



Working paper

2019

Open Access

This version of the publication is provided by the author(s) and made available in accordance with the copyright holder(s).

---

**Social blocs and growth models: An analytical framework with Germany  
and Sweden as illustrative cases**

---

Baccaro, Lucio; Pontusson, Harry Jonas

**How to cite**

BACCARO, Lucio, PONTUSSON, Harry Jonas. Social blocs and growth models: An analytical framework with Germany and Sweden as illustrative cases. 2019

This publication URL: <https://archive-ouverte.unige.ch//unige:116600>

---

# UNEQUAL DEMOCRACIES

*Working paper n°7*

*April, 2019*

---

## **Social Blocs and Growth Models: An Analytical Framework with Germany and Sweden as Illustrative Cases**

**Lucio Baccaro** (University of Geneva  
and Max-Planck Institute Cologne)  
[lb@mpifg.de](mailto:lb@mpifg.de)

**Jonas Pontusson** (University of Geneva)  
[jonas.pontusson@unige.ch](mailto:jonas.pontusson@unige.ch)



## **ABSTRACT:**

This paper seeks to develop a comprehensive analytical framework for studying the politics of economic growth by engaging with three literatures in comparative political economy: the literature on producer-group coalitions, the literature on electoral politics and constrained partisanship and, finally, the literature on the role of ideas. Drawing on Gramsci, we argue that “social blocs” should be conceived as enduring constellations of sectoral and class interests that are organized in hierarchical manner, with certain components of the social bloc being privileged relative to others. We argue further that mainstream political parties compete with each other based, in part, on claims to competence as managers of the social bloc and that economic voting explains the political influence of economic sectors that are critical to the particular growth models that different countries have adopted. Finally, we emphasize that social blocs have an important ideological dimension. We illustrate these claims through stylized case studies of the politics of economic growth in Germany and Sweden since the early 1990s.

## **ACKNOWLEDGEMENTS:**

The research and writing of this paper has been funded by the Swiss National Research Foundation (grant no. 10017\_166186) and the European Research Council (grant no. 741538). An earlier version of the paper was presented at workshops at the Max Planck Institute for the Study of Societies in Cologne (“Pushing the Growth Models Agenda Forward,” May 2018) and the University of Bristol (“Capitalist Elites and Institutions,” June 2018). For detailed comments, suggestions and encouragement, we are grateful to Mark Blyth, Lennart Erixon, Magnus Feldman, Manolis Kalaitzake, Christian Lyhne-Ibsen, Glenn Morgan and Wolfgang Streeck.

Conceived as a complement to our previous work on growth trajectories in West European countries since the 1990s (Baccaro and Pontusson 2016, 2019), this paper seeks to develop a framework for understanding the politics of economic growth. In our view, the focus of electoral coalitions that has recently become fashionable among comparative political economists (Beramendi *et al* 2105) yields important insights about policy choice in the domains of education and social spending, but leaves much to be desired if our goal is to understand how and why governments choose among different "demand drivers" of growth and favor some economic sectors over others.

In tackling this problem, we draw extensively on earlier literature focusing on "producer groups" and "cross-class alliances" (Gourevitch 1986, Swenson 2002, and Thelen 2014), but we recast the insights of this literature by providing a more elaborate conceptualization of sectoral and class interests and by emphasizing hierarchical relations among the actors that represent these interests in the political arena. Through the Gramscian concept of "hegemony," we also seek to incorporate elements of the "ideational tradition" (Blyth 2002; Schmidt 2008) into our framework. We argue that different growth models are supported by different constellations of organized interests – first and foremost corporate interests – whose influence over key policy decisions is due to their economic centrality and their ability to project their sectional interests as "the national interest." Inspired immediately by Amable (2017, 2018), and ultimately by Gramsci (1971), we refer to these constellations as "dominant social blocs."

Our objectives in this paper are primarily theoretical, but we will invoke the cases of Germany and Sweden to illustrate our approach to the politics of economic policy. It is commonplace in the comparative political economy (CPE) literature to conceive of Germany and Sweden as variants of the same variety of capitalism. From our perspective, by contrast, these countries exemplify divergent growth trajectories over the last two decades. Germany represents a case of export-led growth dependent on depressing domestic consumption, while Sweden represents as a case of "balanced growth," fueled by domestic consumption as well as exports (Baccaro and Pontusson 2016, 2019).

In what follows, we begin by briefly explaining what we mean by "growth models" and show how German and Swedish growth trajectories since the early 1990s differ. We then proceed to develop our conception of social blocs in four steps. First, we identify sectoral interests in macroeconomic policy, going beyond the conventional distinction between sheltered and exposed sectors. Second, we amend the literature on producer-group politics through a discussion of how sectoral interests relate to class interests and how the power resources of social classes differ. Third, we engage critically with the "electoral turn" in comparative political economy (CPE), spelling out what we see as the limitations of current literature while emphasizing the importance of the electoral politics for the successful maintenance of social blocs. Fourth, we discuss the role of hegemonic discourse as well as material concessions or, in more standard CPE terminology, "compensatory measures" (Katzenstein 1985) as means to secure the acquiescence, if not the active consent, of social groups that are excluded from the dominant social bloc (or occupy marginalized positions within it).

In the last two sections of the paper, we illustrate our approach by reconstructing, in stylized fashion, the evolution of social blocs in Germany and Sweden over the last three decades. As unskilled workers have been increasingly marginalized, we observe class-based narrowing of the dominant social bloc in both cases, but divergence with respect to the sectoral dimension. From a sectoral perspective, the German social bloc has become narrower while the Swedish social bloc has become broader. In Thelen's (2019) evocative language, Germany is a case of "doubling down" while Sweden is a case of "branching out."

To clarify at the outset, we posit that growth models and social blocs depend on each other and evolve in tandem. The politics of managing the social bloc as a constellation of organized interests, defined by class and sector, influences policy choices and might trigger changes in growth models through this mechanism. However, growth models also incentivize policy-makers to choose some policy options over others and thus affect power relations within the social bloc. We do not attribute "causal primacy" to either growth models or social blocs.

## The Growth Models Perspective

CPE scholars have long emphasized the role of supply-side institutions – systems of corporate finance and control, industrial relations, and vocational training – that enable (and incentivize) firms to pursue different production strategies. The Varieties-of-Capitalism (VofC) framework developed by Hall and Soskice (2001) represents the most coherent statement of this broadly shared perspective. To recapitulate very briefly, the VofC framework identifies two fundamentally different capitalist regimes: liberal market economies (LMEs) and coordinated market economies (CMEs). Specializing in economic activities that involve general skills, high-tech as well as low-end services, LMEs are distinguished by institutional arrangements that allow for rapid redeployment of human capital as well other assets. By contrast, CMEs specialize in economic activities that involve industry- and firm-specific skills and depend on institutions that solve the problems of credible commitment associated with the production of such skills. As the institutional ecosystem provides key firms with unique institutional capacities, each regime is efficient in its own way: LMEs excel in radical (product) innovation while CMEs do better in incremental (process) innovation.

Like earlier CPE scholarship, the VofC literature challenges the idea of convergence between varieties of capitalism as a result of trade liberalization and capital mobility. In the VofC framework, globalization instead serves to crystallize differences between regimes. Thus VofC scholars suggested, in the late 1990s, that Sweden, exemplifying the social democratic variant of coordinated capitalism, was becoming more like Germany, while the UK was becoming more like the US, but Germany and the US were becoming more – rather than less distinct – from each other, as each economy capitalized on its distinctive advantages and organized business rallied in defense of existing institutions (Iversen and Pontusson 2000, Soskice 1999).

The alternative perspective sketched by Baccaro and Pontusson (2016) focuses on explaining divergent growth trajectories among advanced capitalist countries since the early 1990s and posits

that, for this purpose, demand drivers of growth and macroeconomic dynamics deserve greater attention than they have received by VofC scholars and, indeed, by the CPE tradition more broadly conceived.<sup>1</sup> We remain within the CPE tradition in that we are interested in understanding cross-national diversity, but growth models, as we conceive them, are more variable and more malleable than the types of capitalism identified by Zysman (1983) and Katzenstein (1985) as well as Hall and Soskice (2001).

Drawing on the Kaleckian tradition in macroeconomics as well as the French regulation school, we argue that the decline in labor's share of national income share and the liberalization of industrial relations that can be observed across OECD countries since the late 1970s (Baccaro and Howell 2017) are linked manifestations of the crisis of the Fordist model of wage-led growth. As commonly recognized, the Fordist model was premised on real wages growing in line with productivity increases, stimulating both domestic consumption and investment. The indexation of real wages to productivity did not happen spontaneously, but was institutionally mediated. Specifically, strong unions and multi-employer bargaining operated the transfer of productivity growth into real wage growth (Boyer 2004).

Real wages falling behind productivity growth produces a tendency for aggregate demand to stagnate through various mechanisms, notably the greater propensity to consume out of labor income than out of profit income (Lavoie and Stockhammer 2013). Economic stagnation has been the dominant tendency of Italy and some other countries over the past twenty years, but other countries have developed alternatives to wage-led growth. One alternative, exemplified by the UK prior to the financial crisis of 2007-08, consists of stimulating consumption by easing the access to debt (Stockhammer 2015). Another alternative is the export-led model that Germany has successfully pursued since the 1990s. The Swedish case represents, we think, a third model, with growth driven by credit-financed consumption as well as exports. And yet other models – for instance, FDI-led growth (Bohle and Regan 2018) – can readily be added to this typology. Crucially, our approach hinges on the claim that the relationship between different components of aggregate

demand differs across growth models. For example, domestic consumption growth may be complementary to export growth (Sweden) or there may be a trade-off between them (Germany).

Drawing on regulation school theory (for ex. Boyer 2015), we want to amend our initial formulation by recognizing that growth model contain a "productivity regime" as well as a "demand regime." In the Fordist model, mass production of consumer durables was the key sector in that the dual sense that it boosted demand as well as productivity growth. In Germany today, export-oriented manufacturing seems to be similarly critical on both counts. In other post-Fordist growth models, however, it is arguably the case that some sectors generate innovation and productivity growth while others generate the bulk of aggregate demand. Needless to say perhaps, the public sector plays a key role in sustaining consumer demand in Sweden and many other countries, but it is difficult to imagine a growth model based solely on public-sector expansion. In part, the social bloc might be conceived, we think, as a set of mechanisms that integrate the demand regime and the productivity regime into a coherent whole.

### **German and Swedish Growth Trajectories**

Before turning to social blocs, let us briefly illustrate our approach to growth models (and provide background information for the discussion to follow) by elaborating on the divergent growth trajectories of Germany and Sweden since the early 1990s. The first thing to be noted is that the Swedish economy grew at a faster rate than the German economy before the crisis of 2008-09 and again after the crisis. As indicated by Figure 1, over the entire period 1991-2017, Swedish real GDP grew at a compound annual rate of 2.3%, as compared to 1.4% for German GDP.<sup>2</sup> More importantly for our purposes, Figures 2 and 3 reveal striking cross-country differences in the contributions of different components of aggregate demand to GDP growth.<sup>3</sup> In Germany, the contribution of household consumption declined while the contribution of net exports increased steadily from the early 1990s to the onset of the crisis. In Sweden, by contrast, household consumption played a key



role in the economic recovery in the second half of the 1990s. The relative importance of net exports increased in the first half of the 2000s, but household consumption remained the main source of aggregate demand. In the wake of the crisis, the contribution of household consumption increased relative to the contribution of net exports in both countries. While the German growth model has been partially rebalanced, the Swedish growth model has become ever more consumption-led.

[Figures 1 to 3]

In the Swedish case, the wage share of GDP fell sharply during the crisis of the early 1990s, but subsequently recovered and held steady, at 67-68%, in 2007-11. In Germany, by contrast, the wage share fell from about 67% in 1994-95 to 63% in 2007 and held steady in 2007-11 (Baccaro and Pontusson 2019). In light of this, and the difference in GDP growth rates, it should come as no surprise that real wage growth has been more robust in Sweden than in Germany, but it would be a stretch to characterize the new Swedish growth model as "wage-led." As indicated by Figure 4, Swedish households have financed much of the increase in their consumption by taking on debt. The contrast between the continued build-up of household debt in Sweden and its steady decline in Germany is striking.

[Figure 4]

Turning to the role of different economic sectors, the key differences between the two cases have to do with manufacturing and public services.<sup>4</sup> It is hardly necessary to point out that the German economy remains manufacturing-based to a far greater extent than most other advanced capitalist economies. While the manufacturing sector's share of total hours worked fell from 25% in 1993 to 21% in 2007, its share of value-added increased from 21% in to 22% over the same period of time. By both measures, the size of the manufacturing sector remained unchanged from 2007 to 2015. In Sweden, by contrast, the manufacturing share of total hours worked fell from 18% in 1993 to 17% in 2007 and 13% in 2015, with the share of value-added rising from an all-time low in the early 1990s (16% in 1991) until the onset of the crisis of 2008-09 (19% in 2007) and then falling in the wake of the crisis (17% in 2007).

Measured by the number of hours worked, public administration, education and health together accounted for 23% of employment in Germany and a whopping 34% of employment in Sweden in 1993. Employment in this broad category of mostly public (or publicly-funded) services increased in Germany and declined slightly in Sweden from 1993 to 2015, but there remains a notable cross-country difference: in 2015, public administration, education and health accounted for 33% of total employment in Sweden, as compared to 26% in Germany.<sup>5</sup> It is noteworthy that the employment and value-added shares of low-end private services (trade, transportation, and accommodation) as well as high-end private services (information and communication, finance and insurance, real estate activities, professional and scientific activities, and administrative activities) are very similar in the two countries. In other words, the difference in the overall share of services relative to manufacturing is almost entirely a function of the larger size the public sector in Sweden. That said, it should also be noted that high-end services accounted for 7% of value-added in Sweden and 5% in Germany in 2015.<sup>6</sup>

Though construction is a small sector, it is of interest because its fortunes are so closely linked to real estate prices and mortgage finance. In Germany, the construction's share of value added decreased from 7% to 4% between 1993 to 2007, and its share of employment decreased from 9% to 6%. In Sweden, by contrast, construction's employment share grew from 6% to 7% between 1993 and 2007, and value added remained constant at 7%. Between 2007 and 2015, construction's share of value added remained constant at 4% in Germany and decreased to 5% in Sweden, while the employment share remained constant in the two countries.

Trade statistics again convey striking differences between Germany and Sweden.<sup>7</sup> In 2005-2007, both countries had a strong current account surplus, 6% in Germany and 7% in Sweden, due to net exports of goods (+7% in both countries). The balance of trade in services was negative in Germany (-2%) and in equilibrium in Sweden. In the wake of the crisis, the current account surplus of Germany increased further (8% of GDP in 2014-16) while the current account surplus of Sweden declined (4% of GDP). Sweden's trade surplus of goods almost disappeared, but the trade balance in

services turned positive while exports of services increased from 10% of GDP in 2010 to 12% 2016. Information and communication services are especially important, not just in terms of export volumes but also of net exports. With a trade surplus corresponding to 1.5% of GDP, this sector accounts for the bulk of Sweden's trade surplus in services (+2% in 2014-2016). Sweden's growing reliance on exporting high-end services provides, we think, a plausible explanation of why we do not observe any effect of the real effective exchange rate on export growth with Swedish data for 2000-13, while we do observe a significant negative effect with German data (see Baccaro and Pontusson 2019). Swedish exports seem to be less price-sensitive than German exports.

Closely related to aforementioned differences in growth trajectories noted above, two points about divergent policy choices deserve to be noted. The first point concerns the overall fiscal policy stance. Except for the "emergency Keynesianism" of the Great Recession, German governments have consistently relied on fiscal surpluses to dampen domestic consumption (and inflation) since the mid-1990s. This is commonly recognized in the existing literature (see, e.g., Carlin and Soskice 2009). What is less commonly recognized is that Swedish governments have adopted a far more expansionary fiscal policy stance in recent years. Table 1 illustrates this point by reporting annual changes in the underlying primary government balance, measured in percent of potential GDP, over the period 2008-18.<sup>8</sup> Both countries had roughly similar budget surpluses in 2008 (+1.83 in Germany and +1.55 in Sweden). While the German government responded to the Great Recession by engaging in discretionary fiscal stimulus, the Swedish government added further to the surplus in 2009. From 2010 onwards, however, Swedish governments engaged in a sustained effort to stimulate economic growth by fiscal means. Over the four years 2009-12, the cumulative fiscal stimulus corresponded to 1.08% of potential GDP while the cumulative stimulus in Germany corresponded to .28% of potential GDP. Extending the time frame of this comparison, Germany's underlying primary balance in 2018 was one percentage point higher than it had been in 2010 while Sweden's balance in 2018 was 1.21 lower than in 2010.

[Table 1]

The second point concerns the striking divergence of household indebtedness shown in Figure 3, which Swedish household debt constantly growing and German household debt stagnating. Government regulation of housing markets and credit markets, tax deductibility of mortgage debt, loan guarantees to mortgage lenders and, in the post-crisis period, quantitative easing measures undertaken by central banks must also be taken into account. To reconstruct German and Swedish policy choices in this broad domain lies well beyond the confines of our present ambitions. Suffice it to say, for the time being, that government policies are clearly of critical importance for the political economy of housing and household debt and that the analytical categories of the mainstream CPE tradition shed remarkably little light on this important topic.<sup>9</sup>

### **Sectoral interests in macroeconomic policy**

In our framework, growth models rest on key sectors and sectors, in turn, have distinct macroeconomic requirements. Most obviously, sectors that cater primarily to domestic demand and sectors that cater primarily to foreign demand have very different needs with regard to the appropriate *level* and *growth* of wages. For the former, Keynes' classic fallacy of composition applies: each company individually would like to reduce costs by paying lower wages than their competitors, but the aggregation of individual choices would reduce demand for all companies, since wages are the most important component of household income. However, the same logic does not apply to an industry relying on foreign demand. In this case, individual and collective rationality are better aligned in that, all else being equal, a reduction of wages relative to international competitors leads to greater demand for the industry as a whole as well as for individual firms.

In brief, policies promoting wage repression are detrimental for sectors relying on domestic demand, because wage depression leads to stagnation, and more acceptable, even beneficial, for sectors relying on foreign demand. Two qualifications should immediately be noted: first, the detrimental consequence of wage repression for sectors catering to domestic demand might be

offset if domestic demand is stimulated by credit expansion and, secondly, wage repression may have negative effects for export-oriented sectors to the extent that it undermines the loyalty and commitment of their workforce. For the latter reason, sectors producing high value-added exports tend to favor wage-repression policies that target the wages of workers engaged in the production of goods and services consumed by their employees (rather than the wages of their own employees).

Another important distinction, which only partially overlaps with the distinction between sheltered and exposed sector, is that between sectors that are sensitive to real interest rates and those that are sensitive to the real exchange rate. The real interest rate is the nominal interest rate minus (expected) inflation while the real exchange rate is the nominal exchange rate divided by the ratio between domestic and foreign prices. The two variables are linked by the behavior of prices. Keeping the nominal interest rate fixed, higher domestic inflation leads to a decrease of the real interest rate. By the same token, if foreign prices do not change and the nominal exchange rate does not adjust (due to fixed exchange rates or a currency union), higher domestic inflation leads to real exchange-rate appreciation.

Construction is the most obvious example of an interest-rate-sensitive sector. Low real interest rates stimulate demand for housing, but the financial sector must also be willing and able to lend to the potential home buyers. While for the construction sector rising house prices lead to higher profits (and may spur higher demand for the purposes of speculation), the financial sector dislikes inflation intensely because it erodes the real value of liquid financial assets (Mosley 2003). The distinct interests of construction and finance become compatible to the extent that the financial sector specializes in mortgage finance and inflation is contained to the housing sector, i.e. house prices rise while wage inflation remains subdued. The latter condition is likely to hold when the labor market is regulated by unemployment fluctuations and precarious employment conditions curtail unionization or otherwise keep worker power in check. House prices rising faster than other prices creates opportunities for capital gains that strengthen the balance sheet of households and may also produce a wealth effect that stimulates household expenditures to the benefit of other sectors of the

economy (Boyer 2000). Under these conditions, inflation-targeting central banks will keep nominal interest rates low (Carlin and Soskice 2015).

By contrast, export-oriented manufacturing is an exchange-rate sensitive sector, especially if the price sensitivity of exports is high. A key requirement in this case is a fixed exchange-rate regime, or ideally a single currency, which prevents the nominal exchange rate to adjust to differences between domestic and foreign inflation. Domestic prices are a function of unit labor costs, i.e. nominal wages divided by labor productivity (Höpner and Lutter 2017). Keeping labor productivity constant, persistent wage moderation will lead to a depreciation of the real exchange rate and this will stimulate net external demand. Net external demand, in turn, will generate income and spur investment, with knock-on effects for the domestic economy as well. Crucially, export-led growth as a feasible growth strategy presupposes that the export sector is sufficiently large to overcome the depressive effect of wage moderation (Bowles and Boyer 1995).

In brief, sectors have conflicting preferences over real exchange rates and interest rates and the monetary, fiscal, exchange rate, and wage formation policies that influence them. As emphasized by the supply-side-oriented CPE literature (e.g., Thelen 2019), they also have conflicting preferences with respect to the design of social insurance, spending on education, and R&D policy, but there is arguably more space for package deals that simultaneously satisfy multiple constituencies ("logrolling") in these other policy domains. In many instances, policy choices in these other domains might be interpreted, we think, as side payments to sectors whose interests would be better served by different macroeconomic policies.

### **Classes, Cross-Class Coalitions, and Power Resources**

Will government policy primarily reflect the interests of manufacturing, construction or finance and insurance? Will "losers" receive some form of compensation? Our approach to these questions builds on earlier work in comparative and international political economy that conceives

politics in terms of coalitions of "producer groups" defined by class interests and sectoral interests (see, most notably, Frieden and Rogowski 1996, Gourevitch 1986, Swenson 1991, Swenson 2002, Thelen 2011, Thelen 2014). However, we seek to go beyond, or improve on, this literature in several respects. To begin with, we take issue with the way in which this literature commonly conceives "cross-class alliances" (to use Swenson's oft-cited expression) in terms of two rather crude dichotomies: sheltered vs. exposed sectors and labor vs. capital. In what follows, we introduce additional class categories and articulate how class conditions the salience of sectoral interests.

We use the Gramscian term "social blocs" to signal a less voluntaristic, and less pluralistic, conception of coalitions than that which appears to be the dominant one in the literature on producer-group politics. By our reading, much (but not all) of this literature can be summed up as follows: (1) there are multiple groups with distinct but partially overlapping interests; (2) each group (or most groups) has several coalition options; (3) organized representatives of the groups choose among alternative coalition partners in an effort to maximize gains for their group and (4) politics is essentially a struggle between competing coalitions. By contrast, we want to emphasize that the prevailing growth model constrains viable policy options and the coalitional alternatives available to different groups. Relatedly, social blocs, as we conceive them, are not "coalitions among equals;" rather, they are characterized by internal hierarchy, with some constituent elements of the social bloc being privileged relative to others. Relations of dominance reflect unequal exit options as well as unequal organizational resources and policy access among the groups that participate in the social bloc. Most importantly, we do not conceive of social blocs as competing coalitions. Setting aside extraordinary cases of "dual power" (revolutions and civil wars), we posit that there is only one social bloc in any given place and time and that owners and managers of large companies in key economic sectors always occupy a privileged position within the social bloc. Coalitional politics essentially pertain to the question of which other groups are directly included in the core of the social bloc, which groups are part of its periphery, and which groups are excluded from the social bloc.

We hasten to add that social blocs, thus conceived, are not actors. Rather, the social bloc is a particular, structured configuration of relations (or interactions) among social groups and more or less organized actors that represents these groups. As our discussion of Germany and Sweden will illustrate, social blocs are dynamic and change in parallel with growth models. To clarify further, we do not mean to deny the importance of competing (and shifting) coalitions of interest groups in specific policy domains. Our point is that such should be conceived as "second-order coalitions."

Much of the aforementioned literature on producer-group politics and cross-class alliances might be faulted for using the concept of social class in a rather casual manner or, more precisely, for reducing the class structure of advanced capitalist societies to a simple dichotomy between "labor" and "business," with the former category apparently referring to all "wage earners" (or "dependent employees"). In our view, more fine-grained class distinctions are helpful for understanding the dynamics of social blocs.

Like the literature on electoral coalitions (e.g., Häusermann and Kriesi 2015), we proceed from the occupation-based class schema developed by Oesch (2006). Oesch's class schema distinguishes between social classes – or class segments – based on two dimensions: a vertical dimension that pertains to educational credentials, relations to employers, and labor-market mobility; and a horizontal dimension that pertains to the kinds of work people perform (technical, organizational or socio-cultural). While the electoral coalitions literature emphasizes the horizontal dimension and, in particular, the new middle class composed of "socio-cultural professionals," we are primarily interested in the vertical dimension. On this dimension, Oesch disaggregates the working class into two segments – routine workers and skilled workers – and also distinguishes a lower and an upper segments of the middle class. In addition, he identifies a class of self-employed and small business owners (the "petite bourgeoisie") and, finally, a class that he refers to as "large employers." Importantly, Oesch demonstrates that the relative size of each of these six classes varies across countries and changes over time.



For our purposes, there are two main reasons for paying attention to vertical class distinctions. We want to argue, first, that the salience of sector interests varies by class segments and, secondly, that the power resources of different classes (or class segments) are different in kind. With regard to the first point, our working hypothesis hinges on the idea that skills are more or less sector-specific (cf. Iversen and Soskice 2001). The skills that distinguish the upper (more affluent) segment of the working class from the lower segment tend to be sector-specific. Less skilled "routine workers" care about macroeconomic conditions and, in particular, the level of unemployment in the economy as a whole. By comparison to skilled workers, their interests are less closely tied to the prosperity and prospects of the firm and the sector in which they happen to work at any particular point in time.

Within the middle class, broadly conceived, more sector-specific skills are arguably a distinctive characteristic of the upper segment as well. The skills that define some upper-middle-class occupations (doctors, lawyers and engineers) are very sector-specific, but the skills of high-level managers tends to be general in nature and individuals in this occupational category frequently move, not only between firms but also between sectors. In addition, ownership of financial assets is constitutive of being in the "upper middle class" and income from financial assets reduces the salience of sectoral interests relative to class interests even if the skills that generate labor income are sector-specific. In short, we posit that sectoral interests are most salient to skilled workers and that sectoral interests divide the working class to a greater extent than the middle class.

The concept of sector specificity can also be applied to capital. As documented by Krippner (2011) for the US, the distinction between finance and manufacturing has become blurred as financial activities have become an increasingly important source of profits for large manufacturing corporations over the last 20-30 years. Still, it remains meaningful, we think, to distinguish between capitalists who own and manage diversified portfolios of financial assets and capitalists who own controlling shares in one or several corporations, whatever the activities of those corporations might be. We posit that large stakeholders as well as executive managers share in the sectoral interests of

the corporations that they control, but these interests may be ambiguous in the case of corporations whose economic activities are spread across several sectors.

In the first instance, social blocs might be conceived as enduring sectoral cross-class alliances between, on the one hand, groups of corporate owners and executive managers and, on the other hand, workers with sector-specific skills (i.e., skilled workers in most cases). But social blocs must include additional class segments – certainly, the affluent middle class – in order to be politically viable over extended periods of time. Different social blocs can (and should) be distinguished in terms of the sectors at their core, but also the extent to which they encompass routine workers and lower middle-class groups without strong sectoral attachments.

Building on CPE literature in the "power resources tradition" (Korpi 2006), we posit that collective organization, operationalized in the first instance through unionization, is a key factor determining the role of unskilled and skilled workers within the social bloc. Everything else being equal, unionization provides workers with bargaining power in the labor market and this power must somehow be accommodated by policy-makers or, in other words, "restrained" through policy concessions. In addition, unionized workers are more likely to be politically engaged and to form an electoral constituency that governing parties need to appease (or at least neutralize).

The political incorporation of the working class, taken as a whole, has clearly become a less pivotal feature of the politics of advanced capitalism as unionization has declined since the 1980s, but the extent of de-unionization varies a great deal across countries (Pontusson 2013). More importantly for our present purposes, de-unionization pertains, first and foremost, to unskilled workers in the private sector and, still more precisely, to unskilled workers employed in private services. In most countries, unionization of skilled private-sector workers and all categories of public-sector employees (including middle-class professionals) has held up much better. Moreover, it is important to recognize that the sectoral interests of skilled workers are represented in the social bloc not only by unions but also by the corporations for which they work and the business associations to which these corporations belong.

Finally, we want to emphasize that the incorporation of routine workers and the lower middle class is not just a function of their collective organization and electoral mobilization, but also the extent to which their interests are compatible with the economic requirements of the prevailing growth model. If growth is export-led and export competitiveness depends on real exchange rate undervaluation, accommodation of the interests of these peripheral class segments will be particularly difficult.

### **Parties and Electoral Politics**

Electoral politics play an important role in our framework, but our approach to electoral politics differs from that advanced by Beramendi, Häusermann, Kitschelt and Kriesi in their contributions to *The Politics of Advanced Capitalism* (Beramendi et al. 2015). Advocating an "electoral turn" in comparative political economy, Beramendi *et al.* 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 approach differs from the perspective of Beramendi *et al.* on three counts. First, we consider policy issues on which there is wide partisan consensus to be interesting and important. Secondly, we hypothesize that the policy preferences of economic elites are more coherent and more influential than those of "ordinary voters" with respect to key issues pertaining to the key parameters of the growth model. Thirdly and relatedly, we do not see electoral politics as responsible for shaping the key policy parameters of the growth model, but rather as a powerful constraint. Crudely put, the social bloc core is highly unlikely to reach 50% of the electorate and thus

needs to construct an electoral majority by striking deals with groups outside the core and/or shaping the way that these groups conceive their interests.

The absence of any analysis of corporate interests and of the political influence of business is a conspicuous feature of the approach to the politics of advanced capitalism advanced by Beramendi *et al.* So is the absence of attention to the politics of macroeconomic management. In a telling passage, Häusermann and Kriesi (2015: 207-208) state that macroeconomic and industrial policies have largely been taken out of the hands of national governments as a result of European integration and that parties of the Left and Right have tended to converge on these issues, and 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." In our view, this passage ignores the way in which monetary European integration generates wide variation in macroeconomic conditions (Johnston and Regan 2016, Scharpf 2011). Moreover, the proposition that comparative political economists should restrict their attention to issues on which parties and voters diverge seems dubious. While we do observe partisan convergence on macroeconomic issues in many countries, including Germany and Sweden, the policy stance on which parties (and voters) converge is not the same across all countries. Students of comparative political economy surely ought to be interested in explaining how and why policy consensus varies across countries (and over time).

The case for the "supremacy of electoral partisan politics" developed by Beramendi *et al.* (2015) hinge 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, it seems plausible to suppose that the influence of corporate interests over government policy is inversely associated with union power and tripartite corporatism (Hacker and Pierson 2010, Culpepper 2011).

The problem with the perspective advanced by Beramendi *et al.* has to do with the way they conceive electoral politics as much as the importance they assign to electoral politics. The underlying premise seems to be that every voter carries the same weight in the coalition-building calculi of vote-seeking parties. Yet a large number of recent studies demonstrate that government policy is consistently more responsive to the policy preference of affluent voters than to the policy preferences of and middle-income and especially poor voters not only in the US (Bartels 2008, Gilens 2012), but also in Germany (Elsässer, Hense and Schäfer 2018) and Sweden (Persson and Gilljam 2018). In addition, the perspective of Beramendi *et al.* largely ignores the well-documented fact that voters care not only about policies, but also about the state of the economy and choose parties, in part, based on perceptions of their competence in managing the economy (see, e.g., Duch and Stevenson 2010). To the extent that parties can project themselves as competent managers of the economy, they can often get away with ignoring the preference of poor and middle-income voters. Crucially for our purposes, projecting competence to the electorate necessarily involves catering to the needs of key economic sectors (and key corporations in those sectors).<sup>10</sup>

In our conceptualization, political parties play a particularly important role as representatives of the middle classes within the social bloc. As suggested above, private-sector white-collar employees are poorly organized in most countries and their attachment to particular sectors is often weak. As voters, however, middle-class professionals working in the private sector as well as the public sectors are of particular interest to political parties because they tend to be issue-oriented and very likely to vote. They also have more resources (time and money) to contribute to the campaign efforts of parties and they are more likely to seek public office.

In our conception, mainstream parties should be seen, in the first instance, as managers of the social bloc, competing for the support of middle-class voters based on their managerial competence. We expect mainstream parties to articulate fundamentally different alternatives only when the growth model is not clearly defined and thus "up for grabs." When there is consensus about economic requirements, political parties manage conflicts of interests among different

components of the social bloc and preserve the social bloc by extending its electoral reach beyond the core.

### **The hegemonic dimension of social blocs**

Gramsci famously argued that the power of the capitalist rested not just, or even primarily, on the coercive power of the state, but also on consent, at least passive consent, among subordinate classes (Gramsci 1971). This consent was generated in civil society, with ideas and "intellectuals," broadly understood, playing a critical role. To create the conditions for the transition to socialism, the Communist Party needed to strike alliances ("cross-class coalitions") with other dominated groups, notably peasants. Most importantly, the party needed to engage in the work of changing how ordinary people conceive their interests and what they consider possible.

We want to incorporate these Gramscian elements into our perspective. Doing so brings us into dialogue with the literature on the role of ideas in shaping public policy (Hall 1993, Blyth 2002, Schmidt 2008). But, again, our spin on the role of ideas differs in some respects from the existing literature. Whereas "discursive institutionalists" typically emphasize how dominant ideas influence public policy, we see the formation of the social bloc as being accompanied and protected by the construction of a dominant discourse about the definition of the "national interest" and policies that further the national interest. And, departing from the focus on elites in the existing literature, we expect the dominant discourse to be expressed itself in individual preferences. Specifically, we expect workers and middle-class people to support key economic requirements of the growth model, even when they do not individually benefit from them. For example, we expect German construction workers to be much more appreciative of the importance of "competitiveness" and "wage moderation" than British or Swedish construction. Critically, from a Gramscian perspective, policy preferences are shaped not only by interests, but also by what is considered to be feasible or, in other words, by one's understanding of "how things work" (in this case, how the economy works). We

hasten to add that this remains but a working hypothesis, to be explored in future research. In what follows, we briefly sketch some features of the politics of economic growth in Germany and Sweden that resonate with our ideas about social blocs.

### The German Case

As argued above, Germany's growth path has been clearly export-led before the crisis. Yet, in the first few years after reunification, Germany seemed on the verge of shifting towards a consumption-led economy, much less reliant on net exports than it is currently the case. Reunification brought a giant boost to the internal market, which added 16 million consumers in a period of weeks. Cash balances originally denominated in East German marks were converted one-to-one into Deutschemarks, although the East German mark had traded at a 10 to 1 parity before (Scharpf 2018). Not surprisingly, after unification inflation exceeded 5%, investments boomed, and the current account, unusually, went into deficit.

However, the Bundesbank prevented the shift to a consumption-led economy by drastically tightening monetary policy, more than doubling the policy rate from 4% to 8.75% between 1989 and 1992 (Scharpf 2018: 28).<sup>11</sup> It was not the first time that German unions, firms, and political parties had to confront a monetary authority ready to quash inflation independently of the social costs involved (Scharpf 1991). As argued by Hoepner (2018), the search for *undervaluation* is a long-standing feature of the German political economy. Essentially, German producer groups look for a fixed exchange rate regime that prevents trade partners from adjusting their nominal exchange rates. *Real* exchange rate devaluation is achieved through monetary, fiscal, and (importantly) wage bargaining policies aimed to keep domestic inflation below trade partners' inflation. The undervaluation regime came to consolidation with the introduction of the Euro. With flexible exchange rates, Germany's tendency to devalue in real terms would have been counterbalanced by

nominal exchange rate appreciation. Thus, the Euro has been crucial for Germany's export-led growth model.

In the first years of the Euro, the combination of common interest rates set by the ECB and lower than average domestic inflation rates led to comparatively high real interest rates in Germany (Scharpf 2018). This not only led to economic stagnation overall, but importantly had sectoral implications as well. The real interest rate-sensitive construction sector shrunk (Ochsenfeld 2017). Linked to this, German mortgage finance banking remained underdeveloped in comparative perspective (Mertens 2017). As argued by Reisenbichler (2018), the German government directly contributed to depressing housing demand by cutting homeownership subsidies in the mid-2000s as part of fiscal consolidation.

However, the combination of fixed exchange rates and demand repression suited the real exchange rate-sensitive manufacturing sector, which continued to grow. The impressive expansion of the BRICS increased demand for capital goods, a traditional specialization of German manufacturing. Furthermore, the restructuring of production in global value chains enabled German companies to compete both on quality and on prices (Marin 2006, Scharpf 2018). At some point, the export sector became sufficiently large to be able to pull the economy as whole. The growth-enhancing properties of real depreciation overcame the deflationary impulse and turned Germany from "sick man" into an economic miracle again (Marin 2018).

It may be argued there is nothing new in Germany's export-led growth of the last two decades. In fact, as documented by Hoepner (2018), the search for an undervaluation regime predates the Euro era and goes back to the Bretton Woods years. However, the more recent period is characterized by two new elements: export-oriented firms launched an offensive to reduce costs and flexibilize rigid industrial relations institutions. Political parties, in turn, at least the mainstream parties CDU and SPD, converged on a program of neoliberal restructuring, which implied reducing labor protections and compressing real wages, while reducing taxes and tightening welfare provisions.



As discussed in Baccaro and Benassi (2017), German firms launched a cost offensive in the 1990s. Export markets had become more competitive for German DQP products, and reliance on comparatively high quality levels no longer seemed to suffice to protect market shares. German employers responded by incrementally relaxing the rigid constraints of the German industrial relations system. Large firms squeezed the profit margins of suppliers, creating incentives for many of them to leave the employer association in order not to apply the industry standards. Employer associations stemmed the hemorrhage by introducing membership *ohne Tarifvertrag* (without collective bargaining contract), but this reduced the employer associations' capacity for coordination. Additional cost-cutting was achieved by externalizing non-essential services (e.g. janitorial and cleaning services) to firms covered by less generous collective bargaining contracts or no contract at all. Furthermore, large firms restructured and internationalized their supply chains, offshoring especially (but not exclusively) the more labor-intensive stages to former communist countries. The 1990s and afterwards saw a wave of concessionary bargaining at the workplace level, exchanging "opening clauses" for the promise of job security. Unions found it more difficult than in the past to govern the centrifugal tendencies of large work councils and to ensure the application of a common wage policy to all companies in the sector. These years saw the appearance of "negative wage drift" (Scharpf 2018).

The government also directly contributed to labor market liberalization with the Agenda 2000 package of reforms. The reforms included the lowering of the standards for agency work (Hartz I), the introduction of minijobs and midijobs (Hartz II), and the tightening of unemployment insurance (Hartz IV). Hartz IV worsened the fall-back option for workers, shortening the duration of unemployment insurance, and reducing the period in which benefits were proportional to previous earnings. This increased the willingness of workers and works councils to make concessions (Rebien and Kettner 2011).

These changes overlapped in time and plausibly caused a process of multi-year wage moderation both in real terms (real wages growing more slowly than productivity) and in nominal

terms (lower wage inflation than in other Eurozone countries). However, the burden of wage moderation was unequally distributed across sectors, and mostly affected low-skilled workers in the low-end service sector (Baccaro and Pontusson 2016).

One of the peculiarities of the 1990s was the decoupling of manufacturing and service sector wages. In the past, real wages had grown at approximately the same rate across sectors, and in line with national productivity gains. Unions in strong sectors, like IG Metall, would target the national rate of productivity as opposed to the sectoral one in order to make room for wage increases in weaker sectors. In the 1990s, however, the collective bargaining system ceased to redistribute productivity across sectors. Wages grew in the manufacturing sector (although more slowly than productivity) but hardly at all in the low-end service sectors. These dynamics discouraged consumption-oriented growth as well as investment. In this period German manufacturing became more labor intensive than competitors (Wolff 2018), and burgeoning corporate profits were used to reduce exposure towards banks rather than to finance investment (Braun and Deeg 2018).

In brief, while in the heydays of the German model the tendency to rely on exchange rate depreciation was counterbalanced by intersectoral redistribution through collective bargaining, such that domestic demand continued to expand, after the 1990s export growth went hand in hand with wage and consumption repression. In addition, income growth was strongly unequal, with larger disparities in the lower half of the distribution and an increased incidence of poverty (Baccaro and Pontusson 2016)

Was this a deliberate strategy of German elites? Did they plan the combination of an underappreciated nominal exchange rate (the Euro) and wage moderation to engineer an export-led growth model? The answer is not straightforward. As argued above, the Euro was a central pillar of the strategy. On the one hand, the received wisdom is that the initiative behind the single currency was largely French, and the German government accepted it in order to proceed with reunification (see, most recently, Mody 2018). In fact, German (and Dutch) elites initially tried to prevent inflation- and debt-prone countries, especially Italy, from participating in the single currency (Dyson and

Featherstone 1999). On the other hand, there is also evidence that key sectoral actors – unions, employments, and government officials – were aware of the benefits of an underappreciated real exchange rate for German exports and employment (Hefeker 1997).

At the political level, the most important development has been party convergence on the need for internal devaluation and liberalization of the labor market and the welfare state. Party convergence may be dated from the resignation of Oskar Lafontaine, the head of the Keynesian faction within the SPD, from his position as finance minister of the SPD-Green coalition in 1999, and his subsequent exit from the party, which cleared the path towards adoption of the neoliberal Agenda 2000 for the Schroeder government. The presence of policy convergence was also clearly visible in the three grand coalition governments from 2005 on.

In the post-crisis years, there have been signs of economic rebalancing, and also some important policy changes. The most notable change is the introduction of the minimum wage (Marx and Starke 2017), which saw export-oriented IG Metall and IG BCE (chemical workers) campaign for an outcome which arguably did not directly affect their constituencies (except minimally). It seems that these unions now see the expansion of the low-wage sector as a direct threat. In particular, they fear low cost competition by atypical (agency) workers (Benassi and Dorigatti 2015) and seek to close the gap in regulatory conditions and wage rates.

Politically, the main challenge confronting mainstream parties is shoring up broad-based support for a cohesive and relatively narrow social bloc centered on the competitiveness of manufacturing. The recent electoral success of a right-wing populist party, the AfD, with typically welfare-chauvinistic traits, may push the grand coalition partners towards policies favoring an expansion of the domestic economy and higher real wage growth. However, to the extent that German exports are more price sensitivity than they once were, this rebalancing may negatively affect the viability of the growth model.

## The Swedish case

Manufacturing was the preeminent sectoral interest within the Swedish social bloc until the 1990s. By comparison to Germany and most other countries, the social bloc of the post-war era was relatively inclusive on the labor side while relatively exclusive, more coherently "modernist," on the business side. Traditional home-market industries and small businesses were effectively marginalized and largely excluded from corporatist policy-making through bargaining between the government and peak associations. However, the partnership between organized labor and big business was not an equal one: business cooperation with Social Democrats and the confederation of blue-collar unions (LO) was premised not only on managerial prerogatives and private control of investment, but also on the wage share being held in check (Pontusson 1992).

Real-wage growth and the postwar expansion of the welfare state – in the first instance, the expansion of social insurance schemes – benefited Fordist mass producers by boosting domestic demand for consumer durables. At the same time, the selective profit squeeze implied by the labor movement's pursuit of solidaristic wage bargaining from the mid-1950s onwards deliberately advantaged larger, more profitable and export-oriented firms. The relative earnings of white-collar employees were squeezed by bargaining between LO and the employers' confederation (SAF), but this occurred in the context of robust across-the-board growth of real earnings and white-collar employees were partially compensated by government policies, most notably earnings-related supplementary pensions introduced in 1960.

As large manufacturing firms became increasingly export-oriented and multinational from the mid-1960s onwards, wage restraint no longer translated directly into investment and employment growth in Sweden. Financed by productivity growth in manufacturing, and by the accumulation of public debt, the expansion of the public sector served to sustain near-full employment in the 1970s and the 1980s. As public-sector consumption became an important component of the Swedish growth model, unions representing public-sector employees gained

political influence and unionized public-sector employees became an important electoral constituency for the Social Democrats as well as the Center-Right parties.

Much like Germany, governments of the Left and Right alike sought to boost employment growth by deregulating temporary employment in the wake of the employment crisis of the early 1990s.<sup>12</sup> At roughly the same time, unions and employers agreed on a new set of wage bargaining procedures, following more than a decade of conflicts between advocates of decentralization, primarily large engineering firms, and defenders of centralized bargaining (Pontusson and Swenson 1996, Baccaro and Howell 2017). The new wage-bargaining systems rests on synchronized "framework agreements" that cover white-collar as well as blue-collar employees broadly-defined sectors (private industry, private services, central government and municipal governments) and state mediation of conflicts at the local level. It is a much more decentralized system than the old system of peak-level framework agreements, but it also provides opportunities for informal coordination by peak organizations on the employer side as well as the labor side.

While labor-market market institutions have become more favorable to employers, allowing them more discretion with respect to remuneration as well as the employment contracts, the distributive consequences of institutional reforms have been much less pronounced than in the German case, as documented in Baccaro and Pontusson (2016). Over the period 1994-2007, real wage growth in low-end private services was essentially flat and low-end earnings inequality, measured by the 50-10 inter-decile ratio for full-time employees, rose sharply in Germany. In Sweden, by contrast, wage growth in low-end private services tracked wage growth in manufacturing and the 50-10 ratio was held constant. While their political influence has declined, low-skilled workers have benefited from favorable macroeconomic conditions and, in particular, high demand for private services by middle- and upper-income households. As private services compete with the public sector for low-skill labor, low-skill workers in private services have also benefited from the (largely successful) efforts of public-sector unions to make sure that their own wages keep up with wages in export-oriented industry.

Simply put, Swedish engineering employers succeeded in their efforts to increase their ability to recruit and retain skilled and motivated workers, but they failed in their efforts to decouple sheltered and exposed-sector wages. Following the logic of "beneficial constraints" (and the Rehn-Meidner model), it seems plausible to argue that the latter failure has contributed to the shift of resources into the production of less price-sensitive exports. Like the economic recovery of the 1980s, Sweden's initial recovery from economic crisis in the early 1990s was export-led, but two features distinguish the recovery of the 1990s from that of the 1980s (and from the German experience of 1994-2007). First, the manufacturing base of the recovery was much narrower than in the previous decade. While many segments of manufacturing contributed to the export-led recovery of the 1980s, the growth of manufacturing exports in the second half of the 1990s was overwhelming concentrated in "knowledge-intensive" sectors and, in particular, the ICT sector (Erixon 2011). Secondly, exports of high-end services emerged as a major driver of economic growth in the second half of the 1990s.

Though no longer the main source of new employment, government consumption has remained an important contributor to GDP growth in the Swedish case. Alongside the reduction of public debt, the fiscal policy stance of the Social Democrats in the second half of the 1990s prioritized education, health, and childcare at the expense of social assistance, unemployment compensation, and other income transfers (Pontusson 2011). The Center-Right coalition government that took power in 2006 continued this reorientation of government spending. As noted by many observers, notably Gingrich (2011), private for-profit provision of publicly-funded services represents a prominent feature of the Sweden's new political economy, to some extent blurring the distinction between the public sector and the private sector. Thelen (2015) highlights that subcontracting for public services has become a major business activity for many large corporations, providing private business with a stake in the maintenance of the public sector. It should also be noted, again, that construction and mortgage finance boomed along with real estate prices in the decade leading up to

the financial crisis of 2007-08 and that these sectors recovered rapidly from the crisis (Christophers 2013, Belfrage and Kallifatides 2018).

With the diversification of the growth model, the Swedish social bloc has become more inclusive and more balanced on the business side. In contrast to Germany, we can no longer speak of a "dominant fraction of capital" in the Swedish case: the social bloc now includes a wide range of corporate interests and more or less organized actors. The labor component of the social bloc has also been reconfigured. Most obviously, the LO unions and the LO confederation have lost their traditional role as agenda-setters in industrial relations and wage bargaining. This development is partly a result of the continued "white-collarization" of the Swedish labor force, but it also reflects a marked decline in the unionization of blue-collar workers due to subcontracting in the public sector, the expansion of fixed-term employment, and the 2006 reform of the system of unemployment insurance. With white-collar employees being much less affected by these changes, their overall unionization rate has held more or less steady. At the same time, occupational white-collar unions affiliated with SACO have gained ground relative to sectoral white-collar unions affiliated with TCO and competition with SACO unions have forced the TCO leadership to take less solidaristic stance in wage bargaining (Baccaro and Howell 2017).

While macroeconomic conditions were favorable to unskilled workers, the tax-transfer system became less redistributive over the 10-15 years preceding the Great Recession. As shown by Pontusson and Weisstanner (2018), the latter observation holds for many OECD countries, but particularly for Sweden. While the pre-fisc Gini coefficient for working-age households decreased by 6.9 percentage points, the post-fisc Gini increased by 2.0 percentage points from 1995 to 2007. Along with cuts in marginal income taxes, agreed by the Social Democrats and the Center-Right parties as part of the tax reform of 1991, the aforementioned reorientation of social spending contributed to this important change in the combined effects of taxes and income transfers on the distribution of household income. It is also noteworthy that the fiscal stimulus implemented by Swedish governments during and immediately following the Great Recession primarily took the form

of tax cuts (Raess and Pontusson 2015).<sup>13</sup> Over an extended period of time, fiscal policy appears to have become increasingly geared towards sustaining consumption by relatively affluent working-class and middle-class households. Predating the Social Democrats' defeat in the election of 2006, this shift reflects the pivotal role that competition for the support of middle-class voters has come to assume in Swedish since the 1990s.

Low-skilled workers have responded by abstaining from participation in elections and, in the case of "natives," supporting the populists. On the surface, the Swedish political situation appears to be very similar to that of Germany. Our analysis suggests, however, that the social bloc encompasses a much wider swath of the electorate than in Germany. Managing conflicts of interest within the social bloc remains the primary challenge confronting Swedish political parties.

### **Final Thoughts**

To summarize, our core propositions are as follows. Growth models depend on one or more key sectors, which are important for their contribution to the demand regime and/or for their contribution to the productivity regime. Key sectors have distinct policy requirements, which are reflected in the policy choices of governments. The growth model is underwritten by a dominant social bloc, whose core is constituted by a cross-class alliance between large companies and skilled workers in dominant sectors. The social bloc will be more or less broad depending on to extent which the interests of routine working class, the lower middle-class and the petty bourgeoisie are compatible with the policy requirements of the key sectors as well as the extent to which these peripheral groups are collectively organized. Mainstream political parties compete primarily on their ability to manage the social bloc and the growth model. Political parties manage conflicts of interests among different components of the social bloc and preserve the social bloc by deflecting potential protest or disruption by outside groups.



As indicated at the outset, the stylized sketches of German and Swedish politics presented above were meant to illustrate what we mean by these propositions and to suggest that they are plausible. In future work, we intend to develop and test specific hypotheses based on the analytical framework sketched out in this paper. Among other things, we are keen to test the proposition that social class, conceived in occupational terms, conditions the association between sector of employment and policy preferences (or policy priorities) in the broad domain of macroeconomic management. Analyzing cross-national survey data should also allow us to explore the idea that growth models are associated with different hegemonic ideas, which influence public support for macroeconomic policies. Yet another testable hypothesis suggested by the preceding discussion pertains to divergence over macroeconomic policies among mainstream parties. Again, our expectation is that partisan differences (and the effect of government partisanship) will be most pronounced when growth models are less well defined or, in other words, more diversified (and perhaps "in transition"). While competition for middle-class support has been a source of partisan convergence in Sweden as well as Germany, the Left-Right cleavage is arguably a more pronounced feature of Swedish politics than German politics in the post-Fordist era.

Our discussion of the fortunes of routine workers in Sweden raises an interesting and thorny question that deserves to be flagged: how to distinguish between groups that are represented within the social bloc and groups that are "coincidental beneficiaries" of policies supported by the social bloc. One obvious way to tackle this question empirically is to examine measures that governments take to cushion certain groups and not others during economic crises. Comparing the Great Recession of 2008-09 with previous recessions from this perspective would tell us a lot about how social blocs in advanced capitalist countries have changed over time.<sup>14</sup>

Finally, let us very briefly articulate how the framework sketched in this paper relates to recent contributions to comparative political economy that emphasize the role of corporate elites (e.g., Culpepper 2011, Bohle and Regan 2018) and, more broadly, Lyhne Ibsen and Morgan's (2018) agenda for integrating elite studies and comparative political economy. Culpepper (2011) argues

persuasively that the fundamental political advantage that business holds vis-à-vis other societal actors derives from its ability to frame public debates through the information and expertise that it possesses (and/or is perceived to possess). In matters pertaining to corporate affairs, journalists as well as politicians and non-elected government officials naturally rely on businessmen for information and policy solutions so long as the issues at hand remain in the domain of "quiet politics," i.e., so long as public debate remains limited and partisanship is kept at bay. Once policy choices become highly salient to voters, according to Culpepper, business is as likely to lose the battle as it is likely to win.

We do not wish to contest the idea that the managers and owners of large corporations constitute a "corporate elite" with privileged access to policy-makers. This elite clearly shares many ideas, values, and behavioral norms. However, our objective is to explain why government policies favor certain sectoral interests over others. Favored sectors have privileged access to policy-makers, but it is difficult to explain why this is so without reference to the growth model. As suggested above, our working hypothesis is that key sectors have "structural power" that operates through the mechanism of economic voting. Governing parties (politicians) have strong electoral incentives to cater to the interests of these sectors and, therefore, seek the expertise and advice of organizations and individuals who speak for them.

Table 1: Change in the underlying government primary balance in % of potential GDP (fiscal stimuli in bold).

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Germany	+24	<b>-28</b>	<b>-1.78</b>	+1.00	+78	<b>-17</b>	+09	<b>-06</b>	+11	<b>-16</b>	<b>-13</b>
Sweden	+25	+1.59	<b>-1.90</b>	<b>-62</b>	<b>-15</b>	+03	<b>-50</b>	+19	+63	<b>-16</b>	<b>-60</b>

Source: OECD Economic Outlook No. 104, November 2014  
<https://stats.oecd.org/Index.aspx?QueryId=51643#>.

Figure 1: GDP Growth in Germany and Sweden

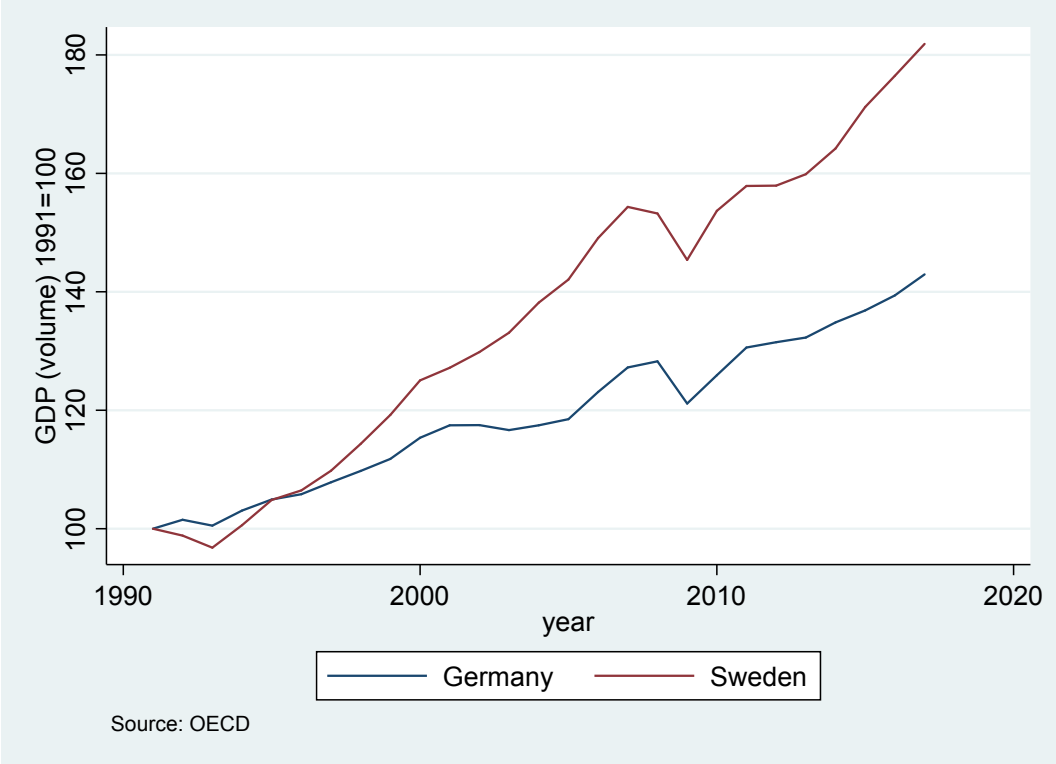
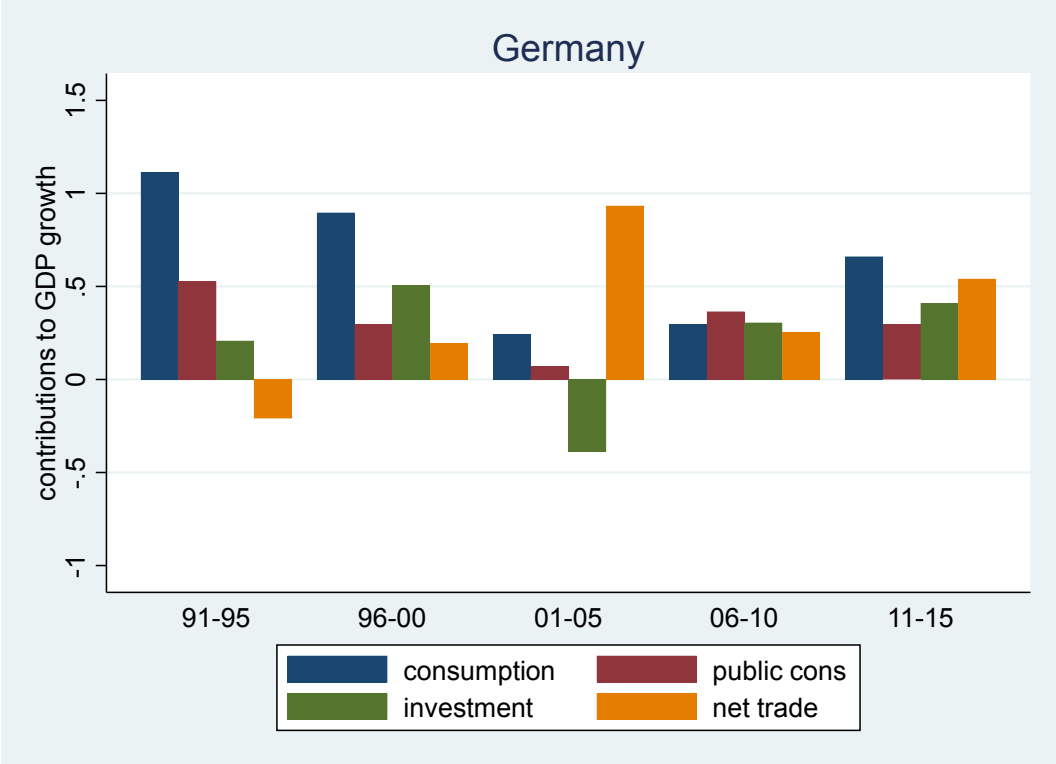
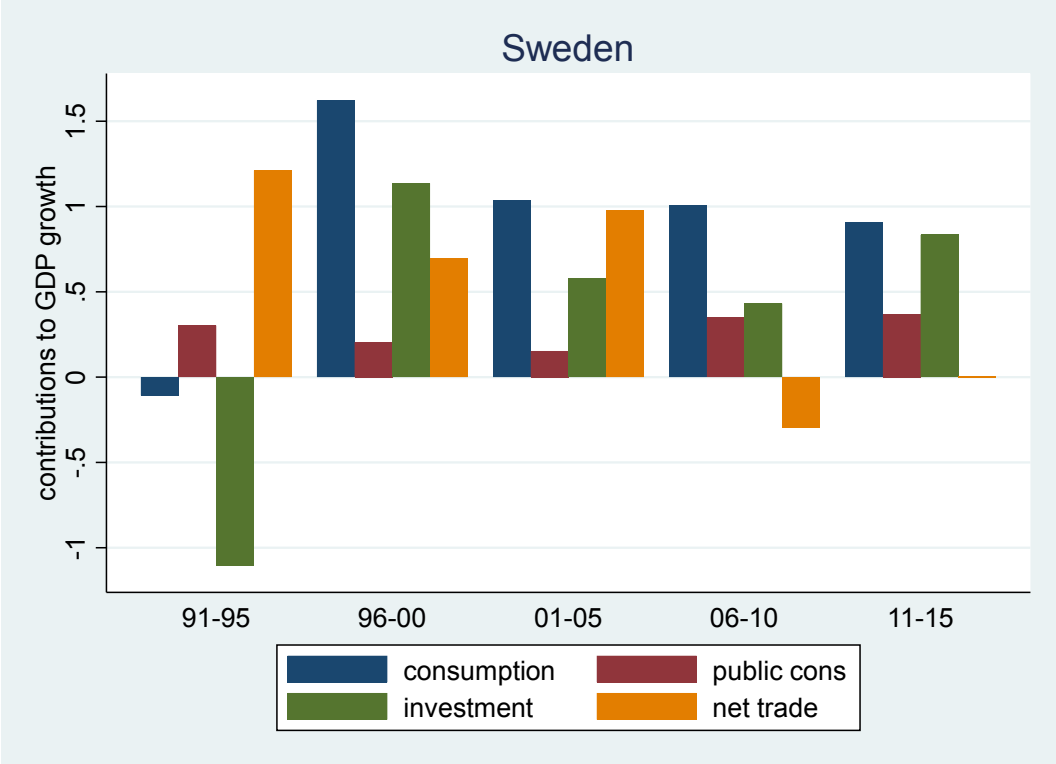


Figure 2: Decomposition of German Growth



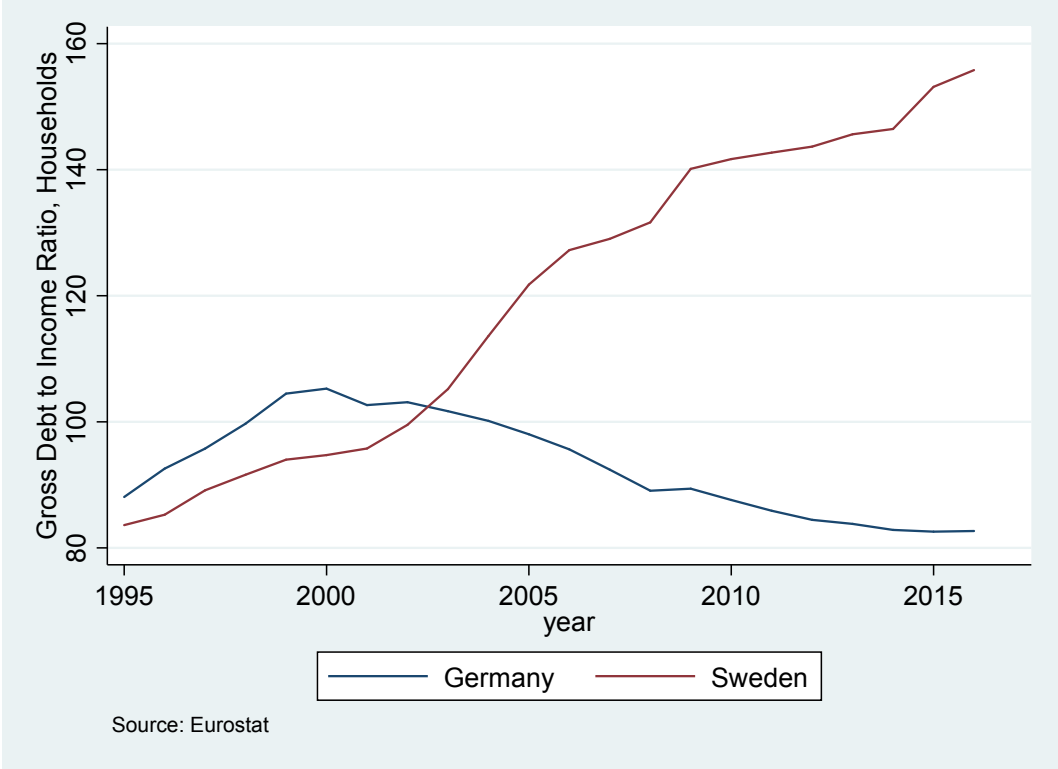
Source: AMECO Database

Figure 3: Decomposition of Swedish Growth



Source: AMECO Database

Figure 4: Gross Debt of Households and Non-Profit Institutions serving Households (NPISHs) as % of Household Income



## REFERENCES

- Amable, Bruno and Stefano Palombarini. 2009. "A Neorealist Approach to Institutional Change and the Diversity of Modern Capitalism." *Socioeconomic Review* 7(1):123-43.
- Amable, Bruno. 2017. *Structural Crisis and Institutional Change in Modern Capitalism*. Oxford: Oxford University Press.
- Baccaro, Lucio and Chiara Benassi. 2017. "Throwing out the Ballast: Growth Models and the Liberalization of German Industrial Relations." *Socio-Economic Review* 15(1):85-115.
- Benassi, C. and L Dorigatti. 2015. "Straight to the Core: The Ig Metall Campaign Towards Agency Workers ". *British Journal of Industrial Relations* 53(3):533-55.
- Baccaro, Lucio and Chris Howell. 2017. *Trajectories of Neoliberal Transformation*. Cambridge, UK: Cambridge University Press.
- Baccaro, Lucio and Jonas Pontusson. 2016. "Rethinking Comparative Political Economy." *Politics & Society* 44(2):175-207.
- Baccaro, Lucio and Jonas Pontusson. 2018. "Comparative Capitalisms and Varieties of Macroeconomics." *MPIfG Discussion Paper 18/10*.
- Baccaro, Lucio and Jonas Pontusson. 2019. "European Growth Models Before and After the Great Recession." *MPIfG Discussion Paper*, Forthcoming.
- Bartels, Larry. 2008. *Unequal Democracy*. Princeton: Princeton University Press.
- Belfrage, Claes and Markus Kallifatides. 2018. "Financialisation and the New Swedish Model." *Cambridge Journal of Economics* 42: 875-899.
- Beramendi, Pablo, Silja Häusermann, Herbert Kitschelt and Hanspeter Kriesi (eds). 2015. *The Politics of Advanced Capitalism*. Cambridge: Cambridge University Press.
- Blyth, Mark. 2002. *Great Transformations*. Cambridge: Cambridge University Press.
- Blyth, Mark and Richard Katz. 2005. "From Catch-All Politics to Cartelisation." *West European Politics* 28(1):33-60.
- Bohle, Dorothee and Aidan Regan. 2018. "Business Power, Growth Models and the Politics of Comparative Capitalism." Unpublished paper.
- Bowles, Samuel and Robert Boyer. 1995. "Wages, Aggregate Demand, and Employment in an Open Economy." In *Macroeconomic Policy after the Conservative Era*, edited by G. Epstein and H. Gintis (Cambridge: Cambridge University Press), 143-171.
- Boyer, Robert. 2000. "Is a Finance-Led Growth Regime a Viable Alternative to Fordism?" *Economy and Society* 29(1):111-45.
- Boyer, Robert. 2004. *Théorie De La Régulation*. Paris: La Découverte.
- Boyer, Robert. 2015. *Economie Politique Des Capitalismes*. Paris: La Découverte.



- Brady, David; Evelyne Huber and John Stephens. 2014. "Comparative Welfare States Dataset." <http://huberandstephens.web.unc.edu/common-works/data/>.
- Braun, Benjamin and Richard Deeg. 2018. "Investing in Exports: Finance and the German Growth Model." *Unpublished Paper, Max-Planck Institut für Gesellschaftsforschung*.
- Carlin, Wendy and David Soskice. 2009. "German Economic Performance." *Socio-Economic Review* 7: 67-99.
- Carlin, Wendy and David Soskice. 2015. *Macroeconomics*. Oxford: Oxford University Press.
- Christophers, Brett. 2013. "A Monstrous Hybrid: The Political Economy of Housing in Early Twenty-first Century Sweden." *New Political Economy* 18(6): 885-911.
- Culpepper, Pepper. 2011. *Quiet Politics and Business Power*. Cambridge: Cambridge University Press.
- Duch, Ray and Randy Stevenson. 2010. "The Global Economy, Competency, and the Economic Vote." *Journal of Politics* 72(1): 105-123.
- Dyson, Kenneth and Kevin Featherstone. 1999. *The Road to Maastricht; Negotiating Economic and Monetary Union*. Oxford: Oxford University Press.
- Elsässer, Lea; Senja Hense and Armin Schäfer. 2018. "Government of the People, by the Elite, for the Rich." *MPIfG Discussion Paper 18/5*.
- Erixon, Lennart. 2011. "Under the Influence of Traumatic Events, New Ideas, Economic Experts and the Ict Revolution – the Economic Policy and Macroeconomic Performance of Sweden in the 1990s and 2000s." Pp. 265 - 330 in *The Nordic Varieties of Capitalism (Comparative Social Research, Volume 28)* edited by L. Mjøset: Emerald Group Publishing.
- Frieden, Jeffry A. and Ronald Rogowski. 1996. "The Impact of the International Economy on National Policies." Pp. 25-47 in *Internationalization and Domestic Politics*, edited by R. O. Keohane and H. V. Milner. Cambridge: Cambridge University Press.
- Garrett, Geoffrey. 1998. *Partisan Politics in the Global Economy*. New York: Cambridge University Press.
- Gilens, Martin. 2012. *Affluence and Influence*. Princeton: Princeton University Press.
- Gourevitch, Peter. 1986. *Politics in Hard Times*. Ithaca: Cornell University Press.
- Gramsci, Antonio. 1971. *Selections from the Prison Notebooks*. New York: International Publishers.
- Hall, Peter. 1993. "Policy Paradigms, Social Learning and the State." *Comparative Politics* 25:275-96.
- Hall, Peter and David Soskice. 2001. *Varieties of Capitalism*. Oxford/New York: Oxford University Press.
- Häusermann, Silja and Hanspeter Kriesi. 2015. "What Do Voters Want? Dimensions and Configurations in Individual-Level Preferences and Party Choice." Pp. 202-30 in *The Politics of*

- Advanced Capitalism*, edited by H. Kriesi, H. Kitschelt, P. Beramendi and S. Häusermann. Cambridge: Cambridge University Press.
- Hefeker, Carsten. 1997. *Interest Groups and Monetary Integration: The Political Economy of Exchange Regime Choice*. Boulder, CO: Westview Press.
- Hopkin, Jonathan and Mark Blyth. 2018. "The Global Economics of European Populism." Forthcoming in *Government and Opposition*.
- Hoepner, Martin. 2018. "The German Undervaluation Regime under Bretton Woods, 1950-1973: How Germany Became the Nightmare of the World Economy." *Unpublished Paper, Max-Planck Institut für Gesellschaftsforschung*.
- Höpner, Martin and Mark Lutter. 2017. "The Diversity of Wage Regimes: Why the Eurozone Is Too Heterogeneous for the Euro." *European Political Science Review* 10(1):71-96.
- Iversen, Torben and Jonas Pontusson. 2000. "Comparative Political Economy." In *Unions, Employers and Central Banks*, edited by T. Iversen, J. Pontusson and D. Soskice (Cambridge: Cambridge University Press), 1-37.
- Iversen, Torben and David Soskice. 2001. "An Asset Theory of Social Preferences." *American Political Science Review* 95(4): 875-893.
- Iversen, Torben and David Soskice. 2006. "New Macroeconomics and Political Science," *Annual Review of Political Science* (9): 425-453.
- Iversen, Torben and David Soskice. 2015. "Information, Inequality and Mass Polarisation." *Comparative Political Studies* 48(13): 1781-1813.
- Iversen, Torben; David Soskice and David Hope. 2016. "The Eurozone and Political Institutions." *Annual Review of Political Science* (19): 163-185.
- Johnston, Alison and Aidan Regan. 2016. "European Monetary Integration and the Incompatibility of National Varieties of Capitalism." *JCMS: Journal of Common Market Studies* 54(2):318-36. doi
- Katz, Richard S. and Peter Mair. 1995. "The Changing Models of Party Organization and Party Democracy." *Party Politics* 1:5-28.
- Katzenstein, Peter. 1985. *Small States in World Markets*. Ithaca: Cornell University Press.
- Kerrissey, Jasmine and Evan Schofer. 2013. "Union Membership and Political Participation in the US." *Social Forces* 91(3): 895-928.
- Kitschelt, Herbert and Philipp Rehm. 2015. "Party Alignments: Change and Continuity." In *The Politics of Advanced Capitalism*, edited by H. Kriesi, H. Kitschelt, P. Beramendi and S. Häusermann. (Cambridge: Cambridge University Press), 179-201.
- Korpi, Walter. 2006. "Power Resources and Employer-Centered Approaches in Explanations of Welfare States and Varieties of Capitalism." *World Politics* (58): 167-206.
- Krippner, Greta. 2011. *Capitalizing on the Crisis*. Cambridge, MA: Harvard University Press.

- Lavoie, Marc and Engelbert Stockhammer. 2013. *Wage-Led Growth*. London: Palgrave.
- Lyhne Ibsen, Christian and Glenn Morgan. 2018. "Capitalist Elites and Institutions: Bridging Elite Studies and Comparative Political Economy." Unpublished paper.
- Marin, Dalia. 2006. "A New International Division of Labor in Europe: Outsourcing and Offshoring to Eastern Europe." *Journal of the European Economic Association* 4(2-3):612-22..
- Marin, Dalia, ed. 2018. *Explaining Germany's Exceptional Recovery*. voxeu.org: CEPR Policy Research.
- Marx, Paul and Peter Starke. 2017. "Dualization as Destiny? The Political Economy of the German Minimum Wage Reform." *Politics & Society* 45(4):559-84.
- Mertens, Daniel. 2017. "Putting 'Merchants of Debt' in Their Place: The Political Economy of Retail Banking and Credit-Based Financialisation in Germany Au - Mertens, Daniel." *New Political Economy* 22(1):12-30.
- Mody, Ashoka. 2018. *Eurotragedy: A Drama in Nine Acts*. New York: Oxford University Press.
- Mosley, Layna. 2003. "Room to Move: International Financial Markets and National Welfare States." *International Organization* 54(4):737-73.
- Oesch, Daniel. 2006. *Redrawing the Class Map*. Basingstoke: Palgrave MacMillan.
- Onaran, Özlem and Giorgos Galanis. 2014. "Income Distribution and Growth." *Environment and Planning A* 46(10):2489-513.
- Ochsenfeld, Fabian. 2017. "Mercantilist Dualization: The Introduction of the Euro, Redistribution of Industry Rents, and Wage Inequality in Germany, 1993–2008." *Socio-Economic Review*:mwx026-mwx26.
- Persson, Mikael and Mikael Gilljam. 2018. "Who Got What They Wanted? The Opinion-Policy Link in Sweden 2010-14." Unpublished paper, University of Gothenburg.
- Pontusson, Jonas. 1992. *The Limits of Social Democracy*. Ithaca, NY: Cornell University Press.
- Pontusson, Jonas. 2011. "Once Again A Model." In James Cronin, George Ross and James Shoch, eds., *Futures of the Left* (Durham: Duke University Press), 89-115.
- Pontusson, Jonas. 2013. "Unionization, Inequality and Redistribution," *British Journal of Industrial Relations* 51(4): 797-825.
- Pontusson, Jonas and Damian Raess. 2012. "How (and Why) is This Time Different? The Politics of Economic Crisis in Western Europe and the US." *Annual Review of Political Science* 15: 13-33.
- Pontusson, Jonas and Peter Swenson. 1996. "Labor Market, Production Strategies and Wage Bargaining Institutions." *Comparative Political Studies* 29(2): 223-250.
- Pontusson, Jonas and David Weisstanner. 2017. "Macroeconomic Conditions, Inequality Shocks and the Politics of Redistribution, 1990-2013." *Journal of European Public Policy* 25(1): 31-58.
- Rebien, Martina and Anja Kettner. 2011. "Die Konzessionsbereitschaft Von Bewerber Und Beschäftigten Nach Den Hartz-Reformen." *WSI Mitteilungen* (5):218-25.

- Reisenbichler, Alexander. 2018. "Entrenchment: How Growth Models Shape the Politics of Welfare States and Housing Capitalism in the United States and Germany." *Paper prepared for the Society for the Advancement of Socio-Economics Annual Meeting Kyoto, June 23–25*.
- Scharpf, Fritz W. 1991. *Crisis and Choice in European Social Democracy*. Ithaca, N.Y.: Cornell University Press.
- Scharpf, Fritz. 2011. "Monetary Union, Fiscal Crisis and the Preemption of Democracy." *Max-Planck-Institute Cologne Working Paper*.
- Scharpf, Fritz W. 2018. "International Monetary Regimes and the German Model." *MPIfG Discussion Paper 18/1*.
- Schmidt, Vivien. 2008. "Discursive Institutionalism." *Annual Review of Political Science* 11(1): 303-326.
- Soskice, D. 1999. "Divergent Production Regimes: Coordinated and Uncoordinated Market Economies in the 1980s and 1990s." Pp. 101-34 in *Continuity and Change in Contemporary Capitalism*, edited by H. Kitschelt, P. Lange and G. Marks. New York: Cambridge University Press.
- Stockhammer, Engelbert. 2015. "Rising Inequality as a Cause of the Present Crisis." *Cambridge Journal of Economics* 39(3):935-58.
- Swenson, Peter. 1991. "Bringing Capital Back in, or Social Democracy Reconsidered: Employer Power, Cross-Class Alliances, and Centralization of Industrial Relations in Denmark and Sweden." *World Politics* 43(4):513-44.
- Swenson, Peter. 2002. *Capitalists against Markets*. Oxford: Oxford University Press.
- Thelen, Kathleen. 2011. "Varieties of Capitalism: Trajectories of Liberalization and the New Politics of Social Solidarity." *Annual Review of Political Science* 15:137–59.
- Thelen, Kathleen. 2014. *Varieties of Liberalization and the New Politics of Social Solidarity*. New York: Cambridge University Press.
- Thelen, Kathleen. 2015. "Producer Coalitions and National Growth Strategies." *Paper presented at the 22nd International Conferences of Europeanists, Paris, July 8-10*.
- Thelen, Kathleen. 2019. "Transitions to the Knowledge Economy in Germany, Sweden and the Netherlands." *Comparative Politics* 51(2): 295-315.
- Wolff, Guntram B. 2018. "Germany's Current Account Surplus and Corporate Investment." *Bruegel*.
- Zysman, John. 1983. *Governments, Markets and Growth*. Ithaca, NY: Cornell University Press.

## ENDNOTES

<sup>1</sup> A number of recent contributions by Soskice and collaborators also argue for bringing macroeconomics back into comparative political economy (e.g., Iversen and Soskice 2006; Iversen, Soskice and Hope 2016). In contrast to our approach, however, distinguishing among different components of aggregate demand does not feature as an important concern of these contributions. See Baccaro and Pontusson (2018) for further discussion.

<sup>2</sup> Data from the OECD Economic Outlook Database ([https://www.oecd-ilibrary.org/economics/data/oecd-economic-outlook-statistics-and-projections\\_eo-data-en](https://www.oecd-ilibrary.org/economics/data/oecd-economic-outlook-statistics-and-projections_eo-data-en)).

<sup>3</sup> Contributions to growth are calculated as yearly growth of the specific demand component (consumption, exports, etc.) weighted by the share of that component in overall demand. The data are then aggregated in five-year averages.

<sup>4</sup> Our data on employment and value added by sector come from the OECD's STAN Database (<http://www.oecd.org/industry/ind/stanstructuralanalysisdatabase.htm>).

<sup>5</sup> An alternative measure of the size of the public sector—arguably more relevant from a political point of view—is the ratio of civilian government employees to the working-age population. By this measure (as reported by Brady, Huber and Stephens 2014), Swedish public-sector employment peaked at 25.0% in 1985 and stood at 19.6% in 2010 while German public-sector employment peaked at 9.1% in 1987 and stood at 7.8% in 2010.

<sup>6</sup> Based on the OECD's Input-Output Tables (<http://www.oecd.org/trade/input-outputtables.htm>), we estimate that high-end services (specifically: information and communication, and professional, scientific, and technical activities) accounted for 29% of Swedish productivity growth from 1993-95 to 2014-16, as compared to 19% of German productivity growth. The contributions of manufacturing to total labor productivity growth were almost identical (30% for Germany and 29% for Sweden).

<sup>7</sup> Here we rely the OECD's International Trade and Balance of Payments Statistics (<http://www.oecd.org/sdd/its/>) and Trade in Services Database (<http://www.oecd.org/sdd/its/international-trade-in-services-statistics.htm>).

<sup>8</sup> Note that the contrast between Germany and Sweden is even more pronounced if automatic stabilizers are taken into account.

<sup>9</sup> But see Schwartz and Seabrooke (2008) and, specifically on the Swedish case, Christophers (2013) and Belfrage and Kallifatides (2018).

<sup>10</sup> This formulation draws some of its inspiration from the cartel party thesis, as articulated by Blyth and Katz (2005) and Hopkin and Blyth (2018). The prominence of (retrospective) economic voting in the “macro-oriented” CPE literature of the 1980s and 1990s should also be noted: see, in particular, Garrett (1998).

<sup>11</sup> This decision forced all other countries in the European Monetary Systems (EMS) to follow suit, ultimately leading to exit of the Italian Lira and the British Pound in 1992.

<sup>12</sup> According to OECD Statistics ([www.oecd-ilibrary.org/employment/data/labour-market-statistics](http://www.oecd-ilibrary.org/employment/data/labour-market-statistics)),

---

employees with fixed-term contracts accounted for 14.6% of the dependent labor force in 1997 and 17.5% in 2007. Over the same time period, the German figure increased from 11.7% to 14.6%. In both countries, temporary employment has held steady since the Great Recession.

<sup>13</sup> Disproportionate income losses among low-income households during and immediately following the Great Recession were partly offset by an increase in redistribution, but compensatory redistribution in 2008-13 was tiny comparison to that of the first half of the 1990s (Pontusson and Weisstanner 2017).

<sup>14</sup> See Raess and Pontusson (2012) for a first stab at such a project.