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► **To cite this version:**

Anke Hassel, Bruno Palier. Tracking the Transformation of Growth Regimes in Advanced Capitalist Economies. Anke Hassel; Bruno Palier. Growth and Welfare in Advanced Capitalist Economies. How Have Growth Regimes Evolved?, Oxford University Press, pp.3 - 56, 2021, 9780198866176. hal-03380959

HAL Id: hal-03380959

<https://hal.science/hal-03380959v1>

Submitted on 5 Dec 2023

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Chapter 1

Tracking the Transformation of Growth Regimes in Advanced Capitalist Economies

Anke Hassel and Bruno Palier

1. Introduction

Over the last three decades the literature in the fields of comparative political economy and welfare state research has become accustomed to standard typologies of advanced industrialized countries.¹ A whole generation of scholars of comparative political economy has analyzed the workings of liberal versus coordinated market economies, based on the basic distinction between degrees of coordination within economies (Hall and Soskice 2001). In the field of welfare state research, the seminal book by Gosta Esping-Andersen (1990) on the three worlds of welfare capitalism has provided a similarly elegant classification of three different types of welfare regimes. These contributions have been immensely important for the understanding of modern economies.

However, the key concepts were mainly based on an era which is known as the “Trente Glorieuses”, the thirty prosperous years following World War II. This era was characterized by a continuous level of high growth in gross domestic product (GDP) (4% on average in the Organisation for Economic Co-operation and Development (OECD) countries) and a low rate of unemployment (below 2% for most OECD countries). In all OECD countries, growth and job creation were based on vast productivity gains in mass production in manufacturing industries and on mass consumption, which were at the core of “Fordism” (Boyer 1990). This spectacular period of continuous growth and job creation was associated with the rapid expansion of the welfare state. Social spending increased fivefold between 1945 and the late 1970s in the OECD countries (Flora 1986). The development of the welfare state enabled a redistribution of the increasing wealth, but it also contributed to growth by supporting citizens’ consumption and by enhancing workers’ productivity through educational, training, and health policies.

Since the mid-1970s, however, in most OECD countries average growth rates have been lower and average unemployment levels higher than during the Trente Glorieuses. Unemployment levels have increased since the early 1970s by 5 to 10% and have more or less hovered between 5 and 15% since the 1980s in the OECD (Emmenegger et al. 2012). Moreover, the share of atypical employment in the overall OECD workforce (part-time and fixed-term combined) has grown from around 10% to country-specific levels of 25 to 35% (idem).

¹ We would like to thank Sonja Avlijas for her research assistance. This chapter received many comments during various presentations and seminars, and we are grateful to all commentators for their helpful insights. This volume is the result of research conducted since 2014 and has been supported by a public grant overseen by the French National Research Agency (ANR) as part of the “Investissements d’Avenir” programme at LIEPP (ANR-11-LABX-0091, ANR-11-IDEX-0005-02).

It has now become increasingly clear that advanced industrialized countries have undergone major economic restructuring since the 1970s. The internationalization and globalization of production, as well as the diffusion of information and communication technologies (ICT), have posed enormous challenges to mature industrialized countries. Deindustrialization is associated with job losses and declining growth rates and is having a strong, negative impact on the sustainability of welfare states (Pierson 1996).

During the process of restructuring, countries' socio-economic systems have changed. The Netherlands, once viewed as a classic coordinated market economy and traditionally a conservative welfare state, today has the biggest private system of pension funds in the Western world (measured as % of GDP). Sweden, a coordinated market economy known for its generous and egalitarian welfare system, has experienced rapidly rising levels of inequality, in particular among household incomes. On the other hand, countries classified as liberal market economies, such as the United Kingdom, Australia, and New Zealand, have higher minimum wages (measured in % of average hourly pay) than Germany, Belgium, and the Netherlands (Schulten and Lübker 2019), which are traditionally classified as coordinated market economies. In Western Europe, Germany is the country with the largest low-pay segment as of 2019 and has had the biggest increase in working poor since the late 1990s (Spannagel et al. 2017). The established wisdom that divided the advanced industrialized world into two camps of socially-balanced, Continental European economies versus unequal, Anglo-Saxon economies should be revisited. Also, welfare systems today function and redistribute differently compared to forty years ago because they have been the object of many reforms since the 1990s.

The aim of this book is threefold: first, to further our understanding of how political economies have transformed since the 1970s; second, to analyze the contribution of governments to these changes by looking at their growth strategies; and third, to highlight and analyze the role of the reforms of welfare systems in this transformation. In a nutshell, this book aims to map and understand the evolution of growth regimes in advanced capitalist countries of the OECD.

The rich research tradition in comparative political economy on the importance of patterns between the structures of the economy, economic policies, employment policies, skill formation schemes, and social protection systems is the starting point of our analysis. We situate ourselves in the French school tradition of “regulation” (Boyer 1979, Théret 1997), the varieties of capitalism (VoC) approach (Hall and Soskice 2001, Estevez-Abe et al. 2001, Crouch and Streeck 1997, Iversen and Soskice 2015), and the welfare capitalism literature (Esping-Andersen 1990, Ebbinghaus and Manow 2004). These contributions to the literature, which will be discussed below, are the foundation for understanding the interconnection between economic development and the welfare systems in advanced industrialized countries. However, as noted earlier, these approaches were deeply rooted in the Fordist era of economic development. We now need to update and expand them to analyze recent developments of economic restructuring, where national political economies face financialization and the knowledge economy (We come back on the details of these trends and the ways countries have been facing them in section 4).

It is by looking in detail at how various governments have tried to boost job creation through growth (as in GDP per capita) that this book contributes to understanding the transformation of advanced political economies. For this we have gathered prominent scholars of comparative political economy who provide their own views on these transformations and how to analyze them. The chapters in this book provide a number of distinct analyses of how economies and welfare systems have been adapted to the common challenges of post-industrialization, financialization, and the knowledge economy. They show that, despite the global interconnectedness of modern economies, national trajectories of growth and policy-making remain distinct.

In section 4.5 of this chapter, we identify five main growth regimes in contemporary advanced capitalist economies: three export-led growth regimes and two domestic demand-based growth regimes. As shown in the concluding chapter of this volume, these five growth regimes are supported by specific growth strategies based on particular welfare reforms: export of high-quality manufacturing (to be associated with dualization of welfare); export of dynamic services (to be associated with social investment); foreign direct investment (FDI)-financed export-led growth (to be associated with fiscal and social attractiveness); domestic consumption driven by financialization (to be associated with commodification of welfare); and domestic consumption driven by wages and welfare (to be associated with social protectionism). Under European Union (EU) pressure, this last strategy turned rather into a “competitiveness through impoverishment” one. These strategies are not mutually exclusive but, in many cases, there is a dominant strategy which policy-makers rely on in the decision-making process (see Avlijas et al. in this volume).

The variety of answers to the challenge of the knowledge economy is a testimony to the persistence of different growth and welfare regimes even among the advanced industrialized countries, as the VoC and the welfare regime literature have argued. But there has been immense transformation of these regimes. This book shows that, by tracing the implementation of the various growth strategies followed by governments and particularly their welfare system reforms, we can understand how growth regimes have changed and what they have become.

By way of introduction to the various chapters, we prepare the common ground for understanding the evolution of advanced political economies in the remaining parts of this chapter. We start by recalling the main questions, approaches, and current debate on the dynamics of capitalist development in the comparative political economy literature. In a second step, we revisit the terms of the various approaches considered, present our framework of analysis and explain why we choose to speak of growth regimes and growth strategies. Third, we present the main economic challenges capitalist economies have been confronted with (ie financialization and the rise of the knowledge economy) and underline the fact that, despite common challenges, the economies have remained distinct. As explained below, the existence of a variety of growth regimes in advanced capitalist economies opens the general question of how to understand these different developments, a task undertaken by the various chapters of this book. We summarize the main contributions of those chapters in the final section of this chapter. In the conclusion of this volume, we and our colleague Sonja Avlijas rely on these contributions to propose our own view on how growth regimes have evolved

2. The dynamics of capitalist development

In the 1990s, there was a period of convergence in the theory and research of various strands of the comparative political economy literature (Crouch and Streeck 1997, Hall and Soskice 2001, Amable 2003; for a summary of the different approaches see Box 1.1). The institutional configurations of national political economies were seen as the main category of distinction between countries with a strong emphasis on the interdependence (or “institutional complementarities”) between the mode of corporate finance, innovation, and the use of human resources within firms that compete on international markets. Non-liberal forms of market economies displayed a number of features that were in stark contrast to liberal English-speaking countries, such as the concentrated ownership of firms, plant-level cooperation between workers and managers, higher levels of and more specific skills in core industries, and pathways of specialization in different technologies and industries. These theories also underline that core aspects of the welfare systems, such as the provision of skills and social protection, became a major feature of economic organization and development (Estevez-Abe et al. 2001, Amable 2003). Such literature focused merely on providing the most relevant and parsimonious depiction of the various types of capitalist economies.

Box 1.1: Different approaches to comparative political economy

The Regulation School: The Regulation School analyzes patterns of production, consumption, and distribution through the lens of capital accumulation over time. It is based on an analysis of the Fordist production regime in which mass production was combined with sharing the value added with workers at full capacity and full employment (Boyer 2000).

Varieties of Capitalism (VoC): The VoC theory (Hall and Soskice 2001) states that there are several ways to organize the economy and create growth. It assumes that leading firms in national political economies are governed by sets of institutions that affect their strategic behavior when making business decisions. Firms need to employ labor, capital, and technology in order to produce for markets. The way the labor market, capital market, and transfer of technology are governed is, therefore, crucial for firms. The theory argues that some countries govern these relationships via coordination, while others rely on market mechanisms. The VoC theory does not make assumptions about growth trajectories but maintains that it is essential for these institutions to be complementary. It is essentially a supply-oriented model for explaining the different behavior of firms.

Welfare Capitalism: Esping-Andersen’s *Three Worlds of Welfare Capitalism* analyzes the three main types of welfare regimes and their role in stimulating economic prosperity. It focuses on the degree of de-commodification of labor through the welfare state and the underlying politics shaping the welfare state (Esping-Andersen 1990).

As we are reminded in Peter Hall’s chapter (this volume), advanced capitalist economies have gone through three consecutive historical sequences since World War II: Fordism, the era of liberalization and the era of knowledge-based growth. These two periods have seen tremendous changes for growth regimes. We come back here on the main arguments raised in the comparative political economy literature on these two last periods.

2.1 Neoliberalism and liberalization of capitalist political economies

The dynamics of capitalist development have always challenged the notion of stable models. In comparison to feudal and premodern economies, capitalist market economies are based on expansion, growth, and increasing marketization (Streeck 2016). The economic development of the last 150 years does not suggest that anything in capitalist development is static or fixed. The task is, therefore, to develop an understanding of the relationship between institutional configurations of national economies which – as defined in the VoC literature – are conceived as mechanisms of stability and equilibrium, with various exogenous and endogenous dynamics of change.

National institutions of the post-war period, such as labor market regulation, collective bargaining, tight capital market regulation, and social policies, were part of the social order that allowed market economies to develop. They are the social foundation on which market transactions can take place. But they are bound to the historic period when they were politically imposed. There is no reason to assume that they will survive or remain effective if the political forces that brought them there cease to be strong and prominent. In other words, if regulations and institutions are not guarded and enforced by social and political actors, the rules governing capitalist markets will not be sustained. As firms and financial market actors have started to abandon those rules and turned towards rule-breaking (through tax havens and profit-shifting), the rules might eventually break down. The transformation, undermining, and perhaps even destruction of these rules are discussed in the literature around the notion of liberalization imposed by neoliberal ideas and interests.

The most radical proponent of a theory of capitalism as a process of unlimited market expansion is Wolfgang Streeck. Drawing on Schumpeter (1975 [1942]), he argues that change is inherent in capitalism. While Schumpeter refers to changes in consumer taste, products, and industrial organization and does not suggest a particular direction of change, Streeck argues that change in contemporary capitalism is directed towards liberalization, as market actors redefine the rules in order to expand the market and their market share. This induces a bias towards privatization in the social order of societies, which ultimately leads to a contestation between entrepreneurs, who aim to destroy social rules, and political actors, who aim to maintain social order (Streeck 2009, 246). When economic actors, investors, and firms pursue liberalization, a Polanyian social countermovement is needed to impose social obligations on them. If a social countermovement is not in sight, capitalism will ultimately destroy the social fabric it feeds off and, therefore, die (Streeck 2016).

A counterargument on the survival of capitalism is presented by Iversen and Soskice (2019), who also assume that political forces are necessary in order to enforce constraints on market actors for the sake of general prosperity and growth. In contrast to Streeck, who argues that political actors are weak, Iversen and Soskice propose that the middle classes, whose living standards depend on functioning economies, expect political parties to employ the right economic tools for economic development, such as enforcing competition and restraining monopoly rents. They claim that the democratic process that appoints governments in the interest of the majority of the electorate, who are assumed to have a strong interest in growth,

protects market economies from their own destruction when facing challenges such as the transition to the knowledge economy and the threat of populist movements. They echo the increasingly important emphasis on electoral politics in the study of comparative political economy, as in Bermendi et al. (2015).

Many accounts in the comparative political economy literature are posited in between these two radical propositions and have more nuanced arguments regarding the dynamics of capitalist development and the role of national institutions. The authors in this edited volume have taken varying positions on the continuum between the potentially destructive forces of radical liberalization highlighted by Streeck and the nuanced process of stability and change outlined by Iversen and Soskice.

Some parts of the literature have embraced the trend towards liberalization as a key characteristic of economic development since the 1980s, sometimes attributing to neoliberalism the capacity to impose convergence towards one distinct political economy. For instance, Baccaro and Howell (2011, 551) have argued that a “common imperative of liberalization, is changing the landscape of European industrial relations along a similar trajectory.” The weakness of collective actors to impose rules on the labor market is driven by deindustrialization and economic restructuring (Baccaro and Howell 2011). Beginning in the mid-1970s, many governments embraced financial liberalization, reforming capital markets and corporate governance regulations (Culpepper 2011, Cioffi and Höpner 2006). Since the mid-1990s, advanced political economies have started to display rather strong evidence of transformative change, in particular in Continental European, non-liberal market economies. Labor market regulation was loosened, unemployment benefits were cut, and activation policies introduced more market mechanisms and less protection. Neoliberalism has been frequently blamed and identified as a driver for change towards liberalization.

But rather than uniform processes of liberalization, Thelen (2014) has identified different types of trajectories in different countries, which vary particularly with regard to the effects on social cohesion and solidarity. Thelen points out that the Nordic countries employed a much more solidaristic pattern of liberalization compared to Germany or France, where liberalization led to deep segmentation between insiders and outsiders (Martin and Thelen, 2007; Palier and Thelen 2010; Hassel 2014; Thelen 2014). In effect, the literature on liberalization has shown that market economies are changing, but in terms that, rather than converging toward a single political economy, leave them different from each other, despite the liberalizing reforms in many countries (Hall and Thelen 2008). Firms adjust to regulatory change, but are still bound by other institutions in the economy in which they are situated. There is no clear and unifying path towards liberalization. What is missing in this literature however is the analysis of the role of finance capitalism in driving these changes, as we will develop further in section 4.

2.2 Entering the knowledge-based economy

While most of the literature in comparative political economy remains centered on liberalization and neoliberalism and neglects the impact of the turn towards services and knowledge-based capitalism, the comparative welfare state literature features many analyses of

deindustrialization and the development of the knowledge-based economy. The knowledge economy relies more on intellectual capabilities than on physical inputs or natural resources and is characterized by a higher pace of technical and scientific advance (Powell and Snellman 2004). Here again, it has become clear that, while deindustrialization has hit all industrialized economies – although at varying speeds – the implications are country-specific.

There is a strong argument that deindustrialization reinforces the importance of the welfare state and has made social protection more important rather than less (Iversen and Cusack 2000). By the same token, how the transition towards the knowledge economy actually takes place depends, at least in part, on the type of coordination in the economy and welfare state institutions. Wren (2013) has shown that liberal, social-democratic, and Christian-democratic welfare states have taken different paths towards the service economy, in particular with regard to their underlying educational systems. As high-productivity service sectors require certain skill sets, the institutions of the welfare state become important for facilitating the transition. Zysman et al. (2010) argue similarly that the rise of ICT and the knowledge economy has had particular implications for national economies. They found that social policies and educational and labor market regulation have provided crucial institutional and regulatory preconditions for making the transition fruitful and compatible with social cohesion.

Deindustrialization and the challenges of the service economy are also the starting point of analyses of electoral and policy changes in advanced industrialized countries. Beramendi et al. (2015) analyze changes in the occupational composition of the electorate of such countries and identify different policy preferences vis-à-vis the welfare state. The massive increase of high-skilled service sector jobs and the decline of low-skilled manufacturing jobs have changed the electoral landscape that policy-makers face. Important policy trade-offs emerge, particularly with regard to what they call “consumptive” versus “investive” policies. Old-style, low-skilled, manufacturing workers prefer consumption over investment, while the new educated middle class (service sector workers and professionals) have the opposite preference. Also, different electoral groups see the state’s role as intervenor differently (Beramendi et al. 2015). According to this perspective, countries can be classified into types according to the strengths and composition of groups in the labor market. The grouping resembles that of Esping-Andersen, with Southern Europe as a separate group. Beramendi et al. (2015) assume that policy responses, particularly with regard to welfare state policies, are more or less likely depending on these compositions and the coalitions they enable. Their types describe the new policy space under deindustrialization and predict the most likely policy outcomes.

2.3 Tracing national trajectories of growth regimes

The chapters in our volume help trace and analyze the various trajectories followed by different existing growth regimes and welfare systems as they have been affected by and adjusted to the changes brought about by the historical sequences of liberalization and deindustrialization. They demonstrate that liberalization and neoliberal policies have indeed been pursued by many governments and have transformed existing national regimes. However, the chapters do not subscribe to the perspective that the political struggle to rein in economic power has been lost nor that capitalism is dying. The control of democratic governments over business and, in

particular, financial markets has become more of an imperative in the new economic climate as financialization and the political power of financial market actors have risen. Even ten years after the financial crisis of 2008, governments have to deal with the fallout through the regulation of banks and tax havens, as well as dealing with higher levels of public debt. The chapters also show that, despite a general trend towards deindustrialization, some countries continued to rely on the manufacturing industry for their growth, while others shifted towards dynamic services.

In the process of economic restructuring, governments often pursue different policies that are sometimes contradictory and serve different constituencies. Contestation over policy responses drives and shapes the development of these economies until a new path is found. In these processes of transformation, national growth regimes are, however, still relevant for analysis, as policy-making is overwhelmingly national and, for EU countries, only partly European.

Many chapters show that the perspectives focusing on the different ways nations have organized their economy (such as those provided by VoC or the Regulation School) continue to provide relevant insights into understanding the evolution of political economies, even in a global setting. We contend that the “VoC” and “regulation” frameworks must be applied, not as coherent and static economic regimes, **but as contested political space**, where institutions work best if they are complementary. In order to understand the dynamics of change, our volume adds to these traditional perspectives (and does not seek to substitute them), taking into account the demand drivers for growth, as well as the role of electoral demand in the contestation and recomposition of existing institutions.

While the patterns of adjustment vary, the degree of freedom for governments is limited. Financialization, deindustrialization, and the knowledge economy pose challenges to all economies. How some governments have managed to turn these challenges into opportunities is not random, but comes out of their institutional toolbox, which is made up of the existing growth regimes and welfare systems, as discussed in the next section.

3. Growth, regimes and strategies

In this section, we review the various concepts used in comparative political economy to analyze the way economies are organized and introduce our understanding of “growth regimes” and “growth strategies” that will be used by the authors in this volume (see Box 1.2 for a summary). We also highlight the role welfare systems play in the functioning of growth regimes.

Comparative Political economy helps understand the various ways to organize the economy. The literature however proposes different dimensions to be taken into account for these classification. While VoC focused on the supply side, the French Regulation School argued, especially when they analyzed the “Fordist” growth regime, that the interaction between the demand and supply sides is key (Boyer 1979). Moreover, as the recent literature on growth models argues, the demand side and its composition matter too, and governments need to balance both sides of the economy in order to provide prosperity (Baccaro and Pontusson 2016

and this volume). We thus propose that, in order to capture the main differences between various political economies, we need to combine (and not substitute) an understanding of how the supply side of the economy adjusts to existing and changing institutions with an analysis of how aggregate demand is driving economic growth. In the following, we argue in favor of a comprehensive approach that emphasizes the relationship between the supply and demand sides. This is particularly important when focusing on growth regimes and the role played by welfare institutions in them. The institutions and policies of welfare systems play important roles in balancing both sides of the economy. The welfare state offers key instruments to governments, which they employ to shape and pursue what we call their growth strategies. However, different policies correspond to different growth strategies, which in turn impacts overall economic and social performance.

Since the onset of the era of low growth that started in the late 1970s in advanced economies, governments have tried to stimulate growth in various ways that interact with the structural changes in capitalism, including financialization and the knowledge economy. Their policies were shaped by existing institutional arrangements, as have been identified in the comparative political economy literature. However, these policies very often mean reforming existing economic and social institutions. The policies aimed at boosting growth have thus in return contributed to change these existing institutions. Hence, growth regimes have evolved since the 1980s, and the differences between institutional regimes today appears even more diverse than the basic distinction between liberal and coordinated market economies identified in the 1980s (Hall and Soskice 2001). It is today more complicated than ever to cluster advanced economies into only two groups.

3.1 Demand and supply – the two sides of growth

There is currently a lively debate amongst political economists on the best way to qualify and analyze the different ways in which economies are organized.² The VoC literature focuses on the production side (supply side) of the economy and its institutional configuration (Hall and Soskice 2001), while others argue that the consumption side (demand side) and its composition are most important (Baccaro and Pontusson 2016 and this volume). We contend that what matters most is understanding how supply and demand interact in order to forge a specific growth regime (see also Boyer 1990).

Focusing on the supply side and firms' behavior, the VoC literature provides a very stylized, but quite compelling, distinction between two types of economies that, at least implicitly, correspond to two different growth regimes. Varieties come from the different institutional arrangements in which firms operate. Firms adjust to their institutional environment in order to develop specific competitive advantages. Hall and Soskice (2001) point to the main institutional structures that condition corporate strategies: the financial system and corporate governance,

² See, for instance, the debate via commentaries in *Politics and Society* (issue 44, number 2) around Baccaro and Pontusson (2016).

the internal structure of firms, industrial relations, the education and training system, and the institutions organizing inter-company relations. As they argue:

The firms located within any political economy face a set of coordinating institutions whose character is not fully under their control. These institutions offer firms a particular set of opportunities; and companies can be expected to gravitate towards strategies that take advantage of these opportunities. In short, there are important respects in which strategy follows structure. For this reason, our approach predicts systematic differences in corporate strategy across nations, and differences that parallel the overarching institutional structures of the political economy. (Hall and Soskice 2001, 15)

We take from this approach that institutions and the interdependence of institutions matter in shaping firm strategies and comparative advantages. We follow their assumption by stating that that these institutional arrangements structure constraints and opportunities also for governments and shape governments' strategies, decisions, and policies.

Hall and Soskice (2001) distinguish between two main institutional arrangements that shape two main types of capitalism. Coordinated market economies (CMEs) are characterized by a multiplicity of coordinating and deliberating institutions. CMEs are based on non-market mechanisms, such as organizational interaction and long-term relationships in industry and employment. Workers and firms invest in specific skills, which are insured by welfare state policies, such as unemployment insurance or old-age insurance (Estevez-Abe et al. 2001). CMEs have specialized in manufacturing industries that produce for world markets and tend to have trade surpluses. They benefit from prudent monetary and fiscal policy and put strong emphasis on wage control, in order not to endanger their competitive position (Iversen and Soskice 2012). The Nordic and Continental European countries are both classified as CMEs.

In liberal market economies (LMEs), by contrast, economic relations are governed by market mechanisms. LMEs are based on deregulated markets, general skills, and a universal, but minimalist, welfare state. They tend to have trade deficits and specialize in radical innovation as well as financial services. Their approach towards monetary and fiscal policy is more accommodating, as prudent policies will not help to control wages. In LMEs, corporate financing is dominated by the stock market, wage levels are determined by individual productivity, and workers have an interest in acquiring general skills, in order to have flexibility in an industry at the mercy of economic cycles and technological revolutions.

However, more detailed analyses invite us to differentiate among these two families. In addition to the finer distinctions between Nordic and Continental CMEs (Thelen 2014), one needs to provide a nuanced understanding of the mixed market economies (MMEs) of Southern Europe and France (Molina and Rhodes 2007; Beramendi et al. 2015) and the Visegrad countries of Eastern Europe (Nölke and Vliegenhardt 2009, Bohle and Greskovits 2012).

Integrating the insights of the Regulation School and the comparative welfare state literature with the VoC account, Bruno Amable distinguished five types of capitalism³ (Amable 2003). Like other comparative political economists, he also considers that institutions shape economic relations, but he proposes a new definition of these institutions, in order to better understand the differences between (the five) types of capitalism. He shows that between various types of capitalism, institutions differ in the areas of product market competition, labor market and labor relations, social protection, education systems, and financial systems (Amable 2003).

On the other side, the “growth model” literature, in particular Baccaro and Pontusson (2016), propose to re-emphasize the role demand plays in economic growth. They offer “to distinguish three different alternatives to the traditional Fordist model of wage-led growth: consumption-led growth financed by credit, investment-led growth and export-led growth” (2016, 186). They focus on what they consider to be the two main models: the consumption-led and the export-led growth models, with four possible cases: Germany, relying exclusively on exports; the UK, driven by domestic demand (financed by credit); Sweden, as a combination of consumption and export; and Italy, where neither exports nor consumption seem to work. In their discussion of Baccaro and Pontusson’s paper, Hope and Soskice (2016) agree that one should distinguish between export-led and demand-led growth models, but they argue that this just confirms VoC, in the sense that LMEs are usually domestic consumption-led, whereas CMEs rely more on exports. We can indeed notice that CMEs are more oriented towards export-led growth (we document this later in this chapter). In LMEs, private consumption remains comparatively high, while in a CME like Germany, it is comparatively low (Hassel 2017).

Export-led growth is associated with a regime in which economic relationships are negotiated and controlled by economic players (employers and unions), who have coordinated interaction, especially with regard to wage-setting and training. In many CMEs, wage-setting is the central object of negotiation. High levels of centralization and the coordination of wage-setting help to contain wage pressure and, therefore, control the real exchange rate. They also contribute to a compressed wage structure, which gives incentives to train the low-skilled and asks the high-skilled to forego higher wages. Wage moderation allows for higher investment. All these elements are conducive to the competitiveness of exports. Fiscal and monetary policies are rather restrictive, due to the high share of exposed sectors in the economy (Hall and Soskice 2001; Scharpf in this volume). By contrast, LMEs have a tendency to rely more on domestic demand for their growth, which can be associated with a regime where dynamic services, and especially the financial sector, play a bigger role (and allow access to consumption through credit, see Crouch 2009 and 2013).

The focus on aggregate demand by the “growth model” literature is a necessary complement to the previous literature focusing on the supply side of the economy and does not seem to contradict its classification of the economies, but rather enrich it. However, once again, a mere binary distinction (here the role of exports versus domestic demand in stimulating growth), while elegant in its simplicity, overlooks the stark differences between economies, such as the

³ Neoliberal or market-based capitalism, Continental European capitalism, social-democratic capitalism, Mediterranean capitalism, and Asian capitalism.

United States and France, on the one hand (both recognized as domestic, demand-led growth models), and Sweden and Germany, on the other (both belonging to the realm of export-led growth models). These countries differ significantly on other accounts, such as their level of financialization, ICT use, private debt, the capacity to use currency devaluation, as well as their levels of inequality, and ultimately their rates of economic growth and employment. As acknowledged by Baccaro and Pontusson (2016), we need to further the analysis of the variety of domestic demand-led and export-led growth models, their origins, and implications.

In order to do so, we need more details and understanding of the nature of exports, as well as the nature of domestic demand. Different types of export-led growth models have developed, based on the export of manufacturing goods versus dynamic services, as well as the various degrees to which these exports are price sensitive or based on quality and innovation. Also, on the side of domestic demand, it is important to distinguish between different types of domestic consumption-led growth, depending on the drivers of demand, which can be dominated by wage increases or be financed by private debt or by public spending on social benefits.

Instead of juxtaposing the demand-focused growth model perspective of Baccaro and Pontusson with the more supply-side VoC perspective of Hall and Soskice, we propose an augmented synthesis with our own approach in terms of “growth regimes”. Adopting a growth regimes perspective allows us to gather the insights of both perspectives and provide a more detailed and differentiated account of existing regimes, while also examining the evolution of growth regimes.

3.2 Growth regimes

A growth regime, in its broadest sense, is a mode of governance of the economy. It encompasses the institutional, policy, and organizational frameworks that shape the specialization of firms and the consumption and saving patterns of the population, as well as the use of technology and work organization. A growth regime can be based on a particular type of innovation, the evolution of a particular high-value-added industry, the use of fiscal and monetary policy, and policy instruments that affect the employment rate and human capital. The (welfare) state is an important component of growth regimes for economic management.

Growth regimes, therefore, not only include all the components of the neoclassical model of growth, in particular labor, capital, and technology, and the specification of aggregate production functions, but, moreover, they give them a particular framework. While neoclassical growth theory has become more sophisticated in specifying particular aspects of the production function, such as consumer behavior, it is generally not interested in the institutional and policy configurations, either between countries or across time, beyond a very general view on institutions such as property rights (Acemoglu and Johnson 2005). The inclusion of a variety of institutions, sectors, and policies (including social protection policies) distinguishes different types of growth regimes. In order to emphasize the interaction and complementarity between the various components of each institutional configuration, we use the notion of regime and “growth regime” rather than “growth model”. We use the terminology of “growth model” when we refer to the literature focusing on the demand side of the economy.

We consider that there are three main important aspects of growth regimes:

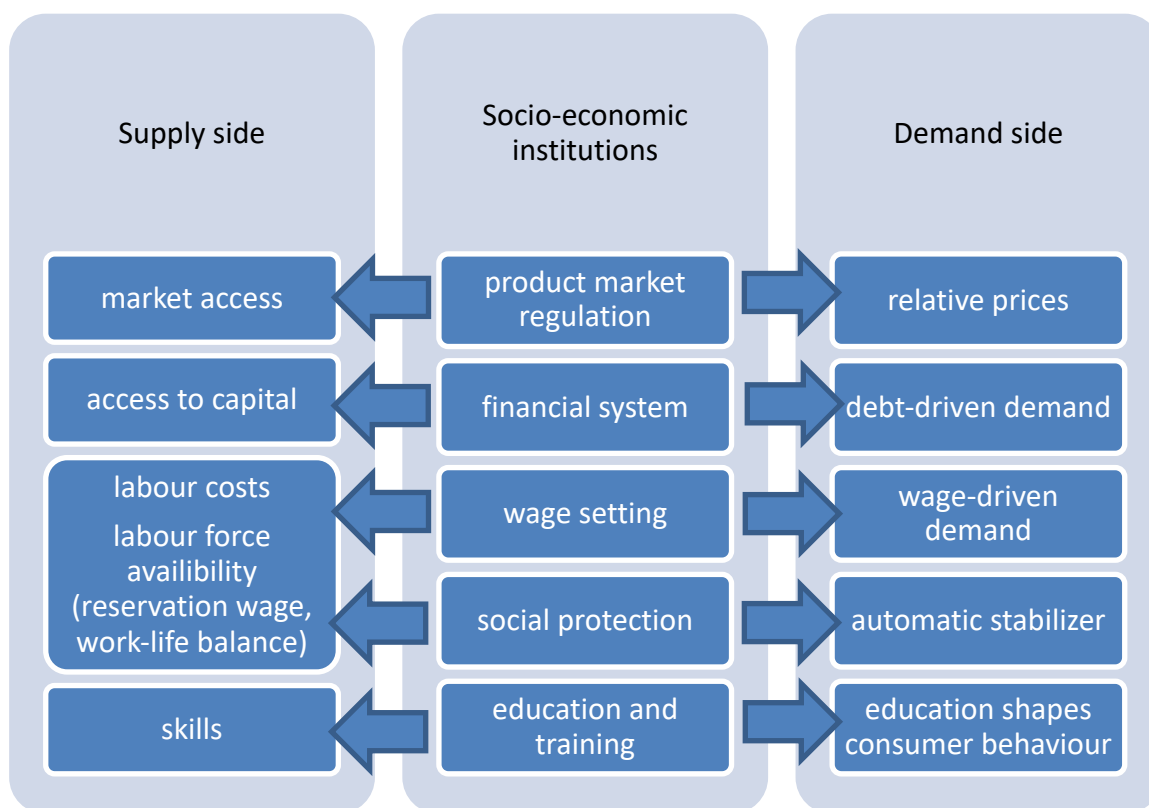
- **The engine of growth** as the sectors that contribute to wealth creation, job creation, and productivity gains: i.e. agriculture, manufacturing, services (high/low value-added services), finance, housing, knowledge-based activities, and ICT.
- **The institutions organizing the economy:** 1. the modes of financing the economy and corporate governance; 2. product market regulation (including industrial policies, subsidies, state ownership); 3. industrial relations, modes and rules of wage-setting, labor market rules and organizations; 4. skill-formation systems (education and vocational training); 5. social protection policies (social insurance, social investment and social assistance).⁴
- **The main components of aggregate demand:** private consumption (household and firms), private investment, public spending (consumption and investment), and net exports (Baccaro and Pontusson, 2016).

Our understanding of growth regimes is comprehensive and embraces both the demand side and the supply side of the economy (Figure 1.1). It assumes that socio-economic institutions, as established in the comparative political economy literature, shape the key dynamics of growth. As is demonstrated by many chapters in this volume, these institutions inform both the supply and demand sides. For instance, wage-bargaining institutions, on the one hand, support the skill-formation system, as centralized wage-bargaining provides wage limits for skilled labor. In tandem with different kinds of training institutions, welfare systems and wage-bargaining institutions prop up particular skill patterns and, thereby, form a skills regime (Chevalier this volume). At the same time, wage-bargaining institutions determine the wage structure in an economy, which, in turn, affects the demand side (Baccaro and Pontusson; Johnston this volume). Higher wage increases, as well as lower levels of wage inequality, should prompt higher levels of domestic demand. Similarly, equity-based corporate finance and fluid capital markets facilitate financialization, which impacts the demand side by creating credit (Reisenbichler this volume). On the other hand, the fluidity and availability of corporate finance also interact with opportunities for radical innovation on the supply side (Wren this volume).

In a specific growth regime, the interaction between the supply and the demand sides of the economy are influenced by the same economic institutions. These institutions also prompt economic actors to specialize in particular kinds of economic activities and political actors to attempt to support and reinforce these specializations with their economic policies. In section 4.4 of this chapter, we identify five main growth regimes in contemporary advanced capitalist countries.

⁴ We elaborate here on the five institutions already identified by Amable (2003).

*Figure 1.1: The institutional foundations of growth regimes*⁵



3.3 Growth and welfare regimes

Few welfare state researchers have tried to connect welfare regimes to the varieties of capitalism and growth regimes⁶. This might partly be because very often social policies are perceived as an attempt to compensate for the most negative impacts of capitalism, and thus one rarely analyzed in their connection to, and their positive interaction with, the economy (Iversen and Soskice 2015). Iversen and Soskice (2015, 82) remind us that

social protection (including job protection, unemployment benefits, income protection, and a host of related policies, such as active labor market programs and industry subsidies)

⁵ We would like to thank Georg Picot for helpful suggestions improving this graph.

⁶ Martin Schröder (2009, 2013) is an exception. He shows that there is one constant in the literature and in the data that he correlates: all LMEs have a liberal welfare regime. He also points out that CMEs either have a conservative, corporatist welfare state or a social-democratic one. Schröder speaks of “cultural affinities” that link welfare and growth regimes, but he overlooks the economic relations between the two and the way welfare institutions interact with economic activities and growth regimes. For a very interesting discussion of the incompatibilities between “worlds” (of welfare) and “varieties” (of capitalism), see Schelkle (2012).

encourages workers to acquire skills that are co-specific to employers, which in turn enhances the ability of firms to compete in international markets. Central features of the welfare state are thus linked to the economy in a manner that creates beneficial complementarities.

More generally, the welfare state occupies a prominent place in the VoC literature. Coordinated and liberal market economies are not defined but underwritten by important functions of the welfare state. As noted earlier, CMEs are based on non-market mechanisms, such as long-term relationships between employer and employee groups. The skills in which workers and firms invest are insured by welfare state policies, such as unemployment insurance. In LMEs, by contrast, economic relations are governed by market mechanisms, by which wage levels are determined by individual productivity. LMEs tend to feature a universal, but minimalist, welfare state. Workers have access to social protection, such as health insurance, mainly through their job contract.

Bruno Amable is certainly the one who underlined most clearly the role of welfare policies in the functioning of growth regimes. As noted earlier, in his definition of the institutions organizing the economy, he distinguishes the areas of product market competition, financial system, labor market and labor relations, education systems, and social protection (Amable 2003). As he demonstrated, for each type of political economy, the functioning of and differences in the skill-formation systems and the way the labor market and the welfare systems are organized are crucial.

Taken together, these sets of institutions (educational system, labor market rules, and social protection) are key elements of what the comparative welfare state literature would call “welfare regimes”. Comparative research has shown that these three key elements often (but not always) systematically complement each other, and thus work as a system to form a “regime” (Esping-Andersen (1990) speaks of different “welfare regimes” to characterize his three worlds of welfare capitalism). For instance, centralized wage-setting institutions go hand-in-hand with more comprehensive social protection systems and often focus on mid-level (specific) skills, whereas decentralized wage-setting and a low-regulated labor market go hand-in-hand with educational systems that provide general skills (with little involvement from both the state and employers) and residual social policies.

Education, labor market regulation, social insurances, and other social policies thus contribute to both the supply and the demand sides of the economy (see Figure 1.1). In this sense, the welfare regime is an integral part of growth regimes. On the demand side, these elements provide certain sources of demand (assistance benefits, unemployment benefits, old-age pensions, etc.), act as automatic stabilizers, and can also provide a minimum reservation wage. On the supply side, they can contribute to increasing productivity and increasing employment through specific employment policies and/or education policies. Welfare systems provide different types of skills that are employed in different production regimes (Estevez-Abe et al. 2001; Streeck 1991). Unemployment insurance and other social insurance, associated with specific employment statuses, protect skill acquisition. In the last chapter of this volume, Avlijas et al. detail the various configurations to be currently found between growth regimes and welfare regimes in Europe.

The interplay between the supply and demand sides of a national economy remains the key variable in the political toolbox of governments when attempting to stimulate economic growth. The chapters in this volume provide analyses of the dynamics of policy-making in the context of different growth regimes when facing new challenges. Governments can choose to spend to increase demand or to improve the supply side by enhancing skills or markets. When governments employ policy tools to adjust both sides, they encounter trade-offs, decisions regarding priorities, and calculations of political costs. In the end, governments choose a combination of supply and demand policies. Besides political and electoral factors, the choice of instruments is also shaped by the institutional environment of the economy and, particularly, by the dominant economic sectors in a country.

3.4 Growth strategies

As the world is changing, we need to improve comparative political economy theories to help us understand how the various ways of organizing the economy are changing. Our volume shows that growth regimes have indeed changed over time and that these changes are largely due to reforms implemented by governments and collective economic and social actors, such as employers' representatives and trade unions ("producer groups" in the political economy literature).

The series of decisions taken by governments are not random. They define a specific way to stimulate growth and job creation. They are taken in particular institutional and economic contexts and reflect specific political compromises. Taken together, they form a more or less coherent set of (economic and social) goals and (economic and social) policies that we call "growth strategies". ***By growth strategy, we refer to a (relatively coherent) series of decisions and reforms, taken by either governments or producers' groups (economic and social actors) in order to boost growth and stimulate job creation in a specific nation, and the rationale for these decisions.*** Governments develop either explicit or implicit growth strategies. Speaking of strategies does not mean that governments know what the consequences of their actions are (see below), but that they have some intention, that they follow a general aim to boost employment and growth, and that there is (some) coherence in a series of economic and social policy decisions.

To give examples of what we mean by "growth strategies", one can refer to the most explicit ones, like those formulated by international organizations. In 1993, the famous World Bank (1994) report on "averting the old-age crisis" presented its new pension model and the reforms leading to it as a growth strategy.⁷ One could also refer to the "Jobs Strategy" developed by the

⁷ The full title of the report is: *Averting the old age crisis: policies to protect the old and promote growth* (World Bank, 1994), the argument being that switching from PAYGO pension systems to fully-funded schemes would both preserve future pensioners from the negative impact of demographic imbalances and create funds that would attract and increase investments in the economy.

OECD (1994) during the 1990s: the aim was to promote (liberalizing) labor market reforms in order to boost job creation.

At the EU level, in 2000, the Lisbon Strategy was explicitly presented as a “growth strategy”. It aimed to “make Europe’s economy the most competitive and dynamic knowledge-based economy, capable of sustainable economic growth with more and better jobs and greater social cohesion” (EU European Council 2000). The details of this strategy include many different aspects from investment in research and development to the modernization of social protection systems. Adopted in 2010, the following “Europe 2020 strategy” focused on “smart, sustainable and inclusive growth”, including specific social policies and reforms. Within these strategies, a diagnosis of the structural changes in the economy (such as the evolution of the knowledge-based economy) and in societies (such as aging or the entry of women into the labor market) is put forward, and then prescriptions on what governments should do to reorient their economies and favor growth and job creation are presented (all these ideas correspond to what Peter Hall calls a specific “economic Gestalt” in his chapter). When following these strategies, governments are supposed to reform some of the institutions that are constitutive of a growth regime and thus have the potential to transform the existing one. All the strategies referred to above imply important reforms in the labor market, education, training, and social policies.

While international organizations explicitly use the terminology of “growth strategy”, national governments are less explicit. Presenting and analyzing the national logic of action, the manner in which various economic factors are agreed upon to find a specific way to boost growth and jobs, and the coherence of the policies and reforms implemented is more a task undertaken by social scientists. We assume that, when looking at economic and social reforms implemented in a country, one can detect a strategy, ie “a pattern in the stream of decisions” to refer here to Henry Mintzberg’s approach to strategy (Mintzberg 1979, 582). As suggested by Fritz Scharpf to us, some countries may have differentiated strategic capacities. Sweden and France may have been able to proactively design growth strategies (at least in the post-war era), while others have developed their growth strategies through an evolutionary process of coordination through mutual adaptation. Our notion of growth strategy assumes less an *ex ante* strategic planning capacity than the progressive (and *post hoc*) discovery of what Mintzberg calls an emergent strategy.⁸

As shown by the contributions to this volume, the policy fields and reforms differ from one country to another (in content and in timing). These differences reveal a certain level of internal consistency and coherence within individual countries that might be construed as strategy. The

⁸ As Mintzberg reminds us, the ancient Greeks used the notion of strategy to describe the art of the army general, and strategy is often associated with strategic planning. Through his empirical observation of firms’ strategy-making, Mintzberg however proposes an approach to strategy that inspired our own approach, meaning not a plan for action, but a pattern in action in a series of decisions. As Mintzberg states: “Ask almost anyone what strategy is, and they will define it as a plan of some sort, an explicit guide to future behavior. Then ask them what strategy a competitor or a government or even they themselves have actually pursued. Chances are they will describe consistency in past behavior—a pattern in action over time. Not ‘planning’, nor ‘expression of intention’, but ‘patterns in action’” (Mintzberg, 1987, p.67–68).

internal consistency partly derives from the diagnosis of the problem to be solved and partly in the proposed solutions. Most of the coherence in the policies adopted in order to solve the identified problem comes, however, from the specific national growth and welfare regimes, since they structure the decisions taken and the strategies adopted in a specific country. These solutions to revive growth and stimulate job creation are shaped by the existing growth and welfare regimes. When adjusting to new contexts, these reforms can, however, contribute to progressively reshaping and transforming existing growth regimes.

Even in contexts where “strategies” are not explicit, governments have developed standardized responses to economic threats that correspond to their own economic specialization and regime. The reactions by governments to the economic recession following the financial crisis illustrate this point. For instance, the German government responded to the financial crisis by immediately protecting the economy’s manufacturing base through short-shift working arrangements and a “cash-for-clunkers” program. In the UK, all attempts to rein in financial services industries (especially at the EU level) have been scrutinized as to whether and to what extent they might endanger the competitive advantage of the City of London. These governmental responses to the financial crisis reveal an underlying economic growth strategy.

These examples of (more or less) short-term government strategies to protect the economic base of national political economies are embedded in broader institutional settings that define the production and welfare regime of a country. As is illustrated in this volume (see in particular Baccaro and Pontusson; Picot; and the chapters in the third part of this volume), there are many government decisions that follow the same pattern of protecting/ enhancing/ renewing the existing growth regime. These decisions and policy reforms are influenced by the dominant production regime and profile – i.e. manufacturing or finance, export-oriented or domestic demand, etc. – and have implications for the reforms of the welfare state. In other words, a country dominated by financial services has a different approach to welfare reform than a country dominated by manufacturing.

Obviously, the production regime is not the only factor at play. Electoral rules, political institutions, political parties, and other external events matter as well (Beramendi et al. 2015; Peter Hall this volume). Policy-makers can adopt growth strategies that are not necessarily in line with the growth regime for reasons such as party ideology or values or with the aim of developing a new growth regime. There is also reverse causality: political institutions have shaped production regimes, as Iversen and Soskice have argued (2009). However, we assume that growth and welfare regimes play an important role in these strategies. This is partly because the preference of the dominant sector informs policy-makers as to what the priorities of economic and social policies should be (see also Iversen and Soskice 2018; Baccaro and Pontusson, this volume).

Business groups in the dominant sector(s) have privileged access to governments and to media reporting about the economic situation. The interests of the business community might be in conflict with government priorities, and we do not assume that business will always have the upper hand. But we do expect government policy-making to take into account the demands of the dominant business community and their strategies to cope with economic and welfare state restructuring. Depending on the kind of dominant business community, we presume a variety

of business preferences for welfare state reforms. These preferences are analyzed in details by Cathie-Jo Martin in this volume. In many cases, these preferences may be supported by workers in key industries. As workers and their representatives are aware of the relevance of the industry and are usually the beneficiaries of the economic specialization process, they might support the business community in their political demands for government policies. Cross-class coalitions are, therefore, sector- or country-specific and, by and large, focused on or coming from the economy's dominant sector (for the importance of producers' coalitions in shaping growth strategies, see Thelen in this volume).

Growth strategies most often involve significant welfare reform. International organizations regularly suggest reforms of the welfare state to reach economic and employment objectives. The EU, OECD, and World Bank emphasize the necessity of reforming education and skill-formation systems, advocating structural reforms of labor markets, wage-bargaining, and social protection systems in the name of boosting growth and creating more jobs. The EU's 2000 competitiveness strategy associates economic policy orientations (austerity, growth through cost-competitiveness and export capacities) with welfare reforms (cuts in welfare spending, as well as the "structural reforms" of labor markets, pensions, and healthcare systems) (Heins and De la Porte 2015).

At the national level, welfare states have been, and continue to be, reformed in the name of job creation and growth. Since the 1990s, especially in Europe, many of the policy reforms implemented by governments concerned mostly the welfare system in a broad sense: changes in wage policies, in labor market regulation, in employment policies, in educational and training policies, and in social policies. The neoliberal governments of Thatcher and Major in the UK were famous for their privatization policies (which partly included pension schemes), but also for having liberalized the labor market and increased pressure and conditionality on unemployed persons. Nordic countries implemented labor market and pension reforms in the early 1990s. Gerhard Schroeder gained his reputation through his labor market and unemployment insurance reforms in Germany in the early 2000s. Emmanuel Macron is accumulating reforms in France's welfare domain (labor market deregulation, training, unemployment benefits, and pensions). As shown in the final chapter of this volume, these reforms are quite different in the different growth strategies.

One possible reason that these labor market, skill formation, and social policy domains are so prominent in governments' agenda when they want to boost growth and create jobs is that these fields are still under the jurisdiction of national governments. By contrast, the management of other economic policy fields that constitute the specific growth regime, such as product market regulation, financial rules, and monetary policy, are being increasingly overtaken by supranational bodies because of liberalization, globalization, and/or the independence of central banks. This situation holds particularly in the EU and the Eurozone area (see Scharpf and Johnston in this volume).

Box 1.2: The terminology

Growth models:

The discussion on post-Fordist growth models (Baccaro and Pontusson 2016) is based on post-Keynesian, Kaleckian macroeconomics. As Baccaro and Pontusson explain in their chapter, the approach relies partly on the three-equation model by Carlin and Soskice in Keynesian economics, which combines aggregate demand, the equilibrium rate of unemployment, and the balance of payments. It argues that in the Fordist period all economic growth was wage-led. When the Fordist growth model came to an end, countries specialized in either domestic demand-led growth (through credit or public spending), export-led growth, or balanced growth (domestic demand and exports). The use of growth models has brought back examination of the role of aggregate demand for macroeconomic development and provided new insight into the post-fordist transformations of political economies.

Growth regimes:

We define a growth regime, in its broadest term, as a mode of governance for the economy. There are three key components of growth regimes: the engine of growth, i.e., the sectors that contribute to wealth creation, job creation, and productivity gains (manufacturing sector, finance, high tech, agriculture...); the five institutions governing the economy (see Amable 2003; and Section 3.2 in this chapter); and the main components of aggregate demand (private consumption, private investment, public spending, and net exports). Our growth regime approach combines the insights of VoC theory and the growth model arguments. Besides the importance of market product regulations and the modes of financing the economy, it underlines the prominent role of welfare institutions (educational system, labor markets rules, and social insurance/ social policy) in shaping economic activities.

Growth strategies:

Governments are concerned with job creation and economic growth for electoral reasons. To this aim, they pursue growth strategies, which refer to a (relatively coherent) series of decisions and reforms, taken by either governments or producers' groups (economic and social actors) in order to boost growth and stimulate job creation in a specific nation, and the rationale for these decisions (on this, see also Hall, this volume). Over a mid-range period of time, growth strategies follow an observable, coherent, and systematic pattern. They involve policy changes and adaptations in different policy fields that affect the demand and supply sides of an economy, including structural and welfare reforms. Since it often means reforming some of the main institutions of a growth regime, implementing a growth strategy can contribute to changing the existing growth regime over time.

4. Challenges to growth regimes

As noted at the outset of this chapter, average GDP growth rates have been lower and average unemployment levels higher for most OECD countries since the mid-1970s (Emmenegger et al. 2012). At the same time, advanced industrialized countries have been confronted with the globalization of production, financialization, as well as the diffusion of ICT. The future of manufacturing as the basis of national wealth and well-paid employment is in question, if not in peril (Zysman and Breznitz 2013; Wren 2013). One can easily imagine that the shift towards the service economy means pressure for change in growth regimes. In this section, we go

beyond the state of the literature on liberalization and deindustrialization presented earlier by analyzing both the key challenges to and opportunities for growth regimes and their transformation since the 1980s.

Instead of focusing merely on the losses implied by liberalization (deregulation and privatization) and deindustrialization (loss of jobs and demise of industrial institutions and relations), we try to understand how growth regimes evolved in this context, finding that financialization and the ICT revolution presented both problems and solutions by providing new engines for growth. We thus identify the main differences in orientation taken by growth regimes when they confronted these challenges. This allows us to identify five types of growth regimes existing today amongst the cases analyzed in this volume. It is this variety, and how countries got there, that will be the object of explanation in the remaining chapters.

4.1 The rise of the service economy

The comparative political economy literature generally agrees that the late 1970s are marked by the end of Fordism. Deindustrialization has meant that manufacturing has lost its importance as the key source of economic growth and job creation. The emerging service economies in the rich countries of the OECD are shaping economic development and prosperity, but are still not well understood.

Early contributions (Iversen and Wren 1998; Scharpf 2000) assumed that the Baumol disease – the weakness of productivity gains in the service economy – would pose trade-offs for modern welfare states. Since productivity gains in the service sector are comparatively small, jobs in the service economy would become relatively more expensive and would eventually not be provided by the market. Policy-makers would face the trilemma of having to either accept lower wages and increasing wage inequality, spend increasing amounts on the public sector, or accept high levels of joblessness and low employment in the service sector (Iversen and Wren 1998).

Others have challenged this traditional position on low productivity gains in the service economy. Zysman and Breznitz (2013) emphasize the digital revolution in the service sector and show how it contributes to the fragmentation of value chains. ICT-based services, as in the health, retailing, and education sectors, can overcome productivity gaps and deliver more and better services at a lower cost (see also Wren 2013). The development of digital technologies might transform the very nature of work and welfare systems (Colin and Palier 2015).

There is reason to believe that both perspectives are partially true. Wages in personal services have been comparatively low and stagnant. Governments in many countries have tolerated rising wage inequality in order to facilitate employment growth in the service economy; many have implemented policies aimed at decreasing the cost of low-skilled labor, including, contrary to Iversen and Wren's expectation, the Continental European countries (Palier 2010). The issue of creating a low-wage sector in order to facilitate employment was taken seriously by policy-makers and has guided those policies. At the same time, there are many examples of the integration of ICT-based services in the global value chain. Retailing has been revolutionized by online services, and the health sector has seen massive productivity gains by delivering diagnostics through outsourcing to low-cost countries. The ICT-based knowledge economy

shows one way out of the low productivity trap of the service economy, as Wren (2013) has suggested, and confirms in this volume.

Since the 1990s, the move towards the service economy has posed strong challenges to the welfare state (Esping-Andersen 1999). A context of low growth means fewer resources in increasingly inegalitarian societies. The welfare state seems trapped in “permanent austerity” (Pierson 2001), having to confront aging, unemployment, precariousness, and a series of new social risks, such as single parenthood, the need to reconcile work and family life, lack of continuous careers, more precarious forms of contracts, and workers possessing low or obsolete skills (Bonoli 2005).

If the literature is now clear that there have been various ways to adjust to this post-industrial context, we still need to identify systematically how various growth and welfare regimes evolved in different countries in this new context. Countries have tried to seize opportunities for replacing manufacturing as the main engine of growth in different ways. Two new domains can broadly be identified as likely to bring back growth: finance and knowledge/ICT-based economic activities. In the following sections we discuss these new engines of growth and which role they play in the various growth regimes.

4.2 Finance as a new engine of growth - How far have various countries gone through financialization?

The Fordist growth regime was largely wage-led (Baccaro and Pontusson 2016). To what extent has it been replaced by a “finance-led” or wealth-based accumulation regime (Boyer 2000)? In the comparative political economy literature, the financialization of the global economy has been relatively neglected, despite its increasing importance and the severe effects of the global financial crisis on the real economy.⁹ The literature is more extensive in sociology and geography than in comparative political economy, and also covers the effects of the financialization of the corporate sector, which has shifted its profit strategies from the real economy to the financial sector. However, as economists frequently point out, there is no financial economy without the real economy. We will not pursue the wider discussion on financialization (see van der Zwan 2014; van Treeck 2009). Here we just use the main insights from the financialization literature to feed our thinking on the transformation of growth regimes.

One strand of the financialization literature claims that the slowing of economic growth since the early 1970s has prompted governments to use the financial sector to avoid distributional social conflicts. Empirically, we can see a steady rise in financialization, while growth rates have dwindled in the OECD. Greta Krippner (2005; 2011) argues that policy-makers in the US turned to financial markets when growth slowed in order to avoid the difficult choice of social priorities. In the process, policy-makers eliminated limits to credit access in order to enable consumers to maintain their living standards. The access to credit thereby served a function

⁹ Exceptions are Boyer (2000), Streeck (2014), Krippner (2011), and various contributions on the financial crisis, such as Bermeo and Pontusson (2012) and Woll (2015).

similar to inflation during the 1970s, since consumer debt blurs winners and losers during economic stagnation. Similarly, Wolfgang Streeck (2014) assumes that the turn towards increasing public debt was fueled by the lower growth rates of the 1970s. Both see increasing credit and debt rates as a *compensation mechanism* for lower growth rates.

Another strand of the literature suggests that financialization can also be perceived as a growth regime in itself (Boyer 2000). Financialization contributes to, and is an expression of, the wealth of households and thereby can become an important influence on the consumption of durable goods and houses. Financialization, therefore, can potentially have overall expansionary effects on the economy (Boyer 2000). Boyer does not argue, as some of the other financialization literature does, that the provision of credit replaces social policy, and thereby feeds both the financial services industries and the poor. Rather, he suggests that financialization is an expression of the use of credit and a decline of savings among the upper-middle classes. The main effect comes from a decline in savings rates and increasing private indebtedness. In this view, financialization is driven by consumer behavior, which embraces both consumer debt and financial instruments to invest for private financial gains. It spurs the increase of asset management services, as well as mortgages and other bank products, while at the same time stimulating domestic demand.

The expansion of the financial services sector has three distinct functions for political economies.¹⁰ First, it stimulates demand, either because consumers can borrow against their house if mortgages are readily available (as in the US) or because liberalization of mortgage-lending increases demand, house prices, and wealth (see also Reisenbichler this volume). Second, financial centers provide well-paid jobs and attract investors. Both create additional economic activities and, thereby, domestic demand. And finally, financialization helps to spur the supply side by fostering investments in the knowledge economy either directly, through digitalized financial services, or indirectly, through the provision of non-standardized financial support and insurance, which are not available without the support of new financial products. All three functions combined suggest that economies with stronger financial services are more driven by domestic demand and more closely related to a highly-productive service economy (as confirmed by our data below).

The prime example for financialization as an expression of wealth, and a driver of financialization more generally, is the housing sector. The housing sector is also arguably the single most important area that links the financial world to the real economy. A large part of the increasing financialization of modern economies is rooted in the housing market in several ways. First, the majority of bank lending is mortgage-based, and banks, as well as asset management firms, benefit from rising mortgage levels (Jordà, Schularick, and Taylor 2016). Second, the housing market is an important transmission channel for monetary policy. Interest rate changes affect the housing market first and foremost, and, thereby, indirectly have an impact on house price developments. The extent to which house prices respond to interest rates

¹⁰ We are grateful to David Soskice for this insight.

determines the effectiveness of monetary policy.¹¹ Third, rising house prices add to the wealth effect of financialization, as higher house prices contribute to the wealth of homeowners directly or allow them to use their houses as collateral (see Reisenbichler this volume). Fourth, pension retrenchment and pension privatization has increased the importance of homeownership for the middle class as a source of retirement income. This, in turn, has effects on the political preferences of homeowners on social policy issues. Funded pensions spur financialization not only directly, through the assets of pension funds, but also indirectly, through the increased pressure on the housing market (Hassel et al. 2019).

Finally, there is a link between financialization and the trade balance, in particular with emerging and developing economies, but also between advanced industrialized countries. While emerging economies, in particular in Asia, accumulated foreign currency reserves and, thereby, fueled the financial markets in countries with trade deficits, advanced countries with a current account surplus also added to financialization in countries with deficits (van Treeck 2009).

In order to analyze the degree of financialisation of advanced capitalist economies, we gathered data on households saving rates, house prices, the share of private pension funds and the rate of home ownership and the current account as shown Table 1.1. This allows us to cluster countries according to different degrees and dimensions of financialization.

The most financialized countries are those which have a low savings rate (below 5%), high house price inflation (more than 100% since 1980), high shares of pension funds (more than 50% of GDP), and a current account deficit. Using these indicators based on data prior to the financial crisis, we can identify four more or less distinct groups:

- (1) All English-speaking countries (identified as LMEs in the VoC literature and domestic, demand-led growth models by Baccaro and Pontusson) are in the group of most financialized countries (though Canada shows a positive current account balance and Ireland and New Zealand less than a 50% share of pension funds).
- (2) At the other end of the spectrum, the least financialized countries with a high savings rate of more than 9%, low house price inflation and pension funds, and a positive current account are Austria and Germany, but also Korea and Japan (though low savings rate). Switzerland follows closely (but for a high share of pension funds as share of GDP), as well as France and Belgium (but for a relatively high degree of house price inflation).
- (3) Among the exporting countries with a positive trade balance, the Nordic countries and the Netherlands are the most financialized: all of them have substantial house price inflation of almost 100% in 20 years; the Netherlands and Finland have high shares of pension funds; Norway has the Sovereign Wealth Fund that replaces the role

¹¹ “If the financial accelerator hypothesis is correct, changes in home values may affect household borrowing and spending by somewhat more than suggested by the conventional wealth effect because changes in homeowners’ net worth also affect their external finance premiums and thus their costs of credit.” (Ben S. Bernanke 2007 speech at The Credit Channel of Monetary Policy in the Twenty-first Century conference, Federal Reserve Bank of Atlanta, Atlanta, Georgia: June 15, 2007).

of pension funds; Denmark has negative savings rates, while the others (for which there are data) have moderate ones.

(4) The remaining group of countries consists of Southern and Eastern European countries, which have less of a wealth effect to begin with and show a mixed pattern. All of them have a low share of pension funds. Spain and Greece have the lowest savings rates and the highest house price inflation and are, therefore, the closest to a financialized growth regime. Italy also shows signs of house price inflation, but has a high savings rate.

Table 1.1: Indicators of financialization

	Household savings rates	Real house prices		Current account	Pension funds (autonomous)	Home ownership
	Average	Index based in 2010		Average	Assets % of GDP	% of households that own their homes
	1995–2007	1980	2000	2000–07	2000–07	2017 (except when specified)
Australia	2.39	34.5	54.17	-4.77	78.69	67.00*
Austria	10.76		92.65	0.66	4.27	55.00
Belgium	10.87	55.1	62.08	3.58	4.47	72.70
Canada		48.3	57.79	1.00	54.34	67.60*
Czech Republic	6.19			-3.82	3.46	78.5
Denmark	-2.52	61.8	73.74	2.01	30.19	62.4
Finland		46.9	75.12	5.52	60.86	71.4
France	10.41	51.7	55.68	1.06	0.03	64.4
Germany	9.99	124.6	113.67	1.98	3.91	51.4
Greece	-3.44		74.64	-6.79	0.00	73.3
Hungary	7.07			-7.12	7.14	85.3
Ireland	0.12	42.8	81.44	-1.02	43.09	69.50
Italy	10.36	62.7	72.67	-0.44	2.63	72.40
Japan	5.40	103.5	130.84	3.14	10.76	61.70
South Korea			77.04	2.95	1.98	57.7
Netherlands	7.85	54.3	82.34	4.95	111.09	69.4
New Zealand	-2.75	32.8	59.02	-4.30	12.57	64.80**
Norway		38.2	62.20		6.34	81.50
Poland	6.54			-3.83	7.16	84.2
Portugal	3.18		119.60	-8.59	11.77	74.70

Slovak Republic				-6.87	0.94	90.10
Slovenia				-1.55	1.22	75.60
Spain	4.12	31.1	55.97	-4.47	6.74	77.10
Sweden	5.56	62.6	54.46	5.55	8.10	65.20
Switzerland	14.78	85.6	79.45	10.34	105.24	38.00
United Kingdom	2.85	33.5	60.98	-1.84	69.89	65.00
United States	4.82	77.1	90.36	-4.08	72.57	64.40***

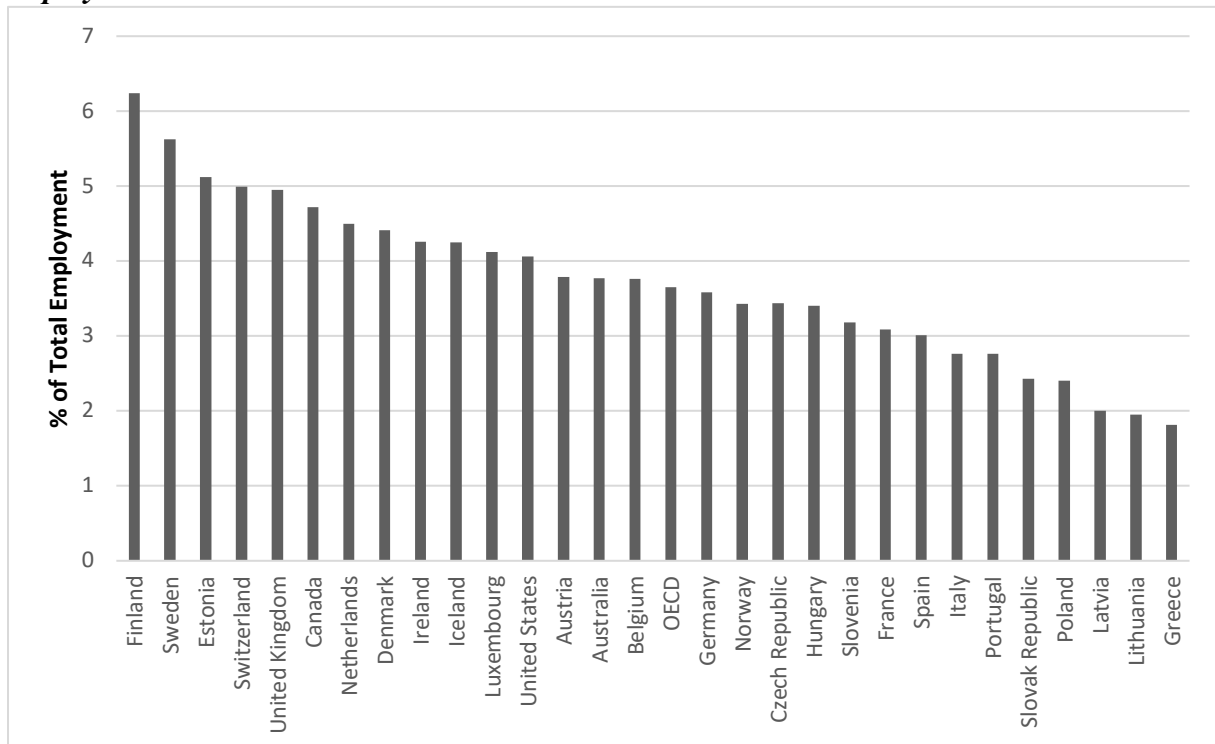
Source: OECD Analytical House Price database; National Accounts, Funded Pensions Indicators. European Mortgage Federation Hypostat 2019. US Census. <https://www.census.gov/housing/hvs/files/qtr319/hown319.png>. Canada census. New Zealand census <https://tradingeconomics.com> for South Korea and Japan. <https://www.aihw.gov.au/reports/australias-welfare/home-ownership-and-housing-tenure>. Swiss Federal Statistic Office. <https://www.bfs.admin.ch/bfs/en/home/statistics/construction-housing/dwellings/housing-conditions/tenants-owners.html>

*2016, **2013***2018

Note: Data mainly cover the period before the financial crisis in order to illustrate the long-term trend. Home ownership rates are quite stable.

Financialization has a number of direct effects on and policy implications for growth regimes. For one, highly-financialized countries have bigger employment segments in dynamic services (financial services, but also business services). These services, which rely heavily on ICT specialists, will compete with the manufacturing sector over graduates, and financial services might start to dominate the graduate market (see Figure 1.2).

Figure 1.2: Employment of ICT specialists across the economy, 2016, as share of total employment



Source: OECD (2017), Digital Economy Outlook, p.182. Based on Figure 4.22 Employment of ICT specialists across the economy, 2016.

Furthermore, highly-financialized countries also see a shift in the wage structure favoring the financial services industries and thus reinforcing the trend towards increasing income inequalities. Indeed, they have already seen an increase in wage dispersion at the high end of the wage structure. A comparison between Germany and Sweden shows the extent to which financial services gained relatively higher wages in Sweden compared to Germany (see Thelen; Baccaro and Pontusson in this volume).

With regards to (welfare) policy strategies, countries with a more financialized growth regime are more prone to private funding and the private organization of social and infrastructure services, as the financial services industries supply models and expertise for this (see Thelen in this volume for Swedish and Dutch examples; Avlijas et al. in this volume more generally). In those countries which pursue a more financial growth strategy, we see private funding for infrastructure, but also moves towards private, fully-funded pension schemes, as well as private education services (Chevalier in this volume).

Finally, more financialized growth regimes also pursue more radical innovation paths in ICT. To start with, the financial services industry itself is highly technologically advanced. According to Wren (2013; and in this volume), the financial intermediation sector is the sector with the highest ICT intensity. Furthermore, high levels of financialization allow for venture capital for hi-tech firms through pension and mutual funds. There is, therefore, a close link between financialization and the ICT sector, as we discuss in the next section.

4.3 Innovation, digitalization, and the knowledge-based economy

Despite the profound impact of ICT on the economy since the 1990s and the resulting changes in peoples' lives, the effects of digitalization and the knowledge-based economy on the political economies of the advanced world are even less researched and discussed in the comparative political economy literature than the role of financialization. There is very little research by political economy researchers into the role and meaning of ICT for either growth regimes or the welfare state.¹²

ICT has fundamentally changed value creation in rich countries. The low end of manufacturing has, in many cases, been relocated to developing countries, while firms have started to create new higher-value-added products in manufacturing and services through newly developed ICT. ICT transforms the nature of work and organization as well as the monetization of work. Beginning with the introduction of computer-aided manufacturing and design (CAD) and robots in production processes during the 1980s, the 2010s have seen a rapid proliferation of a new kind of information technology-based innovation.

This innovation has come in different forms:

¹² See, for the few exceptions, Zysman and Breznitz (2012) and Colin and Palier (2015). Wren (2013, and in this volume) discusses the role of ICT for dynamic services. On the specific role of digital platforms, see Rahman and Thelen (2019).

- In manufacturing, ICT has enabled complex, cross-national global value chains, based on a process of decomposition (regional specialization) and recomposition (reintegration of development and production). Production has been outsourced, but also reintegrated, depending on whether specific parts of production are seen as strategically important.
- ICT-based dynamic services, such as those in telecommunications, and financial and business services have been fast-growing employment segments in advanced, industrialized countries (Wren 2013; and this volume). In the richest countries of the OECD, employment levels in dynamic services are now higher than in traditional manufacturing sectors.
- The role of ICT in non-dynamic services, such as retail, transport, and hotels, is also ever more visible. Cloud computing enables the creation of both new workplaces and new markets for work. It changes the way paid work is organized through cyber-platforms, ranging from oDesk, Amazon Mechanical Turk, Uber, Airbnb, and TaskRabbit to YouTube, Udemy, and Amazon self-publishing (Zysman and Kenney 2014).
- The integration of platforms in mature production processes in manufacturing and in services through web services and cloud computing changes value creation (Rahman and Thelen 2019).

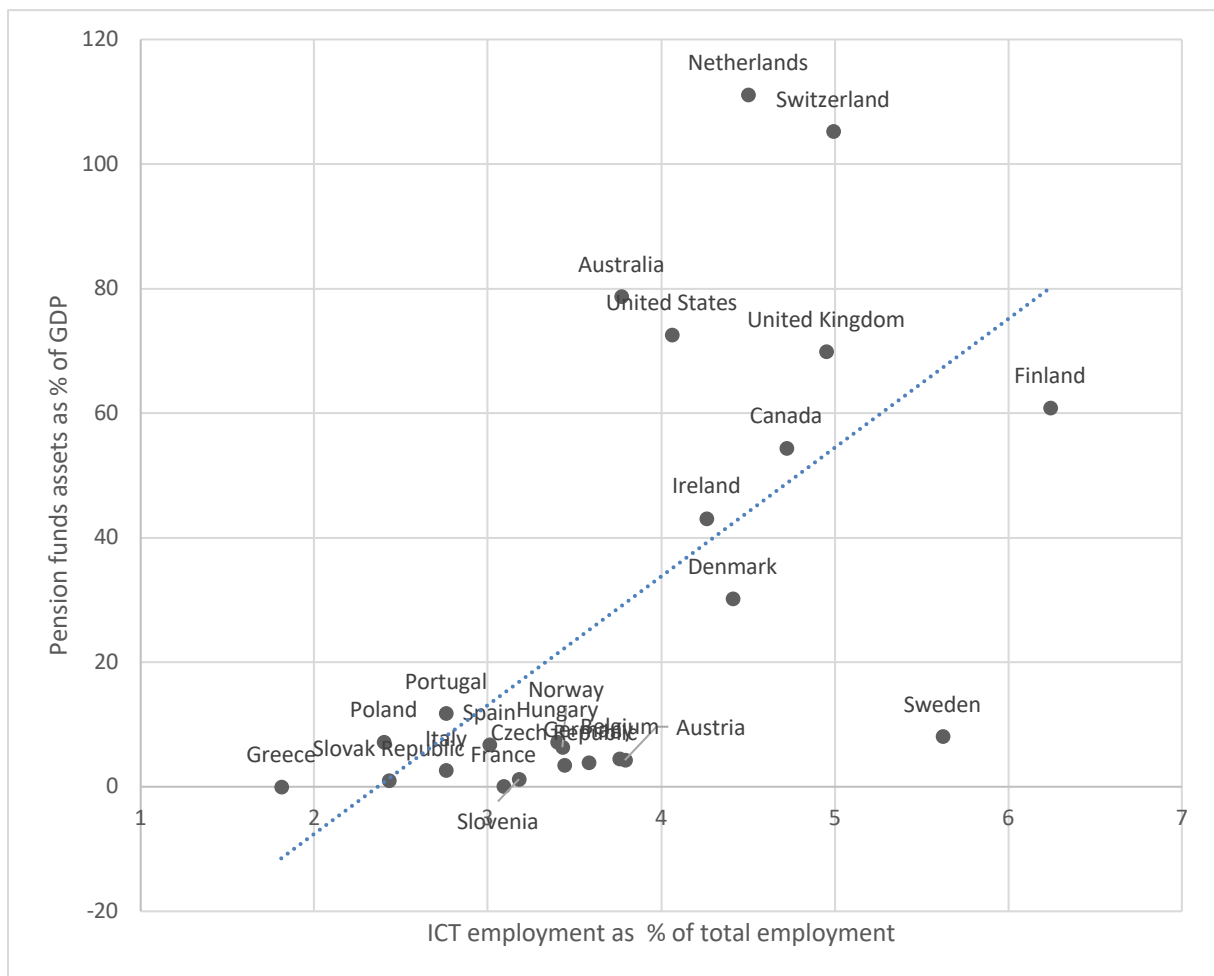
In contrast to earlier processes of innovation, diffuse spans of technology and organizational disruption are short and global (Rahman and Thelen, 2019). Independent of the regulatory and institutional setting, the dynamic but destabilizing effects of digitalization and the importance of the knowledge economy are enormous. Some economists assume that increasing automation will eliminate a large part of semi-skilled, routine-based occupations (Brynjolfsson and McAfee 2014; Frey and Osborne 2013; for a reassessment of these predictions, see Arntz et al. 2016). This development has been forecasted by theories of task-biased technological change, which assumes a polarization of the workforce. They argue that ICT technology is a substitute for workers with mid-range skills, but is likely to complement the skills of those with tertiary education (Autor et al. 2003; Goos et al. 2009). Some studies in sociology assessing changes in employment structures have supported this view (Oesch and Rodriguez Menés 2011). However, technological change itself cannot explain all the transformations, since more detailed analyses of polarization in the labor market have shown different patterns (Fernandez-Macias and Hurley 2016; Peugny 2019). It is argued in this volume's final chapter that these variations have to be linked to the variety of growth strategies.

These new patterns of value creation and innovation contribute to the transformation of growth regimes and changes in the welfare and labor market regulation of modern societies in several ways. They feed in particular into the existing mix of export-based and/or financialized growth regimes and shape them further towards specialization in either manufacturing exports (such as in Germany), high-tech services exports (such as Sweden), and financial and ICT services (such as the UK and the US).

As mentioned earlier, financialization had an impact on the ICT revolution since the development of financial capital contributed to boosting investment and ICT-based jobs.

Correlating data on employment in ICT with pension fund assets as a proxy indicator for financialization gives a first indication that the more financialized countries are also those which have the highest employment share in ICT. As Figure 1.3 shows, all countries with pension fund assets higher than 20% of GDP also have higher levels of ICT employment than countries with low or no pension fund assets. Sweden is the only country with rather low pension fund assets but high shares of employment in ICT. In addition to high financialization, another driver for this development is the higher levels of university graduates with more general skills in these countries (see both Wren and Chevalier in this volume).

Figure 1.3: ICT employment as % of total employment, 2016, and pension fund (autonomous) assets in % of GDP, 2000–07



Source: See Figure 1.1 on ICT employment and Table 1.1 on pension fund assets. On the whole, different countries have tackled the issues of financialization and digitalization in different ways. Some countries have transformed their growth regimes around ICT innovation in combination with financialization. Other countries have focused on export and refrained from engaging in financialization. In the next section we put this in the framework of the growth model literature in order to illustrate the new dynamics of growth regimes as a synthesis of domestic demand versus exports in combination with new sources of growth. This provides us with a basic mapping of the transformed growth regimes of advanced capitalist economies in the 21st century (post-financial crisis).

4.4 Export and demand-driven growth in the 21st century

The policy response to the financial crisis and to the subsequent Eurozone crisis has triggered fierce debates among economists on both sides of the Atlantic about policy measures to combat stagnation and weak growth. US macroeconomists insist on demand deficiency as a major part of the problem and suggest stronger economic stimuli as the answer. Policy-makers in Europe, however, have largely opted for austerity policies, hoping for supply-side economic restructuring. Underlying this debate is, however, the question of what is seen as the engine of growth and job creation in national economies.

As discussed in the current comparative political economy debate and by Baccaro and Pontusson, Picot, and Scharpf (among others) in this volume, there can be two main types of driver of economic growth: foreign demand (exports) or domestic demand (household and government consumption). In Table 1.2 we divide the countries in exporters and consumers in 2016.

Table 1.2: Export share in GDP of OECD countries (2016)

Consumers	% of exports in GDP	Exporters	% of exports in GDP
Australia	21.2	Austria	52.5
Canada	31.5	Belgium	79.4
Finland	34.8	Czech Republic	79.6
France	30.2	Denmark	53.4
Greece	30.1	Estonia	77.5
Italy	29.6	Germany	46.0
Japan	16.3	Hungary	87.2
New Zealand	26.4	Ireland	120.8
		Korea	40.1
Spain	33.1	Luxembourg	213
United Kingdom	28.4	Netherlands	79.5
United States	11.9	Poland	52.2
		Portugal	40.2
		Slovak Republic	93.7
		Slovenia	78.0
		Sweden	43.3
		Switzerland	65.7

Source: OECD. Note: Exporters are open economies with an export share of around and above 40% of GDP. Consumers are more closed economies. Latest available data. <https://data.oecd.org/trade/trade-in-goods-and-services.htm#indicator-chart> accessed January 29, 2020.

During the Fordist era, economies benefitted from advances in productivity and more technological upgrading on the supply side that allowed for a wage increase, but there were already differences between countries favoring more domestic demand or more exports.¹³ Deficit-spending to boost consumption is a kick-start for ailing economies and, since the early

¹³ Germany was already focused on wage moderation and supporting its exporting industry in the 1950s (Höpner 2019), and the Nordic countries, as many other small countries, relied on exports to boost growth and wages (Katzenstein 1985).

1970s, most countries have compensated for lower growth rates through higher public spending (Streeck 2014; see Picot this volume). Today, the source for domestic demand has diversified even more. Demand stimulus to the domestic economy stems from raising household incomes either through wages, social benefits, public deficits, or the capacity to access credit (see Picot this volume). As financial services are a key component of consumption, new financial products stimulate domestic demand.

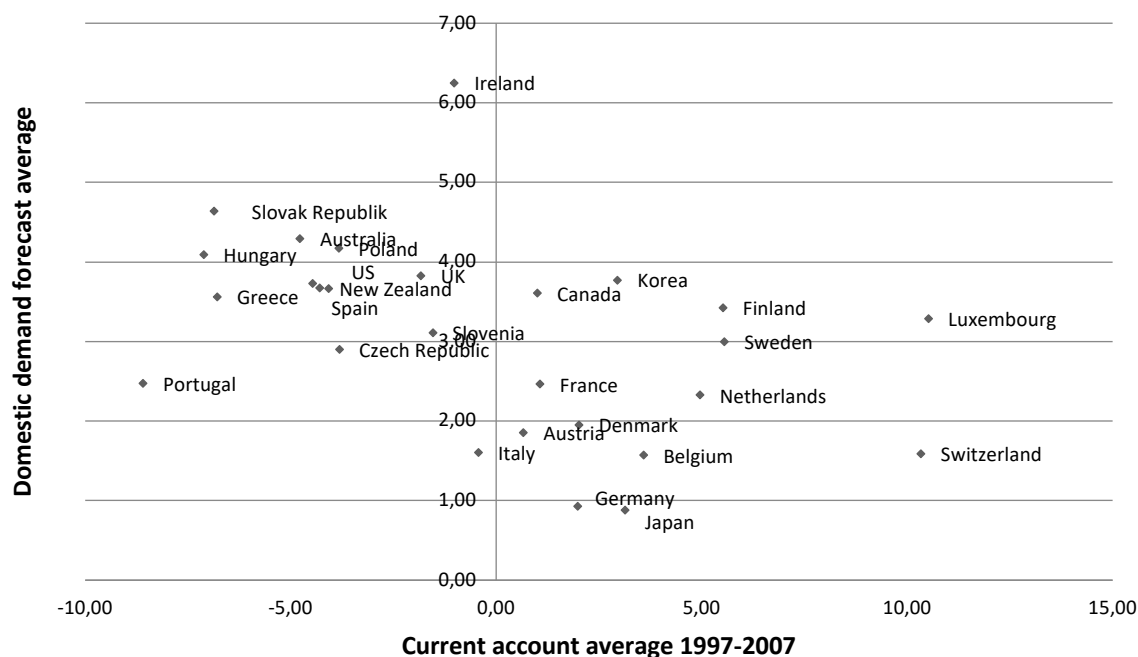
However, countries can (also or alternatively) privilege the export of goods in order to maintain high-value-added employment by producing for world markets. Export can thus temporarily protect the manufacturing industry from deindustrialization (Dauth et al. 2017). But countries can also specialize in high-value-added, high-skill services to boost export, as is demonstrated by Wren in this volume. Export-led growth regimes specialize especially in export commodities that may require different types of skills and social protection. In all these cases, the value-added in exposed sectors is higher than it would be if the country focused on domestic markets. Thus, manufacturing and other exposed sectors are privileged over other protected sectors.

As discussed by Baccaro and Pontusson in this volume, it is not clear to what extent both strategies can co-exist. Theoretically, domestic consumption-led growth regimes do not undermine export-led growth as long as higher labor costs do not endanger competitiveness.¹⁴ Empirically, there seems to be a trade-off between export-led and domestic consumption-led growth (see Figure 1.4 and Picot this volume), Figure 1.4 indicates that the more positive a country current account is, the less it sees its domestic demand increase. This was at least the case during the period before the financial crisis¹⁵. Furthermore, as analyzed by Scharpf in this volume, the export-led growth model is currently imposed on all countries of the Eurozone, including those who had a domestic demand-led growth regime (see also Hall 2018; Iversen and Soskice 2018).

¹⁴ Baccaro and Pontusson (2016) argue that the Fordist growth regime is, in principle, domestic demand-led (wage-led in their terminology). Only extreme versions of export-led growth, which are dependent on price-sensitive manufacturing exports, might turn against demand in order to control labor costs and the real exchange rate.

¹⁵ After 2008 and the start of the financial crisis the correlation between change in domestic demand and current account turns positive (until 2016), as domestic demand countries experience austerity and export-driven economies temporarily stimulate domestic demand (See Baccaro, Pontusson in this volume).

Figure 1.4: Current account balance, 1997-2007 and change in domestic demand, 1997-2007 in %



Source: OECD Statistics, Key Short-term Economic Indicators; Domestic demand forecast.

4.5 The five growth regimes of contemporary advanced capitalist economies

If one distinguishes between those economies that rely on exports as a source of growth and those that do not (see Table 1.2), we see a clear pattern. All English-speaking liberal market economies (in the VoC terminology), except Ireland, and most Southern European economies (including France) are largely domestic demand-led economies, whereas both Nordic and Continental as well as Eastern European economies are nearly all export-focused. We are here able to broaden the scope of Baccaro and Pontusson’s growth models approach beyond the four countries that have been the focus of their work.

However, if we look closely at the different components of growth regimes as we have defined them in section 3.2 (ie the various engines of growth, the institutions organizing the economy and the main component of aggregate demand), on the base of the information gathered in Tables 1.1 and 1.2 and Figure 1.4 and summarized in table 1.3, we can distinguish five different configurations: three types of export-led growth regimes and two types of domestic demand-led ones.

Among the export-focused countries, we can identify three subgroups:

- Countries which combine an export focus with strong domestic demand, such as all but one of the Nordic economies (Denmark is an exception as far as demand is concerned), Luxembourg, and the Netherlands (this is what Baccaro and Pontusson call “balanced growth models”). They are progressively shifting from the manufacturing

industry to dynamic services as the key driver of growth, benefitting from financialization to feed the growth of ICT-based service sectors. They have also developed low-pay private services.

- Countries where export of manufacturing goods is the main driver of growth, with low growth in domestic demand (below 2%) before the financial crisis, such as Germany, but also Austria, Belgium, and Switzerland. These countries rely heavily on the competitive position of companies in high-quality manufacturing and often use the most refined mechanisms of diversified quality production (Streeck 1991) to protect this position. They primarily benefit from high growth rates in emerging economies that satisfy their demand for machinery and high-end consumer goods.
- Countries with increasing shares of exports, but negative current accounts and relatively high rates of domestic demand, such as those in Central and Eastern Europe. Like the subgroup that includes Germany and Austria, these countries follow a manufacturing, export-oriented strategy (Bohle and Greskovits 2012, Picot this volume). They are heavily integrated into German-based production networks and depend even more on low prices (hence low wages and low welfare). They (together with Ireland) are also highly dependent on foreign direct investment (Bohle and Regan 2019).

We can also identify two sub-groups among the countries relying foremost on domestic consumption and demand-led growth:

- Countries with a high level of domestic consumption, a high degree of financialization, and also high development of ICT (all the English-speaking LMEs of the VoC but one: Ireland). As restructuring is more rapid, and fluctuations more pronounced, these economies saw deindustrialization earlier, and more deeply, than the coordinated market economies of Northern Europe. For example, the decline of British manufacturing took place already in the 1960s, when British companies could no longer deliver high-quality products at a reasonable price due to higher levels of industrial conflict, lower investment in training and quality, and difficulties in implementing wage moderation. Colin Crouch (2009) has convincingly shown how easy access to credit and a vibrant housing market have been key to consumption-based growth in the UK and the US since the 1980s.
- Countries with a high level of domestic consumption but relatively low level of financialization and ICT development (mostly the countries of Southern Europe, including France). This is due to relatively easy access to cheap credit (especially after introduction of the Euro) and generous “consumption-oriented” social insurance (Beramendi et al. 2015). In Southern Europe, labor market institutions appear to be centralized, and corporate finance is closer to the model typical of the CMEs. However, these regulations and institutions do not deliver the same collective goods as in typical CMEs (Molina and Rhodes 2007; Hassel 2014). Because their coordination depends on the intervention of the (welfare) state, governments have pursued a more active, consumption-led growth policy and let wages and social spending rise (see also Höpner and Lutter 2014). Therefore, this type of countries generally have a lower export orientation.

As explained above, the domestic-demand regimes can connect well with financialization, which has an expanding effect on the economy through higher consumption due to wealth effects (Boyer 2000). Wealth effects are primarily created by house price inflation. But, as we have shown in Table 1.1 and in Figure 1.3, financialization itself, through its capacity to finance start-ups and new economic activities, can also facilitate the development of new, high-end sectors, based on ICT, that can lead to national consumption as well as to exports (Uber or Amazon rely on the national consumption of services, but are global companies) (see Wren this volume). Domestic demand can thus be fueled by financialization, which, in turn, is driven by the housing market, pension privatization, and low savings rates. The current account deficit also drives financialization, as it attracts foreign financial assets, which in turn expand financial services in countries with trade deficits.

By contrast, as indicated partly in Figure 1.4, a high share of exports and a current account surplus are often correlated with comparatively lower rates of increase in domestic demand. As a result, we generally see a complementary relationship between countries' trade deficits and surpluses (Iversen and Soskice 2013). Still, financialization has also occurred in some countries with an export-based growth regime. In particular, the Nordic countries and the Netherlands have combined domestic demand policies via financialization with an export strategy (see Baccaro and Pontusson; Thelen this volume). However, another possibility for stimulating domestic demand is to rely on private and public debt that supports wage increases and/or consumption-oriented social benefits, as is typical in Southern Europe.

As far as ICT is concerned, all advanced countries are affected by the ICT revolution and embrace investment in ICT. Nevertheless, investment in ICT is higher in countries with higher levels of financialization. This potentially puts the Continental European countries apart from the Nordic countries (including the Netherlands), which have higher rates of domestic demand, financialization, and ICT investment compared to the German-speaking coordinated market economies (see Figures 1.2 and 1.3; Wren this volume).

Southern European countries have embraced financialization to some extent, as home ownership rates are high and house prices have become inflated. It is, however, less related to ICT innovation, but is a primarily domestic, consumption-driven regime. Data on Eastern Europe regarding financialization and ICT are very limited. They have low levels of financialization but high levels of home ownership, which might trigger faster financialization in the future.

In Table 1.3, we summarize the main traits of the five identified growth regimes, including those we have highlighted in this section (i.e. the demand driver of growth, the current account situation, the degree of financialization and the development of the knowledge economy) as well as those related to the labor market, education, and welfare systems. The table is heuristic in nature with empirical observations clustering to ideal types rather than defined characterizations. As demonstrated in the rest of the volume, the different growth regimes show a number of characteristics that are particularly relevant for understanding the specific growth strategies developed by different countries. The concluding chapter of the book comes back to these five growth regimes to analyze more specifically the growth strategies that can be

associated with them, and more specifically the distinct labor market, education, and welfare state reforms they pursued (Avlijas et al. this volume).

Table 1.3: Characteristics of the five growth regimes

	Dynamic services export-led growth regime	High-quality manufacturing export-led growth regime	FDI-financed export-led growth regime	Finance-based domestic demand-led growth regimes	Publicly financed domestic demand-led growth regime
Demand drivers of growth	Export	Export	Export	Domestic consumption	Domestic consumption
Current account	Surplus	Surplus	Mixed	Deficit	Deficit
Financialization	High	Low	Low	High	Low
Knowledge economy (ICT)	High	Medium	Low	High	Low
Education system	Inclusive high-level	Inclusive mid-level	Inclusive mid-level	Elitist	Elitist
Social protection	Social investment	Social insurance	Social insurance	Private insurance and investment	Social insurance
Wage-setting	Coordinated	Coordinated	Deregulated	Deregulated	Regulated

Source: Table 1.3 is based on empirical observations, Figure 1.2 on employment in ICT, Table 1.1 on financialization, Chevalier (this volume) on education; Palier and Hay (2017) on social protection, and Visser (2019) ICTWSS database on wage-setting.

5. Plan of the book

This volume is divided into three parts. The first further explores the general evolution of growth strategies and growth regimes. The second part analyzes the politics of various growth strategies and their changes over time in specific countries. The last part focuses on the connection between growth strategies and welfare reforms.

In the first part, four chapters focus on how growth strategies and regimes have developed over time, one (Hall) from the post-war to the contemporary period and two (Baccaro and Pontusson, Picot) on more recent decades. This part also provides a look at changes at the EU level, showing how the export-led regime has been imposed on all Eurozone countries (Scharpf). It confirms that growth regimes have changed tremendously since Fordism. While Hall's chapter traces the general evolution of government growth strategies over six decades, the three other chapters allow for a precise understanding of the developments of growth regimes since the 2008 financial crisis.

Chapter 2 by Peter Hall analyses the growth strategies pursued by governments in the developed democracies over the decades since the Second World War. It identifies three main periods: the era of modernization, the era of liberalization and the era of knowledge-based growth. The first runs from 1950 to about 1975, the second from 1980 to the late 1990s and the third from 2000 to the present. It charts the relationship between developments in the political economy and changes in the realm of electoral politics. Using the examples of UK, France, Sweden and Germany, the chapter shows how growth strategies shifted across these three eras in response to secular developments in the international economy that altered the terms on which growth could be secured and shifts in what might be termed the ‘economic gestalt’ of each era, namely, how economic problems are perceived as well as changes to the cleavage structures of the electoral arena which alter the terms on which coalitions of support for specific policies can be assembled. Although the chapter does not address them in depth, it acknowledges the importance of a parallel set of changes in the realm of producer group politics which alter the influence of particular groups, the kinds of policies they seek and the levels of cooperation on which governments can count to operate growth strategies.

Chapter 3 by Lucio Baccaro and Jonas Pontusson mobilizes their “growth models” approach to analyze how governments of Sweden, Germany, the UK, and Italy responded to the Great Recession. The patterns of economic growth in its wake shows that the growth models that were adopted in the previous period have so far been remarkably resilient. Sweden is the only case for which a significant shift in the drivers of economic growth is visible: household consumption played a more important role in 2010–14 than in 2001–07 and, conversely, net exports played a less important role. In Germany, net exports became the main driver of demand over the period 1994–2007, due to the combination of domestic demand repression, institutionalized wage moderation, and the single currency. In the UK, by contrast, a demand boost was engineered by easing the conditions for access to credit, while accepting a systematic deterioration of the current account. Prior to the Great Recession, the Swedish case stood between those of Germany and the UK: stimulated by higher wage growth than in Germany and also by easing access to credit, domestic demand and exports both contributed to GDP growth. This balanced growth pattern was accompanied by the diversification of Swedish exports, with manufacturing playing a less prominent role than in the past. Finally, Italian stagnation before and after the Great Recession has been the result of extremely difficult external circumstances (particularly the decreased attractiveness of Italian exports as a result of increased international competition) combined with inappropriate policy choices, especially the choice to accept an overvalued exchange rate through membership in the single currency (Eurozone).

Chapter 4 by Georg Picot maps the variety of growth models across developed countries since 1995. It focuses on three broad potential sources of additional economic demand: public deficits, private deficits, and trade surpluses. The empirical section uses fuzzy-set ideal-type analysis to identify the combinations in which advanced economies used these three “demand boosters” in three subperiods between 1995 and 2016. The results show that most economies used at least one of these three ways of generating extra demand to tackle the era of low growth. The chapter shows that, over the period under scrutiny, in Continental and Nordic Europe as well as in East Asia current account surpluses are the main way of boosting economic growth

by profiting from demand abroad. By contrast, Southern and Eastern Europe as well as English-speaking countries tend to boost economic demand through domestic deficits, in Southern and Eastern Europe more strongly through public deficits and in English-speaking countries more strongly through private deficits. While some countries have changed their growth strategies after the global financial and economic crisis, the above-mentioned pattern holds broadly both before and after the crisis. Therefore, most countries build their economic recovery by and large on the same demand boosters as before the crisis. Looking at the performances of each model, the chapter shows that the finance-led growth model fares best in terms of economic growth and has the highest private spending on education. The export-led model performs best in terms of job creation and, for the Nordic countries, in public investment in education. The state-led model is associated with the lowest growth and lowest levels of employment.

Finally, Chapter 5 by Fritz Scharpf focuses on the interaction and evolution of growth regimes within the Eurozone. It shows that the deep divide between countries in the Eurozone can be explained as a consequence of the structural diversity in growth regimes among northern and southern economies and of an asymmetrical Euro regime that must try to enforce the structural convergence of their political economies. The chapter emphasizes that the structural differences of northern and southern political economies include two dimensions: institutional differences in the capacity of unions to achieve voluntary wage restraint and differences in the relative size of the exposed and sheltered sectors (i.e. whether the economy is export-led or domestic demand-led). Northern economies (Germany, Austria, the Netherlands, Belgium, Finland, and Ireland) are structurally defined by the combination of a large export sector with an institutional capacity for wage restraint. Southern economies (Greece, Spain, and Portugal, but also Italy and France) combine a large domestic sector with industrial relations systems that tend to generate wage inflation. The chapter analyzes the impact of the current Euro regime, which attempts to enforce the structural convergence of Eurozone economies through austerity and supply-side reforms and thus imposes one main growth strategy on everyone (the export-led one). It concludes by pointing out that the economic success of enforced convergence is still in doubt, whereas its political sustainability is undermined by a persistent lack of democratic legitimacy.

In the *second part* of the book, three chapters engage with the political economy of growth strategies in Europe. They trace the process of economic and social policy change in specific European countries since the 1990s including since the financial crisis. The chapters focus on the politics of growth strategies, and on the complementarities between various sectors' growth strategies. They allow identification of the role played by actors and by institutions in the framing and transformation of growth strategies. They emphasise the importance of welfare regimes and institutions in the shaping and evolution of growth strategies. Kathleen Thelen underlines the role played by producers' groups in the decision-making process leading to specific growth strategies and their reorientation over time, while Cathie-Jo Martin analyse the variety of employers' preferences in terms of growth strategies in different growth regimes. Anne Wren focuses on the complementarities between low and high skill services growth strategies. Each of these chapters show how the implementation of various growth strategies can progressively transform the very growth regime of a country.

Kathleen Thelen's Chapter 6 proposes an understanding of how growth regimes can change through the implementation of different growth strategies. It examines the role of producers' groups (unions, employers, and trade associations) in defending and/or (re-)defining national growth regimes through a comparison of three countries identified by VoC as coordinated market economies: Germany, the Netherlands, and Sweden. The chapter shows that differences in the structure of organized interests in the three countries produced divergent trajectories of change in industrial relations, education and training, and labor market policy. As a result, the three countries evolved differently. In Germany, intense cross-class cooperation within industry has sustained a growth strategy based on labor market and social protection dualization that has allowed the country's traditional strength in high-quality manufacturing to be shored up. By contrast, the Netherlands explicitly abandoned the heavily manufacturing-based growth regime in the 1980s that it had embraced in the 1950s and 1960s in favor of a move (back) to its traditional strengths in trade and business services. In this case, wholly new groups progressively emerged, groups whose interests were then increasingly reflected across all three arenas – industrial relations, the labor market, and education policy. In Sweden, union strength in low-end services prevented a German-style dualization and pushed firms upmarket, a move that also contributed to enhancing the power (on the union side) of white-collar interests, while also (on the employer side) giving rise to vocal new actors (particularly the employers and trade associations for the Swedish service sector). These developments contributed to a move of the Swedish growth regime into higher-end, more knowledge-intensive segments of manufacturing and services.

Cathie Jo Martin's chapter 7 explores how employers form preferences for social policies, participate in reform coalitions, and gain collective capacities to influence government. It starts by exploring the welfare state preferences of diverse producer coalitions, identifying the interest of business in six different sectors (from high-quality manufacturing to low-pay services through to highly-skilled services) and show how they pursue different avenues for growth. These include the alternative growth strategies articulated in earlier chapters: growth through the export of manufacturing goods, growth through exports of dynamic services, demand-led growth relying on public Keynesian fiscal policies, and demand-led growth relying on private Keynesian policies to foster easy credit and household debt. It then discusses cases in which policies seem to deviate from these predicted positions. Finally, the chapter explores how industrial relations organizations contribute to firms' preferences, coalitions, and their capacities for economic adjustment. It shows that macro-corporatist peak business associations expose employers to arguments about social contributions to economic growth, overcome limits to collective action, enforce compliance with negotiated regulations, and cede significant influence over policy outcomes to business. Furthermore, high levels of coordination also augment capacities for economic correction at points in which older growth strategies become less viable.

Anne Wren's Chapter 8 focuses on the role of skill formation, wage-setting, and public service provision in shaping national growth strategies in a post-industrial context, taking the cases of Germany, Sweden, and the UK as detailed examples. It helps to understand the interactions between the supply and demand sides of the economy. In particular it highlights the role played by skills policy in shaping patterns of specialization in high-productivity, traded sectors, which

are important engines of growth even in “consumption-led” regimes. It shows that Sweden’s ability to compete in less price-sensitive, high-end services (and manufacturing) markets rests on the availability of a workforce with high levels of tertiary skills. In contrast, Germany’s reliance on more traditional manufacturing sectors is rooted in its well-established system of firm-based vocational training and its limited tertiary education sector. In the UK, the expansion of domestic demand has, in part, been debt-driven, although it has also, as in the Swedish case, been facilitated by rising real wages. While domestic demand has contributed more to growth in relative terms in the UK than in Sweden, nevertheless a key driver of rising real wages in the UK has also been productivity growth and the expansion of trade in high-end, ICT-intensive services. The chapter confirms that welfare state policies (including the protection of relative wages, public service provision, and, above all, strategies of skill formation) are critical to the outcomes observed in the context of deindustrialization and technological change. It concludes that the development of sustainable strategies for growth and employment creation in a context of deindustrialization and of revolutionary changes in ICT rely on the creation of a capacity to expand into ICT-intensive, high-value-added sectors, and especially in dynamic services sectors.

In the third part of this volume, four chapters delve into the evolution of welfare regimes and their contribution to growth regime changes. Chapters in this part focus on welfare reforms (i.e. changes in labor market policies and reforms of the education system and social policies) within growth strategies and the feedback effect of their implementation on growth regimes. The first three chapters focus on specific aspects of welfare reforms and how they are connected to specific growth strategies: wage formation, housing policies, and education and youth policies. The last chapter identifies five main growth strategies implemented in Europe and analyzes the connections between these and five main types of welfare state reforms. These chapters connecting growth strategies and welfare reforms contribute to our understanding of the process of transformation of growth and welfare regimes.

Chapter 9 by Alison Johnston demonstrates a clear connection between growth regimes and labor market policies, especially wage policies. It analyzes the impact of wage restraint on different growth models. It questions the supply-side, comparative capitalism research (VoC especially) assumption that wage moderation – facilitated through highly coordinated wage-setting institutions – always produces beneficial growth outcomes. This supposition stems from the logic that restrained unit labor cost growth causes firms to increase employment and output. However, through its demand-side perspective, the growth model literature questions the virtues of wage moderation, because the restraint of wages can be detrimental to growth via its suppression of domestic consumption. The chapter empirically tests under what conditions wage moderation produces beneficial growth outcomes. Using a first-difference, distributive lag panel analysis of 18 OECD countries during the period 1970–2015, its findings largely resonate with predictions within the growth model literature. In the presence of wage restraint, countries with larger export shares and highly-coordinated wage-setting institutions realize higher growth and lower unemployment than countries with smaller export shares and uncoordinated wage-setting institutions. In contrast, wage inflation produces better growth outcomes for countries with uncoordinated wage-setting, relative to those with highly-

coordinated wage-setting institutions. These results suggest that wage restraint is not a winning strategy for all growth regimes. Rather, wage moderation is associated with better growth (and employment) outcomes only for countries with export-facing growth strategies.

In Chapter 10, Alexander Reisenbichler explores the interlinkages between housing finance, the welfare state, and growth regimes and how these links shape how policy-makers utilize housing finance policies as growth strategies. The chapter shows that demand-led economies relying on credit and consumption, such as the US and the UK, have complementary “financialized” growth strategies in the housing finance area. These include policies to stimulate demand, credit, and growth in the wider economy. In contrast, countries based on exports and manufacturing, such as Germany, have complementary growth strategies in the housing sector to secure cost competitiveness. These include conservative housing finance policies designed to restrain demand and dynamic housing markets, so as to keep down the cost of living, wages, and price developments. Export-oriented economies specializing in high-tech manufacturing and dynamic services, such as the Nordic economies, might be characterized as intermediate cases, where dynamic housing finance markets neither reinforce nor contradict their growth regimes. As high-tech firms are less concerned with securing wage competitiveness or restraining credit and consumption, these countries can adopt “financialized” housing policies as part of a larger strategy to liberalize financial markets and boost private wealth. To illustrate these arguments, the chapter discusses housing finance policies as growth strategies in the US and Germany since the late 1970s. In the US, policy-makers have employed “financializing” housing policies as growth strategies in pursuit of stimulating demand, credit, and consumption. By contrast, German policy-makers have adopted structural reforms that scaled down public support for housing finance, with the goal of balancing budgets, reviving competitiveness, and reducing distortions that channel investments away from production. Focusing on housing finance confirms that states are often active drivers of growth in key sectors of advanced economies.

Tom Chevalier’s Chapter 11 focuses on education, labor market policies, and welfare policies for young people in France, Germany, Sweden, and the UK. It underlines the coherence between specific growth strategies and the way socio-economic institutions structure the entry into adulthood, leading to a specific “youth welfare citizenship regime”. The four types of “youth welfare citizenship regimes” presented (*denied*, *monitored*, *second-class*, and *enabling*) correspond to four growth strategies presented in this volume (the FDI led strategy is not analyzed in this chapter). In the UK, the growth of high-skill services such as finance requires the expansion of higher education, which is possible only if there is an individualization of social citizenship. Young people are required to rely on loans for their study, which is in line with the financialization strategy. In UK, to fight youth unemployment, flexibilization of the labour market, the lowering of youth labour cost as well as incentives reinforcement have been fostered. In contrast, the “manufacturing-based, export-led” strategy of Germany translates into the “monitored” citizenship. It stems from a (specific) skilled labor force that is possible thanks to its encompassing economic citizenship and the importance given to apprenticeship and vocational training. However, as it focuses on the manufacturing industry, it is less important to develop higher education for all, hence no need to individualize social citizenship. According this strategy, vocational education and training is the main policy implemented in order to keep

youth unemployment low. Third, the “enabling” citizenship reflects the “export of dynamic services” strategy present in Sweden. It also stems from a (general) skilled labor force, so the economic citizenship is also encompassing, but fosters higher education rather than vocational training because of the importance of dynamic services. Accordingly, the fight against youth unemployment has led to the development of youth guarantee programmes for the low-skilled. Fourth, the publicly supported domestic demand strategy relates to the “denied” citizenship. France is an example of this “denied” citizenship type. The selective economic citizenship reflects demand-led growth, as the overall economy is not competitive enough on international markets, lacking an overall skilled labor force. On the one hand, policy-makers try to lower youth labor costs. On the other hand, the elitist education system, without a good-quality apprenticeship system, echoes a polarized economy, where the leading firms are the former *champions nationaux*. Yet, the recent expansion of services has required the expansion of higher education. Individualization has, therefore, happened at the margin through the “conversion” of housing benefits. To fight youth unemployment, there has been an hesitation between the creation of atypical jobs and the launch of a youth guarantee programme.

Finally, Chapter 12, contributed by Sonja Avlijas and us as co-authors, analyzes welfare state reforms since the 1990s and how they are connected to the identified growth strategies. It shows how five main growth strategies connect to five different types of welfare state reforms and how crucial welfare reforms in the country cases had economic strategies as their driving force. The chapter starts by identifying these five growth strategies according to the engine of growth chosen and the type of welfare reform: export of dynamic services; export of high-quality manufacturing products; FDI-financed exports; domestic consumption driven by financialization; and domestic consumption driven by wages and welfare spending (which has transformed into “competitiveness through impoverishment” under pressure from the EU). Then it shows that these five growth strategies can be associated with five types of welfare state reform: dualization of welfare, social investment, fiscal and social attractiveness, commodification of welfare, and social protectionism. The detailed account of the cases of the UK, Germany, Sweden, Denmark, Baltic and Visegrad Eastern European countries, Italy, France, and other Southern European countries analyze the actual connections between growth strategies and welfare reforms. The cases analyses reveal that these strategies are not mutually exclusive and that more than one strategy might be pursued in a country. The chapter contributes to an understanding of how growth regimes change, thanks to its analyses of the transformative feedback effect that the implementation of growth strategies has on the growth regimes. The chapter concludes on the politics of growth strategies and welfare state reforms and the respective roles of producers’ coalitions and electoral politics.

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