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August 2019

Acknowledgements:

This essay is based on research funded by the Swiss National Science Foundation (grant no. 100017_166186). An earlier version was presented at the 25th International Conference of Europeanists (Chicago, March 28-30, 2018). We thank the discussant, Alison Johnston, and members of the audience for perceptive questions and useful criticisms. Also, we are grateful to Martin Höpner and two anonymous reviewers for detailed written comments.

***Key words**:*

Comparative political economy, macroeconomics, growth models, macroeconomic policy, varieties of capitalism

Summary:

The comparative study of advanced capitalist political economies emerged as a distinct subfield of political science in the late 1970s. A number of early contributions to this subfield sought to explain cross-national variation of macroeconomic performance, but the subfield increasingly focused its attention on other issues—the consequences of welfare states, industrial relations and skill formation for innovation, competitive and the distribution of income—in the 15-20 years prior to the global crisis of 2007-09. With economic growth re-emerging as a central concern in the wake of the crisis, the New Keynesian tradition features prominently in recent efforts to macroeconomics back into comparative political economy. In our view, comparative political economists also ought to engage with the Post-Keynesian tradition, which assigns a more important role to policy choices than the New Keynesian tradition. Positing that distributive conflict and power relations are critical to macroeconomic dynamics, the Post-Keynesian tradition provides useful analytical foundations for identifying alternative growth models and understanding divergent trajectories among advanced capitalist political economies.

The comparative study of advanced capitalist political economies has been a vibrant subfield of comparative politics since the 1980s, characterized by innovative research and empirically-grounded theoretical debates. The dominant debate in comparative political economy (CPE) over the last ten years or so pits scholars who focus on persistent differences among advanced capitalist political economies against scholars who instead focus on dynamics that these political economies have in common. We think that this debate has too often been framed in terms of the importance of "varieties" relative to "commonalities." Our goal in this essay, which forms part of a larger project (see also Baccaro and Pontusson 2017, 2019), is to advance the debate among CPE scholars, and our common research agenda, by focusing attention on the following questions: What are the outcomes that we are trying to explain (or should be trying to explain)? How are cross-national differences relevant to these outcomes and, at the same time, congruent with a common capitalist logic?

A recent volume entitled *The Politics of Advanced Capitalism* shares our sense of an impasse. The editors of that volume propose an "electoral turn" as the way forward. In their view, partisan competition and electoral accountability are the main drivers of the policy choices that are (or should be) the focus of attention by CPE scholars (Beramendi *et al* 2015). In our view, by contrast, the key to advancing the CPE research agenda involves a more sustained engagement with macroeconomics and greater attention to the demand-side dynamics of advanced capitalist economies. Government policy features in our analytical framework, but we do not agree that CPE scholars should restrict themselves to explaining the diversity of supply-side policies (education, training, employment protection and the like). Moreover, we want to resist the temptation to equate "politics" with partisan-electoral competition.[1]

In arguing that CPE scholars need to engage with macroeconomics in a more sustained fashion, we echo David Soskice and collaborators (e.g., Iversen and Soskice 2006, Carlin and

Soskice 2009). But our discussion draws inspiration from Post-Keynesian (PK) macroeconomics as well as the version of New Keynesian (NK) macroeconomics espoused by these scholars (in Soskice's preferred terminology, "modern macroeconomics"). Core ideas in the PK tradition of macroeconomics bear a close elective affinity with core ideas shared by most CPE scholars. Eschewing micro-foundations, rational expectations and inter-temporal optimization, the PK tradition treats distributive conflict and power relations as critical for understanding macroeconomic relationships and outcomes. Relatedly, the PK tradition challenges the mainstream idea of a unique and stable equilibrium that defines long-term levels of unemployment and output (an idea that NK macroeconomists share with new classical macroeconomists).

In previous work (Baccaro and Pontusson 2016), we have argued for a new approach to thinking about varieties of capitalism, emphasizing the diversity of demand drivers of growth rather than of supply-side institutions. In this essay, we make the case that the macroeconomic ideas of Soskice and other scholars identified with the Varieties-of-Capitalism (VofC) school of comparative political economy deserve to be examined and discussed in a more spirit than what has thus far been the case.[2]

In what follows, we begin by reviewing the CPE literature of the 1980s and revisit debates generated by the rise of VofC as the dominant CPE paradigm in the 1990s. We then consider the question of how macroeconomics might be incorporated into comparative political economy in two steps: first, we set out the macroeconomic framework of Carlin and Soskice (2006; 2015) and discuss its relevance for CPE; and, secondly, we introduce the PK tradition and discuss how this alternative approach to macroeconomics relates to long-standing themes in comparative political economy as well as our own interest in understanding post-Fordist growth

trajectories. We conclude with some reflections on the politics of macroeconomic policy in the contemporary era.

Comparative Political Economy Before Varieties of Capitalism

Prior to the rise of Varieties of Capitalism, the CPE field encompassed three distinct research programs that we propose to label as (1) national models of capitalism, (2) post-Fordist production regimes and (3) political economy of wage restraint and macroeconomic policy. As background to the discussion that follows, a few words about each of these research programs are in order.

Inspired by Shonfield's *Modern Capitalism* (1965), much of the early CPE literature sought to delineate national models of capitalism, based on different roles played by government, business and organized labor. In the first instance, the point of this exercise was to explain why different countries responded differently 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 taken into account as well. The upshot of these considerations was a broad-based consensus on a three-fold typology of liberal (or "firm-led"), statist ("state-led") and corporatist ("negotiated") political economies in the advanced capitalist world (Zysman 1983, Katzenstein 1985, Hall 1986). Invoking 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 ways 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).[3] Emphasizing industrial districts, characterized by local-level coordination among firms, Piore and Sabel challenged the relevance of national models. By contrast, Streeck (1991) linked the study of technological and organizational change at the shopfloor to the theme of 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 Streeck 1997, Sorge and Streeck 2018).

Commonly referred to as "neo-corporatism," the third CPE stream of the 1980s is of particular interest for our purposes. In a sense, our objective here is to resurrect the macroeconomic concerns that motivated the neo-corporatist literature. The concept of "political exchange" played a critical role in early contributions to this literature (e.g., Pizzorno 1978, Regini 1984). Essentially, neo-corporatist CPE scholars sought to identify the conditions under which unions might deliver wage restraint in return for government policies to combat unemployment and to expand social benefits. Sidestepping the question of whether or not governments could credibly promise to deliver such policies, the dominant view emphasized the institutional power of organized labor, positing that encompassing unions have an interest in wage restraint and also the capacity to exercise wage restraint, with centralization of authority within unions and the absence of inter-union rivalries conceived as correlates of encompassment (Cameron 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. In Hibbs' formulation, Left parties prioritize low unemployment because their core constituencies primarily derive their income from employment while Right parties prioritize low inflation because their core constituencies derive more of their income from financial assets. Combining Hibbs' partisan model with insights of the neocorporatist literature, Garrett (1998) posited 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.[4] Under these conditions, according to Garrett, unions are both willing and able to engage in political exchange with Left parties.

The assumption that wage restraint is the key to competitiveness and, by extension, the key to economic growth and prosperity represents a conspicuous feature of the neo-corporatist research program of the 1980s. It is fair to say, we think, that neo-corporatist CPE scholars never systematically tested or otherwise justified this assumption. The importance assigned to competitiveness in this literature reflects the apparent success of small European states, measured by social as well as economic criteria (Katzenstein 1985), but it does not sit well with the CPE literature's emphasis on productivity growth as the key to the export prowess of these countries. A core proposition of the analytical framework that we will sketch below is that role of exports in economic growth and the importance of labor costs for the export performance varies across growth models. For the time being, suffice it to note that the CPE literature of the 1980s was deeply 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. The importance assigned to institutional conditions for wage restraint by CPE scholars seeking to explain cross-national variation in macroeconomic performance represents one

manifestation of this adaptation to the anti-Keynesian turn in macroeconomics. While eager to assert that politics matter, CPE scholars have been reluctant to challenge mainstream economists on their home turf.

The VofC Approach and Its Critics

The Varieties-of-Capitalism (VofC) approach successfully integrated insights from earlier CPE research programs into a single analytical framework. Though some VofC scholars have subsequently sought to "bring macroeconomics back in," the core VofC framework, as articulated by Hall and Soskice in their introduction to the 2001 volume entitled *Varieties of Capitalism*, very much emphasizes supply-side issues. Indeed, the rise of VofC as the dominant paradigm might be said to have reinforced the supply-side orientation of comparative political economy, shifting attention away from macroeconomic outcomes such as unemployment, inflation and economic growth.[5]

The VofC research program is closely bound up with a particular typology of capitalisms. Relative to the 1980s literature on national models, VofC scholars drop the "statist" category and propose an overarching, binary distinction between "liberal market economies" (LMEs) and "coordinated market economies" (CMEs). "Mixed market economies" (MMEs) feature in many contributions to the VofC literature, but this is essentially a residual category, encompassing any and all countries that cannot be classified as either LMEs or CMEs. Emphasizing similarities between Germany and Japan, the VofC typology not only downplays the role of the state, but also the role of tripartism. The first question comparative political economists ought to ask, according to VofC scholars, is whether or not firms have the capacity to engage in strategic coordination with respect to wage bargaining, vocational training, technological innovation, and

lobbying of political authorities. Coordinating capacity in turn depends, we are told, on some combination of concentrated ownership, banks as stake-holders in corporations, and associational networks that link firms to each other.

The concept of institutional complementarities plays is a cornerstone of the VofC framework. In Hall and Gingerich's (2009) formulation, coordination in corporate governance increases the returns to coordination in labor relations and vice-versa.[6] The other constitutive component of the VofC framework is the idea of comparative institutional advantage. From the VofC perspective, the distinction between LMEs and CMEs does not have much, if any, bearing on overall efficiency and long-term growth rates.[7] What distinguishes these two types of capitalism has to with the economic activities that generate growth. While the institutional framework of LMEs favors the expansion of low-wage services as well as high-tech sectors engaged in radical (product) innovation, the institutional framework of CMEs favors incremental (process) innovation in manufacturing and, more specifically, diversified quality production.

Building on these ideas, VofC scholars argue forcefully against the proposition that globalization generates convergence across varieties of capitalism. Contrary to conventional wisdom among "market liberals," the VofC framework implies 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 institutional complementarities.[8]

As with any analytical paradigm that aspires to reconfigure an existing field of inquiry, the VofC approach has been subjected to a wide variety of criticisms. For our present purposes, three debates deserve to be briefly mentioned.[9] The first debate concerns the conceptual foundations and empirical adequacy of the binary typology proposed by the VofC school. Critics

commonly argue that the coding of countries as LMEs and CMEs by VofC scholars lumps together political economies operating according to different logics and, by the same token, that the LME/CME distinction fails to encompass the full range of advanced capitalist economies. In this spirit, Amable (2003) identifies five distinct models of modern capitalism by means of principal-components analysis. For their part, VofC scholars have always conceded that some countries that cannot be coded as LMEs or CMEs and have sought to accommodate variation among CMEs by distinguishing different functionally-equivalent forms of coordination. From our perspective, a striking feature of the how-many-varieties debate is the shared focus on supply-side issues and coordination. In addition, the thorny question of how to evaluate the utility of alternative typologies remains unresolved.[10]

Accepting the distinction between LMEs and CMEs as the foundation for a meaningful typology of advanced capitalist political economies, a second set of critics have taken VofC 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. Crudely put, Korpi argues that working-class mobilization explains welfare-state development and that welfare-state development in turn alters the incentives for firms to pursue different production strategies. In response, Iversen and Soskice (2009) point out that Korpi does not have any explanation of why organized labor is stronger in some countries than in others and suggest that labor strength should be seen as a consequence (rather than a cause) of coordinated capitalism. Iversen and Soskice proceed to argue that the divergence between LMEs and CMEs originates in pre-industrial institutional arrangements.[11]

A third debate concerns institutional changes in advanced capitalist political economies since the 1980s. In this debate, the critics emphasize common trends across LMEs and CMEs, frequently construed as “liberalization" (Streeck 2013, Baccaro and Howell 2017) while VofC

scholars insist on the persistence of fundamental differences between LMEs and CMEs (e.g., Hall and Gingerich 2009). As noted by Thelen (2012:140), the two sides fundamentally agree on "where we should be looking for important changes" and the disagreement between them often boils down to a matter of emphasis. Thelen (2012, 2014) stakes out a distinctive position—something of a compromise—by identifying two different liberalization trajectories in CMEs ("embedded flexibilization" and "dualization") while insisting that both of these trajectories are very different from the trajectory of LMEs ("deregulation").

In our view, debates on the merits of the VofC framework have become increasingly stale over the last ten years or so. Many CPE scholars (and potential CPE scholars) seem to have responded to this impasse by focusing on determinants of the policy and party preferences of voters with different socio-economic characteristics (occupation, income and the like), abandoning the macro-comparative *problématique* of the CPE tradition and, more specifically, the idea that CPE is about understanding capitalism(s).[12] As indicated at the outset, our goal in this essay is to propose an alternative path forward for CPE scholars. By incorporating macroeconomic dynamics, we seek to recast the question of national diversity and thus move beyond debates between VofC and its supply-side critics.

The Carlin-Soskice Macroeconomic Model

As noted at the outset, Soskice has been a leading advocate of bringing macroeconomics (back) into CPE since the publication of *Varieties of Capitalism* in 2001. We will engage critically with what Soskice and collaborators have written on this topic in the next section. In this section, we present, as briefly as possible, the main features of the macroeconomic framework that informs Soskice's approach to the comparative political economy of macroeconomic

performance. Developed in macroeconomic textbooks that Soskice has written together with Wendy Carlin (Carlin and Soskice 2006, 2015), this framework draws extensively on New Keynesian (NK) macroeconomics. Seeking to convey the key intuitions of the Carlin-Soskice framework, our discussion focuses on the case of a closed economy, leaves out nuances, and avoids mathematical formalization.

The Carlin-Soskice model can be characterized as part of the New Keynesian (NK) response to the New Classical macroeconomics inaugurated by Robert Lucas and carried forward by Real Business Cycle theory (see De Vroey 2016). The NK response retained some crucial parts of the Lucasian research program – the need for explicit micro-foundations, rational expectations, forward-looking optimization, general equilibrium approach – but relinquished other parts, notably price flexibility and money neutrality. The Carlin-Soskice model represents a simplified version of NK macroeconomic models, with one key difference: with the exception of central banks, actors' expectations are adaptive rather than rational (similar to Friedman 1968). It is fair to say, we think, that the content and policy implications of the model are not fundamentally different from those of more mainstream monetary macroeconomics in the New Keynesian tradition (e.g. Woodford 2003).[13]

The NK framework developed by Carlin and Soskice boils down to a "three equations model," describing (1) the relationship between the interest rate and aggregate demand (commonly referred to as the "Investment/Savings curve" or "IS curve" for short), (2) the relationship between inflation and unemployment (the "Phillips curve"), and (3) the response function of the central bank to changes in inflation and output. Regarding the first equation, suffice it to say, for our present purposes, that the framework posits that output is in the short run determined by aggregate demand and that demand is a negative function of the real interest rate. Put simply, a decline (increase) in the real interest rate stimulates (depresses)

aggregate demand by stimulating (depressing) investment and other interest-sensitive components of spending.

In marked contrast to the neoclassical approach, Carlin and Soskice assume that labor markets do not clear and hence there is involuntary unemployment (see also Layard *et al* 2005). In the Carlin-Soskice framework, a wage-setting curve plots the workers' real wage aspirations (or demands) at various levels of employment. This curve has a positive slope: as the labor market becomes tighter, workers feel entitled to a higher real wage because their bargaining power increases. Institutional features of the labor market that strengthen the bargaining position of labor vis-à-vis employers (e.g., stricter employment protection, more generous unemployment insurance, higher union density) shift the wage-setting curve up, so that that real wages will be higher at any given level of employment. By the same logic, policies that reduce labor power shift the wage-setting curve down.

There is also a price-setting curve, plotting the real wage that firms are willing to pay at various levels of employment. In the Carlin-Soskice model, firms set their prices as a fixed mark-up on unit labor costs (nominal wages divided by labor productivity). In other words, Carlin and Soskice assume that firms have the power to transfer costs onto prices, maintaining a fixed margin. The price-setting curve effectively represents the real wage which firms find compatible with their unit profit requirements. It is either flat (if labor productivity is constant) or has a negative slope (if labor productivity declines with employment, i.e., there are declining marginal returns to employing more workers). The price-setting curve shifts up (down) if labor productivity increases (decreases) and down (up) if the mark-up increases (decreases). By increasing the degree of competition and limiting firms' ability to transfer costs onto prices, trade openness and deregulation of product markets shift the price-setting curve up.

The unique intersection of the wage-setting and price-setting curves identifies the equilibrium level of output along with the equilibrium level of employment, around which the economy gravitates in the short-to-medium run. Commonly known as the Non-Accelerating Inflation Rate of Unemployment (NAIRU), this equilibrium is entirely determined by the aforementioned supply-side factors: labor productivity and the institutional framework of labor markets and product markets.[14]

As the equilibrium real wage must necessarily be on the price-setting curve, worker militancy is doomed to failure according the Carlin-Soskice framework as the well as the broader NK tradition in macroeconomics. At constant labor productivity, trying to increase the real wage is equivalent to trying to increase the wage share of GDP and employers will immediately defend their unit profit margins by increasing prices. Hence the increase in the real wage will be temporary and if workers insist on claiming a higher real wage at given levels of productivity and employment, there will be infinitely increasing inflation. Although there is a short-run trade-off between inflation and unemployment, the long-run Phillips curve is vertical in NK macroeconomics, just as it is for Friedman and the monetarists.

If workers became durably more militant, i.e., if there were an upward shift in the wage-setting curve, the new NAIRU equilibrium would have the same real wage as before, but at a lower level of employment. With greater worker militancy, there needs to be greater involuntary unemployment to restore compatibility between workers' wage claims and employers' profit claims. By the same token, the equilibrium level of output and employment will be higher if workers are willing to accept a lower real wage for given productivity.

How does the economy return to equilibrium after a bout of worker militancy or a positive shock to aggregate demand? While earlier Keynesian models rely on the contraction of the real money supply as the key equilibrating mechanism, Carlin and Soskice consider the

money supply to be endogenous. As aggregate demand expands, demand for credit increases and banks effectively create money by extending loans to consumers and firms. This brings us to the third equation in Carlin and Soskice's three-equations model. Like other NK models (e.g. Romer 2000; Woodford 2003), the Carlin-Soskice model posits that it is the monetary response of the central bank that brings the economy back to equilibrium. If the central bank forecasts that a wage militancy or a boost in demand would lead to higher inflation than its target, it responds by increasing the nominal interest rate for given levels of inflationary expectations or, in other words, by increasing the real interest rate. This causes a temporary increase in unemployment above the equilibrium level, but ultimately brings the economy back to equilibrium. In a sense, NK macroeconomics, at least as articulated by Carlin and Soskice, abandons the idea of equilibrium as an "objective fact." When all is said and done, it seems, the economy is in equilibrium if and when the central bank considers that to be the case.

Macroeconomics in Varieties of Capitalism

We now turn to the implications of New Keynesian macroeconomics for comparative political economy, as spelled out by Soskice alone and in a number of co-authored articles (Soskice 2000, 2007; Carlin and Soskice 2009; Iversen and Soskice 2006, 2010, 2012; and Iversen, Soskice and Hope 2016). By our reading, this body of work boils down to three core propositions: (1) monetary and fiscal policies can have significant effects on the real economy under certain circumstances, but only in the short-to-medium run; (2) there are important complementarities between aggregate demand management regimes (ADMRs) and production regimes; and (3) the different macroeconomic stances adopted by LMEs and CMEs are interdependent and, for the most part, complementary.

The first proposition follows directly from the Carlin-Soskice framework set out above. In the words of Iversen and Soskice (2006: 435-437), "modern macroeconomics" rejects the neoclassical assumption that markets are perfectly competitive and posit a lag structure in price adjustments that allows for government policy to have an effect on the real economy. Iversen and Soskice quickly add, however, that government efforts to bring unemployment below the equilibrium rate are bound to fail within a short period of time. Hence "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" (Iversen and Soskice 2006: 432).

According to Iversen and Soskice (2006), fiscal and monetary policies can serve to reduce the equilibrium rate of unemployment, but presupposes that workers and unions exercise wage restraint. In the end, Iversen and Soskice's case for economic expansion by fiscal and monetary stimulus boils down to the claim that incomes policy deals of the kind celebrated by the neo-corporatist literature of the 1980s actually work. As Iversen and Soskice themselves recognize, however, there is, at best, a handful of countries in which unions might still have the bargaining power and coordination capacity to ensure that wage growth stays below productivity growth. In their view, expansionary macroeconomic policies actually increase equilibrium unemployment when, as in Germany, there is a small number of powerful wage-setters (Iversen and Soskice 2006: 440).

Soskice's discussion of how aggregate demand management relates to varieties of capitalism proceeds from the observation that CMEs typically pursue more "conservative" macroeconomic policies than LMEs, prioritizing price stability over other macroeconomic objectives. Surveying institutional arrangements pertaining to macroeconomic policy-making, Soskice (2007) concludes that central banks are responsive to government concerns in LMEs but

not in continental CMEs and that the centralization of discretionary spending decisions in the hands of the Ministry of Finance is more pronounced in CMEs.[15] To explain the conservative bent of the macroeconomic policy regime in CMEs, Soskice in turn invokes two collective action problems that CMEs need to resolve. First, he affirms that a strong, credible commitment to low inflation is necessary in order to keep wage growth under control in the "small-N union systems" that characterizes most CMEs. Secondly, Soskice argues that centralization of fiscal policy in the hands of politicians committed to fiscal discipline represents a solution to the "common pool problem" of multi-party coalition government (Persson and Tabellini 2003), which tends to be the norm in CMEs (and not in LMEs).

While Carlin and Soskice (2009) suggest that Germany could have pursued more expansionary macroeconomic policies and that the failure to do so served the distributive interests of specific political-economic actors, Soskice's (2007) argumentation implies that a conservative macroeconomic policy stance is actually the optimal policy stance under the labor-market conditions and electoral rules characteristic of continental CMEs and, to a lesser extent, Nordic CMEs as well. An obvious question arises concerning counter-cyclical macroeconomic policy in LMEs. Is the alleged activism of governments in these countries simply about short-term "employment bursts" or has it contributed to higher growth rates and lower unemployment over sustained periods of time? In Soskice's framework, macroeconomic policy in LMEs as well as CMEs is pinned down the equilibrium rate of unemployment over the long run. 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. 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) demand stimulus matters to the long-run economic performance under LME conditions.[16]

Less directly relevant for our present purposes, the third proposition developed by Soskice and collaborators holds that inflation-targeting central banks makes possible the coexistence of economies with systematic current account surpluses and economies with systematic current account deficits (Iversen and Soskice 2012; Carlin and Soskice 2015; Iversen, Soskice and Hope 2016). If there is an increase in the autonomous component of aggregate demand resulting from a relaxation of criteria for access to credit, this will tend to generate a current account deficit, but an inflation-targeting central bank is unlikely to intervene so long as wage inflation remains subdued. By the same token, if coordinated wage bargaining generates a devaluation of the real exchange rate, increasing external demand, the central bank will do nothing to prevent the accumulation of current account surpluses. Highlighting the role of monetary policy rules, this line of argument represents an important contribution to the growing literature on the interdependence of macroeconomic growth models.

When all is said and done, the body of work reviewed in this section seems to fall short of its stated objective: to demonstrate that modern macroeconomics allows for political intervention in the process of economic growth. If the positive effects of expansionary macroeconomic presuppose the exercise of wage restraint by encompassing unions, it is far from obvious that macroeconomic policy choices deserve to be brought back to the center-stage of comparative political economy in the current era. Relatedly, the lack of attention to different components of aggregate demand and relations among different "demand drivers" of growth represents a striking feature of the macroeconomic framework to CPE scholars by Soskice and collaborators. In what follows, we show how the tradition of Post-Keynesian macroeconomics opens up space for politics by rejecting the idea of unique supply-side-determined equilibrium rate of unemployment.

The Post-Keynesian Tradition

The PK tradition of macroeconomics has not produced a comprehensive model comparable to the three-equations model of Carlin and Soskice. Rather, "PK macroeconomics" refers a family of models that share a number of features that set them apart from "the mainstream." The most important feature that distinguishes PK models from mainstream models, including NK models, is that the supply-side of the economy is not conceived as an external constraint: as supply adapts to demand, aggregate demand affects the long-term potential of the economy as well as short-term fluctuations in output and employment (Lavoie 2018). Generally speaking, PK economists reject micro-foundations and rational expectations and seek to incorporate class power into their models. In the Kalecki-inspired strand of the PK tradition, the distribution of income between wages and profits is a key determinant of effective demand.[17]

Much like Carlin and Soskice, PK macroeconomists typically 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.[18] In contrast to the Carlin-Soskice framework, however, the standard PK model of firm behavior assumes that firms have some unused capacity (and that their marginal costs are constant). In addition, PK models typically incorporate Keynes and Kalecki's insight that workers have a higher propensity to spend their income than capitalists (see, e.g., Stockhammer 2015). It follows that an increase in labor's share of income boosts aggregate demand and, because they have unused capacity, firms' immediate response to an increase in aggregate demand is to increase output rather than prices. This, then, is the key idea of the Kaleckian strand of PK

macroeconomics: so long as the real wage does not exceed the value of the marginal unit of production, there is a positive relationship between the wage share and output.

More precisely, PK models posit that firms are willing to lower their unit mark-up on costs if the negative impact on realized profits is compensated by higher capacity utilization, such that the profit rate (i.e. profits divided by the capital stock) is stable or even increasing. As the rate of utilization of capacity increases, moreover, firms are incentivized to invest, bringing capacity utilization back to its normal level. An increase in the wage share thus leads not only to higher consumer demand, but also to higher investment and expansion of the capital stock. It is in this sense that the standard Kaleckian model is a model of "wage-led growth."

PK economists agree with NK economists that the Phillips curve, describing the relationship between unemployment and inflation, is vertical when the economy operates at full capacity. Below full capacity, however, PK models typically posit an horizontal or weakly upward-sloping Phillips curve, meaning that sustained wage militancy does not lead to infinitely-accelerating inflation, as in the NK model, but to a higher level of inflation combined with a higher level of output. Again, a key difference between NK and PK economists has to do with whether full capacity is considered to be the norm or the exception. Figure 1 provides a stylized representation of PK and NK expectations about the shape of the Phillips curve.[19]

[Figure 1]

Kalecki-inspired PK models do not have a built-in equilibrating mechanism and are potentially unstable (Stockhammer 2008). A shift in the balance power in favor of labor increases the real wage, which leads to an increase in employment and this in turn strengthens the bargaining power of labor further, and so on. If productivity gains do not keep up with workers' escalating wage claims, this process is bound to generate inflation. Drawing on regulation theory (e.g. Boyer 2004), "political exchange" between labor and capital, by which

labor agrees to moderate its wage demands in order to keep inflation at moderate levels, might be conceived as the equilibrating mechanism at work in PK models. One might object this represents a *deus ex machina*, but it is important to keep in mind, as we have already noted, that Carlin and Soskice also rely on political intervention, in the form of inflation-targeting central banks, to secure the equilibrium properties of their model.[20]

To reiterate, an important feature of PK macroeconomics is the proposition that demand affects the supply-side of the economy, notably labor productivity. PK economists emphasize that labor productivity tends to increase as real wages rise and aggregate demand increases and explain this regularity, commonly referred to as the "Kaldor-Verdoorn effect," with reference to several mechanisms (Storm and Naastepad 2012). To begin with, expanding demand allows firms to realize productivity gains associated with economies of scale. Secondly, 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.[21]

Bhaduri and Marglin's seminal 1990 article modified the standard Kaleckian model by treating investment as a function of the profit share as well as capacity utilization. To appreciate the implications of this move, consider the following decomposition of the profit rate, i.e., profits (P) divided by the capital stock (K):

$$P/K = P/Y \times Y/Y_{fc} \times Y_{fc}/K$$

where P/Y is the profit share (profits divided by output); Y/Y_{fc} represents capacity utilization (output divided by output at full capacity) and Y_{fc}/K is the potential productivity of capital. Against standard Kaleckian assumptions, Bhaduri and Marglin (1990) argue that the rate of capacity utilization has to be considered fixed in the medium run and that capitalists, in making

investment decisions, target a normal rate of profit corresponding to normal capacity use. This logic implies that Y/Y_{fc} and Y_{fc}/K both have to be considered fixed or, in other words, the profit rate must fall with the profit share.

Bhaduri and Marglin's reformulation of the Kaleckian investment function has far-reaching consequences. For suitable values of the parameters, an increase in the wage share may not only lower investment, and thus reduce long-term growth, but may even lower aggregate demand. Bhaduri and Marglin (1990) thus identify a profit-led alternative the wage-led demand regime identified by Kalecki. A profit-led regime implies that a real-wage increase leads to a contraction of economic activity (keeping labor productivity constant).

Existing empirical studies (notably Onaran and Galanis 2014) find that large OECD economies are wage-led rather than profit-led in the strict Post-Keynesian sense. The impact of the wage share on net exports is arguably more important than its impact on the profit share. If an increase in the wage share leads to a decline in net exports, this may offset the favorable impact of a wage share increase on output in the standard closed-economy Kaleckian model, introducing the possibility of a trade-off between redistribution in favor of wages and international competitiveness.

In an open economy, part of the expansionary effect of real-wage increases (controlling for productivity) leaks into imports. Assuming that foreign demand remains constant, this leads to a deterioration of the current account. In addition, the impact on the real exchange rate has to be taken into consideration. To the extent that the wage increase leads to higher domestic prices, keeping foreign prices and the nominal exchange rate constant (e.g. due to fixed exchange rates), this produces an appreciation of the real exchange rate, which translates into a deterioration of the trade balance (Lavoie 2014: 532-536). 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 have 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.

The main point here is that core features of the Kaleckian wage-led model may flip under conditions of economic openness. In a wage-led economy, the effect of a distributional shift in favor of labor income is expansionary, while wage moderation is stagnationist. For sufficiently open economies, however, a decrease of the real wage controlling for productivity may have expansionary effects if the compression of domestic demand reduces imports while the depreciation of the real exchange rate stimulates exports sufficiently. Rather than referring to this as a variant of the profit-led growth model (Storm and Naastepad 2012), it seems preferable to call it an export-led growth model.

To summarize, the PK approach differs from that of Carlin and Soskice in important respects. In particular, PK economists do not subscribe to methodological individualism and eschew rational expectations, privileging an analysis based on aggregate relationships. At the same time, both approaches posit that wages and employment are determined by bargaining rather than market forces. While agreeing that there is conflict between labor and capital, the framework developed by Carlin and Soskice strongly restricts the scope for labor to exercise power and to advance its distributive interests. Demand stimulus can bring the economy back to equilibrium after a shock, but it cannot affect equilibrium output and employment. If encompassing unions decide to moderate their wage claims, equilibrium output and employment can be increased without liberalization of labor markets, but any attempt to redistribute income from capital to labor is doomed to fail. If necessary, central banks persuade workers to accept the profit-margin requirements of firms by creating unemployment.

By comparison, the PK framework provides greater room for the exercise of power by workers and allows for a wider range of growth-enhancing policy interventions. As the economy is not pinned down by a unique NAIRU, there are multiple potential equilibria and the Phillips curve is flat or weakly upward-sloping so long as the economy is not operating at full capacity. The NAIRU itself is endogenous because real wage growth and aggregate demand have feedback effects on labor productivity. Thus, wage militancy is not necessarily inane. At least in principle, it is possible to have real wage growth, greater output and employment, and higher realized profits at the same time.

Like most PK models, the Carlin-Soskice framework relies on policy intervention to ensure equilibrium outcomes, but Carlin and Soskice, like Woodford (2003), conceive inflation-targeting central banks as an essentially technical device, serving the interests of all actors by preempting infinitely-accelerating inflation. By contrast, PK economists (e.g., Stockhammer 2018) emphasize that independent central banks and monetary policy rules are political constructs with distributive implications. To reiterate our main theme, this feature of the PK framework resonates with insights (and instincts) of CPE scholars.[22]

The Growth Models Perspective

With the preceding discussion of NK and PK macroeconomics as a backdrop, let us now summarize, as briefly as possible, the account of post-Fordist growth models that we develop in Baccaro and Pontusson (2016). Our starting point is that postwar growth was wage-led across the OECD area (Onaran and Galanis 2014). At the core of the postwar settlements was an institutionalized compromise between labor and capital, with capital recognizing labor as a partner in workplace relations and elsewhere and labor recognizing the legitimacy of managerial

prerogatives as well as private property. Well captured by the neo-corporatism literature, the main elements of cross-national differentiation were the timing and degree of institutionalization of class compromise: early and durable in Sweden and Germany, delayed and unstable in Italy and the UK (Cameron 1984; Regini 1984).

The key institution of wage-led growth was multi-employer collective bargaining, which ensured that productivity increases translated into real wage increases, stimulating household consumption and, by extension, investment. The transfer of productivity increases into wages did not happen spontaneously through competitive markets, as neoclassical macroeconomics would have us believe. Rather, it involved particular institutions and a particular power balance between labor and capital (Boyer 2004). It is also important to recognize that the logic of class compromise and wage formation though multi-employers was supported by restrictions on capital mobility and, by historical standards, relatively limited trade openness.

The Fordist class comprise affected the generation of productivity growth as well as the distribution of the fruits of productivity growth (Storm and Naastepad 2012). Following Streeck (1997), postwar employment regulations favorable to workers can be conceived as "beneficial constraints," which incentivized employers to adopt competitive strategies and workplace practices they would not spontaneously embrace. In addition, economists working in the Kaleckian tradition (notably Lavoie and Stockhammer 2013) argue persuasively that rising demand generated economies of scale and that wage pressure stimulated investment in labor-saving technology, which in turn lead to capital deepening.[23] Simply put, Fordist institutions affected the supply side as well as the demand side of the postwar economies, contributing to the productivity gains that collective bargaining would then distribute. Crucially, from our point of view, the class compromise of the postwar era was not about wage restraint to promote competitiveness.

In virtually all countries, the wage-led growth model petered out as a result of both external factors and internal dynamics. The abolition of capital controls increased the sensitivity of investment to interest rates, with the rate of return on investment now being set internationally. In addition, greater trade openness and intensified international competition increased the importance of wage moderation for the competitiveness of export-oriented firms. However, the most important undermining factor was arguably the inflationary drift inherent in wage-led growth. The fight against inflation led not just to a more restrictive stance in monetary policy and to the introduction of inflation-targeting independent central banks, but also, in the US and the UK, to regulatory changes weakening trade union and, more generally, Fordist labor-market institutions (Glyn 2006).

As the preceding discussion implies, a distributional shift from wage income to capital income generates stagnation in wage-led economies. In Baccaro and Pontusson (2016), we argue that advanced capitalist political economies have responded to the insufficiency of aggregate demand associated with distributional shifts in favor of capital owners in essentially two ways: increasing reliance on credit as a source of household consumption (and investment) and increasing reliance on external demand. We refer to the former as consumption-led growth and the latter as export-led growth and use the cases of the UK, Germany, Sweden and Italy to illustrate alternative combinations of household consumption and exports as growth drivers over the 15 years prior to the global financial crisis.

The main features of the British growth model in this period were the growth of household debt and endemic current account deficits, financed by attracting capital flows from abroad. Arguably, the presence of a large and liquid financial center—the City of London—has served to relax the current account constraint for the British economy, allowing it to "live beyond its means." Most certainly, the financial sector can be characterized as the leading

sector of the British economy in this period. While a good deal of the consumption boom of 1994-2007 was financed by credit, buoyant domestic demand created favorable labor market conditions for workers, including relatively low skilled workers in the service sector. While the incidence of low pay held steady, real wages grew much faster in the UK than in Germany (let alone Italy).

In our view, Germany became an export-led growth model over the period 1994-2007, with exported-oriented manufacturing as the pivotal sector from a systemic point of view. For growth to be export-led, the export sector has to be large enough to be able to pull the economy as a whole. After reunification, the German export sector expanded rapidly, reaching the same size, in percent of GDP, as in Sweden, a much smaller country. The stimulation of net exports was achieved by repressing wage growth and domestic demand, increasing the price competitiveness of manufacturing. The formation of the Euro contributed to this development by enabling Germany to build up a huge trade surplus without nominal exchange rate appreciation (and, by the same token, making it impossible for its Eurozone partners to respond by engaging in nominal exchange-rate devaluations). Importantly for our purposes, there is at least some evidence that foreign demand for German goods became more price-sensitive over the same time period (Baccaro and Benassi 2017).

As suggested by many observers (e.g., Palier and Thelen 2010 and Hassel 2014), cooperative relations with core workers and works councils remain important to the success of German manufacturing firms and real-wage growth remains an important condition for such cooperation. The decoupling of wage developments in exposed and sheltered sectors is arguably the key feature of the transition to an export-led growth model in the German case. Over the period 1994-2007, real wages in manufacturing kept up with economy-wide productivity growth while real wages in low-skilled private services and parts of the public sector

were essentially flat. Far from reducing inter-sectoral wage differentials, as suggested by Iversen and Soskice (2010), German-style coordinated bargaining has arguably reinforced inter-sectoral differentials by tying wage increases more closely to sectoral productivity growth.

Unlike Germany, Sweden has not faced a sharp trade-off between export growth and consumption growth, at least not in the period prior to the crisis. From the mid-1990s onwards, the Swedish export mix shifted dramatically from more traditional manufacturing towards ICT and high value-added service exports (in the first instance business services) and this shift appears to have rendered Swedish exports less price-sensitive than German exports. Squeezing the service sector in order to improve the competitiveness of the manufacturing sector was much less of an option in Sweden than in Germany because service-sector workers—in the first instance, public-sector workers—are much better organized than in Germany. A plausible hypothesis is that the strength of service-sector unions have acted as a beneficial constraint for the Swedish economy, forcing structural change towards sectors characterized by a lower price elasticity of demand. While Swedish real wages grew faster than in the UK as well as Germany, intersectional differentials between manufacturing and low-end services essentially held steady over the period 1994-2007.

In contrast to the other three cases considered by Baccaro and Pontusson (2016), Italy did not find a viable alternative to wage-led growth. Household debt increased but starting from very low levels, and its growth was insufficient to haul the economy with it by stimulating consumption and investment. Real wage growth stagnated. The Italian export sector was too small and sensitive to price differences to act as a growth driver. Appreciation of the real exchange rate after the launch of the Euro in 1999 added to the country's economic woes.

To summarize, the crisis of wage-led growth led to the search for alternative growth models, in which real wage growth was no longer the driving force, but only, at best, a

derivative of growth. While a consumption-led growth model emerged in the UK, an export-led growth model emerged in Germany and Sweden managed to strike a balance between consumption-led and export-led growth. With current-account deficits in Britain (and the US) as the counterpart of current-account surpluses in Germany (and China), these growth models are complementary, but this complementarity does not necessarily render them stable. As illustrated so forcefully by the crisis of 2007-08, credit-financed consumption-led growth is prone to assets bubbles, whose bursting can precipitate global recessions (Koo 2011). And export-led growth is only feasible if it remains a peculiarity of small countries: its generalization would likely lead to economic stagnation.

By way of conclusion

Macroeconomics should not be conceived as a single body of thought, to be accepted at face value by non-economists. Political scientists and sociologists working in comparative political economy ought to engage with alternative approaches to macroeconomics and, indeed, take advantage of pluralism among economists. It has not been our purpose in this essay to argue that the PK approach to macroeconomics is better than the Carlin-Soskice approach in some objective sense. It is tempting to try to identify research questions for which one approach would be more appropriate than the other or to design "crucial tests" of predictions derived from models in the PK and NK traditions, but this strikes us too narrow a way for CPE scholars to engage with varieties of macroeconomics. Conceived as “research programs” in the Lakatosian sense (Lakatos 1978), the alternative approaches to macroeconomics reviewed in this essay ought to be evaluated not only in terms of the empirical veracity of specific hypotheses, but

also, more broadly, in terms of the kinds of questions they invite us to ask and the analytical insights that they provide.[24]

From a CPE perspective, the attraction of the Kalecki-inspired PK tradition is its emphasis on macroeconomic equilibria as political constructs, determined by the balance of power between capital and labor or, alternatively, the outcome of bargaining between capital and labor. In the Carlin-Soskice framework, as we have seen, macroeconomic management is essentially about bringing the economy to its supply-side-determined equilibrium. Demand stimulus can boost the medium-term growth rate to the extent that it induces unions to moderate their wage demands, but the political stakes involved in macroeconomic management are quite limited when unions lack the capacity to exercise in voluntary wage restraint (or are unwilling to do so). In the PK tradition, by contrast, macroeconomic policy can potentially move the economy from one equilibrium to another and, hence, political contestation would be more of the norm.

The Kalecki-inspired PK tradition is also attractive to CPE scholars because of the links that it establishes between macroeconomic management and distributive politics. Much like Piketty (2013), the PK tradition focuses on the distribution of functional income, i.e., the distribution of income between capital (profits) and labor (wages), but the underlying argument about the propensity to save being a function of income also applies to the distribution among wage-earners (Kalecki 1944). While the sources and consequences of rising income inequality have emerged as a major concern—perhaps *the* major concern—of comparative political economists over the last 15-20 years, the CPE literature on this topic has paid remarkably little attention to the role of macroeconomic dynamics.[25] As noted by Pontusson and Weisstanner (2017), the rise of inequality has not been as linear as this literature sometimes suggests: inequality tends to jump during economic downturns and the rate of unemployment is a good

predictor of cross-national as well as temporal variation in inequality trends. On the other hand, the Kaleckian tradition invites CPE scholars to consider the macroeconomic implications of social policy. For example, Katzenstein (1985) and Garrett (1998) alike note that small corporatist states have historically engaged in domestic "social compensation" while eschewing deficit spending to boost aggregate demand. From a Kaleckian perspective, we ought to question the distinction that these authors implicitly draw between demand stimulus and welfare provision. By extension, the slowdown of welfare-state expansion from the late 1970s onwards might be seen as a factor contributing to the OECD-wide slowdown of wage-led growth and the search for post-Fordist growth models.

The lack of attention to macroeconomic policy in the volume entitled *Politics of Advanced Capitalism*, edited by Beramendi *et al* (2015), represents a continuation of the supply-side focus that has characterized CPE since the 1990s. In their own contribution, two of the editors, Häusermann and Kriesi (2015: 207-208), explain that they focus on labor-market regulation and welfare policies because these issues—also economic or "material" in nature—remain within the discretion of national governments and because party policies and voter preferences continue to diverge with respect to these issue. According to Häusermann and Kriesi, macroeconomic management is no longer a matter of partisan-electoral politics and therefore not very interesting.

Arguably, there is more partisan conflict over macroeconomic policy in OECD countries, even EU member states, than Häusermann and Kriesi suggest.[26] In particular, we hypothesize that parties of the Left and Right are likely to have different macroeconomic policy priorities when growth models are less coherent or, in other words, "growth requirements" are less well-specified. More importantly, we want to contest the idea that CPE scholars should restrict their attention to issues on which parties take divergent positions. Even if the major contenders to

run the government share macroeconomic policy priorities and a common view of the economy works, as is surely the case in Germany today, macroeconomic policy-making involves winners and losers and partisan consensus is a political construction that must be reproduced over time. Across countries and over time, there is a good deal of variation in the terms of partisan consensus over macroeconomic policy and this, too, is something that ought to be of interest to CPEs scholars.

In our view, the strong focus on the divide between labor and capital in the PK literature represents a limitation from the point of view of explaining the politics of macroeconomic policies as well as regulatory practices and selective supply-side interventions in the economy. As we conceive them, growth models are distinguished by the strategic importance of different economic sectors. Building on Gourevitch (1986), among others, we argue elsewhere (Baccaro and Pontusson 2016, 2019) that sectors have different macroeconomic requirements, depending on the extent to which they cater to foreign demand and the extent to which demand for their products and services is price-sensitive or interest-sensitive. These requirements inform the macroeconomic preferences of workers, managers and owners with significant stakes in particular sectors.

In Baccaro and Pontusson (2019), we begin to elaborate a conception of the politics of growth models inspired by the Gramscian notion of "social blocs," which we conceive as institutionalized, more or less durable, constellations of groups defined by sectoral as well as class interests.[27] In contrast to the social coalitions tradition in CPE (e.g., Gourevitch 1986 and Thelen 2014, 2019), we do not conceive social blocs as competing coalitions of interest groups. In any given country, at any point in time, there is only one social bloc. Also, we want to emphasize that social blocs are characterized by hierarchical power relations among its members and by some form of hegemonic discourse. But social blocs are not static: their scope

and internal hierarchy changes as some groups become more powerful relative to others and the interests of different groups become more or less aligned.

Inspired by New-Keynesian as well as Post-Keynesian macroeconomics, our approach to comparative political economy emphasizes the role of aggregate demand for economic growth and distinguishes growth models based on the relative importance of different components of aggregates demand. In articulating this approach, we have deliberately pushed against the supply-side orientation of the dominant paradigm in comparative political economy and may be faulted for "bending the stick too far in the opposite direction." We do not mean to claim that innovation and productivity are simply a response to developments on the demand side of the economy. In future work, we want to develop the supply side of our growth models perspective in a more systematic fashion and, in particular, to explore how some sectors (e.g., manufacturing) contribute to productivity growth while other sectors (e.g., public services) serve to sustain household consumption. We would expect both sets of sectors to be represented in the social bloc.

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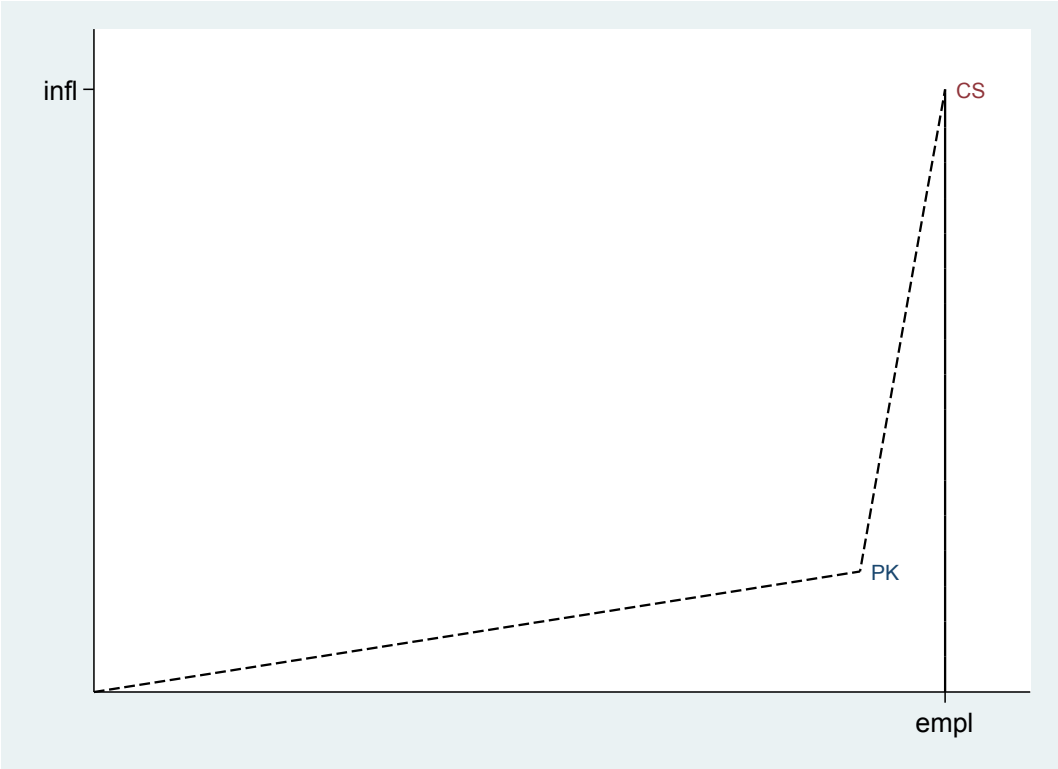
Figure 1: Stylized Representation of the Carlin-Soskice and Post-Keynesian Long-Term Phillips Curves



infl = inflation; empl = employment; PK = Post-Keynesian; CS = Carlin-Soskice

Endnotes

[1] The emphasis on partisan-electoral competition leads Beramendi et al (2015) to neglect macroeconomic policy altogether.

[2] In reply to Baccaro and Pontusson (2016), Hope and Soskice (2016) argue that the Carlin-Soskice variant of New Keynesian macroeconomics suffices to conceptualize different demand regimes and growth models. For reasons explained at length in this paper, we are not convinced by their reply.

[3] The crisis of Fordism also features 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.

[4] Another strand of the CPE literature on macroeconomic performance in the 1980s and 1990s focused on strategic interaction between wage-bargaining agents and monetary authorities (see Hall and Franzese 1998, Iversen 1999). Scharpf (1991) stands out as the most comprehensive analysis of macroeconomic management in the CPE tradition.

[5] It is noteworthy that only one contribution to the 2001 volume directly addresses macroeconomic issues (Franzese 2001).

[6] Focusing on skill formation, Estevez-Abe, Iversen and Soskice (2001) emphasize complementarities between production regimes and welfare states.

[7] Hall and Gingerich's (2009) empirical analysis suggests that there is no significant difference between average growth rates of LMEs and CMEs over the period 1971-97 and that average growth in less coherent ("mixed") economies lagged behind.

[8] In support of this general line of argument, Soskice (1999) argues that multinational corporations are engaged in "institutional arbitrage," locating different activities in countries with different institutional configurations. Articulated by Iversen and Pontusson (2000) as well as Soskice (1999), the VofC idea of "dual convergence"—market-oriented reforms making Britain more like the US and wage-bargaining decentralization making Sweden more like Germany—also deserves to be noted.

[9] For more on debates surrounding the VofC approach, see the 2003 symposium in *Comparative European Politics* as well as Coates (2005), Hancké, Rhodes and Thatcher (2007) and Hancké (2009).

[10] See Ahlquist and Breunig (2011) on "model-based clustering" as a method to assess typologies empirically. Applying this method to data presented in Estevez-Abe, Iversen and Soskice (2001) and by Hall and Gingerich (2009), the authors find weak and conflicting evidence for the VofC typology.

[11] In marked contrast to Iversen and Soskice's (2009) emphasis on the "shadow of the 19th century," Soskice (2009) asserts that "the VofC analysis pertains to the different types of economies which emerged in the aftermath of the profound shocks which hit the advanced economies in the period from the late 1960s to the mid- to late 1980s" (p. 96).

[12] We have in mind not only the literature on electoral coalitions in a two-dimensional space, exemplified by Häusermann and Kriesi (2015), but also the literature on determinants of preferences for redistribution and social insurance (e.g., Lupu and Pontusson 2011, Alt and Iversen 2016, Häusermann, Kurer and Schwander 2016, and Rueda and Stegmueller 2016).

[13] De Vroey (2016) describes the trajectory of contemporary macroeconomics as one of convergence onto the "dynamic stochastic general equilibrium" (DSGE) approach spearheaded by Robert Lucas, with its strong emphasis on micro-foundations, forward-looking maximizing behavior, and general (as opposed to partial) equilibrium. This process of convergence also includes what De Vroy calls "second generation New Keynesian models" (see Clarida, Galì, and Gertner 1999). These models retain the basic structure and approach of Real Business Cycle models but add monopolistic competition and price rigidity, thus restoring the non-neutrality of monetary policy (in the short-run)–a basic tenet of New-Keynesian macroeconomics.

[14] The concept of the NAIRU is a theoretical hybrid, which can be given New Keynesian, Post Keynesian and Marxist interpretations. It shares some features with the "natural rate of unemployment, as conceived by monetarists, but note that the monetarist theory of the natural rate of unemployment is a theory of voluntary, as opposed to involuntary, unemployment. See Stockhammer (2008) for further discussion.

[15] Soskice (2000) arrives at similar conclusions by subtracting the current-account balance (in % of GDP) from the rate of unemployment.

[16] Analyzing how the response of the cyclically-adjusted government primary balance responds to changes in the output gap (the gap between potential and actual GDP), Amable and Aziz (2014) find that fiscal policy in countries that VofC scholars code as CMEs was actually more counter-cyclical than fiscal policy in countries that VofC scholars code as LMEs over the period 1980-2004. It should be noted, however, that Amable and Aziz include Nordic as well as continental countries in the CME category. As suggested above, Soskice expects the dynamics of fiscal policy to be different in the Nordic countries, on account of greater union encompassment and coordination.

[17] For introductions to PK macroeconomics see Lavoie (2009, 2014). See King (2002) for an extended discussion of debates among Post-Keynesian economists. The origins of the distinction between "New" and "Post" Keynesians date to the 1940s, with the "Post Keynesians" rejecting the "synthesis" by which the economy was conceptualized as "Keynesian" in the short run, due to price rigidities, and "classical" in the long run (as proposed by Hicks 1937 and Modigliani 1944).

[18] Endogenous money is another feature that many PK models share with the Carlin-Soskice model: see Lavoie 2014, ch. 4.

[19] It is noteworthy that recent research in the NK tradition finds that the Phillips curve is flatter than previously believed: see Blanchard (2016).

[20] 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.

[21] Interestingly, the most recent work by Carlin and Soskice incorporates a feedback mechanism between aggregate demand and aggregate supply, thus moving their model 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.

[22] See Adolph (2013) and Jacobs and King (2016) on the political nature of independent central banks. Stockhammer (2018) draws a sharp contrast between PK and NK perspectives on the role of finance as well as monetary policy.

[23] Needless to say perhaps, the idea of wage pressure as a source of productivity growth and economic restructuring is also a key feature of the well-known, distinctly not Post-Keynesian, Rehn-Meidner model (see Erixon 2018).

[24] As observed by an anonymous reviewer of this paper, applications of *both* PK and NK macroeconomic models to comparative political economy often run into a problem of over-determination, i.e., too many explanations compatible with the same (time-series cross-sectional) dataset.

[25] Ahlquist and Ansell's (2018) analysis of the impact of inequality on the growth of consumer credit in the pre-crisis period represents an important exception. See Soskice (2014) for critique of the neoclassical foundations of Piketty's explanation of the rise of top income shares.

[26] Pooling data from 18 countries over the period 1980-2009, Amable and Aziz (2014) find that fiscal policy under Left-leaning governments tends to be more counter-cyclical than fiscal policy under Right-leaning governments.

[27] The concept of social blocs also features prominently in Amable (2017), without our emphasis on the sectoral dimension of social blocs.