How Growth Strategies Evolve in the Developed Democracies

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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 (see the Introduction). 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.[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 the Second World War and to advance our understanding of how they change. Important national variations in such strategies also deserve attention, 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.[2] 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 how to understand the relationship between developments in the economy and developments in politics – a longstanding puzzle somewhat neglected in comparative political economy.[3] In the next section, I outline my approach to the problem and follow with sections tracing the evolution of

[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.
[2] Streeck 2014; Crouch 2011; O'Connor 1979. Cf. Sewell 2008.
[3] 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.

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.

I. The Approach

To delineate the postwar growth strategies of the developed democracies, I distinguish three periods, which we can label an era of modernization, running from 1950 to about 1974, an era of liberalization, stretching from 1980 to about 1995, and an era of movement toward knowledge-based growth from the late 1990s to the present. Each era is defined by the character of its prevailing economic and political challenges. Because the pace of developments varies across countries, the borders of these periods are fuzzy and they overlap with each other 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 changes in economic context associated with secular developments in the domestic and international economies. They 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.[4] 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 levels of cooperation producer groups provide for the operation of each 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

[4] Thelen 2004; Hall and Thelen 2009.

officials react to what their nation has just experienced and prevailing interpretations of it.[5] Obvious failures of policy set in motion a search for alternatives, while conspicuous cases of success provide templates for the future course of policy.[6] In this process, economic doctrines loom large, since they are the lens through which officials interpret economic developments and popular versions of these doctrines are developed to justify policies to producer groups and the electorate.[7] However, there are political elements to these popular versions as well, since they are designed 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 in large measure 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 those doctrines.[8] Governments also choose economic and social policies with distributive elements 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, themselves affected by economic developments, and in response to changes in the appeals that parties mount.[9]

Producer group politics conditions both the formulation and implementation of growth strategies. On the one hand, to the extent electoral competition allows, governments respond to the demands of producer groups.[10] 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,

[5] Sewell 2005; Hall 2005, 2013.
[6] Hall 1993; Culpepper 2009; Dobbin 1997.
[7] McNamara 1998; Fourcade 2009.
[8] Lindblom 1977; Iversen and Soskice 2015.
[9] Cf. Iversen 1999; Evans and Tilley 2012.
[10] Culpepper 2011.

economic policy is a response to cross-class coalitions of producer groups.[11] On the other hand, 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 their strategies to cope with secular change in the economy; and the coordinating capacities of producer groups shift when new economic circumstances generate divisions among their membership.[12]

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 length allows.

II. The Era of Modernization, 1950-1975

In the aftermath of the Second World War, 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.[13] Both challenges were defined by the central role manufacturing still played in these economies. Whether organized along Fordist lines, as in the U.S., France and Britain, or by the methods of 'diversified quality production' employed in Germany and Italy, manufacturing remained the motor for economic growth.[14] The key issues were how to expand it and make production more efficient.

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.[15] By the end of the 1950s when Sputnik was launched, even the Americans worried that they were losing

[11] Swenson 2002.
[12] Thelen and Van Winjbergen 2003; Martin and Swank 2012.
[13] Servan-Schreiber 1969.
[14] Boyer 1990; Piore and Sabel 1984; Streeck 1991; Herrigel 2000
[15] Landes 1949; Elbaum and Lazonick 1985: Shonfield 1958.

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 U.S., or in the more muted forms of public-private partnerships established in Sweden and Germany.[16]

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 41 languages.[17] 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 (see Figure One).[18]

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.[19] Within industry itself, the dominant approach to improving productivity was to increase the size of plants in order to seek economies of scale, often based on technology imported from the U.S. 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 counter-cyclical

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[16] Cohen 1977; Leruez 1975; Block 2011; Johnson 1982 Ziegler 1997.
[17] Johnson 1971; Hall 1989.
[18] Stilwell 2006.
[19] Crafts and Toniolo 1996.

demand management.[20] Although his fiscal prescriptions were greeted with varying degrees of enthusiasm across countries, Keynes' contention that governments had a responsibility for managing the economy became widely accepted.[21]

Faced with the demobilization of millions of military personnel, postwar governments were also deeply concerned about how to secure full employment, albeit construed largely in terms of a male breadwinner model.[22] 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 U.S. and Britain sought to sustain domestic demand through counter-cyclical fiscal policies, while France relied on a high minimum wage and other countries, such as Germany and Sweden, made serious efforts to sustain 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 neo-corporatist 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 postwar Labour government nationalized leading firms in key industries, including the Bank of England, established a National Health Service, and imposed wage and price controls.[23] 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.[24] 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.[25] However, most of

[20] Aglietta 1979; Boyer 1990.
[21] Hall 1989.
[22] Beveridge 1942.
[23] Beer 1969.
[24] Leruez 1975.
[25] Hall 1986.

these attempts foundered on the limited institutional capacities of an arm's length state and difficulties securing cooperation from fragmented trade unions and business interests.

Thus, the British approach to securing full employment and investment turned heavily on efforts to sustain domestic demand via countercyclical macroeconomic policies. However, an insistence on maintaining the exchange rate so as to protect the value of overseas balances of sterling, on which the standing of Britain's 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.[26] 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 interventions. It was built around a system of indicative economic planning, in which public officials developed priorities for investment in consultation with representatives from business and (sometimes) labor, and then used their influence over large state-owned banks to channel funds to the sectors deemed most central to growth.[27] Increases in productivity were achieved by funneling finance only to the most efficient firms; and the strategy took a balanced approach to demand. 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 forty percent of French wages were eventually tied. The system was inflationary – as Giscard d'Estaing once said '*la planification, c'est l'inflation*' – but French governments devalued the exchange rate periodically to offset the effect of inflation on exports.

The growth strategies pursued by Sweden and Germany in this era 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 models built on neo-corporatist 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 postwar growth policies took

[26] Brittan 1971; Hansen 1968.
[27] Cohen 1977; cf. McArthur and Scott 1969; Zysman 1977, 1983.

full advantage of these strategic capacities.[28] 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. Wages across most sectors of the economy were determined by peak-level negotiations between labor and employers' confederations but, in percentage terms, the wages of low-paid workers were to rise faster than those in higher wage brackets. By consolidating a coalition between skilled and semi-skilled labor, this approach served the political purposes of a dominant social democratic party, and the economic objective was to increase 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.[29]

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, secured by co-determination legislation that established influential works councils in larger firms.[30] 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.[31] Flows of investment into industry were orchestrated by a few universal banks which held shares in firms and by networks of savings banks sponsored by regional governments.[32]

[28] Martin 1979; Pontusson 1992.
[29] Przeworski and Wallerstein 1982; Eichengreen 1996.
[30] Thelen 1991; Streeck 1994.
[31] Hall and Soskice 2001,
[32] Shonfield 1969; Deeg 1999.

These high levels of private-sector coordination were made possible by legislation – in the form of framework policies that delegated decisions to specified producer groups in classic neo-corporatist fashion.[33] Built on an economic gestalt marked by reaction against the state intervention of the Third Reich, the Germany government's stance was less interventionist than those of its neighbors and underpinned by an ordo-liberal philosophy popularized by the Christian Democratic Party, which dominated German governments for twenty years after the war. That philosophy held that the center of economic dynamism should lie in the private sector, while the state's role was to make rules ensuring that economic behavior was orderly and social groups were protected from the most adverse effects of market competition.[34] 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 actors providing high levels of collective goods.[35]

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.[36] 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.[37] As a result, Germany became one of the most successful exporters of manufactures in the world.

Electoral Politics

Although contemporary interpretations of the economic challenges of the 1950s and 1960s provided the template for the growth strategies of this era, much of the impetus for their adoption stemmed from the character of electoral politics. In advanced democracies, the most prominent electoral cleavage in this era was a class cleavage, dividing manual and lower-level non-manual workers from a middle class composed of

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[33] Schmitter and Lehmbruch 1979; Katzenstein 1987.
[34] Sally 2007.
[35] Streeck 1991; Herrigel 2000.
[36] Hall 1994; Hall and Franzese 1998; Carlin and Soskice 2009.
[37] Kreile 1978.

white-collar employees in supervisory, professional or managerial positions.[38] This cleavage was based both on material interests and on a distinctive identity politics. Many people in this period 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 in these terms. This class 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.

There were two ways in which this cleavage affected economic policy-making. Because issues of state intervention were central to the conflict between social democratic and conservative parties, those issues became the fulcrum for electoral competition. And the salience of these issues forced political parties interested in attaining office to find middle ground on them 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 served as the vehicle for this compromise because they offered a formula for securing full employment without nationalizing the means of production.[39] 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, embracing 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 modern

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[38] Manza et al. 1995.
[39] See also Offe 1983.

economy.[40] Modernizing the economy became a valence issue and, as Figure Two indicates, the result was convergence 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 of the political left and right, rooted in electoral rules and the presence of ancillary cleavages.[41] 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.[42]

III. The Era of Liberalization, 1980-1995

The era of modernization reached its economic apogee and political perigee in the middle of the 1970s, when 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 them after 1980. These were 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.[43] 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

[40] Crosland 1956; Przeworski and Sprague 1986.
[41] Manow 2009.
[42] In the U.S. 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 correspondingly more limited although far from negligible. Cf. Block 2011.
[43] Wren 2013; Iversen and Cusack 2000.

developing world, manufacturing jobs moved away from the developed democracies.[44] 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.[45]

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 some effects of the prior growth strategy which was undermined by its very success.[46] Most postwar governments had strengthened collective bargaining regimes in order to ensure that wages were bargained peacefully and the fruits of economic growth widely shared. As a decade of full employment strengthened trade unions, however, many began to secure wage settlements that firms could accommodate only by raising prices, which led in inflationary times to wage-price spirals. In this respect, defects in the social institutions established to regulate distributive conflict helped fuel the inflation of the 1970s.[47]

In the face of this stagflation, current 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.[48] Devising a new growth strategy took time, however, because governments react to such problems incrementally with ad hoc efforts followed by experiments with new ones. Mistaking structural shifts in the economy for cyclical fluctuations, many initially responded with more generous social assistance – on the premise they could pay for it when high rates of growth returned. When they did not, social expenditure as a percentage of GDP soared, and governments began to run endemic deficits.

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[44] Wood 1994: Keohane and Milner 1996; Rodrik 1997; Palley 2018.
[45] Berger and Dore 2006.
[46] Keohane 1978; Ferguson *et al*. 2010.
[47] Crouch and Pizzorno 1978; Goldthorpe 1978; Glyn and Sutcliffe 1972.
[48] Berger 1981; Hall 1993.

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 U.S., where faltering efforts to deploy statutory incomes policies led many to question the legitimacy of state intervention.[49] Not surprisingly, these countries made the pioneering moves 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.[50] But, as rates of unemployment continued to rise, the politicians of all countries sought new ways to reduce it. As the British and Americans worried about national decline, Europeans became anxious about 'Eurosclerosis'.[51]

The Economic Gestalt

Thus, the economic gestalt that emerged in the 1980s was a reaction against the apparent failure of interventionist policies during the 1970s. In its wake, policy-makers began to move toward the view that markets allocate resources more efficiently than governments. The watchword of this new era of liberalization became 'market competition' (see Figure One). If growth had once been said to turn on management of the demand side of the economy, it was now said to depend on reforms to the supply side, 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.

These steps were encouraged by the growing popularity of a 'new classical economics' that discounted governments' capacities to manage the economy and saw deregulatory structural reforms as the best route to economic growth. Although parallel ideas had been advanced since the 1960s, the rational expectations perspectives underpinning new classical economics gained many 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

[49] Crozier et al. 1974.
[50] Lindberg and Maier 1985; Goldthorpe 1984.
[51] Giersch 1985; Krieger 1986.

banks independent of the political authorities.[52] In the face of rising unemployment, politicians who had been happy to take credit for two decades of full employment found more appeal in doctrines attributing unemployment to the operation of labor markets.

As the 1980s wore on, market-oriented thinking seeped into ever more spheres of social life, as market competition came to be seen as the 'natural' way to organize human endeavor. Governments inserted market competition into their own operations, shifting from the view that they had a unique responsibility to provide 'citizens' with 'public services' toward the view that, like other market actors, they should serve 'consumers' of their goods more efficiently.[53] Many 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 and measurement associated with market competition crept into many social organizations.[54] The counterpart to this economic liberalism was a new personal liberalism, as people began to judge their own worth on the basis of the attributes necessary for successful market competition.[55] In short, the economic gestalt of the era of liberalization acquired a deep ideological foundation permeating many spheres of social life.

Growth Strategies

The growth strategies of this era turned on the liberalization of markets, albeit at a different pace across countries and sectors. The Single European Act of 1986 passed to create a single market in goods and services turned the European Commission into a powerful agent for market liberalization.[56] 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.[57] The pioneers were Margaret Thatcher and Ronald Reagan who took office on the eve of the 1980s, but many governments followed suit over the 1980s and 1990s.[58]

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52 Stein 1981; Stockman 1986; Dornbusch 1990; McNamara 1998.
53 Hall 2015.
54 Lazonick and O'Sullivan 2000; Gomory and Sylla 2013; Espeland and Sauder 2007.
55 Boltanski and Chiapello 2007; Hall and Lamont 2009; Centeno and Cohen 2012.
56 Jabko 2006; see also Moravcsik 1998.
57 Riddell 1991; Thatcher 1999.
58 Krieger 1986.

In the name of improving productivity, Reagan and Thatcher attacked the power of trade unions, notably by breaking the American air controllers' strike of 1981 and the British miners' strike of 1984-85. 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 arrangements that shifted influence over wages and working conditions from the peak or sectoral level to firm and plant levels.[59]

Government efforts to expand employment moved from the demand-side to reforms on the supply side of the economy, including steps to promote the use of temporary contracts and part-time work. Many were motivated by the need to create jobs in the service sector – to which there seemed to be only two routes.[60] One was to expand public employment in education, healthcare and social services – a path on which several Nordic countries embarked as early as the 1970s.[61] The other was to create jobs in private services, including restaurants, tourism, retailing and domestic service, typically at low wage levels 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 unemployment with measures to reduce the numbers of people seeking work, through early retirement programs, generous disability benefits and social programs whose design limited female labor force participation. When it became apparent, however, that a declining labor force would depress rates of growth, these governments shifted gear to promote part-time employment. In France and Germany, dual labor markets of precarious low-wage employment were built alongside a primary labor market offering relatively secure jobs, while the Netherlands expanded part-time employment with more job security and social benefits.[62]

Policy-makers also began to take new approaches to securing capital investment. Most efforts to channel funds directly to industry ended, and state-owned enterprises

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[59] Pontusson and Swenson 1996; Lallement 2006.
[60] Iversen and Wren 1998; Scharpf 2000.
[61] Esping-Andersen 1990.
[62] Palier and Thelen 2010; Thelen 2014.

were privatized partly in order to make it more feasible for them to draw on international capital markets. After 1979, the OECD governments eliminated exchange controls; and many strengthened protections for minority shareholders or loosened rules on foreign ownership to encourage inflows of foreign direct investment.[63] Indeed, some countries such as Ireland built entire growth strategies around foreign direct investment, based on light-touch regulation and low rates of corporate taxation. East European nations followed suit in the early 1990s.[64] Although some governments, such as those of the U.S. and Britain, continued to rely on domestic demand to stimulate investment, all OECD countries looked toward international sources of capital.[65]

Of course, there were national variations in these new growth strategies and the pace at which they were implemented. The move to 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.[66] These governments privatized national enterprises, bringing windfall profits to government coffers, and took deregulatory steps to increase competition within public transport, water supply, telecommunications, health and energy.[67] The premise was that higher levels of competition would increase productivity, while sales of public housing and shares in privatized enterprises would create new groups of property owners likely to vote for the Conservative party. With a series of industrial relations acts, Thatcher succeeded in reducing the influence of the unions. The rest of the job was completed by accelerated decline in manufacturing under the impact of an exchange rate 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 and high wage jobs in business services in its large financial sector. Low levels of benefits in Britain's liberal welfare state held down the reservation wage.[68] 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 financial center, while allowing firms to exploit new financial

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[63] Culpepper 2005.
[64] Regan 2014; Nölke and Vliegenthart 2009.
[65] Rajan 2010.
[66] Gamble 1994; Sandbrook 2010.
[67] Riddell 1991.
[68] Esping-Andersen 1990.

instruments.[69] In both Britain and the U.S., 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.[70] To some degree, access to credit became a substitute for counter-cyclical economic policy in countries whose growth strategies still depended on sustaining domestic demand; and expanding financial sectors secured huge profits.[71]

The growth strategy of France also changed, 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 in the Fifth Republic in 1981, the initial strategy of President François Mitterrand was to intensify intervention – via a *politique de filières* designed to substitute public investment for declining levels of private investment.[72] When the prospect of another devaluation that would take France out of the European monetary system loomed in 1983, however, Mitterrand abandoned this growth strategy 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.[73] Second, the government passed a series of laws, ostensibly aimed at improving worker representation, which made it easier for firms to set wages at the plant rather than sectoral level.[74] These were complementary measures: the wage flexibility firms gained improved their capacities to cope with the threat of hostile takeovers.[75] The third pillar of the strategy 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 operations and move toward higher value-added production.

[69] Busch 2008.
[70] Rajan 2010; Krippner 2011.
[71] Baccaro and Pontusson 2016.
[72] Hall 1986.
[73] Culpepper 2005.
[74] Lallement 2006.
[75] Goyer 2012.

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.[76] 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.[77]

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; and the Social Democratic party was voted out of office in 1976 for the first time in the postwar period. However, decisions taken during the late 1960s helped Sweden cope with the principal economic challenge of the 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, as public employees delivering an expanding set of health, educational and social services. Although this approach segmented the labor market by gender, it generated well-paid jobs in services without creating a low-wage service sector and consolidated the electoral coalition of the Social Democrats.[78]

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.[79] Wage coordination was reestablished at the sectoral level during the 1990s but in terms that left firms with more flexibility. Thus, Sweden saw a devolution in the locus of wage bargaining, but one that did not eliminate the strategic capacities of Swedish producer groups.

In other respects, however, Swedish governments struggled to find an effective growth strategy. To shore up investment and its political coalition, a Social Democratic

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76 Hall 2005.
77 Hancké 2002; Fitoussi *et al*. 1993.
78 Esping-Andersen 1990; Iversen and Wren 1998.
79 Pontusson and Swenson 1996; Iversen 1999.

government established wage-earner funds that were to invest a portion of enterprise profits on behalf of employees.[80] However, when this step antagonized employers without reviving investment, the government resorted to expansionary macroeconomic policies that threatened wage coordination and 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 some outbursts of conflict in industrial relations, 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 West Germany looked like an economic success story during the early 1980s.[81] Partly for this reason, the liberalizing moves taken by German governments in this period were more limited than in many other countries, despite Chancellor Helmut Kohl's promise to preside over a *Wende*. Liberalization was most prominent in corporate finance and industrial relations.

The growth of international finance disorganized the longstanding system whereby large German firms secured capital via close relationships with a few key banks. To take advantage of growing international markets, the universal banks realized that they would have to free up funds held in German shares. Between 1990 and 2002, a series of legislative acts allowed them to do so and made it easier for industrial firms to secure funds on international markets.[82] Despite concerns that these steps would force firms to privilege shareholders over stakeholders, however, many German companies found stable sources of international funding from institutional investors looking for long-term returns.[83] And German parliamentarians watered down European legislation to limit the prospect of hostile takeovers that would have forced firms to become more attentive to their share price.[84] 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.

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[80] Pontusson 1992.
[81] Kreile 1978; Cameron 1984.
[82] Deeg 2010.
[83] Goyer 2012.
[84] Callaghan and Höpner 2005.

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 tolerate strikes or cede higher wage increases and smaller firms lacking such margin for maneuver, especially in the Eastern Länder that joined a reunified Germany in 1990.[85] As a result, some companies dropped out of employers' associations; and trade unions began to accept agreements ceding more control over wages and working conditions to firm-level negotiations, where works councils assumed 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.[86]

By contrast, although overwhelmingly 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 with steps to promote early retirement on the premise that this would open up jobs and maintained regulatory regimes, such as the short school day, that kept women out of the workforce. Only later would the German government take major steps to build service-sector employment on a low-wage labor market.

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, especially via reforms to labor and financial markets.[87] In others, they were initiated by economic policy-makers convinced by the failures of the 1970s that there were no alternative routes to growth.[88] But, apart from passing enthusiasm for the Single European Act and a few other policies, liberalizing initiatives were rarely popular with electorates. These initiatives had many adverse effects – they reduced job security, social benefits, and income equality. Therefore, there is a puzzle

[85] Thelen and Winjbergen 2003.
[86] cf. Streeck 2009.
[87] Prasad 2006; Hacker and Pierson 2010.
[88] Gamble 1994; Woll 2008.

here: why would governments dependent on electorates adopt such measures? What kind of political conditions made these reversals of previous policy possible?

The answer turns, in large measure, on shifts in electoral cleavages. The decline of the class cleavage and rise of a values cleavage cross-cutting it reorganized the electoral space of the developed democracies, leaving that space more ideologically fragmented.[89] 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 in the name of working-class defense diminished, allowing governments to pursue new growth strategies.[90]

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.[91] The roots of this decline lay in three sets of developments partly endogenous to the prior growth regime. Thirty years of prosperity under the previous growth strategy had improved the living standards of ordinary workers enough to mitigate the sense of grievance that had animated class-centric political debates.[92] 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 in the preceding era 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.

However, the 1980s also saw the rising salience of a new cleavage based on values, sometimes labeled a right-authoritarian/left-libertarian divide.[93] On one side of it were voters embracing the post-materialist values that became prominent in the early 1980s associated with new social movements focused on the environment, gender equality and human rights. On the other side were voters attached to more traditional values, concerned about material security, immigration and the protection of national culture. New radical right and Green parties speaking to different sides of this divide

[89] Dalton *et al*. 1984, Clark and Lipset 2001.
[90] 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.
[91] Manza *et al*. 1995; Evans and Tilly 2017.
[92] Lipset 1964.
[93] Kitschelt 1997.

became important political actors in Europe during the 1980s. To some extent, this cleavage was also endogenous to the previous growth strategy. Three decades of prosperity weaned generations that grew up in relative 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.[94]

The rising salience of this values cleavage set in motion a dynamic affecting the growth strategies governments would adopt in several ways. Social democratic parties embraced left-libertarian values and used them to attract more 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.[95] But, because they enjoyed strong market positions, many of those middle-class voters benefited from liberalizing reforms. That provided center-left parties with more incentives to accept some elements of market liberalization; and, as Figure Two indicates, they did so during the 1980s and 1990s. Mainstream parties converged toward market-oriented policies in this era, based largely on the movement of center-left parties. The 'Third Way' of Tony Blair mirrored the neoliberal policies of Margaret Thatcher.

As they became increasingly dependent on middle-class votes, social democratic parties also began to deemphasis appeals to social class; and working-class voters saw fewer reasons to support parties whose economic platforms had converged to the right, thereby further eroding the class cleavage.[96] At the same time, 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 Three); and values became more important to peoples' decisions about how to vote.[97] However, working-class voters are more likely than middle-class voters to hold right-authoritarian views. Thus, 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 neo-liberal reform. By the end of the 1980s,

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

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 support for liberalizing reforms was intermittent but sustained opposition to them rarely mobilized.

IV. An Era of Knowledge-Based Growth, 1995-

By the late 1990s, the economic challenges facing the developed democracies were shifting again, presaging a new era of knowledge-based growth. As usual, there is cross-national variation in the timing and pace of change. However, the inception of this era dates to about 1995, when a revolution in information and communications technology (ICT) began to transform business practices across sectors and productivity became increasingly dependent on its diffusion. Around this time, the rate at which patents were granted began to grow exponentially, and the rate of increase in American productivity leapt ahead of the rate in Europe for the first time in several decades, as American firms became the first to deploy the new technologies.[98]

Partly because of ICT, the employment challenges facing governments also began to change. In many developed democracies, occupational structures polarized, as technology displaced routine jobs in manufacturing and services, while high-skill and low-skill positions that could not readily be automated continued to grow at the two ends of the income distribution.[99] The new technology made it easier for firms to outsource services, and employment in firms devoted to business services began to grow rapidly.[100] Thus, the employment challenge of the 2000s was no longer simply how to create jobs in services but how to create well-paid jobs in high-skill services. Advances in ICT encouraged firms to stretch their value chains around the world and increased the share of services in exports.[101] The viability of export-led growth models became more dependent on exports of services, and economic growth now turned less on how many products a nation shipped than on the proportion of their value-added it supplied.[102] The principal challenges facing governments have become how to cultivate the skills required for non-routine positions and how to shift production toward high value-added links in global supply chains.

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[98] Powell and Snellman 2004; van Ark *et al*. 2008, 2014; Brynjolfsson and McAfee 2014.
[99] Autor and Dorn 2013; Oesch and Menes 2010.
[100] Wren 2013.
[101] Antràs et al. 2006.
[102] Berger 2005; Tassey 2014

Changes in financial markets also created new challenges for governments. At their heart was a series of innovations in financial instruments, often made feasible by ICT, which outpaced the 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 1994. In theory, these derivatives could diffuse risk among counterparties, thereby allowing enterprises to operate at higher leverage ratios. In reality, the effects were to expand the levels of debt held by the financial, corporate and household sectors, to increase the interdependence of financial enterprises, and therefore to raise by an order of magnitude the systemic risks present in national financial systems.[103]

As a result, the share of profits and employment going to the financial sector grew, notably in countries such as the U.S. and Britain with international financial centers, but also in smaller nations, such as Spain, Ireland, Iceland and the Netherlands. Many governments faced the problem of coping with asset booms fostered by looser finance. When the inception of European monetary union in 1999 increased financial interdependence across Europe but provided no lender-of-last resort facilities, the levels of systemic risk in its member states increased, and their governments had to cope with economic shocks without the monetary instruments once used for these purposes.

The Economic Gestalt

Although the implications are still being debated by techno-optimists and pessimists, the idea that developed countries were becoming 'knowledge economies' became increasingly influential among policy-makers and the public during the 1990s.[104] Affirming an emerging consensus, the OECD published a report in 1996 which declared that "Knowledge is now recognised as the driver of productivity and economic growth, leading to a new focus on the role of information, technology and learning in economic performance", and by 2000 the members states of the EU had signed onto the Lisbon Strategy whose goal was to make the EU "the most competitive and dynamic knowledge-based economy in the world."[105] By the turn of the new century, the 'knowledge economy' was a feature of common parlance (see Figure One).

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[103] Glick and Lansing 2010.
[104] Cf. Brynjolfsson and McAffee 2014; Gordon 2016.
[105] OECD 1996: 3; European Union 2000.

Several currents in economics influenced these views. Economists devoted increasing attention during the 1990s to the effects of 'skill-biased technological change' and theories of endogenous growth, which conceptualize growth as a factor conditioned by human capital and public policy rather than purely-exogenous technological change.[106] Building on Becker's pioneering work about human capital, a growing number of studies showed that economic growth is dependent on education, including both tertiary schooling and early childhood development.[107] Scholars of innovation such as Freeman, Dosi and Lundvall gained influence within the EU.[108]

This emphasis on the importance of human capital to the knowledge economy encouraged policy-makers to reorient social policy toward social investment, namely, toward efforts to make the beneficiaries more productive. By 1994, prescient observers could write that "a 'social investment' model is replacing the 'social security' paradigm inherited from the sixties" and the OECD itself argued in 1997 for shifting from a social expenditure to a social investment model. Anthony Giddens' influential book on *The Third Way* (1998) 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.[109]

This social investment perspective reflected a profound reconceptualization of social policy.[110] Social benefits were no longer to be seen 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, such as youth and the long-term unemployed, into paid work. In some cases, this was to be done by enhancing their skills; in many others, it was accomplished by attaching work requirements to the receipt of social benefits. This emphasis on turning 'welfare' into 'workfare' was highly congruent with the neoliberal economic gestalt; but, as the social investment perspective evolved, it began to attach higher

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[106] Katz and Murphy 1992; Krueger 1993; Autor and Dorn 2013; Oesch 2013; Lucas 1988; Romer 1990; Grossman and Helpman 1993; Aghion and Howitt 2006.
[107] Becker 1864; Goldin and Katz 2009; Heckman and Masterov 2007.
[108] Freeman and Soele 1997; Dosi et al. 1990; Lundvall 1992.
[109] Miles and Street 1994: 7; OECD 1997; Giddens 1998 quoted in Jenson and Saint-Martin 2003.
[110] Jenson and Saint-Martin 2003; Morel *et al*. 2012; Hemerijck 2013.

priority to the acquisition of skills. Social policy was to be a vehicle for economic growth rather than a salve for its distributive failures.

Growth Strategies

In contrast to the 1970s when governments were pushed toward new policies by dramatic economic failures, the economic challenges of the information age have crept up on governments, which have often been slow to respond to them. As a result, many features of neoliberal growth strategies remain in place; movement toward new strategies for a knowledge economy has been sporadic at best; and there is significant cross-national variation in the pace of change. By the late 1990s, however, a broad consensus emerged that prosperity now depended on finding ways to promote innovation, diffuse ICT, and increase the human capital embodied in the workforce. Accordingly, most governments have devoted more resources to education and rates of tertiary education have increased dramatically in the OECD.

In line with ideas about social investment, efforts to increase employment have put more emphasis on activation. 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 more active labor market policies (ALMP) that devote resources to improving skills and drawing people into the workforce. These policies can take several forms.[111] One approach provides more resources for those searching for jobs, as in Germany, Denmark and Sweden. Another focuses on training the unemployed, while a third approach notable 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 two to four percent of GDP on such programs. 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. There is also increasing interest in early childhood development, seen as a form of social

[111] Bonoli 2005.

investment, based on evidence that occupational achievement is closely related to the support a child receives in the early years.[112]

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 the constructions sectors of Ireland, Spain, the Netherlands, Britain, the U.S., and parts of Eastern Europe. Of course, accumulating risk culminated in the global financial crisis of 2008-09; and financial policy-making since then has been based on efforts to reduce systemic risk by raising capital ratios without inhibiting lending for investment. At the same time, many governments have shifted their attention toward the problem of securing sources of venture capital for innovative start-ups.[113] The French authorities have 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.[114]

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 fifty percent of the relevant age cohort to university and dramatically increased spending on education. At the other end of the labor market, his government 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 have grown rapidly.[115]

French governments also emphasized education as the route to higher rates of growth, initially by attempting to give all young people two years of training after the

[112] Heckman and Masterov 2007.
[113] Breznitz 2007; Ornston 2012.
[114] Trumbull 2004; Schnyder 2012; Stevens 2012.
[115] Timmer *et al.* 2011.

baccalauréat and then by increasing funding for higher education.[116] In order to give the unemployed a foothold in the labor market, rather than lower the minimum wage, an entrenched feature of the labor market and a totem of the national commitment to maintaining purchasing power, successive governments chose to subsidize the social charges paid on new hires by employers and employees, funded via a series of special taxes on incomes. By the early 2000s, these subsidies were worth almost six billion Euros a year; and between 1990 and 2005 social spending rose from 24 to 28 percent of GDP.[117] By subsidizing low-wage jobs, however, these programs have inhibited firms from moving toward higher-valued added forms of production.[118] And French investment in research and development languished well below OECD norms during the early 2000s. 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.[119]

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 built on concerted action by organized producer groups.[120] Between1990 and 2000, public investment in education grew from 5 to 7 percent of GDP; and two programs of continuing education, focused on the skills required by ICT, enrolled almost ten percent of the adult population between 1997 and 2000. In cooperation with government, firms doubled their investment in research and development. With the agreement of producer groups, the government abolished tax advantages going to large corporations in order to stimulate investment in start-ups and diverted regional development funds to venture capital. At 26 percent of GDP, the value of private equity funds in Sweden was close to American levels by 2003. The share of high-technology products in Swedish manufactures rose from 10 percent to 17 percent between 1980 and 2007, while the low-technology share dropped from 34 to 23 percent. Important clusters

[116] Culpepper 2003.
[117] Carbonnier *et al*. 2014.
[118] Palier 2012.
[119] Cohen 1977.
[120] Ornston 2013.

for high-tech production have grown up around several Swedish cities; and the contribution of ICT to value-added is among the highest in the OECD.[121]

However, Swedish efforts to manage the labor market have not been as successful. On the one hand, levels of social investment remain high and, although the delivery of many public services has been privatized, they are still publicly-subsidized and an important source of employment. On the other hand, increasing divisions between white and blue-collar trade unions have hampered efforts to revise the vocational training system; and recent governments have struggled to integrate large numbers of immigrants into the labor market.[122] Prospects are rising that the country may have to tolerate the growth of a secondary labor market, currently encouraged by tax deductions for households employing domestic labor. Nevertheless, the Swedish economy has generated some of the highest rates of growth in the OECD.

Germany's efforts to cope with the revolution in ICT have also centered on the manufacturing sector and been facilitated by the capacities of its producer groups for strategic coordination. German governments have been 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, which now makes a major contribution to value-added.[123] 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 2002-03 when a coalition government of the SPD and Greens under Gerhard Schröder implemented the recommendations of the Hartz commission. These measures reduced the duration of unemployment benefits to push people into work and created part-time 'mini-jobs' whose occupants could earn up to 450 euros a month with few taxes or social charges on their earnings but correspondingly few social benefits. By 2010, more than five million people held such jobs, many of them women.

These steps took levels of female and total employment in Germany toward European averages, but at the cost of creating a large secondary labor market of

[121] Schnyder 2012; van Ark *et al*. 2008.
[122] Thelen 2014; Dolvik *et al*. 2015.
[123] Busemeyer 2015.

precarious employment alongside more secure positions in manufacturing.[124] 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 other forms of social investment, such as the 2006 von der Leyen reforms to expand daycare facilities and extend paternity leave. As firms began to contract out more operations, Germany also began to develop a significant presence in business services, an important adjunct to its manufacturing strengths.

However, much of Germany's economic success after 2000 is attributable to the effectiveness with which coordinated wage bargaining held down unit labor costs to offset the losses in competitiveness that followed reunification.[125] 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.

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 – themselves conditioned by the economic developments of the previous era. Rising rates of female labor force participation, promoted by the growth strategies of the era of liberalization, have been especially important.[126] As women have entered the labor force, their political preferences have changed. For much of the postwar years, they 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

[124] Thelen 2014; Hassel 2006.
[125] Carlin and Soskice 2009; Dustman *et al*. 2014.
[126] By 2000, for instance, more women than men were members of British trade unions.

who work part-time tend to favor the active labor market policies that expanded such positions.[127] Thus, women have become a powerful force pushing for policies of social investment, and partisan 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 and 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.[128]

Shifts in the occupational structure that have increased the number of socio-cultural professionals, working in education, healthcare and business services, have also added to electoral pressure 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.[129] Thus, mainstream parties of the center-right and left have sought to build electoral coalitions of working women and socio-cultural professionals by advocating policies of social investment.

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 values drove wedges through the electoral coalitions of mainstream parties.[130] As a result, the share of the electorate that established 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.[131]

In this context, if large segments of the electorate embrace the economic gestalt associated with knowledge-based growth, it may be possible for governments to pursue knowledge-based growth strategies. Some analysts are optimistic about this possibility on the grounds that parties will be able to form coalitions between socio-cultural

[127] Morgan 2013; Marx and Picot 2013.
[128] Seeleib-Kaiser *et al*. 2008.
[129] Kitschelt and Rehm 2014; Gingrich and Häusermann 2015; Marx and Picot 2013; Beramendi *et al*. 2015.
[130] The United States, where partisan identities loom large amidst a polarization of the electorate, is a notable exception to this trend.
[131] Mair 2013.

professionals and others benefiting from knowledge-based growth, who compose large segments of the electorate, and aspirational voters, who may not benefit directly from the relevant policies but see their value for the prospects of their children.[132] Such coalitions are likely to be more feasible in countries with relatively-advanced economies than in those where small businesses and low-skill workers compose more of the electorate.[133]

However, recent economic developments have also been conducive to the emergence of 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.[134] As global outsourcing and skill-biased technological change have eliminated well-paid routine jobs and accompanying policies have rendered many other positions less secure, close to a fifth or quarter of 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 tend to hold more traditional views. The key variable separating the two sides is level of education, which confers both job prospects in the new knowledge economy and more cosmopolitan values. Moreover, because knowledge-based growth tends to concentrate prosperity in urban clusters, there is a regional dimension to this cleavage whose network effects enhance its electoral salience.[135]

Along this cleavage, large segments of voters, mainly 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 that challenge it. The latter can often command the votes of a fifth of the electorate.[136] It may be that these radical parties will not prevent governments from assembling majorities for knowledge-based growth strategies. But, in systems of proportional representation, their rise has made government formation and decisive policy-making more difficult; and parallel discontent in majoritarian systems has intensified factional infighting within the major parties with similar effects. At best, these political developments are delaying the formulation of forceful responses to the economic

[132] See for instance Iversen and Soskice 2019.
[133] Beramendi *et al.* 2015.
[134] Kriesi *et al*. 2008; Hooghe and Marks 2018.
[135] Moretti 2012.
[136] Kitschelt 1997; Hooghe and Marks 2018.

challenges of this era, as parties on the radical right argue for social protection or trade protection, over social investment and other policies designed to advance high-value-added production.[137] At worst, unless new ways are found to provide decent jobs for people with lower qualifications in an era of knowledge-based growth, the presence of quasi-permanent minorities left out of prosperity may threaten social integration and belie the claims of western democracies to provide effective representative government.[138]

V. Conclusion

Although the quest for economic growth has been a constant of the postwar years, the growth strategies of the developed democracies have changed dramatically over that time.[139] In an era of modernization, governments circumscribed the operation of markets via assertive state intervention, as in France and Britain, or the development of dense networks of rules to govern coordination by producer groups, as in Sweden and Germany. The social policies of this period laid the ground for contemporary welfare states, and 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 to increase competition in markets for labor, capital and goods. Many governments embraced privatization, the contracting-out of public services, more intense market competition, and more decentralized wage bargaining. During the era of knowledge-based growth that began around 1995, growth strategies have begun to shift again toward efforts to promote the diffusion of new technology, the provision of venture capital and social investment in the skills of the workforce.

In each case, growth strategies were a response to secular developments in the economy. However, that response was mediated by shifts in the gestalt through which economic developments were interpreted and by changes in the electoral arena where coalitions for growth strategies are assembled. Economic policy-making entails coalition-building among producer groups and electorates; and cleavage structures condition the electoral coalitions that can be built. Changes in those cleavages are often affected by economic developments under the previous growth strategy. If the economic policies of the era of modernization were advanced by electoral competition dominated

[137] Brexit is arguably an example of such dynamics.
[138] See Gidron and Hall 2018.
[139] Note that these years have also seen debates about the sustainability of growth not covered here. Cf. Hirsch 1978; OECD 2001.

by a class cleavage, the decline of that cleavage and the rise of a values cleavage provided a permissive electoral environment for the growth strategies of liberalization. In this era of knowledge-based growth, the emergence of new strategies will depend again on the capacity of governments to put together new coalitions in an electoral arena 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. In this instance, I have said little about the important role that producer-group politics plays in the evolution of growth strategies; and my focus has been on common changes over time rather than on divergence across nations. Closer inspection would reveal national adjustment trajectories, often rooted in varieties of capitalism, as well as a producer-group politics worthy of more scrutiny.[140] However, I hope this analysis is revealing about the character of growth strategies in the developed democracies and how economics and politics combine to yield changes in them.

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

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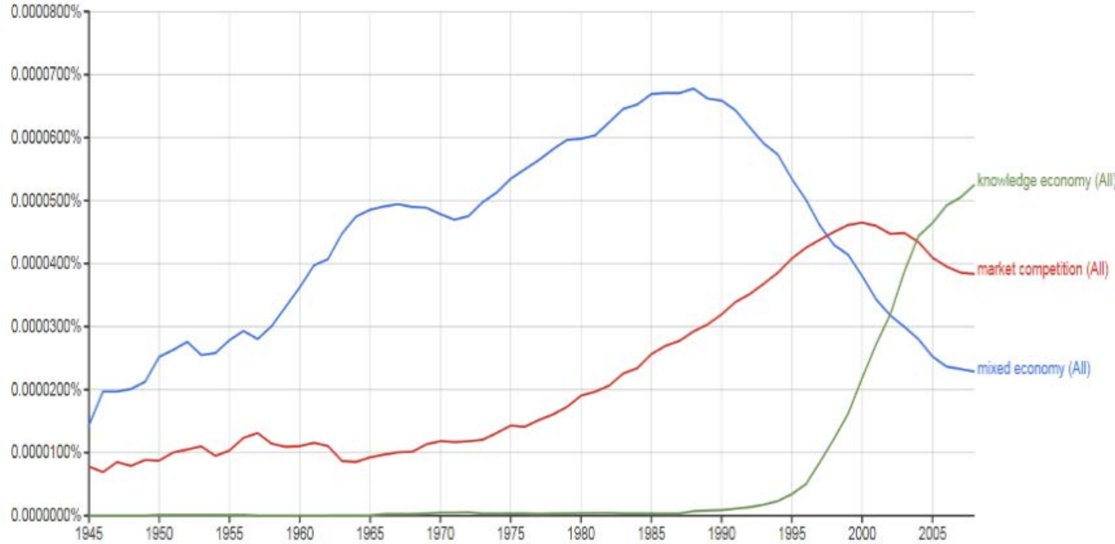

Figure One: **Frequency of the phrases 'mixed economy', 'market competition' and 'knowledge economy' in all English-language books, 1945-2008.**

Source: Google Ngram.

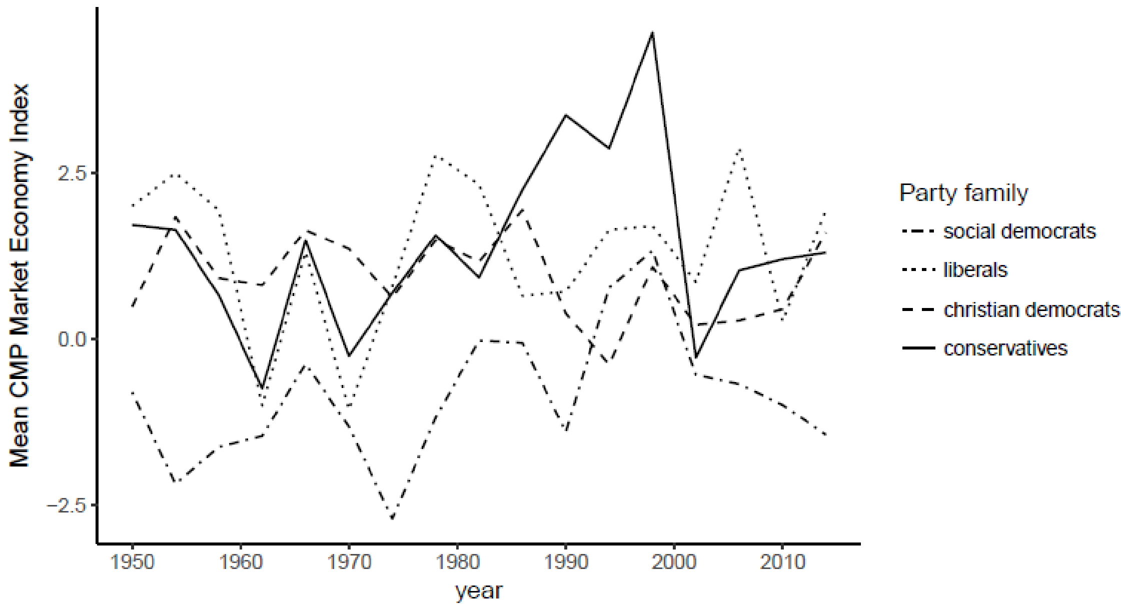

Figure Two: **Support for 'free markets' in the platforms of European political parties, 1957- 2015.**

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.[141] 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.

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

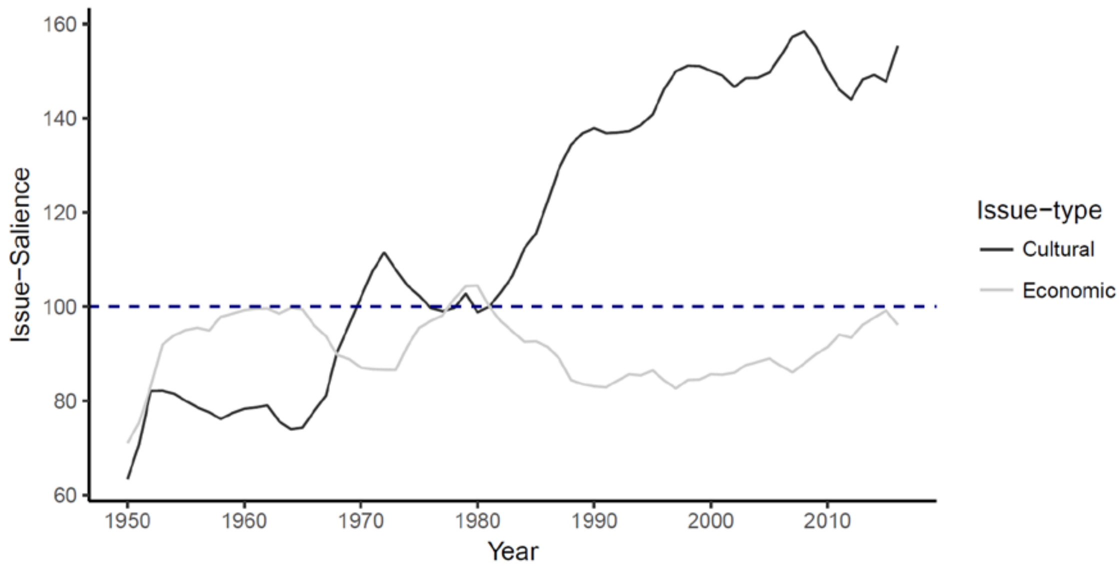

Figure Three: The relative prominence of economic and cultural issues in the party manifestos of western democracies

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.[142]

Source: Comparative Party Manifesto database.

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