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Introduction: Rethinking Comparative Capitalism

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Introduction

Drawing on previous work by the editors (Baccaro and Pontusson 2016, Blyth and Matthijs 2017), this essay and the volume that it introduces develop an approach to the comparative analysis of capitalism(s) centered on the notion of "growth models." We choose growth as a point of departure because we see capitalism as a social order whose stability depends on its capacity to satisfy expectations of material improvement.[1] However, as highlighted by the recent literature on "secular stagnation" (Storm 2017, Summers 2014a; Teulings and Baldwin 2014), growth has become increasingly difficult to generate across the advanced economies, giving rise to a host of new problems, from financial instability to the collapse of mainstream parties. Simply put, the questions that motivate our project are the following: If the main mechanism for securing the legitimacy of democratic capitalism is the ability to produce (and widely diffuse) economic growth, what happens when growth is harder to come by and less broadly shared? And how should we think about capitalist diversity— "varieties of capitalism"—in the context of global stagnation?

In this introductory essay, which frames the project, we make five interrelated arguments. First, we argue that existing theoretical frameworks in comparative political economy are ill-equipped to tackle the politics of growth and stagnation because of their almost exclusive emphasis

on institutions influencing firm competitiveness ('supply-side institutionalism') and their neglect of the level and composition of aggregate demand. Second, we argue that political economists need to take macroeconomics more seriously than they have done so far but also be more critical and take advantage of pluralism in macroeconomics. Mainstream economics sees growth as primarily determined by supply-side variables, unlike post-Keynesian macroeconomics for which aggregate demand has both short-term and long-term effects on growth. We draw on the latter to set out the macroeconomic underpinnings of our analytical framework.

Third, we identify a broad stagnationist tendency in advanced capitalism, harking back to the crisis of "wage-led" growth, and we examine different national level responses ("growth models") to the common problem of boosting aggregate demand at a time of stagnation. We aim to overcome the dichotomy between "commonality" and "diversity" of capitalisms by developing a theoretical framework that accounts for both. Fourth, we discuss how international political economy factors, particularly the presence or absence of mechanisms for relaxing the current account constraint on growth, undergird the feasibility and durability of national growth models. We go beyond methodological nationalism and argue for the need to mobilize both CPE and IPE in analyzing contemporary capitalism. Fifth, we set out a broad, multi-faceted approach to the domestic politics of growth models, charting a middle course between electoral and elite-centered approaches and distinguishing between the politics of policy choice and the politics of democratic legitimation. The remainder of the introduction develops each of the five points in turn. In a final section, we provide a summary of the various country chapters.

Part One: Comparative Political Economy

We begin by articulating how our approach to comparative analysis of capitalism(s) relates to existing literature in comparative political economy, conceived as a subfield of political science and political sociology that emerged in the 1980s. In what follows, we briefly discuss three separate CPE research programs in the 1980s and 1990s—national models of capitalism, post-Fordist production regimes and neo-corporatism—and then engage critically with the dominant CPE paradigm of the last two decades, the VoC approach.

From strong states to encompassing bargains

Inspired by Shonfield's *Modern Capitalism* (1965), much of the early CPE literature sought to delineate national models of capitalism based on the different roles played by government, business, and organized labor in different economies. In the first instance, the point of this exercise was to explain the different responses of countries to the oil price shocks and industrial adjustment challenges of the 1970s. The distinction between "weak" and "strong" states featured prominently in initial articulations of this research agenda (Katzenstein 1978), but CPE scholars quickly incorporated the idea that the structure of interest groups and, in particular, institutionalized relations between union and employers must be considered as well. The result was a broad-based consensus on a three-fold typology of advanced capitalist political economies: liberal, statist, and corporatist political economies (Hall 1986, Katzenstein 1985, Zysman 1983). Relying on institutional arrangements to explain shifts in the sectoral composition of economies, as well as adjustment processes within sectors, this CPE tradition in turn invoked historical legacies of state-building and the distribution of power among "producer groups" to explain institutional arrangements.

Less closely linked to political science, a second stream of CPE literature in the 1980s interpreted the economic dislocations of the 1970s as a crisis of Fordist mass production and explored the emergence of alternative methods of organizing industrial production. In the Anglophone literature, two contributions in this vein stand out: Piore and Sabel's *The Second Industrial Divide* (1984), and Streeck's work on the conditions of diversified quality production (DQP) (Streeck 1991).[2] Emphasizing industrial districts, characterized by local-level coordination among firms, Piore and Sabel challenged the relevance of national models. In contrast, Streeck (1991) linked the study of technological and organizational change on the level of the shopfloor to national diversity, arguing that core features of the German model–vocational training, employment protection, co-determination, and coordinated wage bargaining–prevented German firms from competing by cutting labor costs and, at the same time, enabled them to pursue DQP strategies (see also Sorge and Streeck 2018, Streeck 1997).

Commonly referred to as "neo-corporatism," the third strand of CPE theorizing in the 1980s sought to identify the conditions under which unions might deliver wage restraint in return for government policies to combat unemployment and/or expand social benefits. Scholars contributing to this research program emphasized the institutional power of organized labor, positing that encompassing unions have not only have an interest in exercising wage restraint, but also the capacity to do so, with the centralization of authority within unions and the absence of inter-union rivalries seen as preconditions of successful "political exchange" (e.g. Pizzorno 1978, Regini 1984).

In a different vein, Hibbs (1977) relied on the idea of a trade-off between unemployment and inflation to generate a partisan model of macroeconomic policy choices where Left parties,

with workers as their core constituency, prioritize low unemployment while Right parties, with owners of financial assets as their core constituency, prioritize low inflation given the differing asset bases of their electoral constituencies. Combining Hibbs' partisan model with the insights of the neo-corporatist literature, Garrett (1998) argued that partisan differences with regard to macroeconomic management and social spending are most pronounced when unions are encompassing and economic openness renders wage restraint imperative.[3]

The assumptions that competitiveness is the key to economic growth and that wage restraint is the key to competitiveness represents a conspicuous feature of the neo-corporatist research program. It is fair to say, we think, that these assumptions were never systematically tested. Importantly for our purposes, the core assumptions of the neo-corporatist literature do not sit well with the fact that real wages grew faster than labor productivity in all OECD countries during the *trentes glorieuses* and that wage shares grew most rapidly in the countries that experienced the most rapid GDP growth (Bengtsson 2015a, Bengtsson 2015b). We shall return to this point in due course.

Synthesis: The Varieties of Capitalism approach

Presented in Soskice (1999) and the introductory chapter to the canonical volume edited by Hall and Soskice (2001), the VoC approach to comparative political economy integrated insights from the aforementioned research programs into a single, firm-centered analytical framework. In this well-known framework, solutions to a number of "coordination problems" confronting firms define two basic varieties of capitalism: Liberal and Coordinated Market Economies or, in shorthand, LMEs and CMEs. The key problems are as follows: to elicit the

cooperation of employees while securing wage restraint, to secure the supply of workers with desirable skills, to finance investment and manage relations with owners (and other providers of finance) and, finally, to manage relations with subcontractors and competitors.

In LMEs, these problems are solved through markets. In CMEs, they are instead solved through institutionalized strategic coordination by firms. In both cases, the institutional context favors some firm strategies over others and the solutions adopted by firms constitute an equilibrium outcome that is deemed to be a Pareto improvement over the initial position of the agents involved. This process, iterated, gives rise to self-reinforcing institutional complementarities that result in increasing returns and lock-in feedback effects. In short, decisions taken by firms in, for example, an LME, *precisely because it is an LME*, reinforces the selection of specific LME strategies over time, resulting in distinct institutional clusters.

Hall and Soskice (2001) did not restrict themselves to describing the emergence and persistence of LME's and CME's, as previous CPE scholars had done, but also aspired to explain how these clusters emerge and reproduce themselves through self-selection. The concepts of "institutional complementarities"–whereby positive feedback mechanisms tightly bind institutions and their outputs in equilibrium—and "comparative institutional advantage"—whereby such institutional clusters allow variation across the two main possible types of CME and LME—drive their explanatory framework. Outcomes such as a state's innovation strategy, or the choice of social and public policies favored in particular cases, become explicable as a function of institutional solutions to the key coordination problems.

From the VoC perspective, the distinction between LMEs and CMEs does not have much, if any, bearing on overall efficiency and long-term growth rates (see Hall and Gingrich 2009).

What distinguishes the two types of capitalism has to do with the economic activities that generate growth. While the institutional framework of LMEs favors the expansion of low-wage services and high-tech sectors engaged in radical (product) innovation, the institutional framework of CMEs favors incremental (process) in manufacturing and, more specifically, diversified quality production. Perhaps most importantly, the VoC framework strongly implies, contrary to conventional wisdom among market liberals, that international competition leads to a crystallization of LME–CME differences, as firms specialized in economic activities that are advantaged by existing institutions thrive, and governments seek to promote growth by engaging in reforms that render institutional frameworks more coherent (and thus enhance existing institutional complementarities).[4]

As with any analytical paradigm that aspires to reconfigure an existing field of inquiry, the VoC approach has been subjected to a wide variety of criticisms. For our purposes, three lines of criticism deserve to be briefly mentioned.[5] The first concerns the conceptual foundations and empirical adequacy of the binary typology of LME and CME, with critics commonly arguing that the coding of countries as LMEs and CMEs lumps together political economies operating according to quite different logics. A second set of critics have taken VoC scholars to task for failing to explain why some countries are LMEs while others are CMEs. Focusing on the implications of welfare-state provisions for skill formation, Korpi (2006) exemplifies this line of attack. A third line of criticism concerns institutional changes in advanced capitalist political economies since the 1980s. In this debate, the critics (notably Baccaro and Howell 2011, Baccaro and Howell 2017, Streeck 2009) emphasize common trends across LMEs and CMEs, frequently

construed as "liberalization," while VoC scholars insist on the persistence of fundamental differences between LMEs and CMEs (Hall and Gingerich 2009, Hall and Thelen 2009).

While we find all of these lines of criticism cogent and relevant, our attention lies elsewhere. Specifically, the core of the Hall and Soskice version of the VoC framework, as noted above, heavily emphasizes supply-side logics. As Baccaro and Pontusson (2016) and Blyth and Matthijs (2017) have both noted, the macro-economy is curiously absent from their framework, if "the macro-economy" is taken to mean something more than a set of factor price shifts to which firms respond more or less automatically given proximate institutional incentives.[6]

In our view, the CPE literature in general, and the VoC literature in particular, have been swayed not only by contemporary empirical developments, but also by prevailing ideas in economics. We submit that CPE scholarship has been profoundly influenced by the anti-Keynesian turn in macroeconomics, adapting to this development by focusing on supply-side issues and, for the most part, ignoring aggregate demand and distribution. While eager to assert that politics matter, CPE scholars have been reluctant to challenge mainstream economists on their home turf, preferring to show that their work nicely complemented mainstream economics. In contrast, we believe that the economics underpinning one's institutional analysis are crucially important and, to coin a neologism, that one should be as transparent as possible about one's "macroeconomic foundations."

Part Two: Macroeconomics

Turning to macroeconomics, our goal here is to elucidate the differences between New Keynesian (NK) and Post-Keynesian (PK) approaches and to suggest that the latter approach,

broadly conceived, provides a better foundation for thinking about growth models or, at least, a useful foundation that resonates with the intuitions and insights of political economists working in political science and political sociology. More specifically, we argue that that PK approach provides a more convincing explanation of secular stagnation than the NK approach.[7]

The New Keynesian underpinnings of comparative political economy

The macroeconomics underpinnings of recent CPE scholarship are New Keynesian in that they deviate from neoclassical assumptions about instantaneous market clearing and rationality, but, to all intents and purposes, they keep the neoclassical assumption of supply-side dominance intact. Articulated by Carlin and Soskice (2009, 2015), the macroeconomics animating and supporting the VoC approach to comparative capitalism can be summarized as follows.

First, output in the short run is determined by aggregate demand, with demand being a negative function of the real interest rate. In the long run, however, monetary neutrality holds as expansion of the money supply changes neither preferences nor possibilities. Second, labor markets do not automatically clear and hence there is involuntary unemployment (Layard, Nickell and Jackman 2005). Third, firms have the power to transfer costs onto prices while maintaining a fixed margin. The unique intersection of the "wage-setting" and "price-setting" curves identifies the equilibrium level of output and the equilibrium level of employment, around which an economy fluctuates in the short-to-medium run. Commonly known as the Non-Accelerating Inflation Rate of Unemployment (NAIRU), this equilibrium is entirely determined by labor productivity and the institutional framework of labor markets and product markets, and unaffected by aggregate demand.[8]

Fourth, a competitive economy with fully flexible prices is the most efficient form of economic organization and remains a reference point for policy makers. However, wages and prices (except for the prices of financial assets) fail to adapt instantaneously to demand shifts, thus moving the economy away from the efficient competitive optimum. In these circumstances, monetary policy has real effects in the short run because it minimizes the welfare losses caused by price inflexibility. Fiscal policy could in theory play a similar role but it is less efficient than monetary policy due to the long and variable lags through which it impacts the real economy, and because it inserts an element of discretion - politicians' own motives - into the functioning of the economy.

Fifth, given such a framework, the task of stabilizing the economy is best entrusted to independent central banks operating on the basis of clear response rules (e.g., raising the interest rate when inflation is above target). The monetary responses of an independent central bank allow an economy with inflexible prices to approximate the functioning of a fully flexible economy (see Goodfriend 2007, Woodford 2003). Hence demand management is only relevant in the short- to medium-run, minimizing losses caused by deviations from the fully flexible, competitive ideal type. In the long run, macroeconomic policy does not matter for economic growth, which depends entirely on supply-side forces such as demography, technology, investment in R&D and human capital.[9]

The limits of a supply-side focus

Accepting the propositions articulated above as the parameters of what is politically and economic possible has profound consequences. Most obviously, for growth policies that seek to

promote real wage growth as a way to stimulate aggregate demand – something we discuss later in the paper under the rubric of "wage-led growth" (Lavoie and Stockhammer 2013). Trying to raise wages has clear limits in the world of mainstream macroeconomics (at least before the crisis) and generates more drawbacks than benefits. At constant labor productivity, trying to increase the real wage is equivalent to trying to increase the wage share of GDP. However, this attempt is doomed to failure according to the NK model summarized above. In response, employers will immediately defend their profit margins by increasing prices. If workers insisted on claiming a higher share of output, the NAIRU would have to shift to restore compatibility between workers' wage claims and employers' profit claims. The new NAIRU equilibrium would have the same real wage as before but a lower level of employment. So far, so neoclassical, despite the caveats.

CPE scholars inspired by NK macroeconomics typically posit that it is the monetary response of the central bank that brings the economy back to equilibrium after a demand shock (Franzese 2001, Iversen 1999). If the central bank forecasts higher inflation than its target, it responds by increasing the nominal interest rate for given levels of inflationary expectations. That is, it increases the real interest rate. In this world, the role of collective bargaining is at best to minimize the damage. The increase in unemployment needed to achieve disinflation is smaller if the bargaining system is coordinated and unions are encompassing (Tarantelli 1986). However, if unions are unable or unwilling to deliver wage restraint, collective bargaining forces the central bank to tighten its monetary policy. In Iversen and Soskice's formulation (2006:432), "parties that care about employment" should be "more interested in designing policies that can reduce the equilibrium level of unemployment than in policies that generate brief bursts of employment."

Soskice (2007) argues that that a conservative macroeconomic policy stance is the optimal one under such constraints. In LMEs as well as CMEs, macroeconomic policy is pinned down in the long run by the equilibrium rate of unemployment. Thus, a demand stimulus can only lead to a higher equilibrium level of employment and output if accompanied by either supply-side reforms or voluntary wage restraint.[10] On these assumptions, it is quite possible that the equilibrium rate of unemployment is lower in LMEs than in CMEs, on account of weak unions and weaker labor market institutions, but it is difficult to see why (or how) a demand stimulus matters beyond the short run in either type of capitalism.

If the positive effects of expansionary macroeconomic policies are delivered only in conjunction with wage restraint exercised by encompassing unions, it is far from obvious that macroeconomic policy deserves to be brought back to the center stage of analysis in political economy. In fact, its role is remarkably limited. This is not just a peculiarity of an earlier generation of CPE research, but an enduring feature. For example, Beramendi, Häusermann, Kitschelt, and Kriesi (2015) have formulated a strong critique of "producer group politics" and a forceful plea for bringing electoral politics into comparative political economy, conceiving public policy as the interaction of political supply (party programs) and political demand (voter preferences). We discuss their view of politics later in the paper. Here we focus on their political economy, which completely neglects macroeconomic policy, as if it could not be the object of democratic choice and should be taken as given and focuses solely on the distinction between "consumption-oriented" social programs (transfers), which are bad, and "investment-oriented" social programs (education, active labor market programs, etc.), which are good. Yet, the trade-off between the two types of social expenditures clearly depends on the rate of growth. If the economy stagnates, a rise in one

implies a fall of the other. In an expanding economy, it is possible to increase both, and any rebalancing is likely to be less politically controversial.

Iversen and Soskice's latest analysis of contemporary capitalism (2019) has a similar neglect for the role of macroeconomic policy. In their view, growth comes from a particular organization of the supply side, and the supply side determines the patterns of political support and the location of the "decisive" voter as well. The distinction between LMEs and CMEs is no longer prominent. In its stead, the "knowledge economy" takes center stage. Growth depends on the ability to manage the pre-requisites of a knowledge economy, which implies building clusters of innovation and investing in education and human capital development. Information technology has broken the old fordist alliance between skilled and unskilled workers, and this reduces the political feasibility of redistribution. Importantly, Iversen and Soskice (2019) argue that in the knowledge economy, growth requires conservative monetary and fiscal policies, and structural policies ensuring competitive markets, international trade and free capital mobility. Macroeconomic activism risks unsettling the supply side conditions for growth.

In sum, as the literature reviewed above illustrates, a supply-side view of how the economy works has little ability to conceptualize the role of macroeconomic policy in the process of economic growth. As the next section argues, the contrasting tradition of Post-Keynesian (PK) macroeconomics has a greater potential to contribute to our understanding of the long-run trajectory of capitalism as well as its contemporary manifestations.

Post-Keynesian macroeconomics as a better lens

We see the PK tradition has providing much greater room for aggregate demand and macroeconomic policy than the NK tradition. In making this case, we draw on PK models inspired by Kalecki (see Hein 2012, Lavoie 2009, Lavoie and Stockhammer 2012, Lavoie 2014) and also on models elaborated by the French Regulation School (Boyer 1987, Boyer and Petit (1991). These macroeconomic models share some fundamental features: drawing on Keynes and Kaldor, output is determined by effective demand in the long-run as well as the short-run (Lavoie 2018) and, drawing from Kalecki, distribution affects aggregate demand.

While the basic NK model provides a stylized representation of the economy in three equations (Carlin and Soskice 2006), the basic PK model (and its regulationist equivalent) posits two fundamental relationships: the *demand regime* and the *productivity regime*. These relationships determine the impact of a marginal change in the wage share (a marginal change in the real wage at constant labor productivity) on demand growth and productivity growth respectively. Their curves may be positively or negatively shaped. Importantly, they jointly determine the growth rates of variables, as opposed to their levels. That is, they jointly determine the *growth path of the economy*.

PK and NK economists alike start from the view that workers and firms have competing claims over the distribution of productivity, and that firms have market power, allowing them to set their prices as a mark-up on unit labor costs. The standard PK model of firm behavior also assumes, in contrast, that firms have some unused capacity and that their marginal costs are constant up to full capacity/employment. In addition, PK models typically incorporate Keynes and Kalecki's insight that workers have a higher propensity to spend their income than capitalists (Stockhammer 2015),[11] from which it follows that an increase in labor's share of income usually

boosts aggregate demand in the short run. Depending on other parameters in the model, such as an expansionary effect of the wage share on capital accumulation or the expansionary effect of demand on productivity, it may also lead to an increase in the growth rate.

Whereas NK economists typically assume labor productivity to be given in the short term, and independent of aggregate demand, PK economists emphasize that labor productivity tends to increase as real wages rise and aggregate demand increase. They explain this regularity, commonly referred to as the "Kaldor-Verdoorn effect," with reference to several mechanisms (Storm and Naastepad 2012). First, expanding demand allows firms to realize productivity gains associated with economies of scale. Second, expanding demand also stimulates new investment, which renders capital more productive to the extent that it incorporates new technology. A related mechanism involves factor substitution: if the price of labor goes up while the price of capital stays put, capital intensity (capital per unit of labor) and labor productivity will both increase.[12] Finally, an increase in the wage share is generally the result of greater labor power and of a strengthening of protective institutions. These 'beneficial constraints' create incentives for managers to use of capital and labor more efficiently (Streeck 1997).

Returning to the implications of an attempt by workers to increase the wage rate, the NK conclusion that such an increase only increases inflation unless supply-side conditions change emerges from PK models only in the special case of an economy operating at full potential. This is a special case because PK economists contest the NK view that the long-run Phillips curve is (usually) vertical. Instead, they posit a horizontal or weakly upward-sloping Phillips curve, meaning that sustained wage militancy does not lead to infinitely accelerating inflation, but rather to a higher level of inflation combined with a higher level of output.[13]

As Stockhammer (2008a) points out, PK models do not have a built-in equilibrating mechanism and they are potentially unstable due to endogenous political and economic variables. For example, a shift in the balance of power in favor of labor increases the real wage, which leads to an increase in employment, which in turn strengthens the bargaining power of labor and so on. If productivity gains do not keep up with workers' escalating wage claims, this process is bound to generate inflation, which creates distributional tension between wage earners and the holders of capital and financial assets, a process has been used to explain macro shifts in the global economy as a whole (Blyth and Matthijs 2017).

In our view, the absence of an "equilibrium" to which the economy automatically tends to return, is an attractive feature of the PK, which brings it closer to the *modus operandi* of political economists. It makes it easier to conceive capitalism as inherently an unstable system, in which (temporary) stabilization is a political outcome. Drawing on regulation theory (e.g. Boyer 2004), "political exchange" between labor and capital, by which labor agrees to moderate its nominal wage demands in order to keep inflation at moderate levels, is the equilibrating mechanism at work in PK models.[14]

Summing up, although there are similarities between the PK and NK understanding of macroeconomic dynamics – for example, in both approaches wages and employment are determined by bargaining rather than market forces – the PK approach allows the analyst to discern a greater variety of growth models. Rather than seeing all economies as LME or CME variants of the same (fundamentally neoclassical) growth model, the PK approach allows us to distinguish different growth models by focusing on the role of demand, wages, and profits in an open

economy, where real wage growth and aggregate demand have feedback effects on labor productivity.[15]

Post-Keynesian macroeconomics and secular stagnation

A crucial issue for this volume is to conceptualize the inherent tendency of contemporary capitalism towards stagnation. Growth is crucial for capitalist legitimacy and reproduction. A key question driving the volume is what happens when growth becomes harder to come by. Here, too, PK macro provides a distinct vantage point. To see why, it is helpful to compare the NK and PK analyses of "secular stagnation." Introduced by Summers (2014c), the NK account of secular stagnation invokes an unobservable entity, the "natural interest rate (r*)," defined as the real interest rate that delivers potential output at a stable inflation rate. According to Summers and others (e.g. Teulings and Baldwin 2014), the natural rate of interest has been declining for years, becoming negative after the financial crisis of 2007 (Summers 2014b: 35). Hindered by the "zero lower bound," monetary policy is currently unable to hit the natural interest rate (Eggertsson and Krugman 2012), creating household savings in excess of business demand for credit. This imbalance is eliminated through a quantity adjustment—shrinking GDP—to bring the supply of savings in line with planned investments at the feasible real interest rate (zero minus the inflation target of central banks). Although equilibrium is restored in this way, output remains below potential, hence stagnation.

Summers lists several reasons why the natural interest rate has become negative. New high-tech ventures such as Facebook or Whatsapp require much less capital than old manufacturing ventures. Growing life-expectancy without a corresponding increase in working age implies that

savings have to rise to finance retirement while the decline in the relative price of capital goods and consumer durables means that less capital is required for equal amounts of physical investment less capital. Finally, Summers suggests that growing personal and functional inequality has increased the average propensity to save (Summers 2014c, see also von Weizsaecker 2013).[16]

Summer's argument relies on a "loanable funds" theory of the interest rate. According to Summer's theory, which goes back to Wicksell, there is supply curve of loanable funds (the saving schedule), which depends positively on the interest rate, and a demand curve (that investment schedule), which is negatively related to the interest rate. The interest rate equilibrates demand and supply. Where it not for the presence of a nominal rigidity, the zero-lower bound, the economy would operate at its full potential.

PK economists (notably Storm 2020) argue that this theory misunderstands the role of money and banks insofar as banks do not transfer savings from households to firms, but pre-finance investment by creating money *ex nihilo*. Furthermore, they see the demand and supply curves of loanable funds as not independent but linked to each other. For example, if the propensity to save increases due to greater inequality, shifting the supply curve, the demand curve also shifts because firms expect a lower marginal efficiency of capital.

From a PK perspective, the declining interest rate is not the cause of stagnation, but one of its manifestations. As demand shrinks central banks lower the interest rate in an attempt to stimulate demand - a phenomenon that has become commonplace since the late 1990s (Chappe and Blyth 2020). However, investments become increasingly investment-rate insensitive at increasingly low interest rates and aggregate demand may even decline with negative interest rates. In other words, the aggregate demand curve (which maps the relationship between aggregate

demand and the interest rate when investments equal savings) bends backward at very low interest rates (Palley 2019). Furthermore, when the interest rate (the marginal efficiency of capital) hits zero and even becomes negative, firms modify their financing structure away from equity (which are bought back) towards debt. Simultaneously, investments in financial assets, which continue to have a yield higher than zero, are preferred to real investment, and so productive investment falls. This implies that the rigidity of the zero lower bound is the not the cause of secular stagnation. Even if a sufficiently negative real interest rate could be reached, the stagnationist tendencies would not vanish.

Inconceivable from an NK perspective, PK sees secular stagnation as resulting from policies that have lowered the labor share of income and increased the capital share by weakening unions and labor institutions and increasing the shareholder orientation of firms. These are the policies that have undermined the wage-led growth model, as we discuss in the next section. From a PK perspective, negative interest rates are counterproductive as they may induce households to save more in order to provide for retirement while leading financial institutions to try and boost yields by engaging in risky investments, thus increasing financial instability.[17]

Part Three: Growth Models

A focus on growth models allows us to see the secular decline of growth rates in advanced economies capitalist as issuing from a more basic set of forces, namely, the exhaustion of the wage-led growth model, the most stable and efficient growth model capitalism has been able to produce so far, and the limits to the post-Fordist growth models that have succeeded it.[18] In this section,

we briefly discuss the reasons for the exhaustion of the wage-led growth model and identify alternative growth models in the post-Fordist era.

Wage-led growth and its exhaustion

The Fordist growth model emerged in the period after World War II as the evolution and replacement of the *mode of regulation* prevailing in the interwar period, when wages formed in competitive labor markets were highly sensitive to economic fluctuations. In the pre-Fordist era, consumption out of wages remained limited, and consumption out of profits insufficient to generate economies of scale, causing accumulation to remain below its potential even though the technical conditions for mass production were already available at the time. To the extent that there were productivity gains, they were mostly realized as profits, which tended to be used to acquire financial assets rather than goods and services (Boyer 2004). The result was low aggregate demand (relative to potential), rentierism, and financial speculation. In Marxist language, there was a "contradiction" between the technical potential of the economy and the balance of social forces determining the distribution between wages and profits.

The key innovation that ushered in the Fordist era was the institutionalization of collective bargaining and the increase in trade union power that went with it. With collective bargaining, wages were no longer flexible and responsive to labor market conditions, but downwardly rigid and indexed to labor productivity. In this period advanced capitalist countries saw the emergence in some countries of a "historical compromise" between unions and employers, whereby unions recognized the capitalist order, setting aside any attempt to challenge managerial control of the labor process, let alone transform property relations, and employers accepted to share the fruit of

technical progress with workers (Korpi 1983). By indexing real wages to labor productivity growth, Fordist industrial relations relaxed the demand side constraint that had hindered growth in the interwar phase. In addition to collective bargaining, other institutional innovations contributed to generating an adequate level of effective demand, particularly the public welfare provisions (Esping-Andersen 1990) and the adoption of counter-cyclical (Keynesian) budget policies (Hall 1986). As a result, growth took off in the "glorious" thirty years after WWII (Armstrong, Glyn and Harrison 1991).

The Fordist model was a well-functioning wage-led growth model (Lavoie and Stockhammer 2013). Real wage increases stimulated household consumption while expanding demand stimulated productive investment by firms (a mechanism known as the "accelerator" of investments) and permitted the realization of economies of scale and productivity increases, thus directly contributing to GDP growth. Higher wages and institutional rigidities also promoted the substitution of relatively expensive labor with relatively cheaper capital to increase capital intensity, further contributing to productivity growth (Storm and Naastepad 2012). In sum, the wage-led Fordist model rested on a virtuous circle in which real wage increases both expanded demand and simultaneously promoted the realization of productivity increases that would ultimately validate those real wage increases.

Over time, several problems emerged within the wage-led model. One of its main vulnerabilities was the pressure exercised by wage militancy on the rate of profit. Although real wages stimulated demand, lower profits per unit of output reduced the capitalists' incentives to invest (Marglin and Schor 1990). Limited capital mobility and financial repression, that is, real interest rates below the rates that would have prevailed in a global market, attenuated the pressure.

But the progressive dismantling of capital account controls, largely completed in Europe in the late 1980s, provided capital with an exit option as it made it increasingly difficult for national policy-making authorities to undercut the global rate of return on capital, indexed to the global real interest rate.

The second vulnerability had to do with inflation. When trade unions pushed for wage increases above productivity gains and the economy was at, or close to, full employment, firms in oligopolistic markets reacted to the squeeze of their profit margins by raising prices. Attempts at reining in inflation generally involved the institutionalization of incomes policies (Bruno and Sachs 1985, Flanagan, Soskice and Ulman 1983). These experiments worked better in relatively centralized or coordinated bargaining systems such as Germany and Sweden than in relatively decentralized systems such as France, Italy, and the UK (Cameron 1984, Soskice 1990). In Thatcherite Britain, inflation was eventually defeated through a shift to monetarism and an attack against the statutory prerogatives of trade unions, including the dismantling of tripartite policy-making fora (Goldthorpe 1984, Tarantelli 1986).

To summarize, the wage-led growth model was undergirded by an historical capital-labor compromise and facilitated by limited trade openness and capital controls. However, its growing dysfunctionality, and specifically its inability to contain inflation, spurred a shift in the class balance of power, leading to more aggressive policies by employers and the state to reduce worker power and shift risks onto workers (Glyn 2006). Building on these developments, a “shareholder revolution” in corporate governance increased the share of distributed profits in total profits and contributed to boost the profit share (Lazonick and O'Sullivan 2000). These regulatory changes threw sands into the gears of the key macroeconomic relations of the wage-led model. Far from

being the rigid variable to which all other variables (prices, money, profits, government expenditures) had to adjust, wage once again became the adjusting variable.

Post-Fordist growth models

Econometric evidence suggests that most advanced economies were structurally wage-led until the mid-1990s and that all large economies remain "wage-led" in the technical PK sense (see Onaran and Obst 2015 and the literature cited therein, Onaran and Galanis 2014). According to these analyses, "profit-led growth" characterizes only a limited number of small open economies in which domestic demand is less important than foreign demand. At the same time, there is ample evidence that the wage share, after peaking between the 1970s and 1980s, has declined in most advanced countries as well as in many developing countries for which data are available (ILO 2008, OECD 2008). For a wage-led economy, a declining wage share means that growth must slow down.

The mainstream explanation for wage-share decline is that it is technologically determined, caused by the decline of the relative price of capital goods as a result of the ICT revolution (Karabarbounis and Neiman 2014). In contrast, and in line with secular stagnation and rentier capitalism arguments, PK economists (Stockhammer 2013) and economic sociologists (Kristal 2010) argue that the main cause of the generalized decline is the changing balance of power between labor and capital to the detriment of labor, as well as financialization (Hein 2012, Pariboni, Paternesi Meloni and Tridico 2020).

The crisis of wage-led growth has led to the emergence of two alternatives: export-led growth and consumption-led growth financed by debt (Stockhammer 2015). Both model types

seek to solve the problem of missing demand without relying primarily on real wage growth. Here we briefly articulate the distinctive characteristics of each of these growth models (see also Baccaro and Pontusson 2016).

Debt-financed consumption

The category of debt-led growth fits the trajectory of the US economy in the decade preceding the crisis of 2007-2008 (Rajan 2010, Schwartz 2009, Stiglitz 2009), but the underlying logic is applicable to the UK and other "Anglo" capitalisms as well. Households pledge their appreciating home assets as collateral for accessing loans with which they finance consumption even in the absence of real wage growth (Mian and Sufi 2011). With the diffusion of the "originate-and-sell" model of mortgage finance the actor that generates the mortgage is no longer the one that assumes the risk inherent in it. The mortgages are sold to financial intermediators – generally investment banks – who repackage and sell them to retail customers. These practices lower credit standards and facilitate the access to debt by households with riskier profiles. Financial innovation generates products such as "asset-backed securities," and the derivatives built on them, which give the impression that risk has been reduced through diversification but which in reality compound and spread risk.

The end-result is an economy that "rides an asset bubble." That is, it grows at higher speed than its potential for some time but generates at the same time high levels of debt exposure and financial speculation. When such a bubble eventually bursts, banks stop lending to each other and to the real economy and a "balance-sheet recession" ensues as households hurriedly deleverage. That is, they increase their savings to lower their debt exposure (Koo 2011). To the extent that

housing prices have a limited impact on nominal wages and consumer prices, an inflation-targeting central bank sees no reasons to intervene to deflate the bubble (Carlin and Soskice 2015, Woodford 2003) and so it grows, as does financial fragility.

An economy that grows through debt-financed consumption needs to attract international financial capital as a result of insufficient savings. Current account deficits are the norm and the ability to finance them defines whether the model is sustainable or not. For reasons to which we shall return, current account deficits are not a big problem for "core" countries such as the US and the UK, but more peripheral countries do not have the same leeway. Sooner or later they are forced to rein in expenditures and increase savings in order to address their current account problem.

Spain and other Southern European countries are the most obvious examples of the latter scenario. Before the crisis, their growth process relied on debt-financed consumption, but the construction sector was clearly the key propelling force for accumulation (see Reisenbichler 2018). In such a growth model, a construction boom creates a favorable labor market situation for low-skilled construction workers, which reverberates to low-skilled workers in general. The construction boom is financed by domestic credit creation by banks, and housing demand is stimulated by laxer credit requirements.[19]

Until the outbreak of the sovereign debt crisis, Northern banks were happy to finance such a growth model by lending to Southern banks, thereby providing the capital needed to finance the current account deficit of these construction-led growth models (Baccaro 2020). After the sovereign debt crisis, however, Northern banks came to see lending to Southern banks as excessively risky and thus stopped the cross-banking flows. For some time, the "Target 2 payment system" of the Eurozone replaced the role Northern banks in funding agency Southern banks,

leading to an increase in the liabilities of Southern countries vis-à-vis the ECB (Schelkle 2017). However, all Mediterranean countries were forced to reduce foreign debt by shrinking consumption and imports, either through direct conditionality or indirectly (Sacchi 2015). Simply put, the consumption-led growth model of Southern European countries before the crisis was more precarious than "core" consumption-led growth models like the US and the UK due to the absence of reliable mechanisms for relaxing the current account constraint.

Export-led growth

Epitomized by the German case, export-led growth is an evolution of the Fordist model, but a peculiar and non-generalizable one. In the early phases of trade liberalization, export-oriented firms sought to compensate for rapidly saturating internal markets by expanding into foreign markets, which allowed them to prolong the Fordist logic of scale-induced productivity growth for some time. With the transition to export-led growth, however, the role played by wages in equilibrating the system is progressively reversed. In an export-led growth model, real wage increases are no longer the main driver of growth. Rather, foreign demand becomes central in determining growth dynamics.

Bhaduri and Marglin (1990) identified an export-led variant of the profit-led growth model. A fall of the wage share has an expansionary effect not so much through the impact of a higher profit share on investment and accumulation, but through the impact on the real exchange rate. If the wage share fall leads to lower domestic prices than in trade partners, while fixed exchange rates and *a fortiori* a monetary union prevent the nominal exchange rate from appreciating, a

depreciation of the real exchange rate ensues, and this translates into greater exports and lower imports (Lavoie 2014: 532–6).[20]

As such, (nominal) wage moderation and an underappreciated real exchange rate become crucial for growth (Hoepner 2018). With sufficient price elasticity of exports, and with a sufficiently open economy, the growth model replaces domestic demand (which tends to stagnate) with foreign demand, and also generates a peculiar sectoral dynamics, with domestic demand-oriented sectors like construction shrinking in relative terms in comparison to similar countries while exposed sectors expanded (again, in relative terms).

The costs of competitive disinflation are generally borne by workers, but their distribution is asymmetric. While core workers in manufacturing, whose collaboration is crucial for production success (Sorge and Streeck 2018), receive real wage increases almost in line with national productivity increases, the real wage gains of low-end service sector workers are flat or even negative. The export-led growth model is sustainable in the long run only as an exception. All national economies cannot be export-led (a point to which we shall return shortly). Importing demand only works so long as some other economies generate that demand internally. If the global system flips to an export-led regime, global economic stagnation necessarily follows.

Balanced and failed growth models

As argued by Baccaro and Pontusson (2016), the Swedish case (and possibly other cases) combines a domestic and an export driver of growth. Like their German counterparts, export-oriented Swedish firms are under intense pressure to reduce costs just like their German counterparts (Baccaro and Howell 2017: ch. 6). At the same time, a German strategy of repressing

internal demand in order to stimulate external demand is not feasible in Sweden due to the presence of a highly organized service sector, where unions still push hard for wage solidarity with the manufacturing sector. The Swedish growth model has therefore retained features of the old wage-led model but has also relied on debt-financed consumption.

Swedish growth appears to be a mix of different growth drivers: exports, wages, and debt have all played a role. Household debt has increased dramatically in the fifteen years preceding the crisis in Sweden. The large public sector has pushed up the wages of service workers in comparable occupations, thus contributing to household consumption. Baccaro and Pontusson (2016) have argued that high levels of organization in the Swedish service sector have acted as a new form of "beneficial constraint" making it very difficult for Swedish firms to rely on a strategy of wage containment and forcing capital to shift from manufacturing to industries characterized by lower price sensitivity of exports, such as ITC and high value-added services.

It seems that by stimulating consumption, household debt also improves the job prospects of low skill workers (likely to be employed in the service sector) and thus indirectly boosts their wages. It is not clear, however, how stable or durable the Swedish growth model is. The individualization of employment relations has been extensive in Sweden, not just in manufacturing but also, and possibly to a greater extent, in the public sector. Thus, the ability of service and public sector unions to push for wage increases in line with manufacturing and national productivity now depends almost exclusively on their remaining mobilization capacities, while the supporting institutions have been to a large extent dismantled, or at least profoundly modified (Baccaro and Howell 2017: Ch. 7).

An alternative to wage-led growth is not always readily available. Here, Italy is a case in point. Once a very successful economy in terms of comparative growth rates (Locke 1995), it has stagnated since the mid-1990s. The Italian growth model is a case of exiting one growth model and failing to find another. Although household indebtedness has risen in the pre-crisis years, it has not risen sufficiently to rekindle domestic demand. At the same time, the export sector is too small to act as a locomotive for the economy as a whole and it is saddled with an overappreciated real exchange rate as a result of Euro membership. Attempts to turn the Italian economy into an export-led growth model in response to the Euro crisis have failed dramatically.

Peripheral growth models: Compradors, courtesans, and parts-suppliers

For countries occupying more peripheral positions in the global economy, growth depends on attracting foreign capital through favorable regulatory provisions (including for taxes), independent of whether such capital then stimulates household consumption, investment, or exports.[21] Such states can act as compradors – business intermediaries – as in the case of the various UK-related tax havens in the Caribbean (Shaxton 2018). They can also act as courtesans – for example, as conduits for tax avoidance and money laundering, as in the case of Latvia. And, finally, they can also act as specialized part suppliers in global supply chains (Blyth 2016), as in the case of the Eastern European firms supplying the German auto complex, or with Taiwan and the global semiconductor trade.

Building upon that latter distinction the chapter by Ban and Helgadóttir (2019) in this volume identifies core and periphery variants of growth models. The core export-led model has national firms at the top of global supply chains reaping the greatest share of profits. The periphery

variant has national firms as suppliers of intermediate goods or as suppliers of low value-added, labor-intensive final services, and this limits the upgrading possibilities of domestic firms. The distinction between core and periphery consumption-led growth model depends on how constraining the current account is. Much the same dynamic is identified on a global level by Schwartz (2019) where a core of IPR protected global firms reap very high profits, their essential suppliers retain reasonable profits, and the rest of the supply chain subsists on very low profits.

To sum, the Post-Fordist growth models fall broadly into two camps. In the first, growth relies on domestic consumption, which is mostly stimulated through easier access to credit, or by a residual ability of workers to push for higher wages (as in the Swedish case). In the second, growth is stimulated by foreign demand. Additionally, growth may be stimulated by investment in housing, as in the Irish and Spanish cases before the crisis, or by finding niche or supply-chain strategies in the wider global economy, as in the periphery and micro-state cases. All of which brings us to a point where this delineation of growth models has to deal with the issue of scale. Clearly, growth is not a variable determined simply by the internal dynamics of national economies. Rather, it depends critically upon the (national) unit's place in the global system and how the unit's growth strategy is linked to the growth strategies of other units.

Part Four: International Political Economy

Scholars working in the subfield of political science known as international political economy (IPE) have long been interested in economic growth and stagnation, but at the level of the system (the global capitalist economy) rather than at the level of its country units. While some

IPE scholars have also embraced insights from heterodox macroeconomics, CPE scholars have become increasingly cognizant of interdependencies among growth models identified and observed at the country level. As noted at the outset, another important ambition of this volume is to bring CPE and IPE perspectives on contemporary capitalisms into closer conversation with each other.

Thinking systemically about the politics of growth

Emerging more or less at the same time as CPE, the early IPE literature sought to explain why the end of the Bretton Woods systems did not lead to the decline of the US as the dominant power in the global economy. The focus of this early literature was on the US current account and budget deficits and its declining share of world trade. Building on Kindleberger (1973), who saw international monetary stability as a public good, IPE scholars feared a return to 1930s protectionist blocs as a result of the decline of the US. Explanations as to why this in fact did not occur ranged from the institutional (Keohane 1984) to the structural (Gilpin and Gilpin 1987). For our purposes, what was interesting about this early IPE literature was that it did not view growth solely as property of national economies, but rather as a property of the system of national economies in which some kind of co-evolutionary effect was always present. As Japan rises, the US falls, and so on.

Another branch of IPE with a close affinity with CPE is the literature on international monetary arrangements. Building off John Ruggie's idea of "embedded liberalism" as the normative order characterizing post-war monetary governance (Ruggie 1982), this literature sought to understand how unit-level growth strategies were enabled or disabled by international

monetary dynamics: for example, how the end of Bretton Woods led to European monetary integration (McNamara 1998) or how national models of neoliberalism were activated by changes in capital mobility (Helleiner 1994). The point here is, again, that the system and the units need to be considered together for a complete account to emerge.

More recent work in IPE has made the links between IPE and CPE still more apparent. Taking a Kaleckian/regulationist perspective on shifts in what they term "global macroeconomic regimes," Blyth and Matthijs (2017) present an account in which the wage-led growth models that typified the Bretton Woods era were endogenously destabilized. As wage gains began to outstrip productivity gains, the wage share shifted such that capital began to fear both worker militancy as a political challenge, and inflation as an economic challenge, in the form of diminished expectations of future profitability. The result was the defection of capital from the institutional architecture of wage-led growth, both locally and globally, and a "system reset" in the form of globalization, integration, privatization, and liberalization (qua neoliberalism) designed to create the conditions for profit-led growth.

Yet another recent strand of IPE stresses the presence of dense networks in areas such as global finance (Oatley et al., 2017, Oatley 2019) and in hierarchies in international regulatory regimes (Farrell and Newman 2018). Framed in terms of "interdependence," this strand of theory and empirical research is less directly concerned with the macroeconomic underpinnings of growth, but enriches our understanding of growth in that it, too, shows us that growth is not solely a unit-level property and that global factors are involved in the reproduction of growth models at the national levels and in transitions from one growth model to another.

What IPE adds to CPE

Comparative political economists typically conceive growth as a property of the units. This is not an unreasonable point of view considering the high proportion of non-traded services in advanced economies and their reasonably large home markets. It therefore follows that a lot of demand is domestic, even under open-economy conditions, and that a political understanding of growth models and demand is essential. But if the growth models perspective is correct that the global economy has moved, over time, from a set of wage-led economies to a world where wage-led growth has become increasingly unfeasible and alternative drivers of demand, for example, exports or debt have replaced real wages as main driver, then the questions we need to answer are twofold: What is behind this global shift? And how does this alter our understanding of how growth comes is produced?

We are not interested in establishing relationships of causal primacy between the system and the country-level units, but in clarifying the interrelationships between the two levels. We see country-level developments as being conditioned but not entirely predetermined by systemic forces. One way to acknowledge the interrelationship is to consider that national growth models stand in a relationship of complementarity to each other. Most obviously, it should be systematically recognized that for every meaningful net exporter there has to be an equivalently meaningful importer running a deficit somewhere else in the system. As Keynes noted, export-led growth tends to become rather beggar-thy-neighbor as all countries cannot be net exporters. Keynes' solution to this 'fallacy of composition' problem—the Bancor (global outside money) to expand global demand and a clearing union to balance the accounts—never came to pass. Instead we got the US Dollar, Bretton Woods, and then persistent, but seemingly stable, imbalances.

Insights from IPE allow us to take better account of how growth models are both embedded in, and enabled by, a global capitalist system and, conversely, how the stock of growth models determines the nature of that system. This proposition involves three distinct issues: the level of analysis used for examining growth, the role of international finance and the hegemonic rule of the US dollar, and secular stagnation.

Growth models at different levels of analysis

As the chapter by Schwartz and Blyth explains, there are four different ways that we might think about the relationship between national growth models and the global system. One approach, arguably the dominant approach in CPE, is to the treat the units (countries) in isolation, positing that independent unit-level responses to common functional problems, such as managing inflation stemming from the wage-led growth model, lead to a shift in the system overall, for example, towards open capital flows. A second approach also starts at the unit level but focuses upon fallacies of composition at a higher level of aggregation, such that common responses produce a global outcome that differs from the individual strategies. For example, with relatively closed economies, any one country could rely on the stable inputs that made Fordist production possible, but once multiple economies do the same, such stable inputs could not be produced, and the system is destabilized from simple aggregation.

The third approach introduces the question of asymmetric power at the system level, positing that the differential capacity of units allows one or more units to dictate the structure and payoffs to the system overall. Such a perspective invites us to consider how international institutions, for example, the US patent regime and its instantiation in the TRIPS agreement (Wade

2010), benefit the growth models of some countries more than the growth models of other countries, and helps to make sense of the distinction between "core" and "peripheral" growth models sketched above. This approach also draws our attention to how some growth models are disabled by their insertion into wider systemic relations, such as the pre-1990 Italian wage-led growth model into the EU, and how some are enabled, such as the insertion of East European states into the German export complex.

Analysis at this level uncovers how one can see the global economy as a single but highly asymmetric field of power where differentially placed states and global firms' investment activities massively impact unit-level growth models. The fourth approach adds a path dependency to the third approach, positing that the timing and insertion of unit-level growth models into the global economy matter hugely. For example, Germany can arguably "do more exports" to get out of crises precisely because export-led growth was written into its developmental model from its inception in the 1870s in the form of repressed consumption and excess production.

Growth Models and International Monetary Power

Within the PK macroeconomic framework sketched above, aggregate demand is a crucial "growth driver," but there is still a balance-of-payments constraint (Thirlwall 1979, Thirlwall 2011). If imports grow faster than exports, the country in question will have a tendency to produce systematic current account deficits. That is, its stock of foreign debt will increase over time. But foreign borrowing cannot continue indefinitely, and at some point the country will have to rebalance through a price adjustment, an exchange rate devaluation, or through a quantity adjustment. That is, a reduction of domestic demand in order to reduce imports.

Under the assumption of real exchange rate rigidity, Thirlwall (1979) shows that the growth rate that is compatible with balance of payment balance is equal to the rate of growth of exports, which in turn depends on the growth of foreign demand and the foreign income elasticity of exports, divided by the propensity to import or, in other words, the income elasticity of imports (see also Thirlwall 2011). This point is important because it reintroduces supply-side considerations into the determination of the feasible growth rate.

If a country wants to increase its feasible growth rate, it cannot simply expand aggregate demand. It will have to increase the attractiveness of its exports, or reduce the desirability of imports, which requires appropriate supply-side policies that upgrade its production structure. In reality, as the previous discussion of Germany has highlighted, prices are not fixed, and the ability to export does not just depend on foreign demand, but also on the real exchange rate.[22]

As noted already, the current-account constraint does not bind all countries equally. Countries whose currencies are on top of the international hierarchy of money will be less affected, because the rest of the world will be willing to lend to them at favorable rates and for long periods of time. In other words, monetary power matters for growth models (Cohen 2015). Only the US Fed can create monetary liabilities – "outside money" - that have to be redeemed with the means of payment the central bank controls, as opposed to other assets. Massive US federal deficits, rather than being a source of weakness for the US, may be a source of strength, as countries holding dollar assets have a stake in maintaining the global status of the dollar as store of value. While this argument is easiest to articulate with regard to the "exorbitant privilege" enjoyed by the US dollar (Cohen 2015, Gourinchas and Rey 2007, Maggiori, Neiman and Schreger 2020), it also applies, to

a more limited extent, to currencies like the British pound, which international financial markets are willing to consider as one notch below to the dollar in the international hierarchy of money.

Despite the decline of the relative weight of the US economy in the world economy, the dollar is by far the dominant currency in the international monetary system and has become even more dominant over time (Gourinchas, Rey and Sauzet 2019).[23] Furthermore, global banks hold liabilities denominated in dollars, which they procure on the wholesale US money market, and match them with assets also denominated in dollars (Gabor and Ban 2016, Hardie et al. 2013, Sgambati 2019). Finally, the dollar is the most important currency for central banks' official reserves, with the euro a distant second (Gourinchas, Rey and Sauzet 2019). Its role in trade invoicing, international banking, and official reserves makes the dollar the single most important issuer of "safe assets" around the world (Caballero, Farhi and Gourinchas 2017).

Given that US Treasury bonds are the predominant form of safe assets for global investors, other countries have incentives to run current-account surpluses with the US in order to accumulate safe assets denominated in dollars. This explains why the US balance sheet predominantly features bonds carrying low yields as external liabilities, while the external assets of the US are mostly equity and portfolio investments carrying a higher yield (Schwartz 2009). In part, the US finances international net borrowing through a yield differential between international assets and liability (estimated to be about 2% by Gourinchas, Rey and Sauzet 2019).

The difference in yields and the composition of the US balance sheet (long in equities and other more remunerative assets, short in bonds) allows the US to act as a global banker, borrowing short and lending long (Schwartz 2009, 2019). However, the US is also a global insurer. Since the dollar (as a liability of the US Fed) is the ultimate means of payment of the international monetary

system, and since financial actors around the globe have liabilities denominated in dollars and ultimately need dollars to carry their payments through, if there is a crisis of confidence such as in 2007, the US needs to step in and provide global liquidity through swap lines between the Fed and other central banks (McDowell 2012). Thus, although the US has an "exorbitant privilege," there are also times in which it has an "exorbitant duty" to provide liquidity and keep its financial empire afloat (Gourinchas and Rey 2007).

In sum, the US ability to sustain its debt-financed consumption-led growth model is strictly dependent on the ability of the US to relax the current account constraint on growth, which in turn depends on the role of the US as international monetary hegemon. It also bears noting that the current account deficits of the US not only provide international liquidity but are also a non-negligible source of demand for the rest of the world.[24]

International Monetary Power: Life Outside the Top

For comparison, similar considerations about the constraining role of international finance apply, in reverse, to export-led growth in Germany. Here there is less research to support the argument. However, it seems possible that the relative underdevelopment of finance in Germany, both its equity and its bond market, makes it easier for German economic actors to export capital than to import it, strengthening its structural current account surplus (Baccaro and Braun 2020).

First, the low depth and liquidity of the German equity and bond markets present German savers with few investment opportunities, and create incentives to export capital abroad, first and foremost to an increasingly integrated European financial market, but also to international capital markets more broadly (Braun and Deeg 2020). Second, foreign capital is unlikely to want to invest

in German financial assets for the same reason, although recently the German housing market seems to have become a new investment opportunity for both domestic and international capital (Baldenius, Kohl and Schularick 2019). Third, German banks currently have excess deposits, which they park at the central bank.

Partially confirming the above discussion, Mendoza et al (2009) present a macroeconomic model in which, in the presence of free capital mobility, different levels of financial development across countries generate global imbalances as well a specific composition of the countries' international investment positions. Countries with greater capacity for insuring risky assets, thanks to deeper and liquid financial markets, will tend to import capital and will display a higher proportion of risky assets on their balance sheet, while countries with lower financial development will export capital and will have lower investments in risky assets and greater investment in risk-free assets. The result is that countries with higher financial development will have negative net foreign assets, a negative position in foreign debt, and a positive position in foreign equities, and vice versa for the country with lower financial development. This model resonates with developments in the US and Germany.[25]

The above considerations highlight that the position of the national growth model in the international economic hierarchy, as a "core" or "periphery" country, is relevant for the sustainability of the growth model. As argued above, a debt-financed consumption-led model is feasible only if the current account constraint can be relaxed in some way, either through the attractiveness of the country's supply of financial assets (Chang and Leblond 2015, Forbes 2010) or through other mechanisms.

Spain, for example, as argued in chapter 11, ran a consumption-led growth model in the run-up to the financial crisis, and accumulated sizeable current account deficits year after year, and yet the attractiveness of Spain as a financial center did not play a very important role. In the Spanish case, the mechanism that temporarily relaxed the current account constraint was the tendency of international financial markets to treat all sovereign bonds denominated in euros as if they had the same risk profile, thus leading to a convergence in bond spreads across the Eurozone (Chang and Leblond 2015). Hence, Spain was able to import capital in the form of cross-border banking loans, mostly from other Eurozone countries.

Whether a country is core or periphery is also important for export-led growth models. Both Germany and Central and Eastern European countries relied on export-led growth in the period preceding the crisis and after its worst stages were over (Ban and Adascalitei 2020 and chapter 7). However, it makes a big difference whether key domestic firms are at the summit of global supply chains (Durand and Milberg 2020), and are thus able to reap a greater share of profits, as is the case for German supply chains, or whether they act primarily as suppliers to foreign lead firms, in which case the opportunities for upgrading and the share of profits are more limited, and the need to squeeze costs in order to remain competitive is greater, as is the case for Eastern European supply chain firms.

More leverage on secular stagnation

An IPE perspective on growth models adds to our alternative account of secular stagnation in at least two ways. To begin with, the growing importance of late developers is arguably an important factor behind the slowdown of economic growth at the global level. All successful late

developers, from to Germany to Japan and Japan, have repressed consumption in order to increase domestic savings and investment and then grow via exports. Seen in such an historical and systemic light, the decline of wage-led growth may be more historically determined than commonly recognized.

The second factor highlights more recent work in IPE and related fields on the generation of rents in the global economy (Philippon 2019, Schwartz 2019, Christophers 2020). The key idea in this literature is that ownership of assets that generate income streams that have high barriers to entry or legal protections such as intellectual property rights have become a key source of profits across the global capitalist system. As Schwartz (2017) argues, how global firms, especially the most profitable among them, reap superior profits through their position in global value chains through their ability to leverage intellectual property rights to their advantage is again highly relevant for growth, and differentially so.

Over the past 20 years, a global industrial structure has emerged, in which a core of IPR-protected firms earn most of the profits and pay high wages to few workers and dictate the activities of their vertically integrated and capital-intensive key suppliers, which also pay relatively high wages to substantially more, but still relatively few, workers. Downstream lie the parts suppliers and service providers that are the subcontracted supply-chain firms with low margins and low wages that pay most workers. Whether firms and countries are a part of the high value-added US tech chain in Asia, or a part of the low value-added German auto chain in Eastern Europe, matters for how they grow. In addition, the new global industrial structure described by Schwarz and others affects the rate of growth at the system level. If rents are high and protected, levels of investment fall, as does labor productivity, while inequality rises in both profits and wages across the system.

Underpinning this differential growth is what scholars in a related literature drawn from sociology and legal studies have identified as 'global wealth chains' (Seabrooke & Wigan 2017) or 'global financial networks' (Haberly & Wójcik 2021). In this body of work, the firm and the corporation are made analytically distinct, with the firm acting as a going concern in a fixed location while the corporation is seen as a multi-jurisdictional network of legal entities that operate across a variety of jurisdictions. Making this firm-corporation distinction allows these analysts to show that the agents who control the firm can use the legal form of the corporation to assign what parts of the overall organization produce value and count as profits centers. This enables top management to use jurisdictions other than the firm's home for lower taxes and/or financial secrecy (Robé 2011, Garcia-Bernando et al. 2017), all of which has consequences for growth and distribution.

In short, insights from IPE and related fields teaches us that national growth models are embedded in a global system and depend on a global currency that keeps this system liquid, with an adequate level of demand. Moreover, the sources of secular stagnation lie at the system as well as the unit level. The system and its units must be seen as co-evolving.

Part Five: The Politics of Growth Models

As noted at the outset, the final objective of this volume is to advance our understanding of the domestic politics of growth models. The approach to comparative and international political economy set out above posits that (capitalist) growth models are inherently unstable and that the

reproduction of growth models necessarily involves state intervention in the domestic economy (and, by extension, conflict or coordination between states). Since the 1990s, the dominant view among CPE scholars, including French regulationists, has been one in which "politics" matters primarily for the creation and preservation of institutional arrangements that incentivize economic actors to behave in particular ways.

In our perspective, by contrast, governments play a more actively directive role and they do so, first and foremost, through the macroeconomic policies that they pursue. In addition, the analytical perspective set out here focuses attention on distributive conflicts involved in macroeconomic management. By stimulating or depressing different components of aggregate demand, macroeconomic policy shapes the distributions of earnings and profits across sectors. How then should we think about the politics of macroeconomic policy choices and, more broadly, the politics of choosing (and sustaining) growth models?

In what follows, we begin to address this question by articulating a set of ideas about politics that are broadly shared by contributors to this volume, and by situating these ideas in relation to the existing literature. In so doing, we engage with the "electoral turn" in comparative political economy advocated by Beramendi *et al* (2015) as well as the long-standing literature on "producer-group coalitions" or "cross-class alliances" (Gourevitch 1986; Swenson 1991, 2002; Thelen 2014, 2019). We also seek to incorporate insights from recent work in the tradition of "elite studies" (most notably Culpepper 2011) and the literature on the role of ideas in economic policy making (Hall 1993, Blyth 2002, Schmidt 2008).

In our view, the debate between CPE scholars who emphasize the role of electoral coalitions and those who emphasize the role of producer-group coalitions is a stale debate that we

should leave behind us. Whether mass (electoral) politics trumps elite (interest-group) politics or vice-versa depends on the issues at stake and specific conjunctures. Also, the forms that elite politics and mass politics assume obviously vary across countries and over time. It seems more useful, from a theoretical point of view, to conceive of mass and elite politics as separate dimensions of the politics of growth models.[26]

The core proposition that we advance here is that the stable reproduction of growth models hinges on two political conditions. First, the presence of a coalition of more or less organized interests, including corporate elites and unelected as well as elected government officials, with a common policy agenda. Second, the ability of parties that form part of the dominant growth coalition to mobilize electoral majorities that are compatible with the agenda of this coalition. The choices that voters make at the polls do not determine the macroeconomic policies that government pursue, but they constrain the policy choices available to dominant growth coalitions. The ability of governing parties to manage policy conflicts within the dominant growth coalition in turn affects their capacity to mobilize electoral support.

Crucially, the congruence of the politics of the dominant growth coalitions and the politics of electoral coalitions must not be taken for granted. Tensions between these two domains of politics, operating according to distinctive logics, give rise to moments of uncertainty or, in other words, periods in which it becomes more difficult, and sometimes impossible, for the dominant growth coalition to issue policies that effectively support the growth model and the growth model itself becomes politically contested.[27] In many liberal democracies, the financial crisis of 2007-08 represents the beginning of such a period of "messy politics." Our objective here is not to develop a unified theory of politics. Rather, we seek to combine elements of existing theoretical models

in ways that open up space for new exploratory research as well as the elaboration of testable hypotheses. As will become evident in due course, different contributors to this volume emphasize different aspects of the broad approach to the politics of growth models sketched here.

Against the "electoral turn"

Advocating an "electoral turn" in comparative political economy, Beramendi *et al*. (2015) argue that "electoral partisan politics…should drive explanatory accounts of policy choice in political economy" (p. 62). While Kitschelt and Rehm (2015) insist that the policy positions of political parties are, broadly speaking, representative of their voters, Häusermann and Kriesi (2015) argue that voters in contemporary democracies are aligned on two basic dimensions, "universalism versus particularism" and "state versus market." For Kitschelt-Rehm and Häusermann-Kriesi alike, politics is essentially a contest between parties that seek to build and sustain coalitions of voters in this two-dimensional space.

Our critique of the "electoral turn" advocated by Beramendi *et al* (2015) is three-fold. As we have argued earlier, the lack of attention the politics of macroeconomic management is a conspicuous feature of the volume assembled by these scholars. In a telling passage, Häusermann and Kriesi (2015: 207-208) assert that macroeconomic and industrial policies have largely been taken out of the hands of national governments because of European integration and that parties of the Left and Right have tended to converge on these issues. These authors then point out that "important alternative economic issues such as labor market regulation and welfare policies remain within the discretion of national governments, and on these issues, both party policies and voter preferences continue to diverge."

This passage ignores the divergence of macroeconomic conditions generated by monetary integration and the close links between macroeconomic policy and social spending. More importantly, we question the idea that comparative political economists should restrict their attention to issues on which parties and voters diverge. While we do observe partisan convergence on macroeconomic issues in many countries (see the chapters by Hopkins and Voss and Huebscher and Sattler in this volume), the policy stance on which parties (and voters) converge is not the same across all countries. As comparativists, we are (ought to be) interested in explaining how and why policy consensus varies across countries and over time.

The neglect of corporate interests and the political influence of business is another conspicuous feature of the approach to the politics of advanced capitalism advanced by Beramendi *et al*. (2015). Their case for the "supremacy of electoral partisan politics" hinges entirely on the observation that organized labor and tripartite corporatism are in decline across the OECD countries (pp. 25-26, 388). Much of the 1980s literature on producer group politics focuses on more or less explicit bargaining between organizations representing business and labor, but the political influence of organized business and large corporations surely does not presuppose corporatist bargaining. To the contrary, the influence of corporate interests over government policy would appear to be inversely associated with union power and tripartite corporatism (as suggested by Hacker and Pierson 2010 as well as Culpepper 2011).

Finally, the way that Beramendi *et al*. (2015) conceive of electoral politics strikes us as problematic. Emphasizing electoral coalitions, these authors depart from some of the assumptions of median-voter theory, but they, too, posit that voters choose parties based on well-specified policy preferences and that every voter carries the same weight in the strategic calculi of vote-

seeking parties. These assumptions, about parties as well as voters, run afoul of the well-documented observation that, across liberal democracies, government policy is consistently more responsive to the policy preference of affluent voters than to the policy preferences of middle-income and especially poor voters.[28] The mechanisms of unequal representation are open to debate, but any adequate theoretization of contemporary politics in liberal democracies must surely, somehow, take income and class biases in representation into account.

The politics of policy choice: Dominant growth coalitions

Starting with Gourevitch (1986), an important strand of comparative political economy conceives of politics in terms of coalitions among "producer groups," defined by class interests and sectoral interests, and of policy outputs as the outcome of struggles between competing coalitions.[29] Our approach to the politics of growth models builds on this literature, but also seeks to improve on it. While we disagree with some of the assumptions and propositions associated with "the electoral turn," we agree that many contributions to the producer-group literature have not paid sufficient attention to electoral politics. Setting the role of electoral politics aside for the time being, there are other blindspots in the producer-group literature that we want to identify and address as well.

To begin with, we contest the way in which the producer-group literature commonly conceives "cross-class alliances," to use Swenson's apt and oft-cited expression, in terms of two rather crude dichotomies: sheltered vs. exposed sectors and labor vs. capital. An obvious objection to this conceptualization of the core cleavages that underpin coalitional politics is that finance is entirely missing. Yet finance capital and the financial services industry have long been important

powerful actors in some political economies—most notably, of course, the British political economy—and their influence has arguably increased in most political economies in the post-Fordist era (along with importance of financial assets as a source of income for upper-middle-class households). The growth models perspective that we have set out above also invites a more disaggregated view of the real economy and the macroeconomic policy preferences (or "requirements") of different sectors. For example, some exposed sectors are more exchange-rate-sensitive than other exposed sectors. And some sheltered sectors are more interest-rate-sensitive than other sheltered sectors. Moreover, it is important to recognize, we think, that sectoral interests, as distinct from class interests, are more salient for wage-earners with sector-specific skills than for wage-earners with more general skills (Iversen and Soskice 2001) and, in a similar vein, that sectoral interests are more salient for some capitalists than for others.

A second blind spot of the producer-groups literature concerns the way that it often conflates "producer group politics" with "policy-making trough tripartite bargaining." In some countries, cross-class alliances have commonly taken corporatist forms, but the absence of corporatist institutions does not mean that cross-class alliances are unimportant, let alone absent.[30] Lobbying by sectoral business associations and informal networks linking corporate elites to elected and unelected governments officials constitute an alternative channel of producer-group politics that the CPE scholars have tended to ignore. Relatedly, we suggest that the sectoral interests of (some) skilled workers can be represented in politics not only by unions, but also by the firms for which they work and by the business associations to which these firms belong.

Pioneered by Culpepper (2011), recent work on the political influence of corporate elites represents a welcome addition to the CPE tradition emphasizing non-electoral politics or,

Culpepper's terminology, "quiet politics." However, the elite literature fails to address our core questions to the extent that it focuses on ideas, values, interests and behaviors that all managers and owners of large corporations have in common. Again, we want to know why government policies favor certain sectoral interests (and certain corporations) over others, and why such biases vary across countries. In our view, these questions cannot be answered without reference to the growth models that different countries have adopted. Simply put, our working hypothesis is that representatives of sectors or firms that are key to the success of the growth model enjoy privileged access to policymakers.[31]

To convey a less voluntaristic and less pluralistic conception of "coalitions" than the prevailing conception in the producer-group literature, we propose to speak of "dominant growth coalitions." In our conceptualization, these coalitions are organized around "policy paradigms" in the sense that Hall (1983) uses the latter term. That is, a set of propositions about how the economy works and what the overarching goals of government policy should be. They are not coalitions among equals, but rather characterized by hierarchical power relations, with firms in leading sectors (and the owners of those firms) constituting the core of the coalition and other, more or less organized, groups occupying subordinate positions.

Representatives of the different groups that are part of the coalition negotiate what Hall (1983) refers to as first- and second-order policy changes, pertaining to policy instruments and specific policy settings, but the policy paradigm, or, in other words, the growth strategy upon which the coalition rests, is rarely subject for (re)negotiation. In ordinary times, when growth models operate smoothly, there is one growth coalition that is clearly dominant and subordinate groups within this coalition do not have readily available exit options. In the domain of

macroeconomic management and long-term growth policies, much of what we think of as "coalitional politics" is about managing conflicts of interest and accommodating changes in the balance of power within the dominant growth coalition as distinct from struggles between competing coalitions.

In our view, the advocates of the electoral turn are mistaken to the extent that they treat political parties simply as vote-maximizing machines or intermediary organizations through which citizens' preferences are represented in the policy-making process. As suggested by Blyth and Katz (2005), governing parties of the Center-Left as well as the Center-Right can and should (also) be seen as part of the dominant growth coalition (see also Hopkin and Blyth 2019). Ministers and senior parliamentarians, along with their unelected policy advisors, participate regularly in policy deliberations that involve conflicts of interest within the dominant growth coalition and, in this context, promote the interests of one or another of the contending groups. Equally important, party leaders and the expert advisors on whom they rely play a key role in the elaboration of the paradigms that define the parameters of policy debate within the dominant growth coalition and in the projection of these paradigms to the public at large.[32]

Back to electoral politics

As noted above, we do not contest that elections matter. Rather, what we contest is that elections are about choosing macroeconomic policies and, by extension, choosing growth models. In our view, it makes more sense to think of electoral politics in terms of selling the growth model/the policies of the dominant growth coalition to the public at large and, in some circumstances, to preempt or deflect popular discontent. Needless to say the nature and scope of

this challenge depends on how inclusive the growth model is, but also on global economic conditions. In a global context characterized by stagnation, post-Fordist growth models and the coalitions that support them have become less inclusive since the crisis of 2008-09 and, as result, it has becoming increasingly difficult for governing parties to mobilize electoral majorities. Furthermore, some growth models have more "degrees of freedom" than others and allow for a more encompassing support base without imperiling the functionality of the growth model. For example, Sweden's "balanced" growth model arguably accommodates service-sector workers better than Germany's export-led model (cf. Baccaro and Pontusson (2019).

In contrast to Beramendi *et al's* (2015) emphasis on issue voting, our approach to electoral politics emphasizes economic voting and the idea that claims to be competent managers of the economy are a key feature of the electoral appeals of mainstream parties. Featuring prominently in some the CPE literature of the 1990s, notably in Garrett (1998), economic voting deserves, we think, to be brought back to center stage. Most importantly for our purposes, economic voting provides a simple and quite convincing explanation of why elected policymakers are particularly inclined to attend to the needs and demands of leading firms and sectors. That is, the firms and sectors that drive economic growth in their country. In this sense, electoral politics mediated by governing parties might be seen as a constraint on the ability of subordinate coalition partners to challenge the policy preferences of leading sectors.

Building on the Gramscian notion of hegemony, it seems highly plausible to argue that mainstream political parties as well as government authorities play an important role in projecting the interests of leading firms and sectors as the "national interest." In Gramsci's (1992) core formulation, the success of such "framing effects" may require material concessions targeted on

potentially disruptive subordinate groups, but the key to the political dominance of certain ideas about the way that society operates (or the way the economy operates) is "passive consent," the belief that, in the phrase typically attributed to Margaret Thatcher, "there is no alternative" or, "this is the way things function", which signals the ability of a hegemonic discourse to shape the perception of basic causal relationships. As the Trump experience illustrates, when all else fails, at least some governing parties are willing to turn to populist scapegoating to shore up the legitimacy of failing growth models. Without going further into this topic, suffice it to say that ideas that are backed by powerful actors and that somehow resonate with material interests of those to whom the ideas are communicated play an important role in our understanding mass politics as well as well as our understanding of elite politics.

Our approach to the politics of growth models seeks to steer a middle course between the producer coalitions approach and the electoral approach by systematically distinguishing between the politics of policy choice and the politics of democratic legitimation. The former is shaped by a dominant growth coalition, which – we posit – is aware of the "requirements" of the growth model and has privileged access to government bureaucrats and the policy implementation sphere. Typically, the latter is <u>not</u> primarily about choosing the growth model, but about diffusing opposition to it such that the key policy foundations of the growth model remain in the background. We do not take a stance on whether the dominant growth coalition is composed of key sectors or key firms, leaving this to be determined on a case-by-case basis. Furthermore, we do not see the two political moments as tightly coupled: Especially in moments of crisis, a growth coalition may come apart because it is unable to secure a viable electoral majority, and political entrepreneurs

may assemble new coalitions in the electoral sphere, which in turn forces a reconfiguration of the producer coalition and the growth model.

In sum, in this introduction we have developed a new approach to the politics of growth and stagnation, based around the concept of growth models, underpinned by Post Keynesian macroeconomic theory. We compared our approach to the 'Varieties of Capitalism' (and 'Electoral Turn') approaches along the axes of macroeconomic and core growth assumptions, the main theoretical models produced by each approach, key growth drivers, approach to economic policy, the effects of the international economy, views of secular stagnation, and underlying model of politics. Our objective is to provide an updated understanding of growth and stagnation that better tracks the polarized and contested world of today. A world where demand and distribution matter, and where growth, the universal salve of capitalism, is harder to come by. The following table summarizes key differences between the Growth Models and Varieties Approaches.

Table One about here

The Rest of the Book

The rest of this volume is organized modularly so that it can be read as a whole or in parts. The first part of the volume builds upon this introductory chapter to more fully specify the model of growth and stagnation that we operationalize in the empirical chapters. The second and third parts of the considers empirical cases at the regional and national level of aggregation, respectively,

operationalizing the insights of the introduction and the chapters in the first part of the volume. The fourth and final part focuses on specific issues (financialization, politics, austerity, the welfare state), which either affect or are affected by growth models.

Further elaboration of the theory

Part one consists of three chapters. The first chapter, following this introduction, by Onaran and Stockhammer, gives us an "under the hood" explication of the Post-Keynesian (PK) macroeconomics that defines our approach. It first contrasts the methodological foundations of PKE and discusses differences and similarities to mainstream economics and New Keynesian Economics. It then presents the main features of PKE: demand-led growth (the goods market), PK monetary theory (financial markets) and a theory of induced technological change that gives rise to path-dependent growth (the supply side). These moves allow an explication of the PK theory of demand regimes, which covers distributional growth drivers (wage/profit-led growth) as well as extensions that consider debt-driven and export-driven growth and how fiscal policy fits into the model. Finally, the chapter discusses financialization, the return of financial cycles and central role of real estate prices for recent macroeconomic performance. The chapter thus provides the macroeconomic framework that underpins the growth models approach that subsequent chapters draw upon.

The second chapter by Schwartz gives us a deep dive into the issue of secular stagnation, discussed above, by focusing on how corporate profit strategy and organizational structures changed from the Fordist era to what he calls the present "Franchise" era. Schwartz draws attention to how the spread of franchise structures tends to concentrate profits into firms with a low marginal

propensity to invest and concentrate wages (critical for consumption) into those firms' small labor force, which also has a low marginal propensity to consume. Concentrated profits and wages provide a plausible causal explanation for secular stagnation.

For Schwartz, the critical issue in the shift from Fordism to Franchise is not simply the growing salience of "knowledge" or human capital in production, but rather the ongoing effort to wrap a legal property right around that knowledge and to separate the corporate ownership of those formal intellectual property rights (patent, copyright, brand and trademark – IPRs) from formal legal ownership of physical capital and from formal legal responsibility for employees. This gives rise globally to a three-tiered production system where IPR-rich firms capture a disproportionate volume of profit on account of their possession of legally defined monopolies. Physical capital-intensive firms capture more moderate volumes when they can use investment barriers to entry, tacit knowledge, and horizontal concentration (or some combination of these three) to deter competitive entry. Finally, labor-intensive firms capture only small volumes of profit despite high levels of labor exploitation. This chapter allows a deeper understanding of the findings in the later empirical chapters on FDI and global supply chains, as well as contextualizing the debate about financialization, by showing the ways in which the financial sector resembles the IPR dominated sectors.

The third and final chapter in this volume by Schwartz and Blyth focuses attention on which level of analysis we should focus on to understand growth and stagnation. Integrating insights from IPE into CPE (and vice versa) they discuss the degree to which the global system conditions unit level growth models, or conversely, the degree of independence those models exhibit in terms of

their domestic growth dynamics. They lay out four approaches for understanding the relationship between national growth models and the global system.

The first approach, treats units (countries) in isolation, positing that independent unit-level responses to common functional problems lead to a shift in the system overall. Here the system is the sum of its parts. The second approach also starts at the unit level but focuses upon fallacies of composition at a higher, usually global level of aggregation, such that common responses produce a global outcome that differs from those at which individual strategies aimed. The third approach introduces the question of asymmetric power at the system level, positing that the differential capacity of units allows one or more units to dictate the structure and payoffs to the system overall. Analysis at this level views the global economy as a single but highly asymmetric field of power where differentially placed states and global firms' investment and supply chain activities impact unit-level growth models independence. Here the system conditions units and is more than the sum of its parts. The fourth approach adds path dependency to the third approach, positing that the timing and insertion of unit-level growth models into the global economy matters hugely. Here the system not only conditions units, but in the strongest form of the approach is causal for unit level growth models. Finally, the chapter considers the degree to which the global economy exhibits financial Minsky cycles akin to those at the national level. This helps us assess which of the four approaches captures the system and unit level dynamic most accurately. It also complements the chapter on financialization.

Growth Models at scale

The second part of the volume analyzes regional or national varieties of growth models. Chapter four, by Johnson and Matthijs, examines the countries of the European Monetary Union (EMU), not as a single growth model but as a set of institutions that advantage some unit level strategies and disable others such that, as Schwartz and Blyth argue, the effect of the whole is greater than the sum of the parts. Johnson and Matthijs argue that that prior to 2009, EMU accommodated a diverse set of growth models, even strengthening the growth strategies of its export-led and domestic consumption-led members. However, come the crisis of 2009-2014, the EMU's export-led core countries re-wrote the Eurozone's new macroeconomic rules in a manner that championed export-led growth strategies as stagnant domestic demand within its peripheral countries led the Eurozone as a whole to build up growing current account surpluses with the rest of the world during the 2010s.

This strategy had a mixed record in the first half of the decade, working in some countries but not in others. However, in a world of trade wars and big power rivalries, it quickly runs into trouble. While the ECB continues to be the main source of offsetting declines in domestic demand, it is running up against serious political constraints and operational limits. In conclusion, Johnson and Matthijs argue that if the EU wants to put its future growth on a more sustainable footing it will need to re-write the euro's governing rules. Specifically it will need to rebalance the advantage given to export-led models by accommodating domestic demand driven models through more fiscal flexibility and an EU-wide industrial policy to compete with the US and China.

Chapter five turns to China itself. As the country tipped to surpass the US in size in a few years and, arguably, as the poster child for successful growth strategies over the past 30 years, how China grows matters for the world as a whole. Tan and Conran argue that China's economic

expansion has been the product of a hybrid system containing two growth models, one based on exports concentrated along the coast, and the other on state-led investment in China's interior. The chapter then compares the political economic underpinnings of China's growth models with those of the countries in the West, in particular noting salient similarities (but also differences) with the German export-led model, the Irish FDI-led model, and the Spanish construction-led model. Their analysis suggests that China's heterogeneous growth regime may be compared with the Eurozone – another continent-sized economy with distinct regional growth models - rather than its member-states. They argue that the two component growth models are far from easy complements, with each one having distinct distributional implications, as well as specific pathologies that produce consequential spillovers for the global economy.

This chapter analyzes the political coalitions and state-capital relations underpinning the Chinese growth models to elucidate the unique dimensions that authoritarian capitalism brings to our understanding of growth models, while also highlighting commonalities that transcend regime types. In particular, it emphasizes the shared centrality of economic growth as a legitimation mechanism in both democratic and authoritarian capitalism. The analysis explores the degree to which authoritarian rule enables China to switch between growth models – emphasizing exports or investment as circumstances dictate - in ways that may be harder for democratic regimes. It also identifies limits to this "authoritarian flexibility" however, by examining the state-capital politics that have frustrated the PRC leadership's longstanding desire to shift towards a more consumption-driven growth model.

In chapter six, Sierra examines Latin America, focusing on the distributive conflicts surrounding export-led growth models based on commodities that define the continent's

economies. Sierra argues that the persistence of commodity-driven growth as the general growth model of Latin America is explained by an endogenous distributional dilemma. While governments have clear incentives to promote the interests of the rural sector due to its centrality in commodity-led growth, doing so affects their capacity to promote the urban sector, and thereby successfully switch growth models.

How did Latin America endogenize this switching dilemma? First, the formation of a strong export oligarchy in the post-colonial period led to a concentration of income and assets that allowed landed elites to retain the power to undermine policies that affected their interests, notably redistribution and broad-based industrialization. Second, unable to finance economic modernization through either rural elites or urban labor, Latin American governments ended up depending on foreign finance in the form of capital imports to attempt to bypass the switching dilemma, placing additional external limits on structural transformation.

Sierra then shows us through the cases of Argentina and Brazil how these Latin American Commodity dependent states have undergone three rounds of attempted GM switching, each of which has been undermined by this endogenous dilemma. She concludes that the politics of switching GMs is complicated insofar as governments must navigate the distributional tensions involved in compensating the losers of the switch, while at the same time providing incentives to the potential winners of the switch. Identifying these losers and winners, and how policies must often be designed to address their interests simultaneously, can shed light on the conditions under which GM switching may succeed.

Rounding out our examination of growth models at the regional level, chapter seven by Ban and Ascalitei discusses the consolidation of an export-led growth model in Central and Eastern

Europe. Focusing on three distinct time periods (2000-2008, 2008-2012 and 2012-2019), it shows that despite marginal shifts towards consumption-led growth through personal debt or wage increases, the core of the region's economic model continues to be heavily dependent on exports. The consolidation of the CEE export-led model has both systemic and national roots.

Specifically, growing international competition from Asia in the beginning of 2000s forced firms in Western economies to seek alternative sources of competitiveness that involved a mix of wage moderation at home and expansion towards the CEE countries. Capital hungry Eastern governments were all too happy to use FDI to restore the competitiveness of their outdated state-owned enterprises. Backed by a growth coalition that involved domestic and foreign capital as well as workers in the tradeable sectors, the export-led growth model took off and generated growth rates well above those in core countries. The 2000s also saw an increase in debt fueled consumption, which partially compensated for the lack of wage growth in the region.

The crisis provided an opportunity to put an end to hybridization and to reinforce the export-led component of growth through short-term austerity measures and deeper labor market reforms. These changes consolidated the export-led model that remained in place even amidst political reconfigurations that, at least rhetorically, aimed to fight the economic dependency of the region on FDI. After the crisis ended, however, the closing of the debt-finance consumption channel combined with the German export boom to the rest of the world and local demographic decline to put upwards pressure on wage-financed consumption increases without inflationary or external balance problems. Yet despite historically low spreads in the region's bond markets, this did not count as a full Kaleckian turn, however, with the region's contribution of consumption to GDP growth remaining far below both consumption-led growth regimes and balanced ones.

Country Case Studies

Following this discussion of growth models at scale, in part three of the volume we drop down to the unit level to discuss countries that exemplify what might be seen as the "ideal-typical" cases of growth models. Chapter eight focuses upon the credit and consumption-led growth models of the US and the UK. In this chapter Reisenbichler and Wiedemann analyze the workings of credit-driven, consumption-led growth models and their underlying political support coalitions. They identify two distinct channels through which these growth models generate aggregate demand: the housing and income-maintenance channels, which suggests that housing markets can be transmission belts for the larger economy and influence aggregate demand and macro-economic performance through credit, wealth, and capital flow effects. The income-maintenance channel, in turn, posits that credit markets help households maintain their income and economic status when earnings stagnate and expenditures rise to functionally substitute for wage growth and social policies, allowing households to go into debt to smooth income losses and meet rising expenditures.

They document these channels and their political support coalitions in the United States and the United Kingdom as exemplary cases of credit-driven consumption-led growth models. They also highlight how these credit- and consumption-led growth models are embedded in the international political economy. As capital controls were lifted across the OECD, the US dollar's role as a reserve currency gave the US an "exorbitant privilege," allowing it to sustain massive current account deficits that fuel household borrowing and foreign (largely Chinese) investment in U.S. Treasuries and mortgage-backed securities. This suggests that credit-driven, consumption-

led growth models depend on surplus countries—which often run export-driven growth models—for capital inflows.

Chapter nine focuses upon the locus classicus of expert-led growth, Germany. Baccaro and Hoepner build upon the Johnson and Matthijs chapter by arguing that exports are central to the German GM. They argue that the key ingredient of this growth model is undervaluation, which has two aspects. First, a set of institutions and policies that keep inflation lower than Germany's trade partners. That is, the construction of a bargaining regime oriented towards wage moderation, conservative monetary and fiscal policies, and strict credit regulation, especially with respect to housing credit, which prevents the rise of asset prices from spilling over into rising wages and prices. Second, a rigid exchange rate regime that minimizes the possibility of exchange rate adjustment, thus ensuring real exchange rate undervaluation. Together, these policies hold down prices in the domestic sector in order to enhance the competitiveness of the export sector. Since the emergence of the Euro and the consequent effects of the Euro crisis these effects have been turbocharged such that German growth continues to be highly reliant on externally generated demand, despite a partial rebalancing in the post-crisis period. This situation leaves Germany vulnerable to external economic and political pressures, as well as acting as the "price policeman" of the Eurozone, to the detriment of many of its members.

In chapter ten, Erixon and Pontusson examine Sweden's growth dynamics from the early 1990s through the 2010s. The chapter expands on, but also qualifies Baccaro and Pontusson's (2016) characterization of the Swedish growth model in the period 1994-2008 and argues that the distinction between wag-led and profit-led growth deserves more attention than the GM literature has given it so far. Erixon and Pontusson characterize the pre-crisis Swedish growth model as

"export-led" *and* "balanced," with "balanced growth" understood in terms of complementarities between economic sectors characterized by wage-led growth and sectors characterized by profit-led growth. They argue that productivity growth is critical to the sustainability of balanced growth and that aggregate demand alone does not provide an adequate explanation for Sweden's high rate of productivity growth in the period 1994-2008. The chapter proceeds to show that exports played an important role in the recovery of the early 2010s and that domestic consumption, financed by credit as well as wage growth, has been the main demand driver of growth over the last decade. Yet exports remain very important to the Swedish economy. In Erixon and Pontusson's formulation, the crisis triggered a shift from a balanced export-led growth model to balanced consumption-led growth.

Building on the discussion in this first introductory chapter, Erixon and Pontusson suggest that three considerations explain the shift in the Swedish growth model. First, global economic stagnation rendered an export-led recovery a less viable/attractive option (for vote-seeking politicians) than it was in the 1980s and 1990s. Secondly, the interests of Swedish export firms have become more diffuse and financial interests have gained influence within the dominant growth coalition since the 1980s. Thirdly, electoral politics has increasingly focused on short-term competition for the support of middle-class voters as a result structural-economic changes, the rise of white-collar unions, and the persistence of the Left-Right divide.

Chapter eleven, by Baccaro and Bulfone, examines the contrasting experience of Italy and Spain. Again drawing on the chapter by Johnson and Matthjis, Baccaro and Bulfone argue that in the pre-crisis period Spain was able to develop a credit-financed consumption-led growth model, which was made possible by the convergence of interests rates across the EU and the associated

enhanced cross-border banking flows. In contrast, the Italian economy stagnated, as it was neither able to stimulate exports nor to stimulate domestic demand sufficiently. The different trajectory is linked to a combination of international and domestic factors, specifically, the conditions of entry into the European Monetary Union and the composition of dominant growth coalitions in the two countries.

In Spain, there was a clear coalition between developers, banks, and politicians, which was built around the needs of the mortgage finance/construction industry complex and associated services. In Italy, the growth strategy first sought to increase the competitiveness of the export sector through wage moderation, and then sought to favor the expansion of domestic demand, leading to some of the same policy trends as in Spain, such as rising housing prices and rising construction investment, but not nearly to the same extent. Exports were made more difficult by an overvalued real exchange rate and higher competition by newly developed economies, while a high level of public debt, which Italy inherited from the 1980s, led to the constant need for fiscal adjustment and made the stimulation of domestic demand more difficult. Consequently, there was no clear growth model and no clear dominant coalition in Italy. In the post-crisis period both countries were pushed into austerity and forced to increase the export-contribution to growth. However, the Spanish economy was able to rebound and continues to display greater dynamism than the Italian one.

Chapter twelve rounds out this discussion of unit level growth models with a discussion of some of the "courtesan" states of the OECD, whose growth model is largely determined by their position in the international economy and the skills of its economic and political elites to attract and keep capital. In this chapter Bohle and Regan argue that small states occupy different

privileged positions in global wealth and value chains. In the globally interconnected world of big tech, banking, and financial services, they argue that small states increasing carve out particular niches in global wealth chains to service the needs of global investment capital - shareholders and high net worth individuals. These activities include everything from creating digital sales hubs to capture revenue, storing intellectual property, coding trade secrets, facilitating corporate tax avoidance, funneling tax evasion, enabling illicit banking practices, and opening the door to money laundering.

To illustrate how small states generate and are co-constitutive of global wealth chains, they examine two distinct cases. First, they examine the role of Ireland in facilitating the global corporate tax avoidance strategies of US multinationals, which increases the wealth of individual shareholders in big tech and pharma companies. Second, they examine the role of Latvia in facilitating illicit banking practices and money laundering, which increases the wealth of high-net-worth individuals in Russia. The paper concludes by arguing that the growth model literature needs to move beyond methodological and ontological assumptions of the *national* to understand the integrated and globalized nature of capital accumulation.

Policies and politics

The third and final part of this volume considers issues that importantly impact all growth models, albeit differentially. Chapter thirteen, by Helgadottir and Ban, brings a financialization lens to bear on the theory and practice of growth models. They argue that growth model theorists have not adequately theorized the constitutive role of finance in the production and maintenance of growth models. Their main argument is that each of the key growth regimes theorized in the

previous section has distinct financialization dynamics that have shaped the contribution of exports and consumption to GDP growth in each of the growth regimes. Indeed, all of them have been deeply affected by financialization, particularly by shareholder value concerns and the increasing reliance of non-financial firms on financial activities, leading to growing corporate profits even as capital investment declines. This is not however homogenous process across cases.

They argue that the extent and mode of financialization explains why Sweden has maintained a higher level of capital investment than other cases, while still projecting robust consumption growth; why consumption has been such a resilient growth engine in Britain but not in Italy; and why the German growth regime was constrained to stay competitive in export markets by repressing consumption. A clearer understanding of these component parts can also shed light on systemic dynamics. That is, financialization increasingly acts as the transnational "nervous system" connecting and enabling different growth regimes, as seen in how export-led economies that have generated surplus corporate profit have invested in debt-led models that rely on financial inflows.

Chapter fourteen by Hopkin and Voss takes on the issue of politics as party politics. That is, the construction, maintenance, and sometimes the destruction of the political coalitions that underpin growth regimes and the role of political parties therein. This chapter suggests ways in which party politics can be brought into GM theory. Hopkin and Voss discuss how political parties have been differentially conceptualized by political economists and party specialists and illustrate the potential for bringing these literatures together. They offer empirical illustrations to show how growth models are shaped by party politics in the cases of Germany and the United Kingdom. They argue that electoral politics should not be seen as epiphenomenal or incidental to growth

models, but neither is it realistic to claim that electoral politics shapes policy and institutional development in the direct way imagined by optimistic accounts of how parties 'matter.' Instead, they show how GM theory's emphasis on the politics of demand, the instability of contemporary financialized capitalism, and overbearing influence of the asset-holding classes, can be better understood by integrating new research on political parties into the picture. Finally, they show that the recent rise in populist or anti-system policies, and the ways in which this has reshaped the political economy, shows how growth models cannot insulate themselves from electoral pressures, particularly when they fail to deliver growth.

Chapter fifteen turns to a policy that aims to restore growth but, in many cases, ends up reducing it: austerity. In this chapter Huebscher and Sattler examine how austerity not only impacts but benefits some growth models over others. Providing micro data to complement the arguments of Johnson and Matthijs, they argue that an export-led GM requires a reduction of fiscal deficits in order to promote cost competitiveness, while a demand-led GM requires fiscal flexibility to manage domestic demand. Huebscher and Sattler demonstrate that governments in fact subordinate their fiscal policy to the growth model of their country. Governments in export-led economies are two to three times more likely to pursue fiscal austerity than those in demand-led regimes. Relevant to the findings of Hopkin and Voss, they also find that the austere policies that many countries pursue are not in line with either voter attitudes or macroeconomic beliefs.

Contrary to the economic ideas that provide the intellectual foundation of fiscal austerity, voters believe that these policies are detrimental to economic growth, but there is great variation in the beliefs of left and right voters. These ideological differences translate into distinct fiscal policies under left and right governments in balanced growth regimes, but not in unbalanced

regimes. These results point to a mismatch between government policy, especially in export-led economies, and voter views on fiscal policy, a mismatch that potentially contributes to the political disillusionment of voters and hence the rise of populist parties.

Chapter sixteen turns to the welfare state and how it relates to growth models. In addressing this topic, Lynch and Watson reintroduce the distinction between the accumulation and the legitimation functions of the welfare state, articulated by Marxist state theorists in the 1970s. Positing specific social policy needs for each of the growth models identified by Baccaro and Pontusson (2016), these authors assess the extent to which growth-model logics shed light on recent welfare-state reforms in Germany, Italy, Sweden and the UK. Political legitimation of growth models, they argue, represents a more important consideration than accumulation needs in the politics of welfare-state reforms. Against this background, Lynch and Watson elaborate on different pathways whereby social policies serve to legitimate different growth models and illustrate such pathways with reference to the aforementioned country cases.

Finally, chapter seventeen deals with the economic consequences of climate change. The climate crisis is perhaps the greatest constraint on all growth models and makes one wonder whether the planet will be able to afford having growth at all in the future. Successful emissions reductions require state-led transformations of virtually every sector of the economy. Nahm argues that across GM types a popular political strategy to overcome vested interest opposition to decarbonization has been to promise "green growth." That is, to build coalitions of decarbonization supporters that expect material benefits from green industrial change.

Yet states have varied dramatically in the types of green growth strategies that they have chosen and have only in some cases been able to deliver the promised economic co-benefits as a

result of climate policy. Some states, including China and Germany, have emphasized export-driven green industrial strategies, yielding new jobs in manufacturing industries because of a clean energy transition. Others, such as the United States and the United Kingdom, have focused on the domestic consumption of clean energy technologies and imported a great share of such technologies from abroad.

Nahm argues that in terms of economics, divergent patterns of green growth reflect broader cross-national differences in growth models that emphasize different types of aggregate demand in the domestic economy. In terms of politics, differences in state-business relations, labor and wage politics, and distributional outcomes have shaped the types of coalitions that have emerged behind climate policy. Nahm concludes that while different growth models are in principle compatible with aggressive decarbonization, the configuration of economic and political coalitions supporting climate policy varies across growth models and the ability of states to actually pursue 'green growth' has as much to do with their ability to find potential coalition partners as it has to do with technological or other limits.

Concluding Remarks

This volume aims to reshape the conceptual map in political economy. For too long political economy has accepted, implicitly or explicitly, the mainstream economic view about what deliberate policy intervention can and should try to achieve, and what issues can be meaningfully analyzed as "political" issues. In our opinion, this has led it into a *cul de sac* from which it is unable to see, let alone address, some of the most pressing problems of the age. We want to build, or

rebuild, a political economy in which growth, distribution, and power are front and center. This leads us to take a critical stance vis-à-vis mainstream New Keynesian macroeconomics, which has provided the intellectual background (implicit or explicit) for a previous generation of research, and to strike an alliance with post-Keynesian economics, which we see as having elective affinities with political economy.

We think that the distinction between CPE and IPE is a matter of emphasis and not a fundamental divide. We acknowledge that a strongly unequal and hierarchical international economic "system" conditions heavily what is possible and feasible at the level of the "units," but it does not entirely determine it. There are meaningful differences in growth models and growth strategies at the national level, and these are shaped by politics.

Furthermore, we want to overcome the distinction between "producer group" politics and "electoral" politics and elaborate a theory that includes both moments. The politics of coalitions and sectoral elites is key for understanding the formulation of key policy decisions, but electoral politics plays an important role in the reproduction of the growth model, and as a constraint on what elites are able to achieve.

The growth model perspective has the ambition to change the way we do political economy. We see the economy as populated by competing groups vying for the control of key resources and attempting to shape the way the social world is perceived—in other words, an eminently political phenomenon.

[1] We thank Wolfgang Streeck for suggesting this formulation.

[2] The crisis of Fordism and post-Fordist production regimes also feature prominently in the analytical framework of the French regulation school (e.g. Boyer 2004) but note that French regulationists conceive "Fordism" as a macroeconomic regime (as we do in what follows).

[3] Another strand of "macroeconomic CPE" in the 1980s and 1990s focused on strategic interaction between wage-bargaining agents and monetary authorities (see Hall and Franzese 1998). Scharpf (1991) stands out as the most comprehensive analysis of macroeconomic management in the CPE tradition.

[4] In support of this general line of argument, Soskice (1999) suggests that multinational corporations are engaged in "institutional arbitrage," locating different activities in countries with different institutional configurations.

[5] For more on debates surrounding the VofC approach, see the 2003 symposium in *Comparative European Politics* as well as Coates (2005) and Hancké et al. (2007).

[6] More recently, Soskice and collaborators have pleaded with CPE scholars to engage with macroeconomics in a more sustained manner (e.g., Iversen and Soskice 2006, Carlin and Soskice 2009), but, as we argue in the next part of this essay, their efforts to "bring macroeconomics back in" amount to a reassertion of the dominance of supply-side factors.

[7] The following discussion draws on and extends Pontusson and Baccaro (2020).

[8] As discussed by Stockhammer (2008b), the NAIRU is a theoretical hybrid, which can be given New Keynesian, Post-Keynesian, and Marxian interpretations and also shares some features with the monetarist theory of the natural rate of unemployment (although the latter is a theory of voluntary, as opposed to involuntary, unemployment).

[9] Such a view was implicit already in the Solow growth model (1957), articulated in the period of "high Keynesianism."

[10] The logic of which has crippled Eurozone growth for over a decade.

[11] A standard assumption in PK models is that workers consume all their income and the only source of savings is profit income.

[12] It is noteworthy that recent work by Carlin and Soskice incorporates a feedback mechanism between aggregate demand and aggregate supply, thus moving their framework closer to the PK tradition. In Carlin and Soskice (2018), investment and productivity are modeled as being a function of demand and expectations about future demand (animal spirits). This implies that once output is below productivity, the supply-side potential of the economy is reduced by low investment. Consequently, productivity tends to fall below trend.

[13] Working in the NK tradition, Blanchard (2016) finds that the Phillips curve is flatter than NK economists typically suppose.

[14] Arguably, the current account constraint also stabilizes the system: to the extent that wage-led growth increases domestic demand and stimulates imports, while external demand remains constant, there is a tendency for the trade balance to go into deficit, which will have to be corrected, sooner or later, by reducing domestic demand (Thirlwall 1983). Taxes represent yet another potential mechanism of stabilization: as the economy approaches full employment, discretionary taxes might offset demand pressures. In this case, re-equilibration is, again, a result of political intervention.

[15] Before exploring further why adopting a PK perspective is productive beyond acknowledging the centrality of demand, a few clarifications are in order. There is a difference between "demand regimes" and "growth models." In the PK literature, a "demand regime" refers to the short-term response of demand/output (expansion or shrinking) to a shift in the functional distribution of income (increase or decrease of the labor share). A growth model implies that the production possibilities of the economy are also affected by the distributional shift, typically through the impact on the investment function and/or through its impact on productivity. As such, a growth model refers to medium to long-term effects of particular components of aggregate demand. Similarly, there is a distinction between "growth models" and "growth strategies." A growth strategy is a set of policies and represents a deliberate intervention in the economy. A growth model depends on the underlying structural parameters of the economy and is generally not directly modifiable through policy, at least in the short term. However, growth models are not immutable and sustained policy intervention may lead to a change of growth model.

[16] Another perspective on secular stagnation that has affinities with our approach is that of the new literature on "rentier capitalism" (Phillippon 2019, Piketty 2019, Schwartz 2019, Christophers 2020). More on this below.

[17] With time, Summers has moved towards the PK position, see for example his recent emphasis on the decline of worker power as cause of stagnation (Stansbury and Summers 2020)

[18] We here use "wage-led growth" (the expression preferred by PK economists) and "Fordist growth" (the expression preferred by French regulationists) interchangeably.

[19] One peculiarity of the construction-led model is that when investment is predominantly directed towards a low productivity sector like construction, the model comes with the additional problem of stagnant productivity.

[20] Note that the effect of the wage-share increase on the real exchange rate implies that firms respond to a cost increase by changing prices and not just output, as Kaleckians traditionally assumed. However, the core idea of the PK framework remains relevant so long as firms do not transfer the full impact of cost increases into prices.

[21] As consequence, standard growth decomposition based on national account data is often distorted and scarcely meaningful, as illustrated by the Irish case.

[22] As such, it makes a big difference for the growth model whether export growth is primarily stimulated by real exchange rate depreciation or by an increase in their non-price competitiveness.

[23] Most international trade is invoiced in dollars, especially in Latin America and Asia. This creates incentives for exporting firms, which receive payments in dollars, to match their dollar assets - bank deposits in dollars - with liabilities also denominated in dollars, thus contributing to the international demand for dollar assets. This in turn increases the price of these assets and reduces their yield and in the process also causes the dollar exchange rate to appreciate, or at least not depreciate, despite the further accumulation of foreign debt (Schwartz 2019).

[24] According to IMF World Economic Outlook data, the US current account deficit accounted for 2.2% of total demand in other countries in 2005-2006, but less than 1% in the 2010s.

[25] As Hunnekes, Schularick and Trebesh (2019) point out, however, Germans who invest in so-called risky assets still face lower returns than their US counterparts due to their propensity to invest equities and FDI in other low-growth economies.

[26] This formulation draws some of its inspiration from Culpepper's (2011) distinction between "quiet" and "noisy" politics (see also Busemeyer, Garritzmann and Neimanns 2020).

[27] Inspired by French regulationists (notably Amable and Palombarini 2011; Amable 2017), a previous paper by Baccaro and Pontusson (2019) used the Gramscian term "dominant social blocs" to describe what we now refer to as

"dominant growth coalitions." We have abandoned the notion of dominant social blocs because it seems to conflate elite politics and mass politics.

[28] Gilens (2012) and Bartels (2016) provide extensive documentation of unequal representation in the US. Employing the same methodology as Gilens, recent analyses of German, Dutch and Swedish data uncover strikingly similar patterns of income and class biases in government responsiveness to citizens' demand for policy change (Elsässer, Hense and Schäfer 2020; Schakel 2019 and Persson 2020). For more fine grained estimates using machine learning analyses that find a 70% probability of political attention to the 90th percentile and above, see McGuire and Delahunt (2020). See Elkjaer and Iversen (2020) for a contrarian view.

[29] This approach has also been influential in international political economy: see, most notably, Frieden and Rogowski (1996).

[30] Swenson's (2002) analysis of the New Deal illustrates this point nicely.

[31] Elite-centered studies that take growth models into account include Brazys and Regan (2017), Bohle (2018), and Bohle and Regan (2021).

[32] For our present purposes, it is not necessary to engage with the question of whether or not 'cartelization' is a necessary condition for governing parties to assume these roles.