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When and how do growth strategies change?

1. Introduction

As scholars from Sombart (1902) to Streeck (2014) have observed, capitalism is an evolving economic system that distributes well-being in terms which vary over time and across countries (see also Hall 2013, Trigilia 2020). These variations correspond to changes in the strategies of firms, which move in tandem with market opportunities, managerial ideologies and the institutional environment (Whiteley 2000; Fligstein 1993; Hall and Soskice 2001). But the operation of capitalism is also deeply conditioned by the policies adopted by governments to regulate the economy. Those policies redistribute portions of the national product, through taxation and spending, and sustain an institutional infrastructure influencing what firms do. Hence, understanding how capitalism evolves entails appreciating how the public policies that condition its operation change over time.

The objective of this essay is to advance a distinctive perspective on when and how major changes in policies governing the economy occur. Although there are many intricacies to how specific policies change (Streeck and Thelen 2008), my focus is on broad changes to the character of policy, marked especially by shifts in the extent to which governments engage in activist policymaking to alter the firm strategies or distributional outcomes that unfettered markets would otherwise yield. We can think of these broad features of policy as the «growth strategies» that governments adopt (Hall 2022). Shifts in policy of this magnitude are not frequent, but they are highly consequential, especially for the distribution of well-being.

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I will examine two previous shifts in growth strategies, occurring after World War II and during the 1980s, as well as the potential for a third shift today. I contend that shifts of this sort depend upon the presence of three conditions which can be described as offering the *motivation*, *means* and *motor* for such changes. Although this analysis is based on cases drawn from the developed democracies after World War II, it is meant to have wider generality. My emphasis is also on processes of change occurring in parallel across most of these countries. As a result, I skip over some important national differences linked to varieties of capitalism that deserve a more detailed analysis because such differences yield distinctive national trajectories within these broad patterns of change (Hassel and Palier 2021; Baccaro *et al.* 2022). Ultimately, my concern is to show how changes in the economy interact with changes in democratic politics.

2. Contending perspectives

How should we explain the movement from one growth strategy to another? My perspective draws on, but stands in some contrast to, four other approaches that can be taken to this question. The first, which might be described as *economic functionalism*, is especially prominent in the discipline of economics. Here, the basic assumption is that the policies governments adopt can be explained largely by the character of the economic problems they confront (cf. Preston and Pagon 1982; Heclo 1974). Of course, this is to some extent true. For instance, as unemployment or inflation rise, governments usually take corrective action. But accounts of this type are incomplete, for at least two reasons. First, they tend to neglect the role that changes in economic ideas play in such processes. The economy cannot be observed with the naked eye but must be interpreted, and those interpretations of what is occurring in the economy and how to address its problems change, sometimes radically, over time. Explanations for how growth strategies change must take these processes of ideological change into account. Second, economic policymaking is not a purely analytical endeavor but invariably also political. It is closely bound up with the endemic problems of coalition building facing democratic politicians, since social and economic policies are often used to cement those coalitions. Thus, any account of how growth strategies change must see it as a process in which governments respond, not only to a changing economy, but to the political dilemmas of their day.

A second approach commonly taken to these issues is more political but reflects a type of *political functionalism* which assumes that democratic governments must cater to the needs of capital and hence that their policies can be explained as efforts to do so. Here, growth strategies are seen primarily as responses to the changing demands of firms. Early formulations of this approach described policies as responses to an «accumulation problem» built into the capitalist system (cf. O'Connor 1973); and there are echoes of that in Kalecki's (1943) influential analysis of postwar capitalism, as well as more nuanced contemporary analyses (cf. Hopkin and Blyth 2019). Once again, there is something in this: democratic governments ignore the demands of firms at their peril, because investment is crucial for the prosperity on which their reelection depends (Lindblom 1980). But business rarely speaks with one voice, and it is not the only constituency to which democratic governments must respond if they want to be reelected.

A third approach associated with *power resource analysis* takes that concern seriously by explaining the policies governments adopt as the product of conflict between the organizations representing capital and labor in the arenas of electoral and producer group politics (cf. Korpi 1983). On this view, policy reflects the changing balance of power between capital and labor. That factor is certainly relevant to the process whereby growth strategies change (Bacarro and Howell 2017). But, as Swenson (2002) has observed, many important policies seem to be the product of cross-class coalitions among various segments of labor and capital, and some of the most important variations in policy may follow, not from differences in the balance of power between these two groups, but from variations in how each of them interpret their interests. Over the decades examined here, for instance, changes in how social democratic parties interpret the economy and their interests have been as consequential as the levels of support they command.

A fourth approach builds on this last point to argue that movements between growth strategies are associated primarily with changes in ideas about how the economy should be managed – because of developments in economic theory or changes in the types of advisors consulted by governments (cf. Hall 1993; McNamara 1998; Blyth 2002; Mudge 2018). Once again, there is much to be said for this perspective, and no account should ignore the importance of economic ideas. But new ideas are only part of the story, and what must also be explained is why older ideas are cast aside in favor of new ones.

Despite their limitations, each of these approaches contains important insights, and any alternative analytical perspective on such a complex issue also entails some simplification. With that caveat, I now elaborate a view that associates major changes in growth strategies with three types of developments which provide the motivation, means and motor for such shifts. I begin by using the immediate postwar period to develop this perspective, then assess its adequacy against a second shift in growth strategies during the 1980s, and close by asking what this analysis implies for the prospect that another shift in growth strategies might occur today.

3. The postwar growth strategy

Any account of how growth strategies change must be able to explain the break with past practice that occurred in most western democracies shortly after World War II. The outlines of this rupture are widely familiar. In these countries, the approach to the economy taken by governments during the interwar years leading up to the Great Depression of 1929 was dominated by an economic orthodoxy mandating budgetary stringency in order to preserve the gold standard that countenanced only limited government intervention into the operation of a market economy. Despite some flirtation with ideas about planning among the *polytechniciens* of *X-crise* in France and around Harold Macmillan in Britain, the general premise was that the private economy was self-equilibrating and active government intervention self-defeating (Moggridge 1993; Blyth 2013). This laissez-faire growth strategy was widely accepted.

By contrast, in the two decades after World War II, governments of both the political left and right adopted growth strategies based on much higher levels of state intervention into the private economy. Many governments made unprecedented commitments to secure full employment, often accompanied by activist fiscal policy, the nationalization of key industries and embryonic systems of indicative economic planning (Shonfield 1969; Marglin and Schor 1992; Eichengreen 2007). Economic growth was no longer treated as something that depended on private markets alone and, to offset the adverse effects of those markets, governments expanded systems of social insurance to lay the groundwork for what the Bishop of London in 1948 called «the welfare state». There were plenty of national variations. France turned most forcefully to economic planning, while Britain relied more heavily on active fiscal policy. Italy made extensive use of nationalization, while Sweden developed a strategy built largely on active manpower policy (Shonfield 1969; Martin 1978). In the United States, the relevant break came earlier with the New Deal of Franklin Roosevelt, whose growth strategy was watered down, but not eliminated, by postwar Republican Congresses (Kuttner 2013). The contrast with the laissez-faire strategies of the interwar years remained palpable throughout the 1950s and 1960s.

Where did the *motivation* for movement to these new policy regimes come from? Contemporary narratives suggest that much of it originated in the economic crisis and mass unemployment of the 1930s (Maier 1981). That experience discredited the economic orthodoxy of the interwar years, rendering postwar policymakers more open to alternative approaches to policy. But this economic crisis secured such significance because it also initiated a political crisis, marked by intensified class conflict in most countries and, in some, the collapse of democracy into fascism and world war. The postwar cry of «never again» meant more than «no more war» (Hennessey 2006). For postwar policymakers, what Jacques Servan-Schreiber (1967) called «the American challenge» also inspired a willingness to take radical steps to modernize economies lest they lose their position vis-à-vis an American colossus that had emerged unscathed from the war.

Expressed in more general terms, the motivation for a major shift in growth strategies can usually be found in economic developments with such adverse effects that they summon up a sense of crisis with wide political resonance. Political resonance is important because, without it, democratic governments cannot be expected to make a radical break with the past. The global financial collapse of 2008-09, for instance, brought about remedial measures but only in some countries did it initiate a corresponding political crisis dramatic enough to inspire changes in the growth strategy. Developments in the international economy that threaten the prosperity of a nation also play a role here, although generally with more incremental effects.

However, motivation is not enough. For shifts in the growth regime to occur, policymakers must also have a *means* – in the form of an intellectual rationale for implementing new types of policies. Ideas enter the analysis here, notably but not exclusively in the form of economic theories. In the years after World War II, new ideas about how to manage the economy gained increasing currency. John Maynard Keynes and his followers were responsible for many of them (Moggridge 1993; De Vroey 2016). Even though few governments implemented countercyclical fiscal policies just as Keynes had recommended (and generally with mediocre results), the more basic ideas of Keynesian economics gained widespread influence (Hansen 1968; Hall 1989). These included the contentions that the economy can be construed in terms of aggregate demand and supply, that capitalist economies are naturally unstable, and that governments have an ability and corresponding responsibility to intervene in the operation of markets, notably to ensure high levels of employment.

Keynesian ideas and related conceptions of indicative planning acquired influence in this context because they spoke, not only to the pressing economic problems of the day, but also to its preeminent political problems. For governments transfixed by memories of mass unemployment, they offered new solutions to that problem. But they also provided the basis for a new political compromise between political left and right. In the immediate aftermath of World War II, European politics was dominated by a stand-off between increasingly influential socialist parties convinced that full employment could be assured only by nationalizing the means of production and conservative forces dedicated to the preservation of private property. By showing how full employment could be achieved without nationalizing industry, these ideas provided a rationale that would persuade socialist parties to give up their devotion to large-scale nationalization and conservative parties to accept more activist economic management and a mixed economy (Przeworski and Wallerstein 1982).

The German case is a notable national exception to this account, but one that tends to confirm the overall theory. Like their counterparts, postwar West German governments adopted new policies that broke dramatically with prewar practice, motivated by a reaction against the crises of the 1930s. But the crisis against which they reacted entailed, not only mass unemployment, but also the collapse of Weimar democracy into fascist dictatorship. Hence, West German governments were more wary than their neighbors about entrusting the state with economic power and, instead, embraced new policies that placed responsibility for managing the economy in the hands of markets and organized economic groups rather than the government, whose more limited role was to ensure that markets worked on behalf of the public good (Katzenstein 1987). And they found the means for this new approach to the economy in the ideas of ordo-liberalism, associated with the Freiburg school of economics, which provided an appealing rationale for this type of «social market economy» (Dyson 2021).

Motivation and means are important. But ascribing changes in growth strategies solely to them would yield an efficiency account that does little justice to the paramount role of politics in modern democracies. Accordingly, we must also look for what I have described as the «motor» behind such changes. This takes us into the realm of electoral politics because it is to electorates that democratic governments ultimately respond. They consult advisors and are influenced by producer groups but they are likely to take the radical actions associated with a change in growth strategies only if electoral conditions are right.

What features of electoral conditions matter most? Some argue that it is the partisan complexion of governance on the reasonable grounds that governments of the left and right tend to pursue different policies. On some issues and over the short-term, that is true. But major changes in growth strategies of the sort considered here occur only periodically over long stretches of time; and it turns out that, over such periods, governments of different partisan hues tend to pursue the same sets of growth strategies. During the 1950s and 1960s, mainstream parties moved together toward the left on economic issues, while in the 1980s and 1990s they moved together to the right (Manow *et al.* 2008). Huber and Stephens (2001) show, for instance, that the partisan complexion of governance can affect the character of social policy but only if parties of a given hue dominate governance over a long period of time. Therefore, we should look beyond partisan alternation in power for the electoral motor that lies behind growth strategies and changes in them.

Instead, I suggest that we look at what I will call the «terms of electoral contestation». I use that label to refer to the sets of issues that have become focal points for electoral conflict because they are pushed to the top of the electoral agenda (Green-Pedersen 2007; 2019). These are issues that have become so prominent in the media and popular debate that no party seeking office can afford to ignore them, since the judgements of voters about the economic competence of a party, which often weighs heavily in their voting decisions (Healy and Malhotra 2013), will turn on how credibly each party is said to address them. Therefore, although there may be some differences in what parties propose, all office-seeking parties will address such issues.

The question then is: what factors lead some issues to become focal points for electoral conflict while others recede into the background? Part of the answer lies in real-world events, and notably in the economic and political crises that provide the initial motivation for changes in growth regimes (Green-Pedersen and Walgrave 2014). Those crises influence voters as well as political leaders. But equally consequential is the structure of the political cleavages underlying electoral competition. Because those cleavages range some socioeconomic groups with one set of views against other groups taking different positions on the same issues, they tend to define the terms of electoral competition (Lipset and Rokkan 1967). Hence, the cleavages that dominate electoral competition bring specific issues to the forefront of the political agenda where office-seeking parties cannot ignore them (see also Hall 2022).

During the 1950s and 1960s, the dominant political cleavage in most of the developed democracies was a class cleavage, pitting representatives of a blue-collar working class against those speaking more strongly for the interests of a white-collar middle class (Clark and Lipset 2001). The prominence of this cleavage pushed issues of social justice based on working-class grievances to the top of the political agenda. Any party seeking political office had to address those issues, and that drove governments of both the political left and right toward the kinds of activist economic policies and increasingly generous social policies that were at the center of the growth strategies in this era.

4. Movement to a neoliberal growth strategy

During the 1980s and 1990s, the growth strategies of the developed democracies underwent another major shift, in this case toward neoliberal policies with which governments shifted jurisdiction over the allocation of resources away from the state toward markets and rendered those markets more competitive. We can assess the approach to changes in the growth strategy that I develop in the context of the initial postwar era against this second case.

Once again, the general features of the shift are familiar. Successive governments privatized public enterprises, took deregulatory steps to intensify competition in markets for labor and products, supported the decentralization of wage-bargaining, in many instances weakening trade unions, and shifted control over monetary policy away from governments toward politically independent central banks (for overviews: Vogel 1996; Davis 2009; Schmidt and Thatcher 2014; Leibfried *et al.* 2015). The initial moves came in the US and UK, but Europe followed suit in the 1990s, notably with steps to create a single market that turned the European Commission into an agent for market liberalization, and the establishment of a monetary union governed by an independent European Central Bank. The duration for which people were eligible for social benefits was cut back and eligibility increasingly tied to work requirements. How are we to explain these broad shifts in the growth strategy?

Once again, I think the *motivation* for these developments can be found in the adverse economic developments of an economic crisis that created a generalized sense of political crisis. In this case, the key developments were large increases in inflation and unemployment during the 1970s, followed by lower rates of economic growth, especially in Europe (Lindberg and Maier 1985). As governments struggled to reduce inflation, sometimes with unwieldy incomes policies, concerns rose that democracies had become «ungovernable», and persistently high levels of unemployment led some to say that the continent was suffering from «Eurosclerosis» (Crozier *et al.* 1975). Virtually every western government in office at the end of the 1970s was defeated in the next election. Since existing lines of policy seemed to have failed, policymakers began to search for alternative approaches for managing the economy; and international economic developments again provided further impetus for the shift. With the collapse of the Bretton Woods monetary regime in 1973 followed by the removal of exchange controls, greater sums of capital began to flow across national borders and governments gradually realized that they could not depend entirely on domestic firms to increase investment but would have to make their markets more attractive for foreign capital (Helleiner 1994).

In the face of these developments, governments initially experimented with a variety of policies, but the *means* for the shift to a new growth strategy were ultimately supplied by monetarist economic theories that had been around for some years and the emergence of a new classical economics built on rational expectations foundations, which provided grounds for thinking that activist fiscal and monetary policies had few durable effects on the real economy while the sources of unemployment lay, not in demand management, but on the supply side of the economy in the structure of product and labor markets (McNamara 1978; De Vroey 2016). These theories provided a strong rationale for abandoning active macroeconomic management in favor of deregulatory moves to intensify competition in markets for both labor and products.

Of course, the willingness of increasing numbers of economists to endorse these doctrines influenced policymakers (Mudge 2018). But politicians are rarely persuaded by theoretical logic alone. In this case, the new doctrines also had political appeal, because they offered a clear alternative to policies that had failed and they located the sources of unemployment in the operation of labor markets rather than in poor economic management, thereby relieving governments of responsibility for high levels of unemployment.

Although popular dissatisfaction with the failure of existing policies to cope with rising inflation and unemployment put electoral pressure on governments to find alternative strategies, aside from some initial enthusiasm for the anti-interventionist programs of Thatcher and Reagan in the UK and US, the liberalizing initiatives of the 1980s were not widely popular (Riddell 1991). Indeed, the liberalization of labor markets had adverse consequences for many workers (Weil 2014). Hence, electoral pressure played only a modest motive role in this shift toward liberalizing policy, and support from business interests and economists provided much of the motor force for them (Jabko 2005; Hacker and Pierson 2010; Hopkin and Blyth 2019).

Thus, the question becomes: why was this shift in growth strategies not stymied by electoral pressure? For an answer, we must look again at the structure of political cleavages and how they condition the terms of electoral contestation. By the 1980s, the class cleavage was no longer as salient as it had once been to electoral competition. Prosperity during the postwar decades, shifts in occupational structure, and more generous welfare states had reduced the sharp class divisions and widespread sense of grievance that once underpinned this cleavage (Franklin *et al.* 1992; Manza *et al.* 1995). Moreover, by the early 1980s, a new cultural cleavage, also fueled by postwar prosperity, had gained electoral salience to crosscut the older class cleavage. This cultural cleavage divided people with post-materialist values oriented to self-expression, human rights and social equality from others with more traditional values (Inglehart 1990; Kitschelt 1994).

With these changes in the cleavage structure, the character of electoral competition shifted. The growing salience of cultural issues drew increasing numbers of middle-class voters to center-left parties and led working-class voters away from them (Gingrich and Häusermann 2015). Many of those middle-class voters benefited to some extent from neoliberal reforms. As a result, social democratic parties no longer had such strong incentives to act as parties of working-class defense and more reasons to look favorably on liberalizing policies. The result was a convergence in the economic platforms of parties toward the right (Manow *et al.* 2008; Mair 2013). If the principal *motor* for this shift in growth strategies lay elsewhere, the cleavage structures of this era provided a permissive electoral environment in which governments could accede to pressures from business interests for economic liberalization (see also Hall 2020).

5. Another shift in growth strategies?

Over the initial decades of the 21st century, the operation of the developed political economies has gradually been changing again to accommodate an era of knowledge-based growth, in which the economic success of a nation depends increasingly on the extent to which its firms can take advantage of new information and communications technology (Hall 2022). In many countries, policies have gradually been changing to adjust to the challenges of this era. Governments have made new efforts to attract venture capital, encouraged spending on research and development, and increased enrollments in tertiary education in the hope of catching up with skill-biased technological change (OECD 2013; 2015). With some national exceptions, though, policy regimes have changed only marginally in recent years, and we have yet to see a major break with the growth strategies of the era of liberalization (cf. Schnyder 2012).

There are signs, however, that we may be on the cusp of another shift in growth strategies, which would see governments turn away from the market-oriented policies of the past forty years toward new social policies and more active state intervention in the allocation of economic resources (Manwaring and Holloway 2021). It is visible in growing political enthusiasm for Green New Deals designed to address issues of climate change and job creation of the sort proposed by governments in the US, UK and Europe (Gustafson *et al.* 2019). Issues of economic inequality are being accorded new priority even by conservative governments, as the British government talks about «leveling up» and the Japanese government about inequality. The European Commission has shown increasing willingness to take assertive action in the realm of competition policy. Multiple governments have agreed new rules governing international taxation; and the European Union has taken the unprecedented step to issue mutual bonds in order to fund ambitious investment programs in its member states. In many cases, these initiatives are far from fully realized, but they suggest that the growth strategies of the developed democracies may be changing once again.

Are these steps leading to another large-scale change in growth strategies? To assess the likelihood of that, we can ask whether the types of conditions I have associated with earlier shifts in the growth strategy are present today. There are some indications that they may be.

Two sets of developments seem to be providing *motivation* for the moves that governments are taking in this direction.

The first is a growing reaction against the increases in income inequality and employment insecurity that have been the hallmarks of recent decades (Piketty 2014; Azmanova 2020). In public rhetoric and the media, these are becoming seen, no longer as side-effects of an efficient economic model, but as serious social problems that require redress. The second mo-tivating factor is growing public recognition that the world faces a climate crisis and shrinking time in which to address it. Of course, economic inequality and climate change are developments that have gathered force over many years, but in the popular imagination they now seem to have assumed crisis proportions. Hence, they may be the equivalents of the mass unemployment of the 1930s and stagflation of the 1970s that provided the motivation for previous changes in growth strategies.

The intellectual *means* for a shift in growth strategies have also begun to appear. They appear in the growing sophistication of climate science, the increasing willingness of scientists to associate extreme weather events with climate change, and the more intensive consideration now being given to various proposals to address it, most of which require more assertive government action. Economic theories that might underpin a change in growth strategy are also emerging. Some associate higher levels of income inequality with lower rates of economic growth (Ostry *et al.* 2014). Others link growth to improvements in human capital that mandate more aggressive policies to protect children and expand educational achievement (Barro 2001). International organizations have already translated these theories into calls for new approaches that treat social policy not simply as social insurance but as social investment (Morel *et al.* 2012; Hemerijck 2013). These approaches to the climate crisis and the economy are beginning to influence policy.

Is there a *motor* for a shift to new growth strategies Once again, we can look to the electoral arena where there are signs of a new cleavage emerging with the potential to shift the terms of electoral contestation again. Broadly speaking, this is a cleavage separating people who can expect to benefit from the emergence of a globalized knowledge economy and usually embrace the cosmopolitan values associated with it from others whose livelihoods are threatened by contemporary economic developments and who show more support for traditional values (Kriesi 1998; Hooghe and Marks 2018). The key variable dividing the two groups is level of education, because tertiary education is increasingly important for access to good jobs in a knowledge economy and college experiences tend to confer cosmopolitan values (Weakliem 2002). Hence, people tend to be divided by their level of education on both the economic and cultural axes of a two-dimensional electoral space.

The most significant reflection of this cleavage is declining electoral support for established parties of the mainstream center-left and center-right and rising support for two new political groupings. On one side, Green parties are taking an increasing share of votes from the educated electorate, especially in political systems based on proportional representation (Abou-Chadi *et al.* 2021). On the other side, politicians of the political right claiming to speak for those «left behind» by this globalized knowledge economy are gaining working-class votes (Mudde 2009; Gidron and Hall 2020). As these challenger parties bring new issues into the center of electoral competition, the terms of electoral contestation are changing again. Green parties are bringing issues associated with climate change and social investment to the forefront of the political agenda (Bloomfield and Stewart 2020; Häusermann *et al.* 2021). Right populist parties emphasize issues of immigration, but they also mobilize support based on job loss and economic precarity. While the former are inspiring new initiatives to combat climate change, the latter are forcing governments to confront issues of economic inequality in terms that mandate more assertive government action.

In sum, there are reasons for thinking that, after four decades in which governments turned toward markets for the allocation of resources and rendered markets more competitive, we may be entering an era in which growth strategies will again change direction as governments take more assertive measures to regulate markets and redistribute resources. The basic conditions for such a shift may be in place, and, in some countries, it seems to be underway.

Despite these auspices, however, like much in politics, movement to a new growth strategy is far from certain. Some believe that the forceful response called forth by the COVID-19 pandemic will provide a template for further assertive governance, much as expansion in the role of government during World War II did during the immediate postwar years. But just the reverse might happen: a reaction against successive lockdowns and vaccine mandates could sour the public on activist government, much as the incomes policies of the 1970s once did, especially if the virus is not effectively tamed.

Moreover, not every feature of the contemporary political context favors a return to activist government. Although support for right populist politicians often rests on inequality, precarity and job loss, the emphasis many of those politicians put on divisive cultural issues has made it more difficult for parties to mobilize cohesive support on economic grounds. And, facing fragmented electorates, many countries have had difficulty assembling governing coalitions with the capacities for decisive action that movement to a new growth strategy would require.

Despite movements in economic theory that favor various kinds of activist governance, we are also still lacking the intellectual means to address some of the issues raised by a knowledge economy. Many of those who have been left behind by that economy want decent jobs rather than more generous social benefits. But it remains unclear how governments can create such jobs. Prevailing approaches rely heavily on the contention that, if citizens acquire higher levels of education, good jobs for them will emerge. But, although that may matter in the long run, there is evidence that it does not work in the short run, as many university graduates are failing to find employment commensurate with their skills (Ansell and Gingrich 2021). Moreover, many of the high-skill jobs being created are in geographically concentrated areas and not everyone is going to get one (Autor 2019). Hence, governments must find means for creating jobs in less prosperous regions and for making the jobs that require only modest levels of skill more decent. To some extent that is a matter of political will, but mainstream economics has yet to yield influential theories about just how this can be done. In short, the basic conditions for movement to a new growth strategy may be present, but that strategy is not yet fully formed.

6. Conclusion

The objective of this essay is to contribute to our understanding of how political economies change over time. My focus is on changes in policy regimes substantial enough to constitute shifts in the overall growth strategy of a government, and on developments that move responsibility for the allocation of resources between states and markets. Based on cases drawn from the developed democracies in the years since World War II, I have argued that changes in growth strategies of this magnitude generally occur only in the presence of three conditions that provide a motivation, means and motor for such shifts. The motivation typically originates in a major economic crisis with political resonance that turns policymakers and the public alike against previous policies. The means is usually supplied by developments in economic theory that have some political attractiveness; and the motor may be found in pressures from the electorate or producer groups but always depends on the character of electoral competition, which is deeply influenced by the prevailing structure of political cleavages.

Like all accounts of complex socioeconomic processes, this one is to some degree simplified, but it highlights how significant changes in policy are dependent, not only on developments in the economy, but on manifestly political processes; and it places electoral competition at the center of those processes. Instead of seeing partisan alternation in government as the relevant electoral factor, however, this analysis emphasizes the importance of changes in the terms of electoral contestation, which shift with the structure of political cleavages as well as world events.

Much has been left out of this account. Most obvious are the historical trajectories taken by individual countries marked by distinctive varieties of capitalism (Hall and Soskice 2001). Economic developments affect some countries more adversely than others, and there is some cross-national variation in both the structure of political cleavages and the character of national discourse (Schmidt 2008). In tandem with features of the national institutional setting that condition the ease with which governments can implement certain kinds of policies, these differences take nations along distinctive adjustment paths, even if in the same general directions (Schmitter and Lehmbruch 1979; Streeck and Yamamura 2001). This essay concentrates on those general directions.

A fuller account would also reveal the multiple endogeneities that characterize these processes. It is evident, for instance, that some of the roots of the economic crises that presage movements to a new growth strategy lie in the inadvertent consequences of a previous growth strategy. As Kalecki (1943) predicted, the high levels of employment achieved during the first postwar era in the context of strong trade union movements contributed to the inflationary crisis of the 1970s (Crouch and Pizzorno 1978). Similarly, the political discontent that may be leading to a new growth strategy has been fueled by the high levels of inequality and precarity that the neoliberal growth strategies of the 1980s and 1990s promoted. The social and economic effects of a growth strategy also often alter political cleavages in ways that set the stage for movement to a new growth strategy. The prosperity achieved under the postwar growth strategy, for instance, ultimately eroded the electoral salience of the class cleavage and contributed to the rise of a new cultural cleavage based on post-material values, thereby establishing the political conditions for movement to a new growth strategy during the 1980s. In much the same way, the inequalities associated with that neoliberal strategy are contributing to the development of a new cleavage that may yet fuel movement to a new growth strategy.

Someone once said that «the seats on the train of history always face backwards» which is to say that history is rarely an entirely reliable guide to what we can expect in the future. But it is one of the few places to which we can look for guidance, and I have done so in this essay in the hope of better understanding how political economies change over time.

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When and how do growth strategies change?

Summary: This article examines the growth strategies of governments in the developed democracies and asks under what conditions and when do such strategies change? Growth strategies reflect the overall character of the economic and social policies that endures over a period of decades with some emphasis on the extent and complexion of government intervention. The argument is that three conditions are necessary for a change in growth strategies of this magnitude. There must be a motivation which usually derives from a manifest failure of policy with political resonance, a means supplied by newly popular sets of economic ideas, and a motor based on electoral pressure rooted in how the political cleavage structures of the day push certain issues to the top of the political agenda. This argument is substantiated with reference to the movement from the growth strategies of the inter-war years to those of the Keynesian welfare state following the Second World War and the subsequent movement from that growth strategy to the neoliberal growth strategy of the 1980s and 1990s. These examples provide the basis for an argument that growth strategies might be on the point of changing again in the face of failures associated with economic precarity and inequality, newly popular ideas about human capital and climate change, and the emergence of a new electoral cleavage between the winners and losers of globalization.

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