How Growth Regimes Evolve in the Developed Democracies

Peter A. Hall

Minda de Gunzburg Center for European Studies
Harvard University
27 Kirkland Street
Cambridge, MA 02138

phall@fas.harvard.edu

June 2015

For presentation at the 22nd International Conference of Europeanists, Paris, July 8-10, 2015

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. It addresses a longstanding puzzle in comparative political economy, namely 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] We know, for instance, that the partisan complexion of government often affects the types of socioeconomic policies that are pursued. But analyses which emphasize that observation often pay little attention to how the policies pursued by parties of one hue or another shift over time: the platform of the British Labour party in 1997 was very different from its platform in 1945. We need to understand both how partisan political competition matters and how the terms of that competition shift over time.

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 see changes in economic policy as a response to secular developments in the international economy. 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-biased technological change that alter their occupational structures.[3] Such processes play an important role in my analysis. However, the account given by mainstream economics of the

[1] Zysman 1983; Fitoussi *et al.* 1993; Palier 2012
[2] Kitschelt *et al.* 1999; Iversen and Soskice 2009, 2015: Beramendi *et al.* 2015
[3] Antras *et al.* 2006; Autor and Dorn 2013

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.[4] 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.[5] Wolfgang 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.[6] This panoramic view of capitalism illuminates many distinctive features of its movement. However, its account 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.[7] The result is an impoverished view of the role played by politics in the process whereby developed political economies change.

In the next section, I outline an alternative approach to the problem and follow with sections that trace the evolution of growth regimes in the developed democracies through three eras defined by evolving sets of economic and political challenges. Brief discussions of four cases – Britain, France, Sweden and Germany – illustrate this account, and I close with some remarks about the general argument and limits of the analysis.

I. The Approach

In this account, the principal units of analysis are 'growth regimes' operated by countries for delimited periods of time. 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.[8] In this paper, my focus is on public policies.

[4] For a review see: Congleton et al. 2008.
[5] Crouch 2011; Streeck 2014; cf. Sewell 2008.
[6] Streeck 2014; cf. O'Connor 1979.
[7] cf. Streeck 2014: 43, 63, 68
[8] 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'.

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. This suggests that governments interested in increasing the rate of economic growth can do so via three routes: by increasing inputs of labor, understood as the level of employment in the economy, by increasing inputs of capital, or by increasing the productivity with which those resources are utilized, namely how much one unit of them yields (for a given unit input of the other).

To accomplish these objectives, governments can pursue a variety of policies, some of which are substitutes for one another, while others are complementary. To increase productivity, for instance, governments can take steps to improve the level of human capital or the quality of the technology used in production. They might also induce firms to use their resources more productively by increasing competition in product markets or making efficient forms of collaboration more feasible.[9] Increasing inputs of labor entails increasing employment as a share of the adult population by reducing rates of unemployment and raising rates of labor force participation. Although there is debate about the efficacy of such measures, governments can tackle this problem on the supply side of the economy with measures that make it easier for people to move into work or increase their incentives to do so. Since employment rises when demand for an economy's products increase, governments can also take steps to stimulate domestic demand or to raise demand for exports by improving their quality or lowering their price via depreciation of the currency or measures to reduce unit labor costs. Since investment usually responds to demand, similar measures can be used to increase levels of investment in the economy. But governments may also increase inputs of capital by providing tax incentives or subsidies for certain kinds of investment, by investing public funds, or by reducing corporate taxes and restrictions on capital inflows in order to attract foreign investment.

These are the basic building blocks from which the postwar growth regimes of the developed democracies were constructed. The analytical challenge is to describe the overarching changes in these growth regimes in the years after 1950 and to explain why those changes took place. Although there are some important national variations, my focus here is on parallel changes in these political economies.

[9] Hall and Soskice 2001; Aghion and Howitt 2006.

For this purpose, we can distinguish three periods in the postwar years, which I label the eras of modernization, liberalization and knowledge-based growth. Each is defined by the character of the economic challenges facing governments in that period. The first runs from 1950 to about 1975, the second from 1980 to 1995, and the third from 1995 to the present. It should be noted that the borders of these periods are fuzzy: the timing and pace of the relevant economic developments vary to some extent across countries. Growth regimes shifted across these three eras in response to secular economic developments that altered the terms on which improvements in productivity or inputs of labor and capital could most readily be secured. The policies used to increase employment shifted, for instance, as the opportunities for creating jobs moved from manufacturing to services and then from low-end to high-end services. However, economic policy is never an unmediated response to economic developments – for at least three reasons. First, those developments have to be identified and their significance interpreted – a process that takes time and involves the revision of relevant economic doctrines. Second, even when there is agreement on the problem, choices have to be made among the several ways of addressing it. Third, democratic governments respond to political as well as economic pressures. The priority accorded an economic problem or approach to it will be influenced by political as well as economic considerations. Chief among these is the need to assemble coalitions of support for new policy regimes from within the electorate and producer groups. Like institution-building, policy-making entails coalition formation.[10]

Therefore, in order to explain why growth regimes changed, we need to take four sets of factors into account. The first are changes in economic context typically linked to secular developments in the international economy. The second are shifts in what might be termed the 'economic gestalt' of the era, namely, how the problems of the political economy are perceived. The third are changes in the electoral arena that alter the terms on which coalitions of support for specific policies can be assembled; and the fourth is a parallel set of changes in the realm of producer group politics that alter the influence of particular groups, the kinds of policies they seek, and the level of cooperation on which governments can count to operate growth regimes.

Although the economic gestalt of a given era is anchored in prevailing economic conditions, several factors come together to define it. Especially central here are immediately preceding events. Governance is an 'eventful' process: politicians and officials react to what the nation has just experienced and prevailing interpretations of it.[11] Obvious failures of policy set in motion a search for alternatives, while conspicuous cases of success provide templates for the

[10] Thelen 2004; Hall and Thelen 2009.
[11] Sewell 2005; Hall 2005.

future course of policy.[12] In this process, economic doctrines and their counterparts in popular discourse loom large, since they are the means through which officials interpret economic developments and justify their actions to producer groups and the electorate.[13] However, there are usually political elements to such gestalts as well, since there is always a moral as well as a technical basis to the case governments make to the electorate. In that respect, the economic gestalt has some features of a social contract specifying what it is appropriate or efficacious for governments to do as well as the responsibilities of other agents in society.[14] In this respect, changes in growth regimes are not simply technical adjustments but a reflection of movement in the wider normative orders in which they are embedded.

Democratic governments seek growth in large measure because their continued electoral success depends on it.[15] This electoral constraint enhances the influence of popular economic doctrines, as governments seek to show that they are 'competent' by implementing policies in line with those doctrines.[16] But there is also a distributive element to economic policy – some groups benefit more than others from specific policies – and governments choose them in order to appeal to groups they hope to attract to their electoral coalitions. Democratic governments will adopt a set of policies only if they can assemble an electoral coalition supportive of them or at least forestall the rise of a coalition opposed to them.

However, the terms on which such coalitions can be formed move over time with changes in the composition and preferences of the electorate. From this perspective, the most important feature of electoral politics is the structure of political cleavages, a term specifying the issues most salient to electoral politics and the alignment of social groups vis-à-vis those issues. Cleavage structures change in response to changes in the terms of electoral competition, which bring some issues to the fore while suppressing others, and to changes in the size and socioeconomic position of particular social groups – factors that are both conditioned by economic developments.[17] As the policy preferences of key groups of voters shift, political parties alter the types of policies they pursue in order to assemble electoral coalitions. Therefore, growth regimes are conditioned not only by changes in economic challenges but also by shifts in cleavage structures that define the political challenges facing governments.

[12] Hall 1993; Culpepper 2009; Dobbin 1997.
[13] McNamara 1998; Fourcade 2009.
[14] This point is influenced by conversations with Albena Azmanova.
[15] Lindblom 1977.
[16] Iversen and Soskice 2015.
[17] Cf. Iversen 1999; Evans and Tilley 2012.

Producer group politics affects growth regimes by conditioning both the formulation and implementation of policy. On the one hand, to the extent electoral competition allows, governments respond to the demands of producer groups for particular policies. Social democratic governments are more likely to pursue policies supported by trade unions, while conservative parties are often attentive to business interests. In some cases, economic policy is a response to cross-class coalitions of producer groups.[18] On the other hand, the capacity of a government to operate specific kinds of growth regimes can depend on cooperation from trade unions and business associations. Various forms of wage coordination and vocational training central to many European growth regimes turn on such cooperation, as does the capacity to operate effective systems of economic planning.[19]

However, the types of policies producer groups seek change over time, as firms alter their strategies to cope with secular change in the economy; and the coordinating capacities of producer groups shift when new economic circumstances generate divisions among their membership. Especially important here are strategic capacities, namely, the ability of such organizations to speak for and assemble support from wide segments of the political economy. When they have such capacities, producer groups are more likely to advocate policies that serving the interests of the economy as a whole rather than of narrower constituencies.[20] In the following sections, I consider how changes in economic challenges, the economic gestalt and electoral politics condition movement from one growth regime to another, with only passing reference to producer group politics, which would require a more extended treatment.

II. The Era of Modernization, 1950-1975

Shortly after World War II, the OECD economies entered what might be described as an era of modernization marked by a distinctive set of economic challenges. For many countries in Europe and Japan, the most pressing challenge was how to rebuild an industrial infrastructure heavily damaged by the war. In 1945 only two bridges still crossed the Rhine or Elbe; a third of the French railroad system had been destroyed; and Britain still rationed goods well into the 1950s. As international trade was restored and tariff barriers fell under the aegis of the GATT and the 1958 Treaty of Rome, securing a competitive position in international markets became an issue of growing importance.[21] The economic challenges of this era were also defined by the central role manufacturing still played in the OECD economies. During the 1950s and 1960s, it remained the

---

[18] Swenson 2002.
[19] Beer 1969.
[20] Calmfors and Driffil 1988; Martin and Thelen 2007; Martin and Swank 2012.
[21] Servan-Schreiber 1969.

motor for economic growth, whether organized along Fordist lines as in the U.S., France and Britain, or leavened by the methods of 'diversified quality production' employed in Germany and Italy.[22]

The Economic Gestalt

The challenges of this era were interpreted through an economic gestalt that emphasized the importance of 'modernizing' the economy and acknowledged the responsibility of governments for doing so. The French focused on the inefficiencies of an economy dominated by 'malthusian' competition among overly-small firms, while the British began to worry about the nation's economic decline.[23] By the end of the 1950s when Sputnik was launched, even the Americans worried that they were losing a technological race with the Soviet Union. The response to this problem varied across countries, but, in one way or another, all endorsed an assertive role for government, whether in the form of economic planning in France, Britain and Japan, based on public investment in higher education, research and public infrastructure in the U.S., or in more muted form in the public-private partnerships established in Sweden and Germany.[24]

Support for such an approach could be found in the most prominent economic doctrines of the day. At the heart of many was the Keynesian notion that governments have a capacity to promote growth via the management of aggregate demand – based on 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.[25] Keynesian views were codified in econometric models that became a staple of policy analysis and adapted to support distinctive national growth strategies, such as industrial planning in France and the Rehn-Meidner model in Sweden. In the wider universe of political discourse, these ideas were reflected in widespread acceptance of the 'mixed economy' – a phrase used to describe approaches to growth in which the state and private sector both played active roles, which gained wide currency in this period (see Figure One).[26]

Growth Regimes

The nature of prevailing economic challenges and the economic gestalt through which they were interpreted influenced the growth regimes of this era. Because manufacturing was still a large

[22] Boyer 1990; Piore and Sabel 1984; Streeck 1991; Herrigel 2000
[23] Landes 1949; Elbaum and Lazonick 1985: Shonfield 1958.
[24] Cohen 1977; Leruez 1975; Block 2011; Johnson 1982 Ziegler 1997.
[25] Johnson 1971; Hall 1989.
[26] Stilwell 2006.

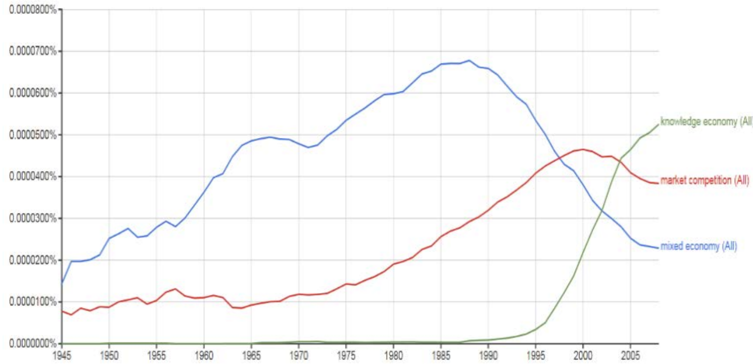


Figure One: Frequency of the use of the phrases 'mixed economy', 'market competition' and 'knowledge economy' in all English-language books, 1945-2005. *Source*: Google Ngram.

component of the economy, productivity could often be increased by moving the labor force from agriculture into manufacturing where Fordist methods of production rendered semi-skilled labor more productive.[27] The dominant approach to improving productivity in industry itself was to increase the size of plants in order to seek economies of scale, often based on the use of technology imported from the U.S.

To achieve industrial scale, many governments actively channeled investment toward industry through state-owned enterprises, systems of industrial planning and publicly-owned banks. This was seen as an appropriate task for modernizing states. Since firms were likely to invest on a large scale only if they could be assured a steady demand for their products, many governments also adopted some form of counter-cyclical demand management.[28] Although his fiscal prescriptions were greeted with varying degrees of enthusiasm across countries, John Maynard Keynes' contention that governments had a responsibility for managing the economy became widely accepted.[29]

Faced with the demobilization of millions of military personnel, postwar governments were also deeply concerned about how to secure full employment, albeit construed largely in terms of a male breadwinner model.[30] Creating employment was seen as a matter of sustaining demand for national products, but there was variation in how countries attempted to achieve that. Some governments in countries such as the U.S. and Britain sought to sustain domestic demand through counter-cyclical fiscal policies, while in others, such as Germany and Sweden, more serious efforts

---

[27] Crafts and Toniolo 1996.
[28] Aglietta 1979; Boyer 1990.
[29] Hall 1989.
[30] Beveridge 1942.

were made to sustain demand for exports by holding down the exchange rate and encouraging coordinated wage bargaining to limit the growth of unit labor costs.

In general, the growth regimes of this era were marked by relatively high levels of state activism, as governments sought to rebuild infrastructure after the war, channel investment into industry or construct neo-corporatist systems of industrial coordination. However, there were also significant national variations, often reflecting differences in the complexion of the economic challenges and gestalt of each country.

Britain entered the era of modernization with a burst of state intervention. Elected on a tidal wave of demands for a break with interwar policies, 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.[31] Succeeding Conservative governments accepted many features of this mixed economy and tried a tepid form of economic planning with the establishment of a National Economic Development Corporation in 1962.[32] Promising to 'reforge Britain in the white heat of the scientific revolution', a Labour government elected in 1964 initiated ambitious plans to reorganize the manufacturing base under the direction of a Ministry for Economic Affairs and Industrial Reconstruction Corporation.[33] However, most of these attempts foundered on the limited institutional capacities of an arm's length state and the difficulties it encountered securing the cooperation of sharply-divided trade unions and business interests.

Thus, the British approach to securing full employment and investment turned heavily on efforts to sustain domestic demand via countercyclical macroeconomic policies. However, an insistence on maintaining the exchange rate so as to protect the value of overseas balances of sterling, on which the standing of Britain's important financial sector in the City of London was believed to depend, meant that moves toward expansion usually ended prematurely in balance of payments crises, contributing little to growth.[34] Partly as a result, at 2.6 percent per annum, British rates of growth in this period were well below those of its neighbors.

The growth regime France developed during this era of modernization reflected a more assertive set of interventions. It was built around a system of indicative economic planning, in which public officials developed priorities for investment in consultation with representatives from business and labor, and then used their influence over large state-owned banks to channel funds to

[31] Beer 1969.
[32] Leruez 1975.
[33] Hall 1986.
[34] Brittan 1971; Hansen 1968.

the sectors deemed most central to growth and to firms thought to have the potential to be 'national champions' on world markets.[35] Increases in productivity were to be achieved by funneling finance only to the most efficient 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 French governments devalued the exchange rate periodically to offset the effects of inflation on exports.

The growth regimes pursued by Sweden and Germany in this era stand in some contrast to those of intermittent intervention in Britain and sustained intervention in France. Although both governments were active in this period, their objective was to develop growth models built on neo-corporatist coordination among producer groups rather than on state intervention; and each cultivated coordinating capacities in their political economy that privileged export-led growth over the expansion of domestic demand.

With the *Saltsjöbaden* accords of 1938, Sweden had already developed a system of wage bargaining coordinated at the peak level, and its postwar growth regime took full advantage of these strategic capacities.[36] Often labeled the Rehn-Meidner model after two economists influential in its design, it rested on 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 and employers' confederations. Moreover, the wages of low-paid workers were to rise faster in percentage terms than those in higher wage brackets. By consolidating a coalition between skilled and semi-skilled labor, this approach served the political purposes of a dominant social democratic party, but the economic objective was to increase productivity by putting pressure on firms using low-wage labor in anticipation that they would become more efficient or go out of business. Because this entailed lay-offs, the second pillar of the model was an active labor market policy, featuring generous public support for 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: by restraining unit labor costs, wage coordination promoted exports, while domestic demand rose with the wage gains made possible by solidaristic bargaining.[37] Wages were also set at levels adequate to finance investment

[35] Cohen 1977; cf. McArthur and Scott 1969; Zysman 1977, 1983.
[36] Martin 1979; Pontusson 1992.
[37] Martin 1979.

out of profits; and the state implicitly guaranteed that profits would go to investment.[38] Market competition was used to rationalize the economy, but the state played a key role by providing active labor market policy, a suitable macroeconomic stance and guarantees for investment.

West Germany also exploited regional and sectoral capacities for collaboration that survived the war to build a growth regime centered on strategic coordination in the private economy -- between workers and employers, among firms and between firms and financial institutions. 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 influential works councils in larger firms.[39] Along with vocational training schemes managed by employers and the trade unions, built around apprenticeships conferring high levels of industry-specific skills, these arrangements gave German manufacturers formidable capacities for continuous innovation that sustained demand for their exports.[40] Flows of investment into industry were orchestrated by a few universal banks entrusted with shares in firms and networks of savings banks often sponsored by regional governments.[41]

These high levels of private-sector coordination were made possible by legislation – in the form of framework policies that delegated decisions to specified producer groups in classic neo-corporatist fashion.[42] Built on an economic gestalt marked by reaction against the state intervention of the Third Reich, the Germany government's stance was less interventionist than those of its neighbors. It was underpinned by an ordo-liberal philosophy popularized by the Christian Democratic Party, which dominated German governments for twenty years after the war. That philosophy held that the center of economic dynamism should lie in the private sector, while the role of the state was to promulgate rules ensuring that economic behavior remained orderly and social groups were protected from the most adverse effects of market competition.[43] However, the resulting 'social market economy' was far from a system of laissez-faire capitalism. At the regional level, it nurtured systems of diversified quality production that depended on actors providing high levels of collective goods.[44]

The macroeconomic complement to these arrangements was a restrained fiscal stance, underpinned by a powerful Bundesbank, independent of political control and focused on inflation.

[38] Przeworski and Wallerstein 1982; Eichengreen 1996.
[39] Thelen 1991; Streeck 1994.
[40] Hall and Soskice 2001,
[41] Shonfield 1969; Deeg 1999.
[42] Schmitter and Lehmbruch 1979; Katzenstein 1987.
[43] Sally 2007.
[44] Streeck 1991; Herrigel 2000.

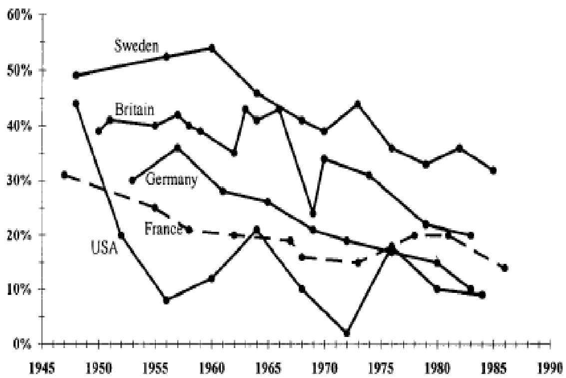
The Bundesbank disciplined wage negotiations by threatening monetary retaliation if bargains exceeded its norms and reminded governments that expansionary fiscal policy might also provoke a monetary correction.[45] The resulting regime was oriented toward export-led growth. Wage bargaining was led by *IG Metall*, the powerful metalworking union central to the export sector; and the Bundesbank held the exchange rate at undervalued levels until the 1970s when continued efforts to do so threatened to import inflation.[46] As a result, Germany became one of the most successful exporters of manufactures in the world.

Electoral Politics

Although contemporary interpretations of the economic challenges of the 1950s and 1960s provided the impetus for growth regimes in this era of modernization, the character of electoral politics also played a role in their development. In most developed democracies, the most prominent electoral cleavage in this era was a class cleavage that divided manual and lower-level non-manual workers from a middle class composed of white-collar employees in supervisory, professional or managerial positions (see Figure Two). The point is not simply that people tended to vote their economic interest, but that many saw politics in class terms, namely, as a terrain in which parties representing a working-class interest were arrayed against those representing middle-class interests; and many political parties presented the issues in these terms. This divide was most prominent in Western Europe. One side of it 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 large-scale nationalization of enterprises, to achieve full employment. On the other side, were conservative, liberal and Christian Democratic parties more representative of the middle class and opposed to high levels of state intervention in the name of securing prosperity through free enterprise.

This cleavage became important to economic policy-making in two ways. First, its prominence made the issue of how much state intervention to countenance highly salient to electoral politics. Second, the salience of this issue forced mainstream political parties interested in attaining office to find some middle ground on it, namely, policies that would satisfy their own core constituents but also draw votes from their opponents. The growth strategies of the mixed economy emerged out of this context 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. In Britain, Keynesian ideas became a vehicle for

[45] Hall 1994; Hall and Franzese 1998; Carlin and Soskice 2009.
[46] Kreile 1978.



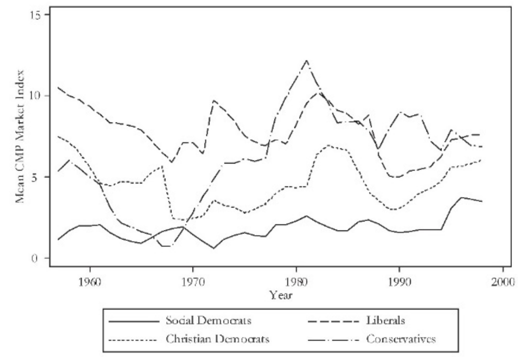


Figure Two: Alford Index indicating the level of class-based voting, 1945-1990. *Source*: Manza *et al.* 1995.

Figure Three: Support for 'free markets' in the platforms of political parties in the EU, 1957-99. *Source*: Manow *et al.* 2008

this compromise because they offered a formula for securing full employment, through active macroeconomic management without nationalizing the means of production.[47] In France, indicative economic planning played a similar role, while in Germany consensus emerged on a social market economy that offered trade unions and employers' considerable influence over wages, working conditions, social insurance and vocational training.

At landmark party conferences from Bad Godesberg to Blackpool, the social democratic parties of Europe gradually dropped their insistence on nationalization and embraced the mixed economy in an effort to assemble cross-class support.[48] At the same time, conservative and Christian Democratic parties gradually accepted active economic management and elements of industrial intervention as viable strategies for operating a modern economy. As Figure Three indicates, during the 1950s and early 1960s, the result was gradual convergence on the policies of the mixed economy. Modernizing the economy became a valence issue embraced on both sides of the political spectrum; and the social corollary was a set of 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, itself rooted in electoral rules and the presence of ancillary cleavages (Manow 2009). In Sweden, a growth regime centered on solidaristic wage-bargaining owes much to Social Democratic dominance, while an influential Christian Democratic party built Germany's social market economy. Seen in historical perspective, however, it is striking how many countries converged on the growth regimes of a mixed economy. Government intervention could be as

[47] Offe 1983.
[48] Crosland 1956; Przeworski and Sprague 1986.

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.

III. The Era of Liberalization, 1980-1995

The era of modernization reached its economic apogee and political perigee in the middle of the 1970s, when two decades of rapid growth ended with simultaneous increases in unemployment and inflation. In most developed democracies, subsequent rates of growth were to be barely half those of preceding years. Moreover, three economic developments that had been gathering force for some time profoundly altered the economic challenges facing these countries after 1975. These were a shift in the locus of employment from manufacturing to services, rising competition from developing economies made possibly by more open global trade, and the growth of international finance.

Employment in the service sector had been rising in the OECD countries since the 1950s but, by the early 1980s, governments began to realize that, if they wanted to create jobs, those would have to be in services.[49] The roots of this development lay in secular trends: as incomes rose and the price of manufactured goods fell, services comprised a growing proportion of people's consumption. However, this trend was reinforced during the 1980s by rapid economic growth in the developing world, which drew investment and jobs in manufacturing away from the developed democracies.[50] Facilitated by containerization and developments in information technology, the supply chains of firms became more global; and many began to experience more intense international competition, putting pressure on existing arrangements for wage bargaining. At the same time, rapid growth in international financial markets, building on the Eurodollar markets, changed the terms on which firms could raise finance. By the middle of the 1980s, the governments of the developed democracies realized that a larger proportion of capital investment was going to have to come from foreign rather than domestic sources, whether as foreign direct investment or portfolio finance.[51]

The Economic Gestalt

As governments came to appreciate the scale of these developments, they gradually adapted their growth regimes to cope with them. However, since economic policy-making is rarely an entirely strategic enterprise, that took time. Governments react to problems as they appear with experimental efforts to change course. The immediate impetus for a change in growth regimes was

---

[49] Wren 2013; Iversen and Cusack 2000.
[50] Wood 1994: Keohane and Milner 1996; Rodrik 1997.
[51] Berger and Dore 2006.

the apparent failure of the economic policies of the 1970s and the persistently high rates of unemployment many countries then experienced.

For many OECD economies, the second half of the 1970s was a dismal period, marked by lower rates of growth and simultaneous increases in unemployment and inflation. The immediate triggers for this stagflation were sharp increases in the price of oil and other commodities; but the basis for inflation was laid by increases in the world money supply that followed the collapse of the Bretton Woods monetary system in 1971 in the wake of American efforts to fund the Great Society and Vietnam war at the same time.[52] In Western Europe, stagflation was also endogenous to the previous growth regime. After the war, most governments strengthened collective bargaining regimes in order to provide for the peaceful allocation of income between wages and profits. However, the wage share rose steadily, as more than a decade of full employment strengthened the trade unions; and, by the end of the 1960s, many unions were securing wage settlements that firms could accommodate only by raising prices, giving rise to a wage-price spiral that fed on itself. In this respect, the inflation of the 1970s reflected the failure of social institutions established to regulate distributive conflict.[53]

In the face of this stagflation, the tools of the existing growth regime proved largely impotent. Keynesian policies designed to address unemployment offered no antidote for inflation; and governments' efforts to rescue ailing industries with further subsidies yielded few results.[54] Mistaking structural shifts in the economy for a cyclical fluctuation, many governments responded with more generous social assistance – on the premise they could pay for it when high rates of growth returned. When they did not, public expenditure as a percentage of GDP soared, and governments began to run endemic deficits.

The result was a political climacteric for the growth regimes of the mixed economy. Electorates threw out virtually every government in office during the crisis of the 1970s; and officials looked desperately for new ways to reduce inflation. The political crisis was most acute in liberal market economies, such as Britain and the U.S., where efforts to deploy statutory incomes policies led many to question the legitimacy of state intervention.[55] It is not surprising that these countries made the pioneering moves to reduce the role of the state in the economy. Where countries with effective systems of wage coordination, such as Sweden and Germany, managed to contain inflation at a lower cost in terms of unemployment, the reaction against state intervention

[52] Keohane 1978; Ferguson *et al.* 2010.
[53] Crouch and Pizzorno 1978; Goldthorpe 1978; Glyn and Sutcliffe 1972.
[54] Berger 1981; Hall 1993.
[55] Crozier et al. 1974.

was more muted.[56] But, as European rates of unemployment continued to rise, politicians sought new ways to reduce it. While the British and Americans worried about national decline, Europeans became increasingly anxious about 'Eurosclerosis'.[57]

Reacting against the heightened state intervention of the late 1970s, many policy-makers moved toward the view that markets could allocate resources more efficiently than states. The watchword of the 1980s became 'market competition' (see Figure One). Economic policies that had once been focused on the management of demand were replaced by policies focused on the supply side of the economy; and supply-side policies that subsidized firms were replaced by ones oriented to manpower policies.

These moves were encouraged by shifts in economic doctrine toward a 'new classical economics' that deprecated governments' capacities to manage the economy and saw structural reforms to make markets more competitive as the only route to economic growth. Although parallel ideas had been advanced by a few monetarist economists since the 1960s, the rational expectations economics that underpinned new classical perspectives gained many adherents during the 1980s. They argued that a 'natural' level of unemployment is reducible only by structural reforms to labor markets, that efforts to manage aggregate demand usually end in failure, and that central banks should be independent of the political authorities since monetary policy has few durable effects on the real economy.[58] Now that unemployment was rising, politicians who had been happy to take credit for full employment found doctrines that would attribute rising levels of unemployment to the operation of labor markets appealing.

As the 1980s wore on, this move to the market seeped into more and more spheres of social life through a naturalizing process in which market competition came to be seen as the 'natural' way to organize human endeavor; and in many countries this shifted the terms of the social contract. Many governments began to insert market competition into their own operations, since the responsibility of government was no longer seen as one of providing a special set of 'public services' but to become more efficient so as to better serve citizens now viewed as consumers of its goods. Firms were given a mandate firms to increase the value of their shares, even if that meant providing fewer collective goods; and many social organizations were urged to adopt the practices of monitoring and measurement associated with effective market competition.[59] Even the criteria for personal worth shifted toward the attributes deemed appropriate for successful market

[56] Lindberg and Maier 1985; Goldthorpe 1984.
[57] Giersch 1985; rieger 1986.
[58] Stein 1981; Stockman 1986; Dornbusch 1990; McNamara 1998.
[59] Gomory and Sylla 2013; Espeland and Sauder 2007.

competition – much as it had during the Victorian era.[60] In short, the growth regimes of the era of liberalization eventually acquired such a deep ideological foundation that many features of them survived the global financial crisis of 2008-09.

Growth Regimes

In the growth regimes of this era, higher levels of productivity were to be sought through the liberalization of markets, albeit at a different pace across countries and sectors. Exemplifying this shift was the Single European Act of 1986 with which the member states of the European Community agreed to remove remaining barriers to trade by 1992, effectively turning the European Commission into an agent for market liberalization, equipped with wide-ranging powers to increase product market competition.[61] The explicit premise was that this 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.[62] The pioneers of this move were Margaret Thatcher, British prime minister from 1979, and Ronald Reagan, elected American president in 1980; but many governments followed suit in the course of the 1980s.[63]

In the belief that achieving higher levels of productivity required reducing the power of trade unions, Reagan and Thatcher moved in that direction, notably by breaking the American air controllers' strike of 1981 and the British miners' strike in 1984-85. 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, they presided over changes in collective bargaining arrangements that shifted more influence over wages and working conditions from the peak or sectoral level to firm and plant levels.[64] The premise was that firms needed more wage flexibility to adapt to competitive pressure.

Government efforts to expand employment also shifted during this era from the demand-side of the economy to reforms on the supply side that included steps to promote the use of temporary contracts or part-time work. Many were motivated, at least in part, by the need to create jobs in the service sector – to which there seemed to be only two routes.[65] One was to create employment by expanding the public provision of education, healthcare and other social services –

[60] Stansky 1974; Boltanski and Chiapello 2007; Hall and Lamont 2009; Centeno and Cohen 2012; Hall 2015.
[61] Jabko 2006; see also Moravcsik 1998.
[62] Riddell 1991; Thatcher 1999.
[63] Krieger 1986.
[64] Pontusson and Swenson 1996; Lallement 2006.
[65] Iversen and Wren 1998; Scharpf 2000.

a path on which several Nordic countries embarked as early as the 1970s.[66] The other 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 path entailed keeping minimum wages low, encouraging part-time work, and restricting social benefits so as to lower the reservation wage, a strategy pursued most prominently in Britain and the U.S.

Some countries were hesitant to go down either path, often because Christian Democratic parties did not want to expand public employment or countenance higher levels of wage inequality. Thus, the governments of France, Germany and the Netherlands initially responded to unemployment with measures to reduce the numbers of people seeking work, through early retirement programs and social benefits whose design limited female labor force participation. When it became apparent that a small labor force would depress rates of growth, however, these governments also began to promote part-time employment. In some, such as France, dual labor markets of precarious low-wage employment were built alongside a primary labor market offering relatively secure jobs; in others, such as the Netherlands, those working part-time were provided with more job security and social benefits.[67]

Governments also began to take new approaches to securing adequate levels of capital investment. Most efforts to channel funds directly to industry ended; and governments privatized state-owned enterprises in order to make it more feasible for those firms to draw on international capital markets and use their own shares for overseas acquisitions. Following the lead of Britain in 1979, the OECD governments eliminated exchange controls; and many strengthened protections for minority shareholders or loosened rules on foreign ownership in order to encourage inflows of foreign direct investment.[68] Indeed, some countries such as Ireland built entire growth regimes around foreign direct investment in this period, based on light-touch regulation and low rates of corporate taxation. East European nations followed suit in the early 1990s.[69] Although the governments of some liberal market economies, such as the U.S. and Britain, continued to rely on domestic demand to stimulate investment, all OECD countries looked in this era toward international sources of capital.[70]

Of course, there were some national variations in these new growth regimes and the pace with which they were implemented. The move to new regimes came first and most forcefully in

---

[66] Esping-Andersen 1990.
[67] Palier and Thelen 2010; Thelen 2014.
[68] Culpepper 2005.
[69] Regan 2014; Nölke and Vliegenthart 2009.
[70] Rajan 2010.

Britain, where a wave of strikes against statutory controls on wages and prices brought a Conservative Government under Margaret Thatcher into office in 1979.[71] Although Thatcher implemented many policies of liberalization, those policies did not figure prominently in her 1979 manifesto, and her subsequent electoral victories depended heavily on splits within the opposition and the popularity of a Falklands War. Electorally-insulated by these developments, Thatcher was able to impose a series of policies on the trade unions and a business community initially resistant to them.[72]

Britain's new growth regime was based on the privatization of national enterprises, which brought windfall profits into government coffers and regulatory steps to increase competition within sectors such as public transport, water supply, telecommunications, health and energy.[73] 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. With a series of industrial relations acts, 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 rate propped up by North Sea oil and gas. After 1979, trade union membership fell from a half to a quarter of the workforce.

Although unable to generate employment in manufacturing, Britain was well-placed to create low-wage jobs in retailing, restaurants and personal services and high wage jobs in financial and business services. Low levels of benefits in Britain's liberal welfare state, which were reduced further, held down the reservation wage.[74] As international flows of funds increased, the government shook up the City of London with a 'big bang' of reforms that consolidated its position as a financial center by improving the regulation of finance, while allowing firms to exploit new financial instruments.[75]

The growth regime of France also changed, albeit with a slight delay. 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 in 1981, the initial strategy of President François Mitterrand was to intensify intervention – via a *politique de filières* designed to substitute public investment for declining levels of private investment.[76] However, when the prospect of another devaluation that would take France out of the European monetary system loomed in 1983,

[71] Sandbrook 2010.
[72] Gamble 1994.
[73] Riddell 1991.
[74] Esping-Andersen 1990.
[75] Busch 2008.
[76] Hall 1986.

Mitterrand concluded this strategy would not work and began to build a new growth regime on four pillars. French capital markets were deregulated so as to encourage inflows of foreign investment, by eliminating the stakes in privatized enterprises still held by the state and facilitating mergers and acquisitions.[77] 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 sectoral level.[78] These were complementary measures: the wage flexibility firms now gained improved their capacities to cope with the threat of hostile takeovers.[79] The third pillar of the regime was strong French support for the creation of a single European market, on the premise that more intense competition would force French firms to become more efficient. Finally, the government abandoned its policy of periodic depreciation in favor of maintaining a high exchange rate backed by a more austere fiscal stance. The need to compete in more open European markets under a high exchange rate was meant to force French firms to rationalize their operations and move toward higher value-added lines of production.

French governments never assembled an electoral coalition behind these policies. They were initiated by a Socialist government elected on an entirely-different platform and continued by a center-right government whose only open advocate for neoliberalism, Alain Madelin, was a marginal figure. Many of the responsibilities for liberalizing the French economy were delegated to the European Commission, an approach that allowed French political leaders to rail against liberalization, while endorsing it behind closed doors in Brussels.[80] The effects of this regime of competitive deflation were mixed: although it pushed some firms toward higher-valued-added production, French rates of unemployment hovered around double digits into the 1990s.[81]

In Sweden, the Rehn-Meidner model 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 in 1976 the Social Democratic party was voted out of office for the first time in the postwar period. However, decisions taken during the late 1960s 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. 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 an expanding set of health, educational and social

[77] Culpepper 2005.
[78] Lallement 2006.
[79] Goyer 2012.
[80] Hall 2005.
[81] Hancké 2002; Fitoussi *et al.* 1993.

services. Although this strategy segmented the labor market by gender, it generated well-paid jobs in services without creating a low-wage service sector; and it consolidated the electoral coalition of the Social Democrats.[82]

During the 1980s, however, the growing power of unions in a larger public sector threatened the capacity of the export sector to lead the coordination of wages. As metalworking employers and unions in that sector sought more flexibility to set wages in response to global competition, peak-level bargaining collapsed.[83] Wage coordination was reestablished at the sectoral level in the middle of the 1990s but 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 eliminate the strategic capacities of Swedish producer groups.

In other respects, however, Swedish governments struggled to find an effective growth strategy. 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.[84] When this step antagonized employers and failed to revive investment, however, the government resorted to expansionary macroeconomic policies that threatened wage coordination; and it liberalized financial markets in an effort to attract foreign investment. The result was an asset boom whose collapse in the early 1990s left Sweden with a deep economic crisis.

By contrast, 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 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.[85] Partly for this reason, the liberalizing moves taken by German governments in the 1980s were more limited than those in many other countries, despite Chancellor Helmut Kohl's promise to preside over a *Wende*. Liberalization was most prominent in the realms of corporate finance and industrial relations.

The growth of international finance disorganized the longstanding system whereby large German firms had secured capital on the basis of close relationships with a few key banks. In order to take advantage of growing international markets, the universal banks realized that they would have to free up the funds they held in German shares. Between 1990 and 2002, a series of

---

[82] Esping-Andersen 1990; Iversen and Wren 1998.
[83] Pontusson and Swenson 1996; Iversen 1999.
[84] Pontusson 1992.
[85] Kreile 1978; Cameron 1984.

legislative changes made it possible for them to do so and easier for industrial firms to secure funds on international markets.[86] Despite concerns that these steps would force German firms to privilege their shareholders over stakeholders, however, many German firms found stable sources of funding from international institutional investors looking for long-term rather than short-term returns.[87] And German parliamentarians watered down European legislation to limit the prospect of hostile takeovers that might have forced firms to become more attentive to their share price.[88] Meanwhile, the close relationships between regional banks and firms in the *Mittelstand* remained largely intact.

For German industrial relations, the challenges of this era proved more disruptive. As international competition intensified, many firms sought more flexibility to adjust wages and working times in order to respond to changing market conditions. Rifts opened up between large firms with the wherewithal to cede higher wage increases or tolerate strikes and smaller firms lacking this margin for maneuver, especially in the East.[89] As a result, some companies dropped out of employers' associations; and 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 growth regime, but German producer groups retained considerable strategic capacities, and the contrast with wage-setting in liberal market economies remained striking.[90]

By contrast, although Germany had been overwhelmingly successful at manufacturing in this era, it did not find a formula for creating jobs in services. The Christian Democrats were opposed to increasing public employment, while proposals to expand low-wage services evoked the ire of the trade unions and threatened the egalitarian wage structures underpinning the cross-class coalition of the CDU. Therefore, despite stagnating employment, successive governments temporized with steps to promote early retirement on the premise that this would open up jobs, and maintained regulatory regimes, such as a limited school day, that kept women out of the workforce. Only later would the German government take major steps toward establishing a low-wage labor market; and, as a result, employment in services rose only slowly in Germany.

[86] Deeg 2005.
[87] Goyer 2012.
[88] Callaghan and Höpner 2005.
[89] Thelen and Winjbergen 2003.
[90] cf. Streeck 2009.

Electoral Politics

Once again, there is a political side to the story. Developments in the electoral arena made the liberalizing initiatives of the 1980s and early 1990s possible. Those initiatives had adverse effects on many workers. They made jobs more insecure, reduced social benefits, and increased income inequality – in effect reversing the direction of policy in the previous era dominated by a class-oriented politics. What was the political underpinning for this reversal?

In large measure, the answer turns on shifts in electoral cleavages. The liberalizing policies of this era were made possible by the decline of the class cleavage and the rise of a values cleavage that left the electoral space more fragmented in social and ideological terms.[91] Apart from passing enthusiasm for the Single European Act, liberalizing initiatives were rarely popular. But fragmentation in the electoral arena gave rise to 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 in the name of social solidarity or working class defense was undercut, allowing governments to pursue new approaches to the economic challenges facing them.

As Figure Two indicates, by the early 1980s, fewer people were voting along lines of social class and political debate was less likely to be couched in class terms than it had been in the 1950s and 1960s. The roots of this decline in the class cleavage lay in three sets of developments largely endogenous to the operation of the previous growth regime. Thirty years of prosperity improved the living standards of ordinary workers enough to mitigate the sense of grievance central to earlier political debates.[92] In many cases, the shift of employment from manufacturing to services also decimated cohesive working class communities and blurred the social divisions that once separated blue and white-collar workers. The Keynesian welfare state, which was the principal political accomplishment of the preceding era also sowed the seeds of change. Its social programs reduced the material insecurity once central to working-class mobilization; and, after the welfare state was in place, social democratic parties were left without a distinctive political mission around which to mobilize working-class voters. The decline of the class cleavage was not entirely exogenous to party politics: it also reflected the exhaustion of a historic social democratic mission.

The most important development of the 1980s, however, was the rise of a new cleavage that cut across the class cleavage. This is the values cleavage sometimes labeled a right-authoritarian/left-libertarian divide.[93] On one side of it were voters who embraced the post-

---

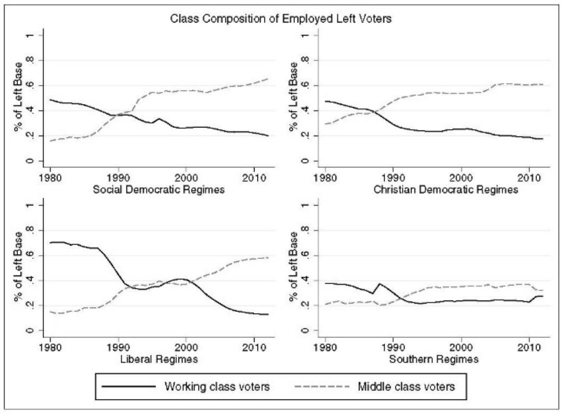
[91] Dalton *et al.* 1984, Clark and Lipset 2001.
[92] Lipset 1964.
[93] Kitschelt 1997.

materialist values that came to prominence in the early 1980s with new social movements focused on the environment, human rights and identity politics. On the other side were voters attached to more traditional values, concerned about material security, immigration and the protection of national culture. During the 1980s, new parties of Greens and the radical right speaking to each side of this divide became important political actors in Europe. In the U.S., an analogous cleavage separated post-materialists from others who associated those values with a lack of patriotism, disregard for religion or sympathy for waves of immigration that were changing the racial complexion of the country.[94] Economic developments during the previous era of modernization bore some responsibility for the appearance of this new cleavage. Three decades of prosperity had weaned the generations that grew up in relative affluence away from the material concerns that preoccupied their parents, and drawn 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.[95]

This values cleavage had 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 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 working class were voting for parties of the radical right; and many Americans were reacting against activist government.

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 oppose liberalization declined. By 1990, 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 (see Figure Four).[96] Indeed, as Figure Five indicates, the platforms of center-left parties moved farther in neoliberal directions than those on the center-right did; and parties of the center-left and center-right began to appear increasingly similar, further eroding the salience of a class cleavage that once underpinned the distinction between political left and right.[97]

[94] Frank 2004.
[95] Beer 1982; Inglehart 1990.
[96] Gingrich and Häusermann 2014: 58.
[97] Iversen 2006; Mudge 2011; Evans and Tilley 2012.



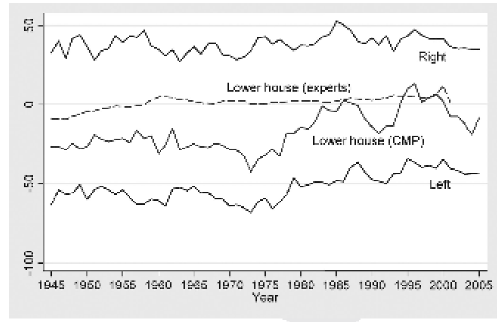


Figure Four: Class composition of voters for left parties 1980-2012.
Source: Gingrich and Häusermann 2015

Figure Five: Support for neoliberal economic policy in the legislatures of the OECD (higher values = neoliberal). *Source*: adapted from Iversen 2006.

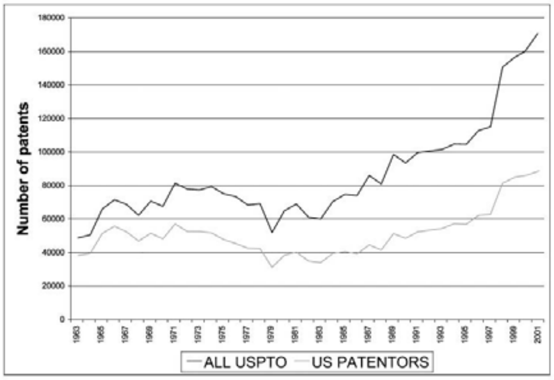
IV. The Era of Knowledge-Based Growth, 1995-2015

By the late 1990s, the economic challenges facing the developed democracies shifted again, ushering in a new era of knowledge-based growth. As usual, 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 productivity became more dependent on its diffusion. The number of patents granted began to grow exponentially and productivity increases in the U.S. leaped ahead of those in Europe for the first time in several decades, as American firms became the first to use the new technologies (see Figure Six).[98]

Partly as a result of ICT, the employment challenges facing governments changed as well. As many routine jobs in manufacturing and services were automated in the developed democracies, one result was a polarization in occupational structures, as routine but often well-paid jobs in the middle of the income distribution disappeared, while high-skill and low-skill positions that could not readily be automated continued to grow at the two ends of the income distribution (see Figure Seven a).[99] At the same time, the new technology allowed firms to outsource more services once performed in-house and the share of employment in firms devoted to business services began to grow rapidly.[100] The employment challenge of the 2000s was not simply to create jobs in services but how to create well-paid jobs in high-end services. Moreover, ICT allowed firms to stretch their

---

[98] Brynjolfsson and McAfee 2014; van Ark *et al.* 2008.
[99] Autor and Dorn 2013; Oesch and Menes 2010.
[100] Wren 2013.



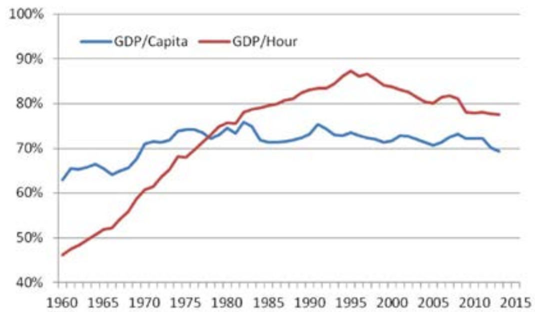


Figure Six: **(a)** Number of patents granted by the US Patent Office 1963-2001.
Source: Powell and Snellman 2004.

Figure Six: (b) Productivity in the EU15 relative to the U.S., 1960-2014.
Source: Van Ark *et al.* 2014.

value chains around the world and the share of services in exports expanded significantly.[101] The viability of export-led growth models became increasingly dependent on success in services, and economic growth now turned less on how many products a nation shipped and more on what proportion of the value-added in them it supplied.[102] The challenge facing governments has become how to cultivate the skills required for non-routine positions and how to shift production toward high value-added links in global supply chains.

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

As a result the share of profits and employment associated with the financial sector expanded, notably in countries such as the U.S. and Britain which had international financial centers, but also in smaller nations, such as Spain, Ireland, Iceland and the Netherlands. As a result, many governments faced the problem of how to cope with asset booms fostered by financial

101 Antràs et al. 2006.
102 Berger 2005; Tassey 2014

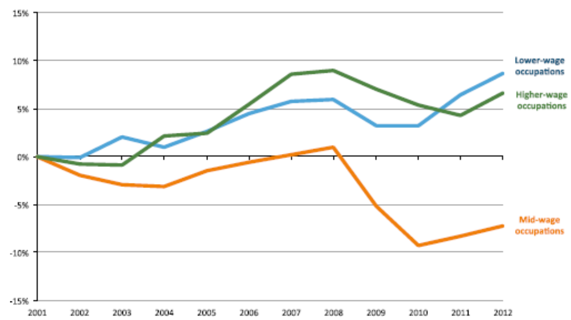


Figure Seven: (a) Occupational Growth Rates in the U.S., *Source*: NELP 2012.

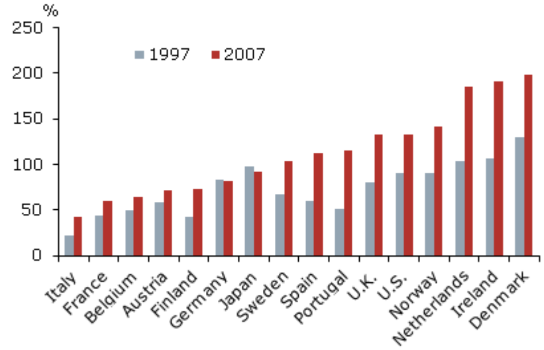


Figure Seven: (b) Household leverage ratios (debt/disposable income). *Source:* Glick and Lansing 2010.

expansion. With the inception of European monetary union in 1999, which increased financial interdependence across Europe but provided no lender-of-last resort facilities, the level of systemic risk increased; and the member governments had to cope with economic shocks without the monetary instruments or exchange-rate adjustments once used for these purposes.

The Economic Gestalt

In contrast to the early 1980s when dramatic economic failures in the preceding decade pushed governments toward new policies, the economic challenges of the information age crept up on governments that were often slow to respond to them. By the late 1990s, however, many governments had acknowledged the economic significance of ICT and begun to focus more attention on how to promote innovation. Affirming an emerging consensus, in 1996 the OECD published a report which 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, by 2000, the members states of the EU had signed on to the Lisbon Strategy whose declared goal was to make the EU "the most competitive and dynamic knowledge-based economy in the world."[103] By the turn of the century, the 'knowledge economy' was a feature of common parlance (see Figure One).

Several currents in economics influenced these evolving views. Not least among them was the appearance of new theories of economic growth which saw innovation as a factor that could be influenced by public policies rather than as an entirely exogenous contributor to growth.[104] In parallel, building on Becker's pioneering work on human capital, scholars began to show that

[103] OECD 1996: 3; European Union 2000.
[104] Lucas 1988; Romer 1990; Grossman and Helpman 1993; Aghion and Howitt 2006.

economic growth is dependent on education, focusing initially on tertiary schooling and then to an increasing extent on early childhood development.[105] Beginning in the 1990s, economists also began to direct attention to the effects of 'skill-biased technological change' understood as a process in which new technology replaces workers engaged in routine tasks – a problem that preoccupied many governments in ensuing years.[106] Scholars of innovation such as Freeman, Dosi and Lundvall gained considerable influence within the EU.[107]

The emphasis in these works on the importance of human capital to a knowledge economy led many analysts and officials to reconceptualize social policy as social investment. By 1994, two prescient observers could write that "a 'social investment' model is replacing the 'social security' paradigm inherited from the sixties." The OECD argued in 1997 for shifting from a social expenditure to a social investment model; and Tony Giddens' influential book on *The Third Way*, argued that the 'welfare state' which protected people from the market should be replaced by a 'social investment state' whose objective would be to integrate people into the market.[108]

These moves were not simply a rhetorical flourish, based on the premise that goverments would be more willing to aid to the disadvantaged if that was seen to provide a social return, but the beginning of a more profound reorientation of social policy toward the needs of the economy.[109] Social policy was to be seen, no longer as an effort to reward previous work or address disadvantage, but as a set of measures designed to deliver future returns to the individual and society. If the elderly had been the quintessential beneficiaries of the traditional welfare state, policies of social investment were targeted more heavily on the young and those raising families. They turned on policies of 'activation' oriented to increasing employment by encouraging people who might otherwise be on the margins of the labor market, such as women, youth and the long-term unemployed, to enter paid work and giving them the support or skills to do so.

This new approach had special appeal for governments in Europe, where levels of youth and long-term unemployment remained high and traditional social expenditure were squeezed by slow rates of growth. In this context, the social investment perspective conferred new legitimacy on social policy as a means to improve economic growth. But it also represented another reformulation of the implicit social contract. Instead of counting on the welfare state to replace income lost through unemployment, people who wanted to receive social benefits were now

---

[105] Becker 1864; Goldin and Katz 2009; Heckman and Masterov 2007.
[106] Katz and Murphy 1992; Krueger 1993; Autor and Dorn 2013; Oesch 2013.
[107] Freeman and Soele 1997; Dosi et al. 1990; Lundvall 1992.
[108] Miles and Street 1994: 7; OECD 1997; Giddens 1998 quoted in Jenson and Saint-Martin 2003.
[109] Jenson and Saint-Martin 2003; Morel *et al.* 2012; Hemerijck 2013.

expected to work; and the failure to find work was seen, no longer as an unfortunate event, but as an act injurious to the growth potential of society.

Growth Regimes

In a process that is still on-going, the governments of the developed democracies have shifted their growth regimes to meet the challenges of knowledge-based growth. Contemporary approaches to improving productivity reflect a growing consensus that the most effective ways to do so are to increase the human capital embodied in the workforce and to promote the diffusion of ICT across the economy. Accordingly, many governments have devoted more resources to education; and rates of tertiary education have increased substantially across the OECD since 1990. Some governments have also made concerted efforts to promote continuing education, especially in subjects related to ICT. In the late 1990s, for instance, Sweden enrolled almost ten percent of its adult population in two such programs.

Persuading firms to adopt ICT has been a more complex task and efforts to do so vary widely across countries. A few governments have increased spending on research and development; and there have been some efforts to promote product-market competition in order to encourage firms to adopt the latest technology. For such purposes, the European commission has pushed for the liberalization of services and taken steps to promote a digital economy, notably by limiting the monopoly power of broadband providers. But the contribution ICT makes to value-added in Europe still lags American levels, especially in retail services and distribution where an understandable attachment to local shops inhibits efforts to secure economies of scale.[110]

In line with ideas about social investment, efforts to increase employment have put a new emphasis on activation. Many governments have reduced the duration for which unemployment benefits are available and made the receipt of benefits contingent on active job search or retraining. The initiatives of the Clinton administration to turn 'welfare' into 'workfare' and parallel moves by the British government under Tony Blair exemplify this dimension of the new policy regime. In continental Europe, such measures have been supplemented by active labor market policies (ALMP) which devote resources to improving skills and drawing people into the workforce. These policies can take several forms.[111] One approach provides more resources for those searching for jobs, as Germany has done following the lead of Denmark and Sweden. Another focuses on the provision of training for those without work, while a third approach characteristic of France supplies public employment or incentives for firms to hire the young or long-term unemployed on

[110] van Ark *et al*. 2008.
[111] Bonoli 2005.

the premise that this will confer the contacts and skills necessary to secure permanent employment. Many European countries have been spending from two to four percent of GDP on such programs.

In this context, family policy has also assumed a new importance. Under the aegis of securing a better work-life balance, governments have made more generous provisions for parental leave and daycare in order to draw more women into the labor force. Many of these measures also facilitate early childhood development, which is increasingly seen as an important form of social investment, based on evidence that educational and occupational achievement is closely related to the support a child receives in the early years.[112]

With respect to securing capital, the dominant feature of this era has been the tolerance governments have shown for new financial instruments and higher leverage ratios, including a substantial expansion of household debt. In 1999, the American government repealed the Glass-Steagall Act, thereby allowing banks to engage in riskier financial operations; and governments tolerated asset booms that buoyed the constructions sectors of Ireland, Spain, the Netherlands, Britain, the U.S., and parts of Eastern Europe. With the advent of EMU, the cost of capital fell especially dramatically in southern Europe, where northern European financial institutions invested funds generated by their growing trade surpluses, encouraging demand-led growth strategies there.[113] Of course, accumulating risk culminated in the global financial crisis of 2008-09; and financial policy-making since then has been a balancing act, as governments seek to reduce systemic risks by raising capital ratios and restricting financial speculation without inhibiting lending for productive investment. At the same time, governments have shifted their attention away from securing higher volumes of industrial investment toward the problem of providing sources of venture capital for start-ups seeking to innovate.[114] French governments, for instance, have seeded several venture capital firms and taken steps to make it easier for entrepreneurs to start small enterprises, while Swedish governments have moved sums out of regional development funds into new pools of venture capital.[115]

Once again, national strategies reflect both commonalities and important variations. Under Tony Blair, the British government elected on a cross-class coalition in 1997 pursued policies oriented toward a 'third way' which put a heavy emphasis on improving the nation's human capital. Within months of taking office, Blair set a goal of ensuring that fifty percent of the relevant

[112] Heckman and Masterov 2007.
[113] Blyth 2013; Hall 2014.
[114] Breznitz 2007; Ornston 2012.
[115] Trumbull 2004; Schnyder 2012.

age cohort attended university, and he increased overall spending on education by 25 percent. The premise was that the general skills provided by tertiary education would be crucial to employment in the better-paid parts of the service sector, including a large financial sector that British governments defended assiduously against European efforts to regulate it more strictly. At the other end of the labor market, the Blair government implemented a 'Fair Deal' program that 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. Britain could depend on the highly-competitive product markets of a liberal market economy to diffuse ICT, and it fared well in the early years of knowledge-based growth. ICT currently contributes more to value-added in Britain than it does in most European countries; employment rates have remained high, and exports in business services have grown rapidly.[116]

French governments also emphasized education as the route to higher rates of growth in this era, initially by expanding vocational training to ensure all young people had two years of training after the *baccalauréat* and then by increasing funding for higher education.[117] On the premise that the unemployed need a foothold in the workforce to secure stable jobs, the government took a series of steps to induce firms to hire the unemployed. Rather than lower the minimum wage, which had become an entrenched feature of the labor market and a totem of the national commitment to maintain purchasing power, successive governments chose to subsidize the social charges paid by employers and employees, using a series of special taxes on incomes to fund these measures. By the early 2000s, these subsidies were worth almost six billion Euros a year.[118] As a result, social spending rose from 24 to 28 percent of GDP between 1990 and 2005; but, as Palier notes, by subsidizing low-wage jobs, these programs have inhibited firms from moving toward higher-valued added forms of production.[119]

The efforts of French governments to advance the use of new technology have been equally mixed. On the one hand, steps were taken to increase the availability of venture capital and facilitate the formation of small firms; and state-sponsored efforts to diffuse ICT gave France an early start in ICT.[120] On the other hand, investment in research and development languished well below OECD norms during the 2000s; and the French economy has remained unusually dependent

[116] Timmer *et al.* 2011.
[117] Culpepper 2003.
[118] Carbonnier *et al.* 2014.
[119] Palier 2012.
[120] Trumbull 2004; Stevens 2012.

on a few national champions in energy, armaments and aerospace, whose sales are often as much a diplomatic as an economic achievement.[121]

Sweden provides a strong counter case. In the wake of the 1992 economic collapse, that country entered the era of knowledge-based growth with a deep sense of crisis, convinced that prosperity would require a new growth regime. The result was a new set of policies built on concerted action by highly-organized producer groups.[122] Public investment in education grew from 5 to 7 percent of GDP between 1990 and 2000; and two programs of continuing education, focused on enhancing the skills required by ICT, enrolled almost ten percent of the adult population between 1997 and 2000. In cooperation with government, firms doubled their investment in research and development. With the agreement of producer groups, the government abolished the tax advantages of large corporations in order to stimulate investment in start-ups, and diverted regional development funds to jump-start a market in venture capital. By 2003, at 26 percent of GDP, the value of private equity funds in Sweden was close to American levels. 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 is among the highest in the OECD.[123]

However, Swedish efforts to manage the labor market have not been entirely successful. On the one hand, levels of social investment remain high and, although the delivery of many public services has been privatized, they are still publicly subsidized and an important source of employment. On the other hand, strong divisions between white and blue-collar trade unions continue to hamper efforts to revise the vocational training system; and recent governments have struggled to integrate large numbers of immigrants into the labor market.[124] Prospects are rising that the country may have to tolerate the growth of a secondary labor market, which is currently being encouraged by tax deductions for households employing domestic labor. Nevertheless, the Swedish economy has recently generated some of the highest rates of employment and growth in the OECD.

Although less dramatic than those of Sweden, Germany's efforts to cope with the revolution in ICT have also centered on its large manufacturing sector and been facilitated by the capacities of its producer groups for strategic coordination. German governments have been slow

[121] Cohen 1977.
[122] Ornston 2013.
[123] Schnyder 2012; van Ark *et al.* 2008.
[124] Thelen 2014; Dolvik *et al.* 2015.

to increase enrollments in tertiary education, partly because industry depends heavily on an extensive system of collaborative vocational training; but that training was gradually upgraded to accommodate the growing role of ICT in production, which now makes a major contribution to value-added.[125]

With regard to social investment, the country has been a laggard. In order to create jobs in services, it took steps in this era much like those its neighbors undertook some years before. Facing an endemic unemployment problem after reunification, German governments introduced a series of measures to make temporary labor contracts, agency employment and part-time work more feasible. However, the most prominent steps 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 steps took levels of female and total employment in Germany toward European averages, but at the cost of creating a large secondary labor market of precarious employment alongside more secure positions in manufacturing.[126] Focused on activation, the 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. Nevertheless, intensifying competition for the votes of women gradually inspired some forms of social investment, such as the von der Leyen reforms to expand daycare facilities and extend paternity leave in 2006. 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.

However, much of Germany's economic success after 2000 is attributable to the effectiveness with which coordinated wage bargaining held down unit labor costs to offset the losses in competitiveness that followed reunification.[127] The effect was to shift a growth regime that had been relatively balanced between domestic demand and exports 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 high real interest rates linked to the strict monetary policies of the

125 Busemeyer 2015.
126 Thelen 2014; Hassel 2006.
127 Carlin and Soskice 2009; Dustman *et al.* 2014.

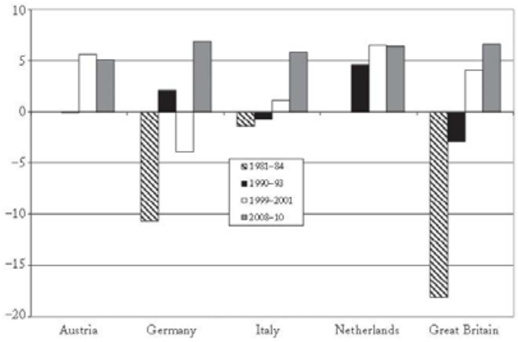


Figure Eight (a): Gender gap in party preferences (higher values = left). *Source*: Morgan 2013.

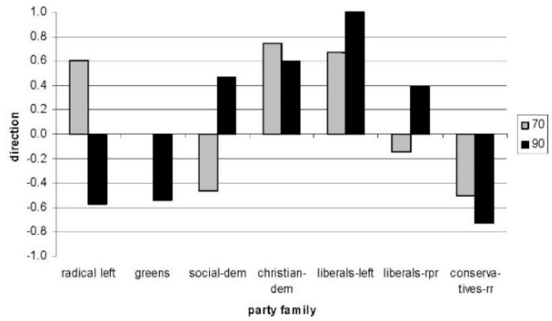


Figure Eight (b): Intensity of support/opposition for/to European integration 1970 & 1990. S*ource*: Kriesi 2005.

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 the purchasing power of its workforce.

Electoral Politics

Once again, the movement toward new policies was underpinned by the efforts of parties on both the center-left and right to assemble coalitions of voters in an electoral context that was being reshaped by a changing economy. Policies of social investment, in particular, have been conditioned by several developments.

One was a movement in the policy preferences of women, rooted in rising rates of female labor force participation that had been promoted by growth regimes during the era of liberalization.[128] 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 widely seen as a conservative force in politics. However, as church attendance declined and more 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. Many who worked part-time also favored the active labor market policies that expanded such positions.[129]

[128] By 2000, for instance, more women than men were members of British trade unions.
[129] Morgan 2013; Marx and Picot 2013.

In the first instance, social democratic parties were the beneficiaries of this development. Social investment grew initially in the Nordic countries, where working women had become one of the key constituencies for social democratic parties; but a significant gender gap also opened up in other countries (see Figure Eight a). By the 2000s, however, Christian Democratic parties were also bidding for women's votes, with policies such as the German von der Leyen reforms of 2006.[130]

Parties have also been encouraged to adopt policies of social investment by shifts in the occupational structure that have increased the number of socio-cultural professionals, whose work in education, healthcare and some segments of business services entails high levels of interpersonal interaction.[131] People in those occupations now form 15 to 20 percent of the electorate in most European countries and tend to favor social investment. Indeed, support for more spending on education and daycare, for instance, is higher among this group than among the industrial working class.[132] By advocating policies of social investment, parties have been seeking to bring together coalitions of working women and socio-cultural professionals.

The types of social investment any one party will promote varies, however, with the character of existing policy regimes. As Gingrich and Ansell note, there is a distributive politics of social investment: parties choose which kinds of policies to promote based on whether their longstanding supporters will benefit from them.[133] In Germany where only a small proportion of the working class attends university, for instance, center-right parties are more likely to increase university funding on the grounds that their middle-class constituents will be the major beneficiaries. Once tertiary enrollments approach a majority of the relevant age cohort, however, social democratic parties become more inclined to fund higher education.[134] Moreover, the complexity of these dynamics has been compounded by the appearance of cleavages within the middle class between sociocultural professionals supportive of social investment and managerial or technical professionals who are less sympathetic to them.[135] These dynamics give rise to national variations in the types of social investment that are funded.

As liberalization reduced job security and skill-biased technological change eliminated many well-paid positions, this era has also seen the deepening of what some describe as an integration cleavage, separating those who expect to benefit from an internationally-interdependent

---

[130] Seeleib-Kaiser *et al.* 2008.
[131] Kitschelt and Rehm 2014.
[132] Gingrich and Häusermann 2015; Marx and Picot 2013; Beramendi *et al.* 2015.
[133] Gingrich and Ansell 2015.
[134] Ansell 2010; Busemeyer 2015.
[135] Wren and Rehm 2013.

knowledge economy and those who see themselves as losing from it.[136] In many cases, this cleavage overlaps the values cleavage that appeared in the early 1980s, and there is debate about what motivates those on each side of it. But, as material concerns reinforce differences in values, the effect 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 right and left ends of the political spectrum.[137]

In Europe, the growing salience of this integration cleavage has been reflected in the movement of radical right parties. Once relatively right-wing on economic issues even as they rallied support on issues of immigration, these parties have moved toward the left of the spectrum on economic issues, where they now mobilize on the basis of opposition to the European Union, seen as a vehicle for globalization and liberalization. As a result, electoral politics in Europe has been reorganized along a cleavage that aligns voters with higher levels of education and the skills to prosper in more open markets against those who believe their jobs and social status are under threat. 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 (see Figure Eight b).

In short, the growth regimes of the knowledge economy have been fueled by the efforts of political parties to build new coalitions within an electoral arena that is gradually being reorganized by socioeconomic developments. Mainstream parties of the right and left have been seeking votes on the basis of their competence to manage a knowledge economy and on support for policies of social investment designed to appeal to new adherents – among working women, people seeking better jobs, and parents concerned about their children's future. But the loss of 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.[138]

V. Conclusion

Although the quest for economic growth has been a constant of the postwar years, the growth regimes pursued in the developed democracies have changed significantly over that time. In the era of modernization of the 1950s and 1960s, governments circumscribed the operation of markets, via

[136] Kriesi *et al.* 2008.
[137] Kitschelt 1997.
[138] Gidron 2014.

assertive state intervention, as in France and Britain, or the development of dense networks of rules to govern coordination by producer groups, as in Sweden and Germany. The social policies adopted in this period laid the ground for contemporary welfare states. Asserting democratic mandates, governments took steps to ensure that markets were embedded within the social orders over which they presided.

During the subsequent era of liberalization in the 1980s and 1990s, governments relaxed that stance. Growth regimes were based on liberalization of product, labor and capital markets. This movement was again marked in Britain and France, but most countries saw a weakening of trade unions, the devolution of wage bargaining toward the firm-level and changes in the regulatory environment for finance. During the era of knowledge-based growth that began around 1995, the growth regimes of the developed democracies shifted again toward efforts to promote the diffusion of information technology and policies of social investment designed to enhance the skills of the workforce.

In each case, growth regimes moved in tandem with secular shifts in the economy that altered the terms on which governments could promote productivity, employment and investment. However, the response of governments was mediated by changes in the economic gestalt through which those developments were interpreted. That gestalt was shaped by evolving economic ideas and by reactions to the apparent failures of prior policy with political as well as economic dimensions. Thus, shifts in policy were often accompanied by changes in the implicit social contract embodying contemporary understandings about the legitimate responsibilities of governments, firms and other actors.

Moreover, although policies are usually initially crafted by experts responding to new economic challenges, electoral circumstances play a major role in whether they are adopted by democratic governments. There is ample evidence that economic policy-making is a matter of coalition-building. The German growth regimes of the postwar period were built, for instance, on a cross-class coalition centered on workers and employers in manufacturing, assembled most effectively by the CDU until the 1970s, when a surge of post-materialist sentiment increased support for the political left. Postwar policy-making in Sweden also tracks the efforts of a social democratic party to build its electoral coalition with successive sets of socioeconomic reforms, including income-related pensions, state-sponsored social services and investment funds, designed to join new groups of white-collar workers to its blue-collar base.

In some respects, Britain and France during the era of liberalization supply the limiting cases. Electoral circumstances continued to dictate what their governments could do, but neither 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 depended on the declining salience of class and the growth of middle-class support for the left to implement policies of liberalization. But those 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.[139]

A number of scholars argue, with some reason, that democratic governments are no longer as responsive to electorates as they once were.[140] But, in the era of knowledge-based growth, economic policy-making has still been based on attempts to build new electoral coalitions, in which the votes of women and of middle-class professionals are important stakes.[141] 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 based on high-skill professionals and aspirational segments of the working class who may not have had a tertiary education but hope their children will.[142]

Accordingly, I have argued that changes in growth regimes parallel changes in the cleavage structures of electoral politics, which often have roots in economic developments under the previous growth regime. The economic policies of the era of modernization were a response to electoral competition dominated by a class cleavage; and the decline of that cleavage made possible the central policies of the era of liberalization. In the era of knowledge-based growth, policy-making reflects a struggle to put together new coalitions in an increasingly-fragmented electoral arena, out of social groups whose interests are conditioned by the economic developments they have experienced.

In sum, growth regimes evolve over time in response to changes in the economic and political challenges confronting governments. Although the platforms of political parties display some coherence over time, rooted in an effort to retain traditional constituencies, they can also change quite dramatically as parties seek responses to new economic developments that also shift the available political coalitions. We cannot understand the role of partisan politics in the political economy without taking these dynamic elements of it into account.

---

[139] Hall 2005.
[140] Mair 2013; Streeck 2014.
[141] Gingrich and Häusermann 2015.
[142] Geering and Häusermann 2013. I owe the last point to conversations with David Soskice.

It should be noted that there are two pieces of the puzzle missing here because they cannot be considered within the space of a single paper. As I have noted, producer group politics also makes a significant contribution to the evolution of growth regimes; and one of the challenges facing the field is to develop a better understanding of the relative roles that electoral politics and producer politics play in the development of such regimes.[143] My focus has also been on the commonalities to be found in change over time rather than on divergence across nations. However, I have provided brief outlines of how growth regimes in each era varied across four countries, which indicate that the economic and political developments highlighted here did not have homogenous effects in all of them. Some countries moved more rapidly in certain directions than others, and there are clear limits to the extent to which national growth regimes converged. Closer inspection would reveal national adjustment trajectories, often rooted in varieties of capitalism, worthy of more scrutiny and explanation. However, my objective has been to show how the overall character of growth regimes in the developed democracies changed over the course of the postwar period and to argue that this process of change is one in which economics and politics both played important roles.

[143] For insightful treatments of producer group politics, see: Hacker and Pierson 2010; Culpepper 2011; Thelen 2014.

Acknowledgments

I am grateful to Peter Gourevitch, Deborah Mabbett, Dani Rodrik, Waltraud Schelkle and Rosemary Taylor for comments on an earlier version and to a World Politics Fellowship at Princeton University for support.

References

Becker, Gary. S. 1964. *Human Capital.* New York: Columbia University Press.

Beer, Samuel H. 1969. *Modern British Politics*. London: Faber. Aghion, Philippe and Peter Howitt. 2006 "Appropriate Growth Policy: A Unifying Framework," *Journal of the European Economic Association* 4:2-3: 269-314.

Aglietta, Michel. 1979. *A Theory of Capitalist Regulation*. London: Verso.

Antràs, Pol, Luis Garicano and Esteban Rossi-Hansberg. 2006. "Offshoring in a Knowledge Economy," *Quarterly Journal of Economics*.

Autor, David H. and David Dorn. 2013. "A Theory of Low-Skill Jobs and the Polarization of the U.S. Labor Market, *American Economic Review* 103:5: 1553-97.

Beer, Samuel H. 1982. *Britain against Itself: The Political Contradictions of Collectivism*. New York: Norton.

Beramendi, Pablo, Silja Häusermann, Herbert Kitschelt and HansPeter Kriesi, eds. 2015. *The Politics of Advanced Capitalism*. New York: Cambridge University Press.

Berger, Suzanne. 1981. "Lame Ducks and National Champions: Industrial Policy in the Fifth Republic." In Edward Andrews and Stanley Hoffmann, eds., *The Fifth Republic at Twenty*. Albany: SUNY Press: 292-310.

Berger, Suzanne. 2005. *How We Compete*. New York: Broadway Business.

Berger, Suzanne and Ronald Dore. 1996. *National Diversity and Global Capitalism*. Ithaca: Cornell University Press.

Beveridge, William. 1942. *Social Insurance and Allied Services*. London: HMSO.

Block, Fred. 2011. *State of Innovation: The US Government's Role in Technology Development*. New York: Paradigm.

Blyth, Mark. 2013. *Austerity: The History of a Dangerous Idea.* New York: Oxford University Press.

Boltanski, Luc and Eve Chiapello. 2007. *The New Spirit of Capitalism*. London: Verso.

Bonoli, Giulio. 2005. "The Political Economy of Active Labor Market Policy," *Politics & Society* 37:4: 435-57.

Boyer, Robert. 1990. *The Regulation School: A Critical Introduction*. New York: Columbia University Press.

Breznitz, Dan. 2007. *Innovation and the State: Political Strategies for Growth in Israel, Taiwan and Ireland.* New Haven: Yale University Press.

Brittan, Samuel. 1971. *Steering the Economy*. Harmondsworth: Penguin.

Brynjollfson, Erik and Andrew McAfee. 2014. *The Second Machine Age*. New York: Norton.

Busch, Andreas. 2008. *Banking Regulation and Globalization*. Oxford: Oxford University Press.

Busemeyer, Marius. 2015. *Skills and Inequality: Partisan Politics and the Political Economy of Education Reforms in Western Welfare States*. New York: Cambridge University Press.

Callaghan, Helen and Martin Höpner. 2005. "European Integration and the Clash of Capitalisms: Political Cleavages over Takeover Liberalization," *Comparative European Politics* 3: 307-32.

Calmfors, Lars and John Driffill. 1988. "Bargaining Structure, Corporatism and Macroeconomic Performance," *Economic Policy* 3, 6: 13-61.

Cameron, David. 1984. "Social Democracy, Corporatism, Labor Quiescence and the Representation of Economic Interest in Advanced Capitalist Society.". In John Goldthorpe, ed. *Order and Conflict in Contemporary Capitalism*. Oxford: Oxford University Press:

Carbonnier, Clément, Bruno Palier and Michaël Zemour. 2014. "Tax Cuts or Social Investment: Evaluating the Opportunity Costs of the French Employment Strategy." LIEFF Working Paper, Sciences Po, Paris.

Carlin Wendy and David Soskice. 2009. "German Economic Performance: Disentangling the Role of Supply-Side Reforms, Macroeconomic Policy and Coordinated Economy Institutions," *Socio-Economic Review* 7: 69-99.

Centeno, Miguel A. and Joseph N. Cohen. 2012. "The Arc of Neoliberalism," *Annual Review of Sociology* 38: 317-40.

Clark, Terry Nichols and Seymour Martin Lipset, eds. 2001. *The Breakdown of Class Politics: A Debate on Post-Industrial Stratification*. Baltimore: Johns Hopkins University Press.

Cohen, Stephen S. 1977. *Modern Capitalist Planning: the French Model*. Berkeley: University of California Press.

Congleton, Roger D., Arie L. Hillman and Kai A. Konrad, eds. 2008. *40 Years of Research on Rent-Seeking*. Berlin: Springer Verlag.

Crafts, Nicholas and Gianni Toniolo, eds. 1996. eds., *Economic Growth in Europe since 1945*. Cambridge: Cambridge University Press.

Crosland, C.A.R. 1956. *The Future of Socialism*. London: Jonathan Cape.

Crouch, Colin. 2011. *The Strange Non-Death of Neoliberalism*. Cambridge: Polity Press.

Crouch, Colin and Alessandro Pizzorno, eds. 1978. *The Resurgence of Class Conflict in Western Europe*. London: Macmillan.

Crozier, Michel, Samuel P. Huntington and Joji Watanuki. 1974. *The Crisis of Democracies*. New York: New York University Press.

Culpepper, Pepper D. 2003. *Creating Cooperation: How States Develop Human Capital in Europe*. Ithaca: Cornell University Press.

Culpepper, Pepper D. 2005. "Institutional Change in Contemporary Capitalism: Coordinated Financial Systems since 1990. *World Politics*, 57:2, January 2005, pp. 173

Culpepper, Pepper D. 2009. "The Politics of Common Knowledge: Ideas and Institutional Change in Wage Bargaining," *International Organization* 62: 1-33.

Culpepper, Pepper D. 2011. *Quiet Politics and Business Power: Corporate Power in Europe and Japan*. New York: Cambridge University Press.

Culpepper, Pepper, Peter A. Hall, and Bruno Palier. eds. 2006. *Changing France: The Politics that Markets Make*. London: Palgrave-Macmillan.

Dalton, Russell J., Scott C. Flanagan and Paul Allen Beck. eds. 1984. *Electoral Change in Advanced Industrial Democracies: Realignment or Dealignment?*. Princeton: Princeton University Press.

Deeg, Richard. 1999. *Finance Capitalism Unveiled: Banks and the German Political Economy*. Ann Arbor: University of Michigan Press.

Deeg, Richard. 2010. "Industry and Finance in Germany since Reunification." *German Politics and Society*, 28 (2): 116-129.

Dobbin, Frank. 1997. *Forging Industrial Policy: the United States, Britain and France in the Railway Age*. New York: Cambridge University Press.

Dolvik, Jan Erik, Jorgen Goul Andersen and Juhana Variainen. 2015 "The Nordic Social Models in Turbulent Times: Consolidation and Flexible Adaptation." In Jan Erik Dolvik and Andrew Martin, eds. European Social Models from Crisis to Crisis. Oxford: Oxford University Press: 246-86.

Dornbusch, Rudiger. 1990. "The New Classical Economics and Stabilization Policy," *American Economic Review* 80: 2: 143-7.

Dosi, Giovanni, .Keith Pavitt and Luc Soele. 1990. *The Economics of Technical Innovation and International Trade*. Turin: LEM Books.

Dustmann, Christian, Bernd Fitzenberger, Uta Schönberg and Alexandra Spitz-Oener. 2014. "From Sick Man of Europe to Economic Superstar: Germany's Resurgent Economy," *Journal of Economic Perspectives* 28:1: 167-88.

Eichengreen, Barry. 1996. "Institutions and Economic Growth: Europe after World War II." In Nicholas Crafts and Gianni Toniolo, eds., *Economic Growth in Europe since 1945*. Cambridge: Cambridge University Press: 38-72.

Eichengreen, Barry. 2007. *The European Economy since 1945: Coordinated Capitalism and Beyond*. Princeton: Princeton University Press.

Elbaum, Bernard and William Lazonick. eds. 1985. *The Decline of the British Economy*. New York: Oxford University Press.

Espeland, Wendy N. and Michael Sauder. 2007. "Rankings and Reactivity: How Public Measures Recreate Social Worlds," *American Journal of Sociology* 113, 1: 1-40.

Esping-Andersen, Gosta, 1990: *Three Worlds of Welfare Capitalism*. Princeton: Princeton University Press.

European Union. 2000. Presidency Conclusions, Lisbon European Council 23-24 March http://www.consilium.europa.eu/en/uedocs/cms_data/docs/pressdata/en/ec/00100-r1.en0.htm

Evans, Geoffrey and James Tilley. 2012. "How Parties Shape Class Politics: Explaining the Decline of the Class Basis of Party Support," *British Journal of Political Science* 41:1: 137-61.

Ferguson, Niall, Charles S. Maier, Erez Manela and Daniel J. Sargent, eds. 2010. *The Shock of the Global: The 1970s in Perspective*. Cambridge, MA.: Harvard University Press.

Fitoussi, Jean-Paul *et al*. 1993. *Competitive Disinflation: The Mark and Budgetary Politics in Europe*. Oxford: Oxford University Press.

Fourcade, Marion. 2009. *Economists and Societies: Discipline and Profession in the United States, Britain and France, 1890s-1990s*. Princeton: Princeton University Press.

Frank, Thomas. 2004. *What's The Matter with Kansas?* New York: Metropolitan Books.

Freeman, Chris and Luc Soele. 1997. *The Economics of Industrial Innovation*. London: Pinter.

Gamble, Andrew. 1994. *The Free Economy and the Strong State: The Politics of Thatcherism*. 2nd ed. Houndsmills: Palgrave Macmillan.

Giddens, Anthony. 1998. *The Third Way: The Renewal of Social Democracy*. Cambridge: Polity.

Gidron, Noam. 2014. "The Center Right in Times of Crisis: Evidence from the Netherlands." Paper presented at the Annual Meeting of the American Political Science Association.

Giersch, Herbert. 1985. "Eurosclerosis." Diskussionbeiträge 112. Kiel Institute for the World Economy.

Gingrich, Jane and Ben Ansell. 2015. "The Dynamics of Social Investment, Human Capital, Activation and Care." In Pablo Beramendi *et al*., eds. *The Politics of Advanced Capitalism*. New York: Cambridge University Press.

Gingrich, Jane and Silja Häusermann. 2015. "The Decline of the Working-Class Vote, the Reconfiguration of the Welfare Support Coalition and Consequences for the Welfare State," *Journal of European Social Policy* 25:1: 50-75.

Glick, Reuven and Kevin J. Lansing. 2010. "Global Household Leverage, House Prices and Consumption," Federal Reserve Bank of San Francisco Economic Letter. January 11.

Glyn, Andrew and Bob Sutcliffe. 1972. *British Capitalism, Workers and the Profits Squeeze*. Harmondsworth: Penguin.

Goldin, Claudia and Lawrence F. Katz. 2010. *The Race between Education and Technology*. Cambridge, Ma.: Belknap Press.

Goldthorpe, John H. 1978. "The Current Inflation: Towards a Sociological Account." In Fred Hirsch and John H. Goldthorpe, eds. *The Political Economy of Inflation*. London: Martin Robertson.

Goldthorpe, John H. ed.. 1984. *Order and Conflict in Contemporary Capitalism*. New York: Oxford University Press.

Gomory, Ralph and Richard Sylla. 2013. "The American Corporation," *Daedalus* 142 (2): 102-118.

Gourevitch, Peter A. 1986. *Politics in Hard Times*. Ithaca: Cornell University Press.

Goyer, Michel. 2012. *Contingent Capital: Short-Term Investors and the Evolution of Corporate Governance in France and Germany*. Oxford: Oxford University Press.

Grossman, Gene and Elhanan Helpman. 1993. *Innovation and Growth in the Global Economy*. Cambrige Ma: MIT Press.

Hacker, Jacob and Paul Pierson. 2010. *Winner Take All Politics* New York: Simon and Schuster.

Hall, Peter A. 1986. *Governing the Economy*. Oxford: Polity Press.

Hall, Peter A. ed. 1989. *The Political Power of Economic Ideas*. Princeton: Princeton University Press.

Hall, Peter A. 1993. "Policy Paradigms, Social Learning and the State: The Case of Economic Policy-Making in Britain," *Comparative Politics* (April): 275-96.

Hall, Peter A. 1994. "Central Bank Independence and Coordinated Wage Bargaining: Their Interaction in Germany and Europe," *German Politics and Society* (Winter): 1-23.

Hall, Peter A. 2005. "Preference Formation as a Political Process: The Case of Monetary Union in Europe." In *Preferences and Situations: Perspectives from Rational Choice and Historical Institutionalism,* eds. Ira Katznelson and Barry Weingast. New York: Russell Sage Foundation, 129-60.

Hall, Peter A. 2006. "The Politics of Social Change in France" in Pepper Culpepper, Peter A. Hall and Bruno Palier, eds., *Changing France: The Politics that Markets Make* London: Palgrave Macmillan: 1-26.

Hall, Peter A. 2007. "The Evolution of Varieties of Capitalism in Europe." In *Beyond Varieties of Capitalism: Conflict, Contradiction and Complementarities in the European Economy*, eds. Bob Hancké, Martin Rhodes and Mark Thatcher. Oxford: Oxford University Press: 39-88.

Hall, Peter A. 2014. "Varieties of Capitalism and the Euro Crisis," *West European Politics* 37:6: 1223-43.

Hall, Peter A. 2015. "The Changing Role of the State in Liberal Market Economies." In *The Oxford Handbook of Transformations of the State*, edited by Stephan Leibfried, Frank Nullmeier, Evelyne Huber, Matthew Lange, Jonah Levy, and John D. Stephens. Oxford: Oxford University Press 2015: 426-444.

Hall, Peter A. 2015. "The Political Sources of Social Solidarity." Paper presented at the International Conference of Europeanists, Paris, July.

Hall, Peter A. and Robert Franzese, Jr. 1998. "Mixed Signals: Central Bank Independence, Coordinated Wage Bargaining, and European Monetary Union," *International Organization* 52 (3): 505-35

Hall, Peter A. and Daniel.W. Gingerich. 2009. "Varieties of Capitalism and Institutional Complementarities in the Political Economy: An Empirical Analysis," *British Journal of Political Science* 39: 449–482.

Hall Peter A. and Michèle Lamont, eds. 2009. *Social Resilience in the Neoliberal Era*. New York: Cambridge University Press.

Hall, Peter A. and David Soskice, eds. 2001. *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*. Oxford: Oxford University Press.

Hall, Peter A. and Kathleen Thelen. 2009. "Institutional Change in Varieties of Capitalism," *Socio-Economic Review* 7: 7-34

Hancké, Bob. 2002. *Large Firms and Institutional Change: Industrial Renewal and Economic Restructuring in France*. Oxford: Oxford University Press.

Hansen, Berndt. 1968. *Fiscal Policy in Seven Countries 1955-1965*. Paris: OECD.

Hassel, Anke. 2006. *Wage Setting, Social Pacts and the Euro*. Amsterdam: Amsterdam University Press.

Heckman, James J. and D. V. Masterov. 2007. "The Productivity Argument for Investing in Young Children," *Applied Economic Perspectives and Policy* 29:3:

Hemerijck, Anton. 2013. *Changing Welfare States*. Oxford: Oxford University Press.

Herrigel, Gary. 2000. *Industrial Constructions: The Sources of German Industrial Power*. New York: Cambridge University Press.

Huber, Evelyne and John D. Stephens. 2001. *Development and Crisis of the Welfare State*. Chicago: University of Chicago Press.

Inglehart, Ronald. 1990. *Culture Shift*. Princeton: Princeton University Press..

Iversen, Torben. 1999. *Contested Economic Institutions*. New York: Cambridge University Press.

Iversen, Torben. 2006. "Class Politics is Dead! Long Live Class Politics! A Political Economy Perspective on the New Partisan Politics," *APSA-CP Newsletter* 17:2: 1-6.

Iversen, Torben and Thomas Cusack. 2000. "The Causes of Welfare State Expansion: Deindustrialization or Globalization," *World Politics*, 52: 313-49.

Iversen, Torben and David Soskice. 2006. "Electoral Institutions and the Politics of Coalitions: Why Some Democracies Redistribute More than Others," *American Political Science Review* 100 (2): 165-181.

Iversen, Torben and David Soskice. 2009a. "Distribution and Redistribution: The Shadow of the Nineteenth Century," *World Politics* 61: 3.

Iversen, Torben and David Soskice. 2015. "Democratic Limits to Redistribution: Inclusionary versus Exclusionary Coalitions in the Knowledge Economy," *World Politics* 67, 2: 185-225.

Iversen, Torben and Anne Wren. 1998. "Equality, Employment and Budgetary Restraint," *World Politics* 50 (2): 507-46.

Jabko, Nicolas. 2006. *Playing the Market: A Political Strategy for Uniting Europe, 1985-2005*. Ithaca: Cornell University Press.

Jenson, Jane and Denis Saint-Martin. 2003. "New Routes to Social Cohesion? Citizenship and the Social Investment State," *The Canadian Journal of Sociology* 28, 1: 77-99.

Johnson, Chalmers. 1982. *MITI and the Japanese Miracle*. Stanford: Stanford University Press.

Johnson, Harry. 1971. "The Keynesian Revolution and the Monetarist Counter-Revolution," *American Economic Review* 61:2: 1-14.

Katz, Lawrence. F. and Kevin M. Murphy. 1992. "Changes in Relative Wages, 1963-87: Supply and Demand Factors," *Quarterly Journal of Economics* 107, 1: 35-78.

Katzenstein, Peter. 1987. *Policy and Politics in Germany: The Growth of a Semi-Sovereign State*. Philadelphia: Temple University Press.

Keohane, Robert O. 1978. "Economics, Inflation and the Role of the State: Political Implications of the McCracken Report," *World Politics* 31:1: 108-28.

Keohane, Robert and Helen Milner. eds. 1996. *Internationalization and Domestic Politics*. New York: Cambridge University Press.

Kitschelt, Herbert. 1997. *The Radical Right in Western Europe*. Ann Arbor: University of Michigan Press.

Kitschelt, Herbert, Peter Lange, Gary Marks and John Stephens, eds. 1999. *Continuity and Change in Contemporary Capitalism*. New York: Cambridge University Press.

Kreile, Michael. 1978. "West Germany: Dynamics of Change." In *Between Power and Plenty*, ed. Peter Katzenstein. Madison: University of Wisconsin Press: 191-224.

Krieger, Joel. 1986. *Reagan, Thatcher and the Politics of Decline*. New York: Oxford University Press.

Kriesi, Hans-Peter. 2005. "The Mobilization of the Political Potentials Linked to European Integration by National Political Parties." Paper presented at the Conference on Euroskepticism. Pulitzer Hotel, 1-2 July.

Kriesi, Hans-Peter, Edgar Grande, Romain Lachat, Martin Dolezal, Simon Bornschier and Timotheos Frey, eds. 2008. *West European Politics in the Age of Globalization*. Cambridge: Cambridge University Press.

Krueger, Alan B. "How Computers Have Changed the Wage Structure: Evidence from Microdata, 1984-89," *Quarterly Journal of Economics* 108, 1: 33-60.

Lallement, Michel. 2006. "New Patterns of Industrial Relations and Political Action since the 1980s." In Pepper Culpepper, Peter A. Hall and Bruno Palier, eds., *Changing France*. Houndmills: Palgrave Macmillan: 50-79.

Landes, David. 1949. "French Entrepreneurship and Industrial Growth in the 19th Century," *Journal of Economic History*, 9, 1 (May): 45-61.

Leruez, Jacques. 1975. *Economic Planning and Politics in Britain*. London: Martin Robertson.

Lindberg, Leon M. and Charles S. Maier, eds. 1985. *The Politics of Inflation and Economic Stagnation*. Washington: Brookings Institution.

Lindblom, Charles. 1980. *Politics and Markets: The World's Political Economic Systems*. New York: Basic.

Lipset, Seymour Martin. 1964. "The Changing Class Structure and Contemporary European Politics," *Daedalus* 93(1) (Winter): 271-303.

Lucas, Robert. E. 1988. "On the Mechanics of Economic Development," *Journal of Monetary Economics* 22: 3-42.

Lundvall, Bengt Ake. ed. 1992. *National Systems of Innovation*. London: Pinter.

Mair, Peter. 2013. *Ruling the Void: The Hollowing of Western Democracy*. London: Verso.

Manow, Philip, Armin Schäfer and Hendrik Zorn. 2008. "Europe's Party Political Center of Gravity, 1957-2003," *Journal of European Public Policy* 15, 1: 20-39.

Manza, Jeff, Michael Hout and Clem Brooks. 1995. "Class Voting in Capitalist Democracies since World War II: Dealignment, Realignment or Trendless Fluctuation?" *Annual Review of Sociology* 21: 137-62.

Martin, Andrew. 1979. "The Dynamics of Change in a Keynesian Political Economy: The Swedish Case and its Implications." In Colin Crouch, ed., *State and Economy in Contemporary Capitalism*. London: Croom Helm.

Martin, Cathie Jo and Duane Swank. 2012. *The Political Construction of Business Interests*. New York: Cambridge University Press.

Martin, Cathie Jo and Kathleen Thelen. 2007. "The State and Coordinated Capitalism: The Contributions of the Public Sector to Social Solidarity in Postindustrial Societies," *World Politics* 60:1: 1-36.

Marx, P. and Georg Picot. 2013. "The Party Preferences of Atypical Workers in Germany," *European Journal of Social Policy* 23:2: 164-78.

McArthur, John and Bruce Scott. 1969. *Industrial Planning in France*. Boston: Harvard Business School.

McNamara, Kathleen. 1998. *The Currency of Ideas*. Ithaca: Cornell University Press.

Moravcsik, Andrew. 1998. *The Choice for Europe*. Ithaca: Cornell University Press.

Morel, Nathalie, Bruno Palier and Joachim Palme, eds. 2012. *Towards a Social Investment Welfare State: Ideas, Policies and Challenges*. London: Policy Press.

Morgan, Kimberly J. 2013. "Path Shifting of the Welfare State: Electoral Competition and the Expansion of Work-Family Policies in Western Europe," *World Politics* 65. 1, 73-115.

Mudge, Stephanie. 2011. "What's Left of Leftism: Neoliberal Politics in Western Party Systems, 1945-2008," *Social Science History* 35:3: 337-80.

Myles, John and Debra Street. 1994. "Should the Economic Life Course be Redesigned?" Working Paper Series, Pepper Institute on Aging and Public Policy, Florida State University.

National Employment Law Project. 2012. "The Low Wage Recovery and Growing Inequality." Data Brief, August.

Nölke, Andreas and Arjan Vliegenthart. 2009. "Enlarging the Varieties of Capitalism: The Emergence of Dependent Market Economies in East Central Europe," *World Politics* 61, 4: 670-702.

O'Connor, James. 1979. *The Fiscal Crisis of the State*. New Brunswick NJ: Transaction.

Oesch, Daniel. 2013. *Occupational Change in Europe: How Technology & Education Transform the Job Structure*. Oxford: Oxford University Press.

Oesch, Daniel and Jorge Rodgriguez Menés. 2010. "Upgrading or Polarization: Occupational Change in Britain, Germany, Spain and Switzerland, 1990-2008," *Socio-Economic Review*: 1-29.

Offe, Claus. 1983. "Competitive Party Democracy and the Keynesian Welfare State: Factors of Sability and Disorganization," *Policy Sciences*, 15: 225-46.

Organisation for Economic Cooperation and Development. 1996. *The Knowledge-Based Economy*. Paris: OECD.

Organisation for Economic Cooperation and Development. 1997. *Societal Cohesion and the Globalising Economy*. Paris: OECD.

Ornston, Darius. 2012. *When Small States Make Big Leaps: Institutional Innovation and High Tech Competition in Western Europe*. Ithaca: Cornell University Press.

Ornston, Darius. 2013. "Creative Corporatism: The Politics of High-Technology Competition in Nordic Europe," *Comparative Political Studies*

Pagano, Marco, and Paolo F. Volpin. 2005. "The Political Economy of Corporate Governance." *American Economic Review*, 95:4: 1005-1030.

Palier, Bruno. 2005. "Ambiguous Agreement, Cumulative Change: French Social Policy in the 1990s. In Wolfgang Streeck and Kathleen Thelen, eds., *Beyond Continuity: Institutional Change in Advanced Political Economies*. Oxford: Oxford University Press: 127-144.

Palier, Bruno. 2012. "Construire un Avenir de Qualité pour Tous et Toutes." Terra Nova Note 1/3, Paris.

Palier, Bruno and Kathleen Thelen. 2010. "Institutionalizing Dualism: Complementarities and Change in France and Germany," *Politics & Society* 38 (1): 119-48.

Pierson, Paul. Ed. 2001. *The New Politics of the Welfare State*. New York: Oxford University Press.

Piore, Michael and Charles Sabel. 1984. *The Second Industrial Divide*. New York: Basic Books.

Pontusson, Jonas. 1992. *The Limits of Social Democracy: Investment Politics in Sweden*. Ithaca: Cornell University Press.

Pontusson, Jonas and Peter Swenson. 1996. "Labor Markets, Production Strategies, and Wage Bargaining Institutions: The Swedish Employer Offensive in Comparative Perspective," *Comparative Political Studies* 29 (April): 223-50.

Powell, Walter W. and Kaisa Snellman. 2004. "The Knowledge Economy," *Annual Review of Sociology* 30: 199-220.

Przeworski, Adam and John Sprague. 1986. *Paper Stones: A History of Electoral Socialism*. Chicago: University of Chicago Press.

Przeworski, Adam and Michael Wallerstein. 1982. "The Structure of Class Conflict in Democratic Capitalist Societies," *American Political Science Review* 76: 215-38.

Rajan, Ragurham. 2010. *Fault Lines: How Hidden Fractures Still Threaten the World Economy*. Princeton: Princeton University Press.

Regan, Aidan. 2014. *The Rise and Fall of Irish Social Partnership*. Doctoral Thesis. University College Dublin.

Riddell, Peter. 1991. *The Thatcher Era and its Legacy*. Oxford: Basil Blackwell.

Rodrik, Dani. 1997. *Has Globalization Gone Too Far?* Washington: Institute for International Economics.

Romer, Paul M. 1990. "Endogenous Technologicall Change," *Journal of Political Economy*. 98: 5: S71-102.

Sally, Razeen. 2007. "The Social Market and Liberal Order: Theory and Policy Implications," *Government and Opposition* 29:4: 461-76.

Sandbrook, Dominic. 2010. *State of Emergency: The Way We Were. Britain. 1970-1974*. London: Allen Lane.

Scharpf, Fritz. 2000. "Economic Changes, Vulnerabilities and Institutional Capabilities." In Scharpf, Fritz and Vivien Schmidt. 2000. *Welfare and Work in the Open Economy: From Vulnerability to Competitiveness*. I. Oxford: Oxford University Press: 21-124.

Schmitter, Philippe and Gerhard Lehmbruch. eds. 1979. *Trends toward Corporatist Intermediation*. Beverly Hills: Sage.

Schnyder, Gerhard. 2012. "Like a Phoenix from the Ashes? Reassessing the Transformation of the Swedish Political Economy since the 1970s," *Journal of European Public Policy* 19:8: 1126-1145.

Seeleib-Kaiser, M, van Dyuk, S. and Roggenkamp, M. 2008. *Party Politics and Social Welfare: Comparing Christian and Social Democracy in Austria, Germany and the Netherlands*. Cheltenham: Edward Elgar.

Servan-Schreiber, Jean-Jacques. 1969. *The American Challenge*. New York: Avon.

Sewell, William H. 2005. *Logics of History: Social Theory and Social Transformation*. Chicago: University of Chicago Press.

Sewell, William H., Jr. 2008. "The Temporalities of Capitalism," *Socio-Economic Review* 6:3: 517-37.

Shonfield, Andrew. 1958. *British Economic Policy since the War*. London: Penguin.

Shonfield, Andrew. 1969. *Modern Capitalism*. Oxford: Oxford University Press.

Stansky, Peter. 1974. ed. *The Victorian Revolution*. New York: Franklin Watts.

Stein, Jerome L. 1981. "Monetarist, Keynesian and New Classical Economics," *American Economic Review* 71:2: 139-44.

Stevens, Hélène. 2012. "La Régime de l'Auto-Entrepreneur: Une Alternative Désirable au Salariat?" *Savoir/agir*.

Stilwell, Frank. 2006. *Political Economy: The Contest of Ideas*. 2nd ed. Oxford: Oxford University Press.

Stockman, David. 1986. *The Triumph of Politics: Why the Reagan Revolution Failed*. New York: Harper and Row.

Streeck, Wolfgang. 1991. "On the Institutional Conditions for Diversified Quality Production" in Egon Matzner and Wolfgang Streeck, eds., *Beyond Keynesianism*. Aldershot: Elgar: 21-61.

Streeck, Wolfgang. 1994. "Pay Restraint without Incomes Policy: Institutionalized Monetarism and Industrial Unionism in Germany." In *The Return of Incomes Policy*, eds. Ronald Dore, Robert Boyer and Zoe Mars. London: Pinter: 118-30.

Streeck, Wolfgang. 2009. *Re-Forming Capitalism: Institutional Change in the German Political Economy*. Oxford: Oxford University Press.

Streeck, Wolfgang. 2014. *Buying Time: The Delayed Crisis of Democratic Capitalism*. London: Verso.

Swenson, Peter. 2002. *Capitalists against Markets*. NY: Oxford University Press.

Tassey, Gregory. 2014. "Competing in Advanced Manufacturing: The Need for Improved Growth Models and Policies," *Journal of Economic Perspectives* 28:1: 27-48.

Thatcher, Mark. 1999. *The Politics of Telecommunications*. Oxford: Oxford University Press.

Thelen, Kathleen. 1991. *Union of Parts: Labor Politics in Postwar Germany*. Ithaca: Cornell University Press.

Thelen, Kathleen. 2004. *How Institutions Evolve*. New York: Cambridge University Press.

Thelen, Kathleen. 2014. *Varieties of Liberalization and the New Politics of Social Solidarity*. New York: Cambridge University Press.

Thelen, Kathleen and Christa van Wijnbergen. 2003. "The Paradox of Gobalization: Labor Relations in Germany and Beyond," *Comparative Political Studies* 36, 8: 859-80.

Timmer, Marcel P. Robert Inklaar, Mary O'Mahony and Bart van Ark. 2011. "Productivity and Economic Growth in Europe: A Comparative Industry Perspective," *International Productivity Monitor* 21: 3-23.

Trumbull, Gunnar 2004. *Silicon and the State: French Innovation Policy in the Internet Age*. Washington: Brookings Institution.

Van Ark, Bart. Mary O'Mahony and Marcel Timmer. 2014. "Growth and Stagnation in Europe's Economies." Presentation to the Third World KLEMS Conference, May 19-20, Tokyo.

Van Ark, Bart, Mary O'Mahony and Marcel P. Timmer. 2008. "The Productivity Gap between Europe and the United States: Trends and Causes," *Journal of Economic Perspectives* 22:1: 25-44.

Wood, Adrian. 1994. *North-South Trade, Employment and Inequality: Changing Fortunes in a Skill-Driven World*. Oxford: Oxford University Press.

Wren, Anne, ed. 2013. *The Political Economy of the Services Transition*. Oxford: Oxford University Press.

Wren, Anne and Philipp Rehm. 2013. "Service Expansion, International Exposure and Political Preferences." In Anne Wren, ed. *The Political Economy of the Service Transition*: 248-81.

Ziegler, Nicholas J. 1997. *Governing Ideas: Strategies for Innovation in France and Germany*. Ithaca: Cornell University Press.

Zysman, John. 1977. *Political Strategies for Industrial Order: State, Market and Industry in France*. Berkeley: University of California Press.

Zysman, John. 1983. *Governments, Markets and Growth: Financial Systems and the Politics of Industrial Change*. Ithaca: Cornell University Press.