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How Growth Strategies Evolve in the Developed Democracies

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Abstract

This chapter charts the shape and movement of the growth strategies of the developed democracies since 1945 across three periods: an era of modernization, one of liberalization, and an era of knowledge-based growth, with an emphasis on the relationship between developments in the political economy and changes in the character of electoral politics. It argues that economic policy-making always entails assembling coalitions for policy in both the arenas of electoral politics and of producer group politics. Accordingly, economic policy responds, not only to secular economic developments, but also to shifting political conditions and notably to changes in the cleavage structures underpinning electoral politics, which are themselves influenced by preceding economic developments. Growth strategies are conditioned by how an evolving "economic gestalt" portrays the problems of the economy and by processes of coalition formation in the electoral arena. The chapter devotes special attention to the growth strategies of the UK, France, Germany, and Sweden.

Every country has a growth regime, understood as the ensemble of means, both technological and institutional, used to generate economic growth. These regimes turn on how the organization of the political economy conditions the behavior of firms, workers, and consumers. But equally intrinsic to these regimes are the economic and social policies that governments devise to foster economic growth, which constitute what I will call the "growth strategy" of a country (see Hassel and Palier in this volume).[1] These strategies have changed dramatically over the past sixty years. How should changes in these growth strategies be characterized and explained? The objective of this chapter is to describe the growth strategies pursued by governments in the developed democracies over the decades since World War II and to advance our understanding of how they change. Important national variations in such strategies also deserve attention

[1] Although this term reflects the broad coherence of these policy regimes, it is not meant to imply that the process whereby they are enacted is entirely strategic.

(see other chapters and particularly Avlijaš et al. in this volume), but my focus here is on change over time and thus on broad commonalities across countries.

This analysis is framed by two alternative perspectives, each with real value but serious limitations. The first is a view central to mainstream economics that sees changes in economic policy as direct responses to developments in the economy, such as technological change and the globalization of production. Such processes play an important role in my analysis, but these perspectives often fail to capture how the policy response to such developments is mediated by politics. A second approach analyzes recent changes in policy as the reflection of a gathering crisis of capitalism, driven by the efforts of states to meet the functional requirements of accumulation and legitimation (Streeck 2014; Crouch 2011; O'Connor 1979. Cf. Sewell 2008). These panoramic views of capitalism illuminate many features of its movement, but their abstract functionalism often understates the role played by politics in the processes whereby developed political economies change.

By contrast, I am especially interested in how to understand the relationship between developments in the economy and developments in politics—a longstanding puzzle somewhat neglected in comparative political economy.[2] I outline my approach to the problem and follow with sections tracing the evolution of growth strategies 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 the account, and I close with some remarks about the reach and limits of the analysis.

1. The Approach

To delineate the post-war growth strategies of the developed democracies, I distinguish three periods, which can be labeled: an era of modernization, running from 1950 to about 1974, an era of liberalization, stretching

[2] Although there are multiple works on producer group politics, relatively few address the relationship between developments in electoral politics and the political economy. For a few exceptions, see: Kitschelt *et al.* 1999; Iversen and Soskice 2009, 2015: Beramendi et al. 2015.

from 1980 to about 2000, and an era of movement toward knowledge-based growth from the late 1990s to the present. Each is defined by the character of prevailing economic and political challenges. Because the pace of developments varies across countries, the borders of these periods are fuzzy and they overlap on some dimensions.

To understand how and why growth strategies changed across these eras, we need to take four sets of factors into account. The first are secular developments in the domestic and international economies. Those matter. But policy is never an unmediated response to such developments because economic trends must be identified and their significance interpreted—a process involving the promulgation and revision of economic doctrines. Thus, the second factor entails shifts is what I will call the "economic gestalt" of each era, namely, how the problems of the political economy are perceived by economists and the general public.

Even when there is agreement on the problems, however, choices must be made about how to address them and political support for those choices mobilized. Economic policy-making is always coalition-building (Thelen 2004; Hall and Thelen 2009). Thus, the third set of factors conditioning changes in growth strategies are developments in the electoral arena that shift the terms on which coalitions of support for specific policies can be assembled; and the fourth is a set of parallel changes in the realm of producer group politics which alter the influence of groups, the policies they seek, and the capacities of producer groups to cooperate in the operation of a growth strategy.

Although the economic gestalt of a given era is anchored in prevailing economic conditions, several components go into its construction. Especially central here are immediately preceding events. Governance is an "eventful" process: politicians and officials react to what their nation has just experienced and prevailing interpretations of that (Sewell 2005; Hall 2005, 2013). Obvious failures of policy set in motion a search for alternatives, while conspicuous successes provide templates for the future course of policy (Hall 1993; Culpepper 2009; Dobbin 1997). In this process, economic doctrines loom large, since they are the lens through which officials interpret the economy and popular versions of these doctrines can capture the imagination of producer groups and the electorate (McNamara 1998; Fourcade 2009). However, there are political elements to these popular versions, since they are used to mobilize consent for policies; and the case governments make to electorates always has a moral as well as technical basis. In this respect, changes in growth strategies are not simply technical adjustments but components of a wider movement in normative orders.

Democratic governments seek growth because their continued electoral success depends on it; and 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 these doctrines (Lindblom 1977; Iversen and Soskice 2015). Governments also choose economic and social policies with distributive effects that will appeal to groups they hope to attract to their electoral coalitions. However, the terms on which such coalitions can be formed shift 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 I use here to specify the issues most salient to electoral politics and the alignment of social groups along them. Cleavage structures evolve in response to changes in the size and socioeconomic position of specific social groups, which are affected in turn by economic developments, and in response to changes in the appeals mounted by political parties (Cf. Iversen 1999; Evans and Tilley 2012).

Producer group politics conditions the formulation and implementation of growth strategies in two ways. Within the broad constraints of electoral competition, governments respond to the detailed demands of producer groups (Culpepper 2011). Social democratic governments are more likely to pursue policies supported by trade unions, while conservative parties are usually more attentive to business interests. In many cases, economic policy is a response to cross-class coalitions of producer groups (Swenson 2002). Second, the capacity of governments to operate some kinds of growth strategies depends on cooperation from trade unions and employer associations. The types of policies producer groups seek change over time, as firms alter strategies to cope with secular changes in the economy; and the coordinating capacities of producer groups shift when new economic circumstances generate divisions among their membership (Thelen and Van Winjbergen 2003; Martin and Swank 2012).

In the following sections, I consider how changes in economic challenges, the economic gestalt, and electoral politics have conditioned movements in growth strategies among the developed democracies, with brief references to producer group politics which deserves a more extended treatment than this chapter allows (See Thelen in this volume, Martin in this volume).

2. The Era of Modernization, 1950–75

In the aftermath of World War II, the western democracies faced a distinctive set of economic challenges. For many, the most pressing problem was how to rebuild an industrial infrastructure heavily damaged by the war. As international trade was restored under the aegis of the GATT and the 1958 Treaty of Rome, securing a competitive position in international markets also became a national goal (Servan-Schreiber 1969). Both challenges were defined by the central role manufacturing still played in these economies. Whether organized along Fordist lines, as in the United States, France, and Britain, or by methods of "diversified quality production" in Germany and Italy, manufacturing remained the motor for economic growth (Boyer 1990; Piore and Sabel 1984; Streeck 1991; Herrigel 2000). The key issues were how to expand manufacturing and how to make it more efficient.

2.1 The Economic Gestalt

Within a decade after the war, these challenges were being interpreted through an economic gestalt that emphasized the importance of "modernizing" the economy and assigned considerable responsibility for doing so to governments. The French focused on the inefficiencies of an economy dominated by "Malthusian" competition among overly small firms, while the British began to worry about economic decline (Landes 1949; Elbaum and Lazonick 1985; Shonfield 1958). 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 approaches taken toward modernization varied across countries, but all endorsed an active role for government, whether in the form of economic planning in France, Britain, and Japan, increased public investment in education, research, and infrastructure in the US, or the public–private partnerships established in Sweden and Germany (Cohen 1977; Leruez 1975; Block 2011; Johnson 1982; Ziegler 1997).

Support for these approaches could be found in the most prominent economic doctrines of the day. At the heart of many was the contention of John Maynard Keynes that governments can promote growth via the management of aggregate demand—popularized after the war by scholars such as Paul Samuelson, whose textbook sold more than 4 million copies in forty-one languages (Johnson 1971; Hall 1989). Keynesian views were codified in econometric models that became a staple of policy analysis and adapted to support distinctive national strategies, such as industrial planning in France and the Rehn-Meidner model in Sweden. Within the wider universe of political discourse, there was general acceptance of the "mixed economy"—a phrase used to describe growth strategies in which the state and private sector both played active roles (Stilwell 2006).

2.2 Growth Strategies

The underlying structure of the economy influenced the growth strategies of this era. Because manufacturing was still a large component of the economy, productivity could often be increased by moving labor from agriculture into manufacturing where Fordist methods of production rendered semi-skilled workers more productive (Crafts and Toniolo 1996). Within industry itself, the dominant approach to improving productivity was to increase the size of companies and the volume of production in order to seek economies of scale, often based on technology imported from the US and encouraged by the expansion of trade.

To achieve industrial scale, many governments channeled investment toward industry through state-owned enterprises, systems of industrial planning and publicly owned banks. These were strategies seen as appropriate 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 countercyclical demand management (Boyer 1990). Although his fiscal prescriptions were greeted with varying degrees of enthusiasm across countries, Keynes' contention that governments had a responsibility for actively managing the economy became widely accepted (Hall 1989).

Faced with the demobilization of millions of military personnel, post-war governments were also deeply concerned about how to secure full employment, albeit construed largely in terms of a male breadwinner model (Beveridge 1942). Creating employment was seen as a matter of sustaining demand for national products, but there was variation in how countries achieved that. The governments of the US and Britain sought to sustain domestic demand through countercyclical fiscal policies, while France relied on a high minimum wage, and other countries, such as Germany and Sweden, devoted more attention to sustaining demand for exports by holding down the exchange rate and limiting the growth of unit labor costs via coordinated wage bargaining.

In general, the growth strategies of this era were marked by relatively high levels of state activism, as governments sought to rebuild infrastructure, channel investment into industry or construct neocorporatist systems of industrial coordination. However, there were significant national variations, reflecting national differences in the complexion of economic challenges and the economic gestalt.

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 post-war Labour government nationalized leading firms in key industries, including the Bank of England, established a National Health Service, and imposed wage and price controls (Beer 1969). 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 (Leruez 1975). 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 (Hall 1986). However, most of these attempts foundered on the limited institutional capacities of an arm's length state and the difficulties of securing cooperation from fragmented trade unions and business interests.

Thus, the British approach to securing full employment eventually turned on efforts to sustain domestic demand via countercyclical macroeconomic policies. But an insistence on maintaining the exchange rate to protect the value of overseas balances of sterling, on which the standing of Britain's financial sector in the City of London was thought to depend, meant that efforts at expansion usually ended prematurely in balance of payments crises, contributing little to growth (Brittan 1971; Hansen 1968). 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 French growth strategy during this era entailed more assertive intervention. 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 (sometimes) labor, and then used the government's influence over large state-owned banks to channel funds to the sectors deemed most central to growth (Cohen 1977; cf. McArthur and Scott 1969; Zysman 1977, 1983). Increases in productivity were achieved by funneling finance only to the most efficient firms; and exports were promoted through support for firms thought to be "national champions" on world markets, while domestic demand was sustained by active macroeconomic policies and a statutory minimum wage to which 40 percent of French wages were eventually tied. The system was inflationary—as the French President Valéry Giscard d'Estaing once said "*la planification, c'est l'inflation*"—but French governments devalued the exchange rate periodically to offset the effect of inflation on exports (Lord 1973: 182).

The growth strategies pursued by Sweden and Germany stand in contrast to intermittent intervention in Britain and sustained intervention in France. Although both governments were active in this period, their objective was to develop growth strategies built on neocorporatist coordination among producer groups rather than on state intervention; and each cultivated coordinating capacities among their producer groups 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 post-war growth policies took advantage of these strategic capacities (Martin 1979; Pontusson 1992). Often labeled the Rehn-Meidner model after two economists influential in its design, the Swedish approach rested on three pillars. The first was solidaristic wage bargaining. Wage increases across most sectors of the economy were determined by peak-level negotiations between labor and employers' confederations, but this meant that the wages of low-paid workers would rise faster in percentage terms than those of higher-paid workers. By consolidating a coalition between skilled and semi-skilled labor, this solidaristic approach served the political purposes of a dominant social democratic party, and in economic terms it increased productivity by pressing firms dependent on low-wage labor to become more efficient or go out of business. Because this strategy 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 specified a relatively austere macroeconomic stance to maintain pressure on firms to become more efficient. Market competition was used to rationalize the economy, but the state played key roles by providing active labor market policy, a suitable macroeconomic stance and implicit guarantees that the profits generated by wage restraint would go to investment (Przeworski and Wallerstein 1982; Eichengreen 1996).

Exploiting regional and sectoral capacities for collaboration that survived the war, West Germany also built a growth strategy centered on coordination in the private economy—between workers and employers, among firms, and between firms and banks. 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, enhanced by codetermination legislation that established influential works councils in larger firms (Thelen 1991; Streeck 1994). Along with vocational training schemes managed by employers and trade unions, built around apprenticeships conferring high levels of industry-specific skills, these arrangements gave German manufacturers formidable capacities for the continuous innovation that promoted exports (Hall and Soskice 2001). Flows of investment into industry were orchestrated by a few universal banks which also held shares in firms and by networks of savings banks sponsored by regional governments (Shonfield 1969; Deeg 1999).

These high levels of private-sector coordination were made possible by legislation—in the form of framework policies delegating decisions to specified producer groups in classic neocorporatist fashion (Schmitter and Lehmbruch 1979; Katzenstein 1987). Built on an economic gestalt marked by reaction against the Third Reich, the German government's stance was less interventionist than those of its neighbors and underpinned by ordo-liberal doctrines that were popularized by the Christian Democratic Party, which dominated German governments for twenty years after the war. Those doctrines held that the center of economic dynamism should lie in the private sector, while the state's role was to make rules ensuring that economic behavior was orderly and social groups protected from the most adverse effects of market competition (Sally 2007). 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 heavily dependent on regulations ensuring that actors provided high levels of collective goods (Streeck 1991; Herrigel 2000).

The macroeconomic complement to these arrangements was a restrained fiscal stance, guaranteed by a powerful Bundesbank, independent of political control and focused on inflation. The Bundesbank threatened monetary retaliation if wage bargains exceeded its norms or fiscal policy became too expansionary (Hall 1994; Hall and Franzese 1998; Carlin and Soskice 2009). The result was a strategy 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 (Kreile 1978). As a result, Germany became one of the most successful manufacturing exporters in the world.

2.3 Electoral Politics

Although the economic gestalt of the "mixed economy" built on contemporary interpretations of economic challenges during the 1950s and 1960s provided the template for the growth strategies of this era, much of the impetus for their adoption came from electoral politics, which had a distinctive character in this era. In advanced democracies, the most prominent electoral cleavage at this time was a class cleavage, dividing manual and lower-level non-manual workers from a middle class composed of white-collar employees in supervisory, professional, or managerial positions (Manza et al. 1995). This cleavage was based on material interests and a distinctive identity politics. Many people in this era saw politics in class terms—as a terrain in which parties representing the "working-class" were arrayed against those representing a "middle-class"—and political parties campaigned in precisely those terms. This cleavage was most prominent in Western Europe. On one side of it were 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 committed to securing prosperity through free enterprise.

The centrality of this cleavage affected economic policy-making in two ways. Because the policy debate between Social Democratic and Conservative parties turned on issues of state intervention, those issues became the fulcrum for electoral competition. Political parties interested in attaining office were forced to find middle ground on these issues in order to draw votes from their opponents while retaining their core constituents. Out of this conflict, the growth strategies of the mixed economy emerged as a political compromise—just interventionist enough to attract support from the center-left but rooted enough in market competition to win support from center-right voters. In Britain, Keynesian doctrines of demand management were an ideal vehicle for this compromise because they offered a formula for securing full employment without large-scale nationalization (cf. Offe 1983). In France, indicative economic planning played a similar role, while in Germany consensus emerged on a market economy that was sufficiently "social" to offer trade unions considerable influence over wages, working conditions, social insurance, and vocational training.

In the face of these electoral incentives, the Social Democratic parties of Europe gradually dropped their insistence on nationalization and embraced the mixed economy at landmark party conferences from

Bad Godesberg to Blackpool, while Conservative and Christian Democratic parties gradually accepted active economic management and elements of industrial intervention as viable strategies for managing a free market economy (Crosland 1956; Przeworski and Sprague 1986). Modernizing the economy became a valence issue and, as Figure 2.1 indicates, the result was a convergence in party platforms during the 1950s and early 1960s on the policies of the mixed economy, whose social corollary was a set of pension, unemployment and health insurance policies that laid the groundwork for contemporary welfare states.

Of course, the policies of each nation were inflected by the relative power there of the political left and right, rooted in electoral rules and the presence of ancillary cleavages (Manow 2009). In Sweden, a growth strategy centered on solidaristic wage bargaining owed much to Social Democratic dominance, while an influential Christian Democratic Party built Germany's social market economy. But it is striking how many countries converged on the growth strategies of a mixed economy. Government intervention could be as extensive in polities dominated by the center-right, such as Italy and France, as in those dominated by the center-left, such as Sweden and Denmark.[3]

[3] In the United States, government intervention increased earlier, during the 1930s when the class cleavage was at its height, but, cross-cut by regional and racial divisions, that cleavage was weaker than in Europe during the 1950s and 1960s and government intervention was correspondingly more limited, although far from negligible. Cf. Block 2011.

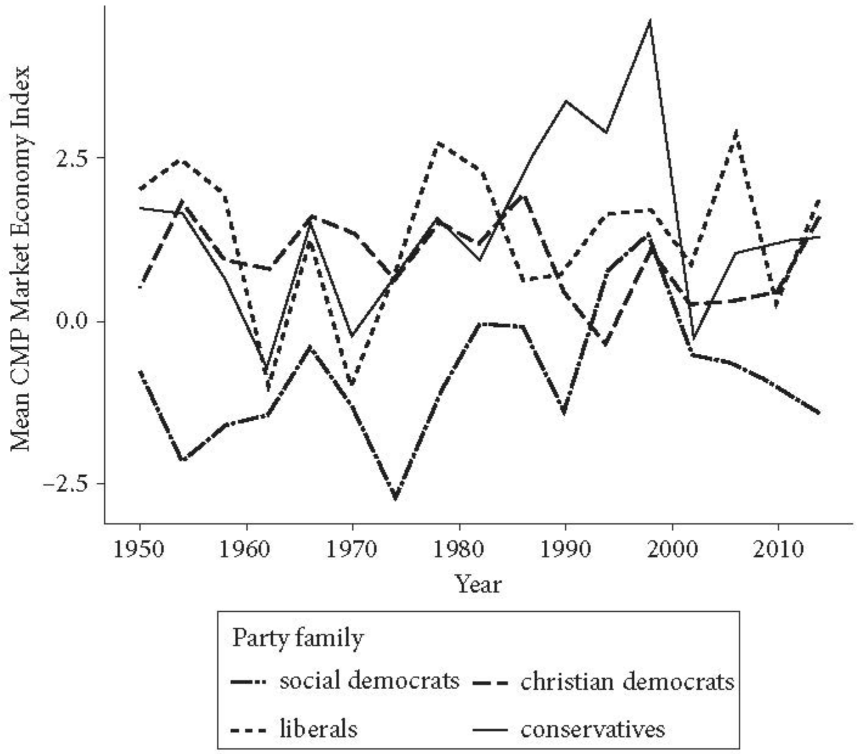

Figure 2.1: Support for 'free markets' in the platforms of European political parties, 1957- 2015.

Note: Party positions on the 'free market economy' index of Lowe et al (2011) indicating the prevalence in partly platforms of support for a free market economy and market incentives as opposed to more direct government control of the economy, nationalization or other Marxist goals. Higher values indicate more support for free market positions. The countries included are: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, United Kingdom.

*Source***:** Comparative Manifesto Project database.

3. The Era of Liberalization, 1980–2000

The era of modernization reached its economic apogee and political perigee in the middle of the 1970s, when three decades of rapid growth ended with simultaneous increases in unemployment and inflation. In most developed democracies, subsequent growth rates were to be barely half those of preceding years, and three developments that had been gathering force for some time profoundly altered the economic challenges facing governments after 1980. These included a shift in the locus of employment from manufacturing to services, rising competition from developing economies made possible 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, these would have to be in services (Wren 2013; Iversen and Cusack 2000). The roots of this shift lay in secular economic developments. As incomes rose and the prices of manufactures fell, consumers could devote more income to services. As advances in containerization and information technology, as well as new trade agreements, made it more feasible to situate plants in the developing world, manufacturing jobs moved away from the developed democracies (Wood 1994; Keohane and Milner 1996; Rodrik 1997; Palley 2018). And, as supply chains became more global and international competition more intense, wage bargaining came under new pressures. At the same time, rapid growth in international financial markets, beginning with the Eurodollar markets, changed the terms on which firms could raise finance. By the middle of the 1980s, larger portions of capital investment were going to come from foreign rather than domestic sources (Berger and Dore 1996).

As governments came to appreciate the scale of these developments, they gradually adapted their growth strategies to cope with them. However, the immediate impetus for a change was the failure of existing policies to cope with simultaneous increases in inflation and unemployment during the 1970s. The triggers for this stagflation were sharp increases in the price of oil and other commodities; but its basis lay in increases in the world money supply following the collapse of the Bretton Woods monetary system in 1971 and endogenous developments within the prior growth strategy which was undermined by its very success (Keohane 1978; Ferguson et al. 2010.). Post-war governments had strengthened collective bargaining regimes in order to ensure that wages were bargained peacefully and the fruits of growth widely shared. As a decade of full employment strengthened trade unions, however, they began to secure wage settlements that firms could accommodate only by raising prices, which led to inflationary wage-price spirals. In effect, the failure of social institutions established during the previous era to regulate distributive conflict fueled the inflation of the 1970s (Crouch and Pizzorno 1978; Goldthorpe 1978; Glyn and Sutcliffe 1972).

In the face of this stagflation, existing growth strategies proved largely impotent. Keynesian policies designed to address unemployment had no antidote for inflation; and efforts to revive ailing industries with further subsidies yielded few results (Berger 1981; Hall 1993). Devising a new growth strategy took time, however, because governments react to new challenges incrementally, making ad hoc efforts to adjust their existing strategies before experimenting with new ones. Mistaking structural shifts in the economy for cyclical fluctuations, many governments initially responded with more generous social assistance—on the premise that they could pay for that assistance when high rates of growth returned. When those rates of growth did not return, social expenditure as a percentage of GDP soared and governments began to run endemic deficits.

The result was a political climacteric for the mixed economy. Electorates threw out virtually every government in office during the late 1970s. The political crisis was most acute in liberal market economies, such as Britain and the US, where faltering efforts to deploy statutory incomes policies led many people to question the legitimacy of state intervention (Crozier et al. 1974). Not surprisingly, these countries were pioneers in the movement to reduce the role of the state in the economy. Where effective systems of wage coordination managed to contain inflation at lower cost in terms of unemployment, as in Sweden and Germany, the reaction against state intervention was more muted (Lindberg and Maier 1985; Goldthorpe 1984). But, as rates of unemployment continued to rise, politicians in all countries sought new ways to reduce it. While the British and Americans worried about national decline, Europeans became anxious about "Eurosclerosis" (Giersch 1985; Krieger 1986).

3.1 The Economic Gestalt

Accordingly, the new economic gestalt that emerged in the 1980s was a reaction against the apparent failure of interventionist policies during the 1970s. In the wake of that failure, policy-makers moved toward the view that markets allocate resources more efficiently than governments. The watchword of a new era of liberalization became "market competition." If growth had previously been said to turn on management of the demand side, it was now said to depend on reforms to the supply side of the economy, where privatization replaced nationalization as a key instrument, and industrial subsidies designed to make firms more competitive were replaced by manpower policies designed to make labor markets more efficient.

The academic rationale for this new gestalt lay in the growing popularity of a "new classical economics" which discounted governments' capacities to manage the economy and presented deregulatory reforms as the best route to economic growth. Although parallel ideas had been advanced since the 1960s, the rational expectations perspectives that underpinned this new economics gained adherents during the 1980s. They argued that there is a "natural" level of unemployment reducible only by reforms to labor markets, that efforts to manage demand usually end in failure, and that monetary policy has few durable effects on the real economy, thereby making it desirable to render central banks independent of the political authorities (Stein 1981; Stockman 1986; Dornbusch 1990; McNamara 1998). The influence of these doctrines lay to some extent in their political appeal. Faced with rising unemployment, politicians who had been happy to take credit for two decades of full employment welcomed doctrines that attributed unemployment to the operation of labor markets rather than to the government's management of the economy.

As the 1980s wore on, market-oriented thinking seeped into ever more spheres of social life. Market competition came to be seen as the "natural" way to organize human endeavor. Governments inserted competition into their own operations, shifting from the view that they had a responsibility to provide "citizens" with "public services" toward the perspective that, like market actors, they should deliver goods more efficiently to citizens now seen as "consumers" (Hall 2015). Firms that once felt responsibilities to stakeholders as well as shareholders began to attach overriding importance to increasing the value of their shares, especially in liberal market economies; and the practices of monitoring via measurement associated with effective market competition crept into many social organizations (Lazonick and O'Sullivan 2000;

Gomory and Sylla 2013; Espeland and Sauder 2007). The counterpart to this economic liberalism was a new personal liberalism: the criteria for judging people's worth began to turn on their possession of the attributes necessary for successful market competition (Boltanski and Chiapello 2007; Hall and Lamont 2009; Centeno and Cohen 2012). In short, the economic gestalt of the era of liberalization rested on a deep ideological foundation permeating many spheres of social life.

3.2 Growth Strategies

The focus of growth strategies in this era was on the liberalization of markets, albeit at different paces across countries and sectors. The Single European Act of 1986 that created a single market in goods and services turned the European Commission into a powerful agent for market liberalization (Jabko 2006; see also Moravcsik 1998). At the national level, parallel 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 (Riddell 1991; Thatcher 1999). The pioneers were Margaret Thatcher and Ronald Reagan who took office on the eve of the 1980s but many governments followed suit throughout the 1990s (Krieger 1986).

In the name of improving productivity, Reagan and Thatcher attacked the influence of trade unions, notably by breaking the American air controllers' strike of 1981 and the British miners' strike of 1984–85. Many European governments could not manage coordinated market economies without robust unions but, under pressure from firms seeking the flexibility to meet more intense international competition, they presided over changes in collective bargaining that shifted influence over wages and working conditions from the peak or sectoral level to the firm and plant levels (Pontusson and Swenson 1996; Lallement 2006).

Government efforts to expand employment moved from the demand-side to reforms on the supply side of the economy, including the deregulation of labor markets via the promotion of temporary contracts and part-time employment. Many of these steps were motivated by the need to create jobs in the service sector—to which there seemed to be only two routes (Iversen and Wren 1998; Scharpf 2000). One was to expand public employment in education, healthcare, and social services — a path taken by several Nordic countries as early as the 1970s (Esping-Andersen 1990). The other was to create jobs in private services, including restaurants, tourism, retailing, and domestic service, typically at low wages, on the premise that there was not much scope for productivity increases in these jobs. This path entailed keeping minimum wages low, encouraging part-time work, and restricting social benefits to lower the reservation wage, a strategy pursued most aggressively in the Anglo-American democracies.

Some countries hesitated to go down either path. Thus, the governments of France, Germany and the Netherlands initially responded to rising unemployment with measures to reduce the numbers of people seeking work, through early retirement programs, generous disability benefits, and social policies that made it difficult for women to pursue paid employment. However, when it became apparent that a smaller labor force would depress rates of growth, these governments shifted gears to promote part-time employment. In France and Germany, secondary labor markets dominated by precarious low-wage employment were built alongside primary labor markets offering relatively secure jobs; and the Netherlands vastly expanded part-time employment, albeit with provisions offering more job security and social benefits to part-time workers (Palier and Thelen 2010; Thelen 2014).

Policy-makers also took new approaches to securing capital investment. Most efforts to channel funds directly to industry ended, and state-owned enterprises were privatized, partly to make it more feasible for them to draw on international capital markets. After 1979, the OECD governments gradually eliminated exchange controls and many governments strengthened protections for minority shareholders or loosened their rules on foreign ownership in order to encourage inflows of foreign direct investment (Culpepper 2005). Indeed, some countries built entire growth strategies around foreign direct investment, based on light-touch regulation and low rates of corporate taxation. Ireland was one of the first to take this approach followed by several East European nations in the early 1990s (Regan 2014; Nölke and Vliegenthart 2009). Although some governments, such as those of the US and Britain, continued to rely on domestic demand to stimulate investment, all countries looked increasingly toward international sources for capital (Rajan 2010).

Of course, there were national variations in the nature of these growth strategies and the pace at which they were implemented. The new strategies came first and most forcefully in Britain, where splits within the opposition and the popularity of a Falklands War provided electoral insulation for successive Conservative governments (Gamble 1994; Sandbrook 2010). These governments privatized national enterprises, bringing windfalls to government coffers, and took steps to increase competition within public transport, water supply, telecommunications, health and energy (Riddell 1991). The premise was that more intense competition would increase productivity, while sales of public housing and shares in privatized enterprises would create new groups of property owners more likely to vote for the Conservative party. With a series of industrial relations acts, Thatcher succeeded in reducing the influence of the unions, whose strength fell further with a decline in manufacturing accelerated by a high exchange rate that was propped up by North Sea oil and gas. In the decades after 1979, trade union membership fell from a half to less than a quarter of the British workforce.

Although manufacturing employment declined, Britain was well-placed to create low-wage jobs in retailing, tourism and personal services as well as high wage jobs in its large financial sector. The low benefit levels in Britain's liberal welfare state held down the reservation wage (Esping-Andersen 1990). As international flows of funds increased, the government shook up the City of London with a "big bang" of reforms designed to consolidate its position as a leading financial center and allow its firms to exploit new financial instruments (Busch 2008). In both Britain and the US, regulatory changes to commercial and consumer credit markets encouraged firms and households to increase their levels of debt, thereby propping up domestic demand despite stagnating median incomes (Rajan 2010; Krippner 2011). To some degree, access to credit became a substitute for countercyclical economic policy in countries whose growth strategies still depended on domestic demand; and in the wake of these developments expanding financial sectors secured huge profits (Baccaro and Pontusson 2016).

The growth strategy of France also changed over this period, albeit with a slight delay. When a political backlash against the failures of the 1970s brought a Socialist-Communist coalition to power for the first time during 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 (Hall 1986). However, with the prospect of another devaluation that would take France out of the European monetary system, Mitterrand abandoned this growth strategy in 1983 in favor of a new one based on four pillars. French capital markets were deregulated so as to encourage inflows of foreign investment, by eliminating the state's stakes in privatized enterprises and facilitating mergers and acquisitions (Culpepper 2005). Second, the government passed a series of laws, ostensibly aimed at improving worker representation, which made it easier for firms to set wages at plant rather than sectoral levels (Lallement 2006). These were complementary measures: the wage flexibility firms gained improved their capacities to cope with the rising threat of hostile takeovers (Goyer 2012). The third pillar 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. By forcing French firms to compete in more open European markets under a high exchange rate, this strategy of "competitive deflation" was meant to induce them to rationalize and move toward higher value-added 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 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 (Hall 2006). The effects of the strategy were mixed: although it pushed some firms toward higher-valued-added production, French rates of unemployment hovered around double digits into the 1990s (Hancké 2002; Fitoussi et al. 1993).

In Sweden, the Rehn-Meidner model foundered during the 1970s, when rising rates of unemployment induced the government to mount more expansionary macroeconomic policies and subsidize industries in distress. The Social Democratic party was voted out of office in 1976 for the first time in the post-war period. However, decisions taken during the late 1960s helped Sweden cope with one of the principal economic challenge of the era, namely the shift of employment to services. While other countries, such as Germany and France, addressed the labor shortages of the 1960s by importing foreign workers, Swedish governments resolved it by drawing women into the labor force, often as public employees delivering an expanding set of health, educational and social services. Although this approach segmented the labor market by gender, it had generated well-paid jobs in services without creating a low-wage service sector and consolidated the electoral coalition of the Social Democrats (Esping-Andersen 1990; Iversen and Wren 1998).

During the 1980s, however, the growing power of public-sector trade unions threatened the capacity of the export sector to lead the coordination of wages. As employers and unions in metalworking sought more flexibility to set wages in response to global competition, peak-level bargaining collapsed (Pontusson and Swenson 1996; Iversen 1999). Wage coordination was reestablished at the sectoral level during the 1990s but in terms that left individual firms with more flexibility to set wages. Thus, Sweden saw some decentralization of wage bargaining, but one that did not entirely 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 political coalition, a Social Democratic government established wage-earner funds that were to invest a portion of enterprise profits on behalf of employees (Pontusson 1992). When this step antagonized employers without reviving investment, however, Swedish governments resorted to expansionary macroeconomic policies that threatened wage coordination; and they liberalized financial markets 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 strategy was robust enough to survive the economic turmoil of the 1970s largely unscathed. After a few outbursts of industrial conflict when profits rose unexpectedly following bargaining rounds that had restrained wages, an effective system of coordinated wage bargaining managed to reduce inflation at modest cost in terms of unemployment; and, during the early 1980s, West Germany looked like an economic success story (Kreile 1978; Cameron 1984). Partly for this reason, the liberalizing moves taken by German governments in these years were more limited than in many other countries, despite Chancellor Helmut Kohl's promise to preside over a *Wende*.

Liberalization was most pronounced in corporate finance and industrial relations. The growing importance of international finance disorganized the longstanding system whereby large German firms secured capital via close relationships with a few key banks. To operate effectively in expanding international financial markets, the large universal banks realized that they would have to free up the funds they previously held in German shares. Accordingly, they pushed for a series of legislative acts between 1990 and 2002 that allowed them to do so, and German firms turned increasingly to international markets for funding (Deeg 2010). Despite concerns that these steps would force firms to privilege shareholders over stakeholders, many German companies found patient sources of international capital from institutional investors looking for long-term returns (Goyer 2012); and German parliamentarians watered down European legislation to limit the prospect of hostile takeovers that might have forced firms to become more attentive to the price of their shares (Callaghan and Höpner 2005). Meanwhile, the close relationships between regional banks and companies in the *Mittelstand* remained largely intact, leaving the German corporate sector with a stakeholder orientation and considerable coordinating capacities.

For German industrial relations the era proved more disruptive. As international competition intensified, many firms sought more flexibility to adjust wages and working times 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 such margins for maneuver, especially in the Eastern Länder that joined a reunified Germany in 1990 (Thelen and Winjbergen 2003). As a result, many companies dropped out of employers' associations; and trade unions began to accept agreements ceding more control over wages and working conditions to firm-level negotiations, where works councils played a greater role. Some see these developments as a major shift in the growth regime, but German producer groups retained considerable strategic capacities and the contrast with wage-setting in liberal market economies remained striking (cf. Streeck 2009).

By comparison, although successful at manufacturing, Germany did not find a formula for creating jobs in services. Christian Democratic governments 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 coalitions of the CDU and SPD. Therefore, despite stagnating employment, successive governments temporized by promoting early retirement on the premise that this would open up jobs and maintaining regulatory regimes, such as the short school day, that kept women out of the workforce. Only later would German governments take major steps to build service-sector employment on the back of a low-wage labor market.

3.3 Electoral Politics

Once again, there is a political side to the story. In some instances, liberalizing initiatives were pressed on governments by business interests seeking more flexibility to respond to international competition (Prasad 2006; Hacker and Pierson 2010). In others, they were initiated by policy-makers and their economic advisors, convinced by the failures of the 1970s that there were no alternative routes to growth (Gamble 1994; Woll 2008; Mudge 2018). But, apart from initial support for Thatcher's break with the past and passing enthusiasm for the Single European Act of 1986, liberalizing initiatives were rarely popular with electorates. They carried many adverse effects—reducing job security, social benefits, and income equality.

Thus the puzzle is: why would governments dependent on electorates adopt such measures? What kind of political conditions made such reversals of policy possible?

In large measure, the answer turns on shifts in electoral cleavages. The decline of the class cleavage and growing salience of a values cleavage cross-cutting it reorganized the electoral space of the developed democracies, leaving the electorate more ideologically fragmented (Dalton et al. 1984, Clark and Lipset 2001). This fragmentation gave rise to a permissive electoral dynamics in which durable electoral coalitions in favor of neoliberal policies were rarely formed but the potential for effective opposition to them was preempted, allowing governments to pursue new growth strategies.[4]

By the early 1980s, the salience of the class cleavage had been declining for more than a decade. Fewer people in the developed democracies were voting along class lines and political debate was less likely to be couched in class terms (Manza et al. 1995; Evans and Tilly 2017). The roots of this decline lay in three sets of developments at least partly endogenous to the prior growth regime. Thirty years of prosperity under that regime had improved the living standards of ordinary workers enough to mitigate the sense of grievance that once animated class-centric political debates (Lipset 1964). The shift of employment from manufacturing to services decimated cohesive working-class communities and blurred the social divisions once separating white- and blue-collar workers. The social programs of the welfare state built under the preceding regime reduced the material insecurity central to working-class mobilization; and, once the welfare state was in place, social democratic parties lost the distinctive political mission around which they had mobilized working-class voters.

The 1980s also saw the rising salience of a new cleavage based largely on cultural values, sometimes labeled a right-authoritarian/left-libertarian divide (Kitschelt 1997). On one side of it were voters embracing the post-materialist values that became prominent in the early 1980s, linked to new social movements focused on the environment, gender equality and human rights. On the other side were voters attached to

[4] For an alternative argument that notes support for neoliberal initiatives among some middle-class voters and thus electoral incentives to implement them in some contexts, see Ellis 1998.

more traditional values, concerned about material security, immigration and the protection of national culture. New Green and radical right parties speaking to each side of this divide became more prominent political actors in Europe during the 1980s and 1990s. To some extent, this cleavage was also endogenous to the previous growth regime. Three decades of prosperity weaned generations that grew up in affluence away from the material anxieties of their parents and drew 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 (Beer 1982; Inglehart 1990).

The rising salience of this values cleavage set in motion a dynamic that would affect the growth strategies adopted by governments in several ways. Social democratic parties embraced left-libertarian values in order to attract support from middle-class voters whose affluence inclined them toward such values. By 1990, social democratic parties in Europe were securing more votes from the middle class than from the working class, largely on values issues (Gingrich and Häusermann 2015: 58). Because they enjoyed strong market positions, however, many of those middle-class voters benefited from liberalizing reforms. That provided center-left parties with incentives to accept some elements of market liberalization; and, as Figure 2.1 indicates, they did so during the 1980s and 1990s. Convergence toward market-oriented policies in this era was based largely on the movement of center-left parties. The "Third Way" of Tony Blair was as consequential as the neoliberal policies of Margaret Thatcher.

In tandem with their increasing dependence on middle-class votes, social democratic parties also began to deemphasis class-based political appeals; and working-class voters saw fewer reasons to support parties whose economic platforms had converged to the right, thereby further eroding the salience of the class cleavage (Iversen 2006; Mudge 2011; Evans and Tilley 2012). Moreover, as their economic positions became increasingly similar, parties of the center-left and center-right began to rely more heavily on values issues to render their electoral appeals distinctive (see Figure 2.2); and, for similar reasons, values became more important to voter's decisions about which party to support.[5] But working-class voters were more likely than middle-class voters to hold right-authoritarian views. Thus, the salience of values issues drove a wedge through the electoral coalitions of social democratic parties, alienating working-class constituents whom those parties might otherwise have mobilized in opposition to neoliberal reform. By the end of the 1990s, substantial portions of the European working class were voting instead for parties of the radical right. The result was a permissive electoral dynamic in which public support for liberalizing reforms was only intermittent, but effective opposition to them largely absent from the arena of party competition.

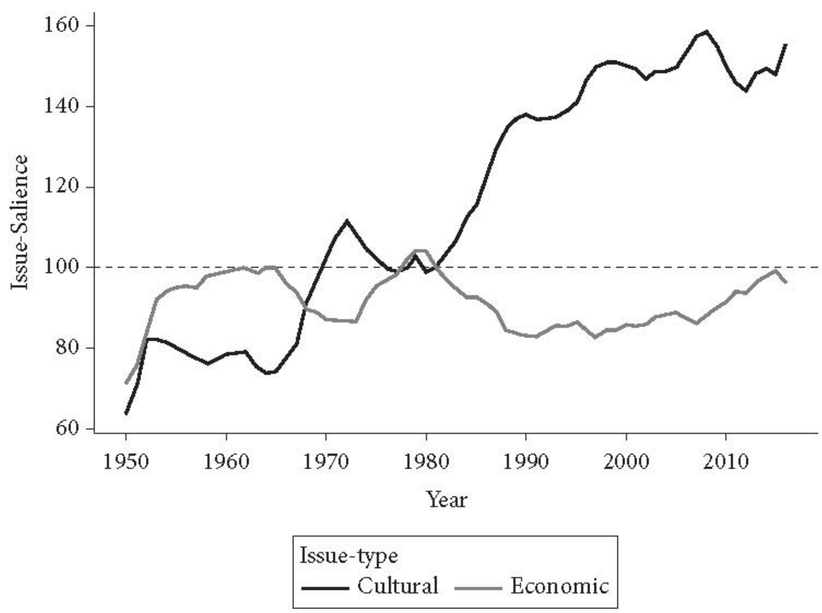

Figure 2.2: The relative prominence of economic and cultural issues in the party manifestos of western democracies

Note: Proportion of references to each kind of issue in party manifestos weighted by party vote share in the most recent election for each country, indexed to 1980 levels[6]

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[5] Spatial electoral analysis predicts that issues on which the parties are more distinctive will weigh more heavily in the voting decisions of citizens who care about such issues. Cf. Rabinowitz and Macdonald 1989.

[6] Based on the CMP categories, references to the following are classified as cultural/values issues: Environmental protection (501); Culture (502); Social Justice (503); National way of life (601); National way of life negative (602); Traditional morality (603); Traditional morality (604); Multiculturalism (607); Multiculturalism negative (608). The following are classified as economic issues: Free market economy (401); Incentives (402); Market Regulation (403); Protectionism (406); Protectionism negative (407); Economic goals (408); Demand management (409); Economic growth (410); Controlled economy (412); Economic orthodoxy (414); Marxist analysis (415). Countries included:

An Era of Knowledge-Based Growth, 2000–

By the end of the 1990s, the economic challenges facing the developed democracies were shifting again, presaging a new era of knowledge-based growth that continues to the present day. As usual, there was cross-national variation in the timing and pace of change. However, the inception of this era dates to the late 1990s when two developments advanced enough to transform the global economy. The first was a revolution in information and communications technology (ICT) which altered business practices across sectors, as productivity became increasingly dependent on its diffusion. The patenting rate began to grow exponentially during the 1990s, and productivity growth in the US leapt ahead of Europe for the first time in several decades, as American firms became the first to deploy the new technologies (Powell and Snellman 2004; van Ark et al. 2008; Brynjolfsson and McAfee 2014). The second was a large-scale shift of manufacturing toward emerging economies, accompanied by the rise of global value chains as firms began to off-shore more elements of their production (Antràs et al. 2006; Milberg and Winkler 2013; Dicken 2015). An increase in the volumes of foreign direct investment going toward the developing economies and the entry of China into the World Trade Organization in 2000 signaled these changes.

In the wake of these developments, the employment challenges facing governments began to shift. In many developed democracies, occupational structures polarized, as technology and offshoring displaced routine jobs in manufacturing and services, while high-skill positions and sometimes low-skill positions that could not readily be automated continued to grow at the two ends of the income distribution (Autor and Dorn 2013; Oesch and Menes 2010). Employment in business services expanded more rapidly as the new technology made it easier for firms to outsource services; and economic growth now turned less on how many products a nation shipped than on the proportion of their value-added it supplied (Berger 2005; Wren 2013; Tassey 2014). Thus, for the developed countries, the employment challenge of the 2000s was no longer simply how to create jobs in services but how to cultivate the skills required for the growing

Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, US, UK.

numbers of high-skill positions in a knowledge economy and how to shift production toward high value-added links in global supply chains.

Changes in financial markets also created new challenges for governments. At their heart was a series of innovations in financial instruments, made feasible by ICT, which outpaced the efforts 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 the mid-1990s. In theory, derivatives could diffuse risk among counterparties, thereby allowing enterprises to operate at higher leverage ratios. In reality, the effect was to expand the levels of debt held by the financial, corporate, and household sectors, to increase the interdependence of financial enterprises, and thereby raise by an order of magnitude the systemic risks present in national financial systems (Glick and Lansing 2010). The share of profits going to the financial sector grew, notably in the international financial centers of the US and Britain; but, even in smaller nations such as Spain, Ireland, Iceland, and the Netherlands, governments faced the problem of coping with asset booms fostered by looser finance. With the inception of European monetary union in 1999, financial interdependence across the member states increased. but their governments had to address economic shocks without the national monetary instruments once used for these purposes.

4.1 The Economic Gestalt

Although techno-optimists and pessimists are still debating the implications, the idea that developed countries were becoming "knowledge economies" became increasingly influential among policy-makers and the public during the 1990s (cf. Brynjolfsson and McAfee 2014; Gordon 2016). Affirming an emerging consensus, the OECD published a 1996 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, in 2000, the members states of the European Union signed onto a Lisbon Strategy aimed at making the EU "the most competitive and dynamic knowledge-based economy in the world" (OECD 1996: 3; European Union 2000). By the turn of the new century, the "knowledge economy" was a feature of common parlance.

Several currents in economic thought influenced this perspective. During the 1990s, economists devoted increasing attention to theories of endogenous growth which viewed economic growth as a function of technological changes that were conditioned by public policy; and they began to ponder to the labor-market effects of skill-biased technological change (Katz and Murphy 1992; Krueger 1993; Autor and Dorn 2013; Oesch 2013; Lucas 1988; Romer 1990; Grossman and Helpman 1993; Aghion and Howitt 2008). Building on Becker's pioneering work about human capital, many economists explored the relationship between economic growth and education, while scholars of innovation gained influence within the EU (Becker 1964; Goldin and Katz 2008; Heckman and Masterov 2007; Freeman and Soele 1997; Dosi et al. 1990; Lundvall 1992). This emphasis on the importance of human capital to the knowledge economy encouraged policy-makers to reconceptualize social policy as an effort to make its beneficiaries more productive; and such views were soon joined to neoliberal views about the value of "workfare" via the premise that effective integration into the labor market required work experience.

The result was a profound shift in how many policy-makers came to see social policy (Jenson and Saint-Martin 2003; Morel et al. 2012; Hemerijck 2013). In the eyes of many policymakers, the notion of "social investment" replaced "social protection" as the objective of the welfare state. They no longer saw social benefits primarily as the reward for a lifetime of work, insurance against market adversity, or a means for addressing social disadvantage. Instead, policy was to be aimed at delivering future economic returns to individuals and society. That implied targeting more resources on the young than the old and promoting "activation"—namely, measures designed to push people at the margins of the labor market into paid work. In some cases, this was to be done by enhancing their skills. In others, it was accomplished by attaching work requirements to the receipt of social benefits.

In 1994 observers could note that "a 'social investment' model is replacing the 'social security' paradigm inherited from the sixties," and by 1997 the OECD was endorsing the movement from a social expenditure to a social investment model. In an influential 1998 book on *The Third Way*, Anthony Giddens contended that "welfare states" which protected people from the adverse effects of market competition should be replaced by "social investment states" whose objective would be to prepare people for market competition (Myles and Street 1994: 7; OECD 1997; Giddens 1998). In short, social policy was reconceptualized as a vehicle for economic growth rather than a salve for its distributive failures.

4.2 Growth Strategies

In contrast to the 1970s. when countries were pushed toward new policies by dramatic economic failures, the challenges of the information age crept up on governments, and many have been slow to respond to them. As a result, various features of neoliberal growth strategies still remain in place; movement toward new strategies for a knowledge economy has been sporadic; and there is significant cross-national variation in the pace of change. However, by the late 1990s, a broad consensus had emerged that prosperity now depended on finding ways to promote innovation, diffuse ICT, and increase the human capital embodied in the workforce. One of the most widespread results was a substantial increase in the resources governments devoted to education, reflected in rising rates of tertiary education across the OECD.

In line with social investment perspectives, the efforts of governments to increase employment have put more emphasis on pushing people into the labor force. Many governments have reduced the duration for which unemployment benefits are available and made their receipt contingent on active job search or retraining. The initiatives of the Clinton administration to turn "welfare" into "workfare," and parallel moves by the Blair government in Britain, exemplify this dimension of the new policy regime. In Continental Europe, such measures have been supplemented by active labor market policies (ALMP) that devote more resources to improving skills and drawing people into the workforce. These policies can take several forms (Bonoli 2005). One approach provides more resources for those searching for jobs, as in Germany, Denmark and Sweden. Another focuses on training the unemployed, while a third approach pursued in France supplies subsidies to firms to hire the young or long-term unemployed on the premise that job experience confers the contacts and skills necessary to secure permanent employment. Many European countries have been spending close to one percent of GDP on such programs (Morel et al. 2012). In this context, family policy has also assumed a new importance. To draw more women into the workforce, governments have made more generous provisions for parental leave and daycare; and there is increasing interest in early childhood development, seen as a form of social investment, based on evidence that occupational achievement is closely related to the quality of a child's early years (Heckman and Masterov 2007).

In the realm of financial markets, governments have shown a high tolerance for new financial instruments and higher leverage ratios, including a substantial expansion of household debt. The American government repealed the Glass-Steagall Act in 1999, thereby allowing banks to engage in riskier financial operations; and governments accommodated asset booms buoying constructions in Ireland, Spain, the Netherlands, Britain, the US, and several parts of Eastern Europe. Of course, accumulating risk culminated in the global financial crisis of 2008–9; and financial policy since then has included efforts to reduce systemic risk by raising the capital requirements for financial firms. At the same time, many governments took steps to ensure venture capital for start-ups (Breznitz 2007; Ornston 2012). The French authorities seeded several venture capital firms and made it easier for entrepreneurs to start small enterprises, while Swedish governments moved regional development funds into new pools of venture capital (Trumbull 2004; Schnyder 2012; Stevens 2012).

Once again, national strategies reflect both commonalities and variations. Under the 1997 Blair government, the British pursued "third way" policies that put a heavy emphasis on improving the nation's human capital. Within months of taking office, Blair set a goal of sending 50 percent of the relevant age cohort to university and dramatically increased spending on education. At the other end of the labor market, he implemented a "Fair Deal" program providing more support for job searches but requiring 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 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 in most European countries and exports in business services grew rapidly in the first decade of the twenty-first century (Timmer et al. 2011).

French governments also emphasized education as the route to higher rates of growth, initially by mandating two years of training after the *baccalauréat* for all young people and then by increasing funding for higher education (Culpepper 2003). In France, the minimum wage is an entrenched feature of the labor market and a totem of the national commitment to maintaining purchasing power. Therefore, rather than lower it in order to give the unemployed a foothold in the labor market, successive governments chose to subsidize the social contribution paid on new hires by employers and employees, funded via a series of special taxes on incomes. By the early 2000s, these subsidies totaled almost €6 billion a year; and social spending rose from 24 to 28 percent of GDP between 1990 and 2005 (Carbonnier et al. 2014). However, by subsidizing low-wage jobs, these programs inhibited firms from moving toward higher-valued added forms of production; and French investment in research and development languished well below OECD norms intothe early 2000s (Palier 2012). The French economy remains unusually dependent on a few national champions in energy, armaments and aerospace, whose sales are often as much a diplomatic as an economic achievement (Cohen 1977).

Growth strategies in Sweden have changed more than in most countries. In the wake of the 1992 economic collapse, Sweden entered the era of knowledge-based growth convinced that prosperity required a new growth strategy. The result was a new set of policies often facilitated by the concerted action of organized producer groups (Ornston 2013). Between 1990 and 2000, public investment on education grew from 5 to 7 percent of GDP; and two programs of continuing education, focused on the skills required by ICT, enrolled almost 10 percent of the adult population between 1997 and 2000. Urged on by the government, firms doubled their investment in research and development; and, with the agreement of producer groups, the government shifted tax advantages from large corporations to start-ups and diverted regional development funds to venture capital. By 2003 the value of private equity funds in Sweden was close to American levels at 26 percent of GDP. The share of high-technology products in Swedish manufactures also rose from 10 percent to 17 percent between 1980 and 2007, while the low-technology share dropped from 34 to 23 percent. Important clusters for high-tech production have grown up around several Swedish cities; and the contribution of ICT to Swedish value-added is among the highest in the OECD (Schnyder 2012; van Ark et al. 2008).

However, Swedish efforts to manage the labor market , have not been as successful. Levels of social investment remain high and public services remain an important source of employment, even though the delivery of many services has been privatized. But divisions between white and blue-collar trade unions have hampered efforts to reform the vocational training system; and recent governments have struggled to integrate large numbers of immigrants into the labor market (Thelen 2014; Dolvik et al. 2015). Sweden may soon have to tolerate the growth of a secondary labor market, although it has recently generated some of the highest rates of growth in the OECD.

Germany's efforts to cope with the revolution in ICT have centered on the manufacturing sector and also been facilitated by the capacities of its producer groups for strategic coordination. German governments were slow to increase enrollments in tertiary education, partly because industry depends heavily on vocational training; but that training has gradually been upgraded to accommodate the growing role of ICT in production, and college enrollments are now rising (Busemeyer 2015). As firms began to contract out more operations, Germany also developed a significant presence in business services, an important adjunct to its manufacturing strengths; and its industries have been adept at taking advantage of global value chains, notably after the fall of communism in 1990 when German firms developed extensive supply chains in Eastern Europe.

On social investment, however, the country has been a laggard. Facing endemic unemployment problems after reunification, German governments introduced a series of measures to make temporary labor contracts, agency employment and part-time work more feasible. The most prominent steps in this direction came in 2002–3 when a coalition government of the SPD and Greens under Gerhard Schröder implemented the recommendations of the Hartz commission. In order to push people into work, these measures reduced the duration of unemployment benefits and expanded part-time "mini-jobs" whose occupants could earn up to 400 euros a month with few taxes or social charges on their earnings but correspondingly few social benefits. By 2010, about 7 million people held marginal jobs, many of them women (Hassel 2014).

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 (Thelen 2014; Hassel 2006). 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 has inspired some other forms of social investment, such as the 2006 von der Leyen reforms to expand daycare facilities and extend paternity leave.

In this context, much of Germany's otherwise considerable 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 (Carlin and Soskice 2009; Dustman et al. 2014). The effect was to shift a growth strategy that had been relatively balanced between reliance on domestic demand and exports toward one exceptionally dependent on exports. For a decade after 2000, real wages barely increased and restrictive fiscal policies compressed domestic demand. Public investment stagnated as budgets were cut; and levels of private investment initially suffered from high real interest rates linked to the strict monetary policies of the new European central bank (ECB). Since wages were barely rising, German firms faced few incentives to engage in labor-saving investment and increases in productivity have remained low. Although wage increases picked up after 2015, the result is now an on-going debate about the need for higher public investment.

4.3 Electoral Politics

Once again, the movement toward new growth strategies has been influenced by movements in voter preferences and party alignments in the electoral arena —conditioned by economic developments during the previous era. Rising rates of female labor force participation, promoted by the growth strategies of the era of liberalization, have been especially important.[7] As women have entered the labor force, their political preferences have changed. For much of the post-war years, women were a mainstay of Christian Democratic parties—more religiously observant than men and widely seen as a conservative force in politics. By the 1990s, however, working women had become strong supporters of subsidized childcare, parental leave, and programs for early childhood development as well as other steps to expand educational opportunities. Those who work part-time tend to favor the active labor market policies that expanded such positions (Morgan 2013; Marx and Picot 2013). Thus, women have become a powerful force pushing for policies of social investment and competition for their votes a major factor behind the expansion of such policies. In the first instance, social democratic parties were the beneficiaries of this development, as increasing numbers of women shifted their allegiance to them. By the 2000s, however, Christian Democratic parties were also bidding for women's votes, with policies such as the von der Leyen reforms (Seeleib-Kaiser et al. 2008).

Shifts in the occupational structure that have increased the number of sociocultural professionals, working in education, healthcare, and business services, have also added to electoral pressures for social investment. People in those occupations now form 15 to 20 percent of the electorate in most developed democracies; and, perhaps because their work entails high levels of interpersonal interaction, support for spending on education and daycare is higher among this group than among the industrial working class (Kitschelt and Rehm 2014; Gingrich and Häusermann 2015; Marx and Picot 2013; Beramendi et al. 2015). Thus, mainstream parties of the center-right and left have sought to build electoral coalitions of working women and sociocultural professionals by advocating policies of social investment.

[7] By 2000, for instance, more women than men were members of British trade unions.

However, the electoral conditions of the past two decades have not been entirely auspicious for growth strategies oriented to a knowledge economy. In many countries, longstanding voter allegiances have eroded, as the distinctiveness of the economic platforms of center-right and center-left parties has declined, and divisions on cultural issues have driven wedges through the electoral coalitions of mainstream parties.[8] As a result, the share of the electorate those parties attract has declined, party systems have become more fragmented, and partisan competition is increasingly based on assembling ad hoc coalitions behind the platforms of the day (Mair 2013).

In this context, if large segments of the electorate embrace the economic gestalt of knowledge-based growth, it may be possible for governments to pursue such strategies. Some analysts are optimistic about this possibility on the grounds that parties will be able to form coalitions between sociocultural professionals and others who benefit from knowledge-based growth along with aspirational voters who may not benefit directly from the relevant policies but believe they enhance the prospects of their children (Iversen and Soskice 2019). Such coalitions are more likely to be feasible in countries with relatively advanced economies, such as those of northern Europe, than in countries where small businesses and low-skill workers comprise more of the electorate, as in many parts of Southern Europe (Beramendi et al. 2015).

However, recent economic developments have also given rise to a new electoral cleavage, separating those who expect to benefit from an internationally interdependent knowledge economy and those who see themselves as losing from it (Kriesi et al. 2008; Hooghe and Marks 2018). As global outsourcing and skill-biased technological change eliminate well-paid routine jobs and accompanying policies render many other positions less secure, close to a fifth of voters in western electorates have come to see themselves as losers in this new economy. The result is an "integration cleavage" rooted in differences in material interest but rendered more powerful by the fact that those on one side of it tend to embrace post-materialist values, while those on the other side often hold more traditional views. The key characteristic separating the two

[8] The United States, where partisan identities loom large amidst a polarization of the electorate, is a notable exception to this trend.

sides is the experience of tertiary education, which confers both job prospects in the new knowledge economy and more cosmopolitan values. Because knowledge-based growth tends to concentrate prosperity in urban clusters and move good jobs away from small cities or rural areas, there is also a regional dimension to this cleavage whose network effects enhance its electoral salience (Moretti 2012).

On one side of this cleavage, many voters, often from the working class, have been drawn away from parties of the center-right and center-left, seen as defenders of the status quo, toward new parties on the right and left ends of the political spectrum. The rise of these radical parties will not necessarily prevent governments from assembling majorities for knowledge-based growth strategies. But, in countries with electoral systems based on proportional representation, assembling governing coalitions has become more difficult; and, in majoritarian systems, parallel discontents have intensified factional infighting within the major parties. As a result, it has become more difficult for governments to adopt initiatives that advance the knowledge economy but might disadvantage others. At best, these political developments are delaying the formulation of forceful responses to the economic challenges of this era, as parties on the radical right argue for social protection, often in the form of trade protection, rather than social investment. At worst, unless new ways are found to provide decent jobs for people with lower qualifications in an era of knowledge-based growth, populist candidates hostile to global economic integration and more devoted to social consumption than social investment may come to power. Amidst the occupational turbulence caused by a new technological revolution, the prospect that quasi-permanent minorities may be left out of prosperity threatens continuing political turbulence (See Gidron and Hall 2019).

4. Conclusion

Although the quest for economic growth has been a constant of the post-war years, the growth strategies of the developed democracies have changed dramatically over that time. In an era of modernization, governments circumscribed the operation of markets via assertive state intervention, as in France and Britain, or via the development of dense networks of rules to govern coordination by producer groups, as in Sweden and Germany. The social policies of this period laid the ground for contemporary welfare states, as governments gave priority to ensuring that markets were embedded within broader social orders. During a subsequent era of liberalization, growth strategies rolled back these measures and increased competition in markets for labor, capital, and goods. Governments embraced privatization, the contracting-out of public services, more intense market competition, and more decentralized wage bargaining. During the current era of knowledge-based growth, growth strategies have shifted again toward efforts to promote new technology, venture capital, and social investment in the skills of the workforce.

Each of these growth strategies was a response to secular developments in the economy. However, that response was mediated by shifts in the gestalt through which economic events are interpreted and by developments in the electoral arenas where coalitions for growth strategies are assembled. Economic policy-making entails coalition-building among both producer groups and electorates. I have focused here on coalition-building in the electoral arena where the coalitions that can be assembled are conditioned by political cleavages that shift over time, often as a result of developments under the previous growth regime. Thus, the economic policies of the era of modernization were advanced by electoral competition dominated by a class cleavage, while the decline of that cleavage and the rise of a cross-cutting values cleavage provided a permissive electoral context for the growth strategies of an era of liberalization. In the contemporary era of knowledge-based growth, the success of new strategies will depend once again on the capacities of governments to assemble new coalitions; but they do so in an electoral space that is increasingly fragmented and marked by the rise of an incipient integration cleavage that calls into question the fairness of the knowledge economy.

Any survey of this sort necessarily leaves out some pieces of the puzzle. I have not discussed the important issues of sustainability raised by this quest for growth, and I have said little about the important role that producer-groups play in the evolution of growth strategies.[9] My focus has been on common

[9] On sustainability, see Hirsch 1978; OECD 2001 and, for insightful treatments of producer group politics, see: Hacker and Pierson 2010; Culpepper 2011; Thelen 2014, Thelen in this volume, Martin in this volume.

changes over time rather than on divergence across nations, and closer inspection would reveal national adjustment trajectories, rooted in the institutional features defining distinctive varieties of capitalism. However, I hope that this analysis is revealing, not only about the extent to which the growth strategies of the developed democracies have changed since World War II, but also about and how economics and politics combine to yield those changes.

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