these as the growth regimes of a ‘mixed economy’ – a term that became central to the economic gestalt of the period (see Figure One).12

To be sure, there were plenty of national variations around these themes. In France, a system of indicative national planning brought representatives from business (and more intermittently) labor together to develop sectoral investment priorities, backed up by flows of funds from nationalized banks, provisions for generalizing wage bargains across sectors, and a statutory minimum wage to which forty percent of French wages were eventually tied.13 After a burst of nationalizations following the war, the British relied more heavily on active demand management, bolstered by experiments with indicative planning and active industrial policy in the 1960s.14 Sweden relied more heavily on the coordinating capacities of trade unions and employers to modernize the economy along lines specified by the Rehn-Meidner model, which used solidaristic wage bargaining in the context of restrained fiscal policies to push firms toward more efficient modes of production, while an active labor market policy addressed the consequent unemployment.15

Wary of an activist state and influenced by ordo-liberal rather than Keynesian economic doctrines, West German governments eschewed active demand management and extensive state intervention in favor of building a social market economy. But the construction of that economy entailed promulgating dense systems of rules, promoting bargaining over wages, working conditions and training between employers and newly-strengthened trade unions; as well as the aggressive use of monetary policy to promote exports and savings.16 In their own
ways, each of these countries moved significantly beyond the policies of the interwar years to
develop the growth regimes of a mixed economy.

These growth regimes were especially appropriate for the economic terms in which
growth and employment could be secured during the 1950s and 1960s. In the initial postwar
years, efforts to increase savings and channel investment into European industry were
instrumental to rebuilding economies badly damaged by war. Manufacturing remained central
to the expansion of production and employment in this period, whether along the lines of
Fordism or diversified quality production.\textsuperscript{17} Fordist methods which divide production into
simpler tasks were especially useful for moving semi-skilled workers out of agriculture into
more productive jobs in manufacturing – a key source of economic growth during these years.\textsuperscript{18}

As scholars in the French regulation school have argued, the growth regimes of the
mixed economy served the needs of this manufacturing economy well.\textsuperscript{19} Efforts to manage
aggregate demand, an influential concept even where counter-cyclical fiscal policy was not
used, offered the predictability needed to encourage firms to make the long-term capital
investments required in high-volume manufacturing. By strengthening trade unions, the
regularization of collective bargaining promoted wage increases that would fuel the demand for
manufactured products, while institutions to coordinate wage bargaining in countries such as
Sweden and Germany reassured firms that those increases would leave room for the profits
crucial to further investment.\textsuperscript{20} New international regimes regulating trade and monetary
relations promoted the expansion of manufactured exports, adding to the demand for higher
levels of investment.\textsuperscript{21}
However, economic conditions alone did not dictate the growth regimes of these years. The socioeconomic policies of democratic governments are also political constructions, responsive to prevailing political conditions. Therefore, we have to ask: what features of politics during the 1950s and 1960s inclined governments to adopt the policies of a mixed economy, whether in the form of active efforts to direct flows of funds to industry, as in France, or in the form of attempts to embed market competition within the rules of a social market economy as in Germany?

Disillusionment with the outcomes of previous policy was a crucial background condition. Many voters were repelled by the high levels of unemployment that accompanied the policies of the interwar years; and, in its wake, both electorates and governments became more willing to experiment with alternatives. The availability of economic doctrines that rendered such alternatives credible then became important; and, in various countries, the doctrines of Keynes, the Freiburg school, and Rehn-Meidner served that purpose. Each offered rationales for new approaches to economic management. If disappointment with past performance provided the motive for change, these doctrines supplied the means for moving beyond past patterns of policy.22

But democratic governments also face strong incentives to formulate policies that appeal to the electorate; and the electoral conditions of the period played an important role in pushing governments toward the more assertive growth regimes of the mixed economy. For such purposes, the key features of electoral conditions are the issues that are most salient to the electorate at the relevant point in time and the terms in which partisan competition over them are conducted. Those revolve, in turn, around the principal cleavages dividing the electorate,
understood as the bases on which voters understand their interests and identities to be opposed to those of other groups. If economic policy-making is also coalition-building, cleavage structures have considerable bearing on what coalitions can be constructed.

Cleavage structures emerge from bottom-up processes of socioeconomic change, which affect the material interests and worldviews of voters, and from top-down processes whereby the appeals mounted by political parties incline voters to define their interests and identities in particular ways. The most important feature of electoral politics in this era of modernization was the prominence of a class cleavage, which arrayed voters who saw themselves as members of the working class against others who identified with a more affluent middle class.

This cleavage has its origins in the industrial revolution of the 19th century and the socialist movements it inspired, but it was sustained during the 1950s and 1960s by discrepancies in the living conditions of the two classes and, in Europe, by the appeals of the social democratic and communist parties that emerged strengthened from the war. As Figure Two indicates, the class cleavage remained prominent in many countries for at least two decades after the Second World War. On one side of it were social democratic and communist parties claiming to speak for the working class and committed to using the levers of state power, including economic planning and the nationalization of enterprises, to achieve full employment. On the other side were conservative, liberal and Christian Democratic parties more representative of the middle class, fearful of state intervention and committed to securing prosperity through free markets.

This cleavage influenced socioeconomic policy-making in two ways. First, its prominence made issues of state intervention and how to provide for workers central to electoral
conflict. Second, the salience of these issues forced political parties interested in attaining office to find middle ground on them, namely, on policies that would satisfy their own core constituents but also draw votes from their opponents. Conscious that electoral success would require cross-class support, the social democratic parties of Europe met, at landmark party conferences from Bad Godesberg to Blackpool, to drop their insistence on nationalization in favor of managing a mixed economy. 26 And, for similar reasons, many conservative and Christian Democratic parties gradually accepted more active economic management and other forms of industrial intervention as viable strategies for operating a capitalist economy. Thus, the growth strategies of the mixed economy emerged as a political compromise mediated by electoral politics – just interventionist enough to draw support from voters on the center-left but grounded enough in market competition to win votes from the center-right. 27

Of course, the policies of each nation were inflected by the relative power of the political left and right. In Sweden, a growth regime centered on solidaristic wage-bargaining owed much to Social Democratic dominance, while an influential Christian Democratic party built Germany’s social market economy. But virtually all European governments were pushed toward more assertive economic policies and more expansive social policies by a powerful electoral challenge from the political left, built on the salience of the class cleavage. 28 Thus, the major movement in economic platforms during the 1950s and early 1960s was convergence toward the left (see Figure Three). 29 Modernizing the economy became a valence issue, and the means were a set of growth regimes that built a mixed economy.

The turbulent interregnum of the 1970s
The growth regimes of the mixed economy reached their economic apogee and political perigee during the 1970s, however, as governments struggled to cope with simultaneous increases in inflation and unemployment in the wake of commodity price increases after 1974. Multiple factors contributed to this ‘stagflation’ – including increases in the global money supply linked to the collapse of Bretton Woods and the expansion of international finance as well as the oil price shocks of the decade. But some of the problems were endogenous to the postwar growth regimes. As sustained levels of low unemployment strengthened trade unions and increasing wages raised the expectations of their members, the institutions for collective bargaining established in many countries during the era of modernization proved inadequate for regulating wage demands, especially within a context of rising inflation. Although political economies with coordinated wage bargaining systems performed much better, those without them found that Keynesian approaches were better at reducing unemployment than at controlling inflation.

Most governments responded to higher levels of unemployment initially as if they were the result of a normal recession – with counter-cyclical measures that assumed a return to previous rates of economic growth. But subsequent growth rates in most of the developed democracies were to be barely half those of preceding decades. As a result, increases in industrial subsidies and social benefits during the 1970s left governments with deficits and levels of debt that were to constrain their political capacities for decades to come. Countries without coordinated wage bargaining systems, such as Britain and the U.S., implemented unwieldy incomes policies that called into question the legitimacy of state intervention; and economic performance on the continent was widely deemed to be suffering from ‘Eurosclerosis’. As commentators began to speak about ‘overloaded government’, virtually all the parties in office during the late 1970s were defeated at the next election.
In short, economic crisis precipitated a political climacteric. Just as the poor economic performance of the interwar years had discredited the policies of that period, the effect of economic turbulence in the 1970s was to discredit the interventionist policies associated with the growth regimes of the mixed economy. Disappointing economic experience rendered governments and electorates more open to experimentation with alternative economic formulae. The eventual result was movement toward a new set of growth regimes characteristic of an era of liberalization, which began in the early 1980s and ran roughly to the end of the century.

**An era of liberalization, 1980-2000**

The growth regimes of the era of liberalization were dramatically different. If assertive state action in various forms had been a theme of the previous growth regimes, those of the new era were built on the opposite principle, namely, that economic growth is best promoted by reducing the role of the state in the economy in favor of allocating more resources through competitive markets. The idea that active fiscal policy can be used as an instrument to secure full employment was superseded by the contention that levels of unemployment are determined by institutional conditions on the supply-side of the economy and best addressed by structural reforms to labor and product markets.

Thus, if nationalization had been a feature of the previous regime, privatization of public enterprise became a feature of the new one and a welcome source of government revenue during the 1980s, while policies based on the principle that regulation should subordinate market competition to social goals were gradually replaced by efforts to intensify competition in
virtually all kinds of markets. Public services were out-sourced to private contractors with the professed goal of making them more efficient. Radical steps were taken to limit the power of trade unions in the Anglo-American political economies; and, even in continental economies where collective bargaining was more coordinated, firms gained more flexibility to bargain locally over wages and working conditions. New regulations made temporary and part-time work more feasible, vastly expanding the numbers of people working on time-limited contracts, often in dual labor markets. After some decades in which social insurance had been expanded, the 1990s saw successive efforts to reduce replacement rates, limit eligibility periods, and tie the receipt of social benefits to more stringent work requirements, effectively transforming ‘welfare’ into ‘workfare’ in the name of ‘social investment’.

The pace and extent of these moves varied dramatically across countries. The pioneers were Britain and the United States, under Margaret Thatcher and Ronald Reagan elected on the eve of the 1980s. France began to move in similar directions after 1983, but the German Wende of Helmut Kohl amounted to little and the high-profile Schröder reforms did not come until the early 2000s. As the indicators for liberalizing initiatives in Figure Four suggest, in much of Europe, movement toward the new growth regimes was most pronounced during the 1990s. However, a decisive step was taken with the adoption of the Single European Act of 1986, which turned the European Commission into an agent for market liberalization.

Like their predecessors, these new growth regimes responded to secular economic developments that were changing the terms on which growth and employment could be secured. Among the most important was a decline in the share of economic activity devoted to manufacturing relative to services. There had been movement in this direction since the
1960s; but, by the end of the 1980s, governments were realizing that, if they wanted to create jobs to reduce persistently-high levels of unemployment, those jobs would have to be in services. Multiple factors account for this shift toward service sector employment. As incomes rose and the price of manufactured goods declined, services began to comprise a larger proportion of consumption. The opening of world markets and the development of containerized shipping drew manufacturing employment away from the developed political economies, while technological change gradually reduced the demand for labor even where manufacturing remained robust. Since levels of productivity are lower and rise more slowly in many parts of the service sector than in manufacturing, one of the ways to create service-sector jobs was to accommodate lower wages; and many governments saw the expansion of temporary or part-time positions offering limited wages and fewer benefits as a way to do that.47

Equally significant, however, were the growing pressures that firms felt from more intense competition in increasingly-open international markets from newly emerging economies. As value chains became more global and pressure on sub-contractors more intense, many firms began to press trade unions and governments for more flexible working arrangements and wage systems, backed up by the increasingly credible threat that employment would otherwise move abroad.48 In Europe, the eastward expansion of the European Union and the elimination of barriers to competition in its markets made such threats an increasingly tangible reality. Thus, governments came under new and more intense pressures from business to liberalize labor markets.

The rationale for doing so was provided by economic doctrines, grounded in a ‘new classical economics’ built on rational expectations assumptions, which rose to prominence
during the 1980s and posited a ‘natural rate of unemployment’ largely impervious to demand management but tractable via deregulatory reforms to labor markets.\textsuperscript{49} On similar logics, monetary policy was said to have few durable effects on the real economy. The corollary was that monetary policy should be targeted on inflation and placed beyond the reach of politicians who might use it for myopic political purposes. Many central banks were made more independent of political authorities in the 1990s, including the new European Central Bank.

Although many economists were persuaded by these doctrines, their popularity with policy-makers also rested on their political usefulness, as had Keynesian ideas in an earlier era. Keynes offered a route out of the political impasse of the interwar years. The socialist parties of that period gave priority to full employment and argued that it could be secured only via the nationalization of industry. But conservatives maintained that prosperity depended on private ownership and the free markets that such steps would destroy. Thus, Keynes’ contention that governments could secure full employment via demand management without any need to nationalize industry made possible a political compromise that offered full employment to the political left and private ownership to the right. In parallel terms, politicians who had been happy to take credit for employment during the 1960s, when levels of unemployment were low, were anxious to relieve themselves of responsibility for it when unemployment rose during the 1970s and 1980s. Thus, the idea that unemployment results from labor-market conditions and the inadequacies of the workforce, rather than from failures of economic policy, had considerable appeal for them. As popular versions of these doctrines filtered into a new economic gestalt, market competition became a watchword for the 1980s (see Figure One).
In broader political terms, however, the era of liberalization is paradoxical. Many of the initiatives central to its growth regimes imposed serious costs on large segments of the population. The privatization of public services pushed many people out of once-secure jobs. Efforts to render wages more flexible, while beneficial to some who might not otherwise have had employment, depressed wages in many sectors. Imposing work requirements on the recipients of social benefits made their lives more difficult, while changes to the tax and regulatory regimes of the 1980s and 1990s delivered large benefits to the wealthy at the cost of people on average incomes.50 In most countries, the wage share declined, as increases in wages, which had long tracked increases in productivity, no longer kept up with them. What sorts of political conditions made this possible?

Institutional reforms that took responsibility for some sets of policies out of the hands of national governments are one component of the answer. Those reforms gave elected governments a shield behind which to hide responsibility for unpopular policies, effectively reducing the extent to which growth regimes responded to the electorate. Central bank independence served that purpose, but, in Europe, by far the most important moves were those transferring authority over many realms of policy to the European Union, which used that mandate to liberalize markets and eventually constrain budgetary policies within the Eurozone. Although the member states were ultimately responsible for the actions of the Commission, they could and often did blame unpopular initiatives on it.51

Thus, the role played by electoral politics in the development of the growth regimes of this era is more circumscribed than it was during the era of modernization. In the context of popular disappointment with economic performance after 1974, public sentiment turned against
government intervention and neoliberal proposals initially had some electoral appeal, notably in Britain and the U.S. But the movement toward neoliberal growth regimes was primarily an elite initiative, led by politicians desperate to revive economic growth in order to retain electoral support, disillusioned with the ability of prior policies to do so, and faced with increasingly pressure from firms for more liberal forms of regulation.\textsuperscript{52}

Initial movements in neoliberal directions also set in motion an escalating dynamic. As global markets for goods and finance were liberalized and foreign investment became a more important component of overall investment, governments came under increasing pressure to meet the demands of firms to reduce regulation and make labor cheaper or more flexible, lest jobs and investment flow elsewhere. But such steps also weakened the labor movement, thereby lending further momentum to neoliberal initiatives by altering the balance of power in the industrial relations arena.\textsuperscript{53}

Why did the electoral politics of the 1980s and 1990s permit governments to move toward neoliberal growth regimes? Once again, the shape of electoral cleavages is relevant. The liberalizing policies of this era were facilitated by the declining salience of the class cleavage and the growing salience of a values cleavage. By shifting the incentive structures of partisan competition and the social coalitions on which parties depended, these developments facilitated a new convergence to the right in economic platforms and limited the inclination of mainstream parties to propose alternatives in the name of working-class defense.

By the early 1980s, fewer people were voting along class lines and mainstream political debate was couched less frequently in class terms (see Figure Two). Developments in the 1960s and 1970s had already reduced the electoral salience of the class cleavage. Thirty years of
prosperity improved living standards enough to mitigate the grievances that gave bite to earlier class appeals. Changes in the occupational structure that accompanied the decline of manufacturing and rise of services were especially important. As technological change pushed semi-skilled work out of manufacturing and into services, the coalition of interests that once united skilled and semi-skilled workers in manufacturing began to unravel. Blue-collar enclaves in mining and manufacturing that had been bastions of class politics dwindled in size; workers moved into variegated service-sector positions with ambiguous class locations; and rifts began to open up between labor-market ‘insiders’ in relatively-secure jobs and ‘outsiders’ facing more precarious conditions. However, political path dependence was also important. The growth regimes of the 1950s and 1960s helped to erode the material insecurity once central to working-class mobilization; and, once the social programs of the welfare state were firmly in place, social democratic parties, whose platforms had been organized around those programs, found themselves without a distinctive political mission.

At the same time, a new values cleavage, separating people with cosmopolitan (or post-materialist) values from those with more traditional attitudes, became increasingly salient. To some extent, this too was a result of the success of the previous growth regimes. The prosperity of the 1960s era shifted the attention of younger generations away from material concerns toward issues focused on the environment, self-fulfillment and human rights. Over time, cosmopolitan values came to encompass gay rights and support for open borders, while people with traditional values had stronger concerns about immigration, law and order, and the protection of a familiar national culture. Since support for cosmopolitan values is encouraged by higher levels of education, the number of people holding them has grown as tertiary enrollments increased and younger generations replaced older ones. Those values are now most
often found among younger people with tertiary education, often in socio-professional occupations, while traditional values remain strongest among older people with lower levels of education and in semi-skilled occupations.61

The shifting electoral opportunities offered by the growing salience of this new cleavage ultimately gave social democratic parties the capacity and incentives to move their economic platforms to the right, in line with growing demands from business for market liberalization. Partly to compete with Green parties rising on their left flank in the 1980s and 1990s, social democratic parties became exponents for cosmopolitan values. This stance on values offered social democratic parties the basis for distinctive electoral appeals that did not turn primarily on their economic policies – making it more feasible for them to converge on liberalizing initiatives similar to those of the center-right. At the same time, it drew toward these parties more educated voters, many of whom benefited from market-oriented initiatives more than their traditional working-class constituents who lacked the skills to compete well on more open markets. If dwindling working-class support made it possible for social democratic parties to move to the right on economic issues, increasing middle-class votes gave them some incentives to do so.62

As a result, we see some striking electoral developments in the 1980s and 1990s. Mainstream parties began to emphasize values issues more than the economic issues that had been central to electoral competition during the era of modernization (see Figure Five).63 By the 1990s, social democratic parties were drawing more of their votes from the middle class than from the working class.64 And party positions, which had converged to the left on economic issues during the 1950s and 1960s, began to converge toward the right during the
1990s, based in many countries on shifts in the positions of social democratic parties (see Figure Three). Of course, these shifts in position eroded the electoral salience of the class cleavage even further.

By the end of the 1990s, electoral competition occurred primarily along the diagonal of the electoral space portrayed in panel (a) of Figure Six where the left-right spectrum of class-based politics is cross-cut by the values cleavage. Of course, these new social democratic strategies were viable partly because there were few parties in the lower-left quadrant of this diagram during the 1980s and 1990s, so that working class voters had few appealing alternatives, even though social democratic parties no longer had strong incentives to oppose liberalizing initiatives in the name of working-class defense. The outcomes are visible in the policies of Tony Blair, Lionel Jospin, Bill Clinton and Gerhard Schröder.

In sum, if the character of electoral competition during the 1950s and 1960s was a key driver behind movement toward the growth regimes of the managed economy, in effect implementing a social compromise between the working and middle classes, the electoral politics of the 1980s and 1990s was no longer conducted on such a clear-cut class basis, providing permissive conditions under which political elites could respond more directly to calls from economists and pressure from firms to liberalize the economy.

One effect of these permissive electoral conditions was to shift the balance of influence over socioeconomic policy away from the electoral arena toward producer group politics, supplying the background conditions that allow scholars such as Hacker and Pierson to describe electoral politics in this era as mere ‘spectacle’. That shift in the influence of the two arenas, in turn, altered the balance of power between capital and labor – the core conflict endemic to
modern capitalism -- because capital usually has an advantage in producer group politics, compared to electoral politics, where the principle of one-person-one-vote gives workers numerical advantages. Inside the producer group arena, neoliberal reforms that weakened the bargaining power of trade unions also multiplied the power of capital in this period.

An era of insecurity – and another interregnum?

In many respects, the period since the early 2000s resembles the interregnum of the 1970s, when failing growth regimes created political turmoil, while new regimes had yet to emerge. The growth regimes of the era of liberalization remain largely intact, although the pace of liberalizing initiatives has declined dramatically since the turn of the century (see Figure Four). On key dimensions, however, economic performance has been poor, generating widespread political discontent and incipient distributive conflict.

During the 1970s, increases in rates of inflation and unemployment were the main problem. They set off distributive struggles that existing institutions for the allocation of resources, notably between profits and wages, could not contain. In many countries, aggressive wage-bargaining increased inflation even further, as workers sought to maintain their relative real wages amidst wage-price spirals. As I have noted, the ensuing political discontent called into question the legitimacy of state intervention and the growth regimes of that era.

The economic failures of the current era are somewhat different. Across the OECD, aggregate rates of growth have been modestly positive since the 1990s, aside from the deep recession of 2007-09 from which most countries are gradually recovering, and inflation is very subdued. The parallel economic failures of the contemporary era turn on the rising levels of
material insecurity on which growth has been built, and on how the fruits of that growth have been distributed. Across the developed democracies, the share of workers on temporary, rather than permanent, labor contracts has almost doubled from 8.3 percent in 1985 to 14.73 percent in 2007; and the average wage share in nine leading democracies declined from 65 percent to 56 percent between 1975 and 2011. Income inequality has increased across the entire income distribution and in its lower half. If average disposable income among the most affluent ten percent of the European population was seven times higher than that of the poorest ten percent during the 1980s; it is now nine and a half times higher.

More precarious forms of employment and stagnating incomes on which it is hard to support a family have fueled widespread political discontent, which is most intense among people in routine occupations and regions where manufacturing jobs have been hit hard by technological change or import competition. That discontent simmered for many years beneath the surface of a seemingly-placid politics, perhaps because some people accepted the ideologies of the era, which attribute economic hardship to the limitations of the individuals suffering from it, while many of those most aggrieved simply stopped voting. In recent years, however, that discontent has burst into the open. A majority of EU citizens now think that life will be worse for their children than it has been for them, and barely 19 percent express any confidence in political parties.

At the same time, secular economic developments are again shifting the terms on which economic growth and employment can be secured. As the fruits of a revolution in information and communications technology diffuse, the viability of many businesses has become dependent on the facility with which they can adapt to the new technology, presaging what
might be described as an era of knowledge-based growth. These developments have again changed the occupational structures of the developed democracies. As new technologies eliminate the need for labor dedicated to routine tasks, the numbers of middle-skill jobs that used to pay decent wages have declined in most developed political economies, while positions requiring the skills to handle more complex tasks have expanded. Some countries have seen a polarization of the occupational structure, as people who once had middle-skill jobs are forced into low-skill positions, often offering services to those with the skill levels to take more highly-paid positions. Needless to say, these occupational changes are fueling discontent among people who find themselves without the decent jobs they once expected.

In principle, these economic developments should be inspiring new growth regimes. The importance of improving those regimes is widely recognized. Two decades ago, the OECD declared that “Knowledge is now recognised as the driver of productivity and economic growth, leading to a new focus on the role of information, technology and learning in economic performance” and popular references to the ‘knowledge economy’ have risen exponentially since the 1990s (see Figure One). Many governments have responded by increasing enrollments in tertiary education, in efforts to provide the human capital appropriate for a knowledge economy; and some have increased funding for research and development or venture capital in order to gain footholds on the technology frontier. Where governments have been able to engage employer organizations and trade unions in these initiatives, they have been most successful.

However, many governments have been slow to adapt their policies to an era of knowledge-based growth. This directs our attention again to the electoral arena, where it is
unclear that the political conditions for such moves are yet in place. What is clear is that this arena is again in flux. The accumulating political discontent has now found a voice in parties of the populist right and radical left, whose vote share in legislative elections has doubled since the turn of the century to about 20 percent of the European electorate, while the share going to parties of the center-left and center-right has declined.

In some countries, these radical parties have gained momentum from increases in immigration or austerity programs. However, one of the most important factors behind their rise has been a shift in the terms of partisan competition. Until the early 2000s, the bottom left quadrant of Figure Six was largely empty. Radical right parties of any significance campaigned on traditional values joined to economic platforms on the right of the political spectrum, opposed to state intervention, higher taxes and social spending. Those platforms drew votes from small employers but had limited appeal for many working people. However, more of these parties have moved to the left on economic issues over the past decade, promising better jobs and social protection to their supporters (albeit not to immigrants) to be secured, if necessary, by trade protection.

Although the appeal of populist right parties still rests mainly on their positions on values issues, this softening of their economic stance now places them closer to the lower-left quadrant of the electoral space, as panel (b) of Figure Six indicates, where many working class voters are located. Although populist right parties also draw supporters from the conservative side of the economic spectrum, this shift in the terms of partisan competition is especially threatening to social democratic parties because it has the potential to drive a wedge through the
uneasy coalition between working and middle class voters on which those parties have come to depend. In effect, the terms of working class defense are being renegotiated.

Whether there will be support for new growth regimes in this fractured electoral arena, and of what shape, remains uncertain. At least three scenarios are plausible. One would see social democratic parties move farther left on economic issues, on the premise that much of the ire currently directed at immigrants can be redirected toward the inequalities of capitalism. This is the gambit advocated by supporters of Jeremy Corbyn in Britain and Bernie Sanders in the United States. The idea is that more radical socioeconomic policies will wean the working class away from parties on the radical right or left. But this is a risky strategy because its success depends on rendering economic issues more salient than values issues to a working class electorate, while retaining the support of middle class voters on values, rather than economic, issues. If this strategy were to succeed, it might usher in state-led transitions toward a knowledge economy, based on free tertiary education, support for a universal income benefit to support continuous education or self-employment, and more stringent regulations forcing firms to improve wages, benefits and working conditions.

A second scenario, foreseen to some extent by Iversen and Soskice, assumes that significant segments of the working class will be attracted to centrist economic policies designed to foster a knowledge economy, because they will recognize that such policies best serve their own aspirations or those of their children, thereby providing enough votes to allow mainstream parties to implement new growth regimes built around more funding for education, research and development, and new forms of capital investment without a significant increase in state intervention. Employees in medium-skill positions in the service sector seem the
likeliest to join such a coalition with the middle-class beneficiaries of the knowledge revolution, since their educational levels also incline them toward cosmopolitan values.87

In many respects, this is the most plausible scenario. It reproduces key elements of a status quo in which the leaders of center-left and center-right parties have defended open markets and the European Union against increasing Euroskepticism and growing support for trade protection on the right of the political spectrum (see Figure Seven).88 The election of Emmanuel Macron to the French presidency might be seen as the apotheosis of this scenario. But it is vulnerable to the tides of fortune. Macron was elected as much as a newcomer as a centrist, on the ruins of a Socialist party, and popular support for his radical right rivals has not declined since his 2017 election. Moreover, this scenario threatens to turn a substantial segment of voters, who see themselves as losers from the global knowledge economy, into a permanent minority, with potentially important implications for the functioning of democracy. Sidelining that minority is easier to do in majoritarian systems like that of Britain or France than in countries with proportional representation, but even there it may be that the center cannot hold.

Much depends on whether the relatively fluid electoral politics of the present give rise to a new cleavage that can be described as a globalization cleavage. Such a cleavage might well be durable because it would be built on an overlapping divide over both values and economic interests. Proxied most directly by education, it would pit voters whose relatively-high levels of education confer cosmopolitan values and favorable job prospects in global labor markets against voters, generally with less education, who are apprehensive about both the loss of their traditional culture and their job prospects within globalized markets. There are indications that such a cleavage may already be congealing in western democracies.89
In this case, we can envisage a third scenario in which populist right parties become a
durable feature on one side of this cleavage, not least because the technological revolution is
likely to continue to cause occupational disruption. The ‘creative destruction’ that Schumpeter
associated with continuous innovation can also bring creative destruction to the polity. In
systems of proportional representation, where radical parties speaking for a quarter to a third of
the electorate would be prominently represented, parties of the center-left and center-right might
have to negotiate uneasy coalitions with them in order to govern – potentially making transition
to new growth regimes difficult. Alternatively, centrist parties of the left and right might have
to form ‘grand coalitions’ with each other. Those coalitions may be capable of promoting new
growth regimes – but the eventual result could see center-left and center-right parties dissolve
into each other. In the winner-take-all politics of majoritarian systems, it will be more difficult
for radical parties to survive, but the globalization cleavage is already making itself felt inside
mainstream parties, thereby rendering the direction of policy more unpredictable and
protectionist steps more likely, potentially slowing down movement toward growth regimes
appropriate for a knowledge economy.

In short, the neoliberal policies and economic developments of the era of liberalization
have disorganized electoral politics across the western democracies, yielding a moment of
radical openness whose political outcomes are far from certain. Moreover, we cannot read
those outcomes entirely out of calculations about material interest, because rapid economic
changes have rendered many people’s interests ambiguous and contemporary electoral politics
is also an identity politics. To some extent, electoral politics has always been an identity
politics. Even at the height of the class cleavage during the 1950s and 1960s, many people
voted for social democratic parties, not simply because they thought this would serve their
interests, but also because those parties claimed to speak for a ‘working class’ with which they identified. In the intervening decades, that kind of working-class identity has waned, and we are now witnessing a partisan struggle to define anew the political identities that working people will assume within a fissiparous electorate.

Conclusion

I have argued that the postwar growth regimes of the developed democracies have moved through four distinctive eras and that those regimes respond, not only to secular economic changes, but also to the shifting currents of electoral politics, whose most important feature is their cleavage structures. While devoting less attention to producer group politics, which deserve a treatise of their own, I have argued that shifts in cleavage structures drive the balance of influence between electoral and producer group politics. My point is, not that growth regimes are determined by electoral politics alone, but that this politics conditions them in ways that comparative political economists should not ignore.

Electoral politics deserves attention because it also impinges on an evolving social contract. Whether societies actually have a social contract is an open question. For the most part, the ‘social contract’ has been a convenient fiction used by political theorists to establish the basis of political obligation and to define what is socially just. However, all societies rest on a shared normative order, of at least minimal proportions, specifying what institutional arrangements and distributions of resources are deemed sufficiently just to ‘justify’ support for them and allegiance to the political regime overseeing them. This normative order has many features of a social contract, even if it is multi-faceted and never explicitly negotiated.
To the extent that these social contracts are held up to the light and refashioned from time to time, however, that takes place through processes in which the organizational vehicles representative of social groups forge compromises with each other in electoral and producer group arenas. Indeed, it is often out of those compromises that the institutions that give operative force to a social contract emerge; establishing arrangements that govern work, leisure, income and the modalities of well-being more generally. This is not to deny that some actors enter those negotiations with more power resources than others. In that respect, these arenas do not replicate the relational equality posited by conceptions of the state of nature or a Rawlsian original position – and for that reason their outcomes are not necessarily just. Capitalist economic relations are built on inequality, and democratic polities rarely supply enough political equality to counterbalance them. Nevertheless, democratic elections allow for the renegotiation of arrangements bearing on how the social contract is constituted and for periodic scrutiny about whether it is being fulfilled.

In this context, the question of who speaks for whom and with what force in electoral (and producer-group) arenas assumes importance; and postwar growth regimes reflect the impact of changes along those dimensions. The growth regimes of the era of modernization emerged as a social compromise between political parties acting, often explicitly, on behalf of different social classes. By contrast, the growth regimes of the era of liberalization emerged from processes of negotiation in which the voices of social classes were more muted by virtue of how electoral cleavages and party strategies had changed. Those growth regimes were also social compromises, but fashioned in the context of more pressure from above than from below.
In contemporary electoral politics, we see a concerted protest from below about what those compromises have yielded, loosely based on a sense that the resulting economic outcomes and social arrangements violate some underlying social contract. Thus, what is at stake in contemporary electoral politics is not simply the shape of future growth regimes but also the capacities of the developed democracies to preserve the allegiance of their citizens amidst profound economic turmoil. Responding to that challenge calls for efficient solutions to current economic problems, but also for social compromises that can be recognized as socially just both by those who gain more and those who gain less from them.
Figure One: Frequency of the use of the phrases ‘mixed economy’, ‘market competition’ and ‘knowledge economy’ in all English-language books, 1945-2008.

Source: Google Ngram.
Figure Two: Alford index indicating the level of class-based voting, 1945-1990

Source: Manza et al. 1995. The Alford index reports the proportion of the working class voting left minus the proportion of the middle class voting left.
Figure Three: Support for ‘free markets’ in the platforms of European political parties, 1957-2015.

Note: Party positions on the ‘free market economy’ index of Lowe et al (2011) indicating the prevalence in partly platforms of support for a free market economy and market incentives as opposed to more direct government control of the economy, nationalization or other Marxist goals. Calculated from Comparative Manifesto Project data. Higher values indicate more support for free market positions.
Figure Four: Liberalizing and de-liberalizing initiatives in EU countries, 1975-2005

Liberalization trajectories
Regulatory policy fields - all sample countries

Liberalization trajectories
Distributional fields - all sample countries

Sources: Liberalization database; Armingeon et al. 2019; Fill 2019.
Figure Five: Changes over time in the relative prominence of economic and cultural issues in the party manifestos of western democracies

Note: Proportion of references to each kind of issue in party manifestos weighted by party vote share in the most recent election for each country. Source: Comparative Party Manifesto database.
Figure Six: Party placement along two dimensions in the West European electoral space. Panel (a): as of the year 1999

Source: Chapel Hill Expert Survey database. Position on the economic axis is measured with the LRECON variable and position on the values axis with the GALTAN variable in that dataset.
Figure Six: Party placement along two dimensions in the West European electoral space. Panel (b): as of the year 2014

Source: Chapel Hill Expert Survey database. Prominent radical right parties which have moved left on economic issues or appeared toward the left of the space since 1999 are in red and underlined.
Figure Seven: Intensity of opposition to (+) and support for (-) European integration in party platforms circa 1975, 1992 and 2010

Source: Comparative Manifesto Project Dataset.⁹⁹
References


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Notes


2 For overviews, see Crafts and Toniolo 1996, Wren2013.


5 Tinbergen 1952.

6 Hacker and Pierson 2010: 3.

7 For another ambitious effort to integrate electoral politics into the study of comparative political economy but without the focus here on changes over time, see Beramendi et al. 2015.

8 For an argument that producer group politics was once influential but is now giving way to electoral politics, see Iversen and Soskice (2015).


10 For analyses that put more stress on cross-national variation but without the same emphasis on developments over time, see Thelen 2014 and Beramendi et al. 2015.

11 For an overview, see Shonfield 1969.

12 The growth regimes of the United States, and to some extent Sweden, shifted in similar directions two decades earlier, during the 1930s, under the influence of electoral conditions somewhat similar to those that lay behind such movements in Western Europe in the decades following the Second World War.


18 Crafts and Toniolo 1996.


22 Hall 2013.


24 For overviews, see Nieuwbeerta 1995; Knutsen 2006; Evans and Tilley 2017.

25 The rapid decline of that cleavage in the United States may also be associated with retreat from the more interventionist policies of the 1930s and 1940s during the 1950s.

26 Crosland 1956.

27 Offe 1983.


29 Manow et al. 2008.


31 Blyth and Matthijs 2017.


33 Cameron 1984.


36 Crozier et al. 1974.

37 Centeno and Cohen 2012.

38 Hall 2015.


40 Palier and Thelen 2010.
In the U.S. pressure from firms was backed up by increasingly-organized lobbyists for neoliberal policies (Hacker and Pierson 2010; Hertel-Fernandez forthcoming).
This is the share of national product going to wages rather than profits or rents. This calculation measures GDP at market prices in nine countries: Australia, Canada, Germany, France, Italy, Japan, Spain, the UK and the US. See ILO 2012, OECD 2015.
85 Oesch and Renwald 2018.

86 Iversen and Soskice forthcoming.

87 Kitschelt and Rehm 2014.

88 See also Hooghe and Marks 2018.


90 Schumpeter 1950.

91 See Achen and Bartels 2016.

92 Locke 1689, Rawls 1971.


94 And sometimes on behalf of different religious groups as well, cf. Van Kersbergen and Manow 2009.

95 Hochschild 2016; Gest 2016, Gidron and Hall 2017. Of course, there are other dimensions to the social contract that might also bear on contemporary discontent. Cf. Pateman 1988; Mutz 2018.

96 The countries included are: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, United Kingdom.

97 Based on the CMP categories, references to the following are classified as cultural issues: Environmental protection (501); Culture (502); Social Justice (503); National way of life (601); National way of life negative (602); Traditional morality (603); Traditional morality (604); Multiculturalism (607); Multiculturalism negative (608). The following are classified as economic issues: Free market economy (401); Incentives (402); Market Regulation (403); Protectionism (406); Protectionism negative (407); Economic goals (408); Demand management (409); Economic growth (410); Controlled economy (412); Economic orthodoxy (414); Marxist analysis (415). Countries included: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, US, UK.

98 The LRECON variable classifies parties that want government to play an active role in the economy on the left, while parties on the right emphasize a reduced role for government, privatization, lower taxes, less regulation, less government spending, and a leaner welfare state. The GALTAN variable positions cosmopolitan or post-materialist parties as those favoring expanded personal freedoms, such as access to abortion, active euthanasia, same-sex marriage, or greater democratic participation, while traditional parties often reject these ideas in value instead order, tradition, and stability and believe that the government should exercise firm moral authority over social and cultural issues.

99 The measure captures the intensity of anti-EU positions relative to pro-EU positions for the parties in each family using the formula \( \log\left( \frac{R + 0.5}{L + 0.5} \right) \) where L is the variable for pro-EU positions (108).
and R is the variable for anti-EU positions (110) in the Comparative Manifesto Project dataset. For more details on the appropriateness of this measure, see Lowe et al. (2011).