

Cambridge University Press

978-1-107-09986-9 - The Politics of Advanced Capitalism

Edited by Pablo Beramendi, Silja Häusermann, Herbert Kitschelt and Hanspeter Kriesi

Excerpt

[More information](#)

## I

**Introduction: The Politics of Advanced Capitalism**

Pablo Beramendi, Silja Häusermann, Herbert Kitschelt,  
and Hanspeter Kriesi

In the concluding chapter of the 1999 volume *Continuity and Change in Contemporary Capitalism*, the then-editors affirmed that the most challenging part of the characterization of contemporary capitalism is to determine “how the cross-sectional patterns of variation, locked in through intricate pathways of industrialization and democratization, are shaped by growing global interdependence and domestic political and socioeconomic change” (Kitschelt et al. 1999: 427). Today, almost two decades later, the task at hand seems even more daunting, as advanced capitalism is caught up in an accelerating flux, induced by both external constraints as well as the internal dynamics of its political forces and institutional reforms.

In a process accelerated by the Great Recession, virtually every essential aspect of advanced political economies is undergoing fundamental, and potentially far-reaching, transformations. From the demographic tenets of society, through partisan loyalties or the organization of labor markets and economic institutions, to education, tax, and social protection systems, everything seems to be in a process of fundamental change and in need of either adaptation or radical reform. The cross-national variation in institutional arrangements seems to have shifted from frozen landscapes to a complex, hybrid, and morphing configuration of elements taken from different places and “models.” What were previously understood as stable and rather self-contained “models” of economic growth, distribution, and risk management are now giving way to unprecedented combinations across such models with unanticipated consequences for economic performance as much as individual citizens’ life chances.

A full understanding of these processes requires revisiting existing accounts of the cross-national variation among advanced political economies. While the current reconfiguration may no longer conform to any of the models highlighted in the previous literature on the post–World War II past of today’s most affluent democracies, and while current developments may even make

Cambridge University Press

978-1-107-09986-9 - The Politics of Advanced Capitalism

Edited by Pablo Beramendi, Silja Häusermann, Herbert Kitschelt and Hanspeter Kriesi

Excerpt

[More information](#)

us reconsider how these models need to be characterized in the first place, the stream of new evidence does not, however, warrant the conclusion that current transformations are either random or a signal of convergence on a single institutional equilibrium. The challenge is to theorize structured diversity in a world with changing policy preferences, policy options, and exogenous constraints. Moving away from some earlier approaches, we aim to incorporate the following considerations to capture these movements:

1. We recast the constraints and institutional conditions that shape the feasibility set in which partisan politics explains policy strategies. Thereby, we consider both the changing *supply and demand sides of politics*, that is, politicians' political-economic policy proposals and commitments, but also citizens' policy preferences.
2. We operate with a two-dimensional policy space that considers (1) the scope of public policy efforts to shape economic processes, but adds (2) the differential emphasis of such policy efforts devoted to either *investment or consumption oriented policies*. The former (in particular investments in education, child care, or research and development) prioritize long-term returns; the latter (most notably welfare transfers) prioritize short-term direct economic returns to voters.
3. *Agency and decisions* matter: We theorize how politicians can move beyond the status quo and embrace genuine innovation that breaks with political continuity. Pursuing their own survival in office, politicians experiment with building winning coalitions backed by alignments of constituencies with specific preferences over the two dimensions of public policy. But in each polity constraints still matter, both as policy legacies of past coalitions and sunk costs of policy, as well as limited capabilities of states to realize new policies.
4. We place *politics*, in the sense of partisan competition and electoral accountability, and hence the actions of vote- and office-seeking politicians, at center stage, more so than interest groups as the associational representatives of economic factors, sectors, or occupations.
5. Policy outputs and outcomes then emerge from the interaction between political supply (politicians offering policy prospects) and demand (citizens with preferences regarding the two dimensions of political economy), restricted by political constraints (i.e., legacies of coalitions and institutions, state capacities).

We refer to our analytical framework as a *model of constrained partisanship*. We build on the premise that parties' preferences and strategies are a joint function of two hierarchically ranked goals: First, parties seek to gain and retain office for as long a period as feasible. Second, we assume that they do so in pursuit of a particular policy portfolio, and not just for the mere purpose of extracting personal rents (Dixit and Londregan 1996, 1998). As a result, parties must often sacrifice ideological goals for the sake of electoral viability. This

Cambridge University Press

978-1-107-09986-9 - The Politics of Advanced Capitalism

Edited by Pablo Beramendi, Silja Häusermann, Herbert Kitschelt and Hanspeter Kriesi

Excerpt

[More information](#)*Introduction: The Politics of Advanced Capitalism*

3

is no new dilemma (Przeworski and Sprague 1986; Kitschelt 1994), and the fundamental premises in this account remain true today. There is no reason to believe that political parties today seek less to gain and retain office than they did before. However, the crafting of electoral coalitions has become more complicated. The dimensionality of the political space has increased and electorates are more fragmented. As a consequence, models built around dichotomous constituencies (Left vs. Right, labor vs. capital) in one dimension provide limited analytical leverage. Politicians have to build electoral coalitions in an at least two-dimensional space. In fact, the openness and possibility of innovation in the constrained partisanship model may derive from the condition that competing parties cannot find stable, coalitional equilibrium strategies in a more than unidimensional world. The possibility of party entry, voter abstention, and differential time horizons of interest maximization, among other behavioral complications, may further subvert the stability of coalitions.<sup>1</sup>

The structural transformations of the past decades have promoted this two-dimensionality and complexity of coalition formation. On the side of preference formation, even stylized accounts can no longer plausibly build on a “democratic class struggle” model that dichotomizes the world of political economy between rich and poor or trichotomizes it among rich, middle, and poor, with one side wanting less scope of public intervention and the other more. The transformation of the workforce through technological change, globalization, and the stratification effects of welfare states themselves has created a more complex set of divides that involves divisions of sectors, occupations, and skills, as well as among different gradations of labor market integration. These complications force politicians to assemble electoral coalitions in a more ad hoc manner and to propose and pursue policies in an at least two-dimensional policy space.

But in choosing policy options, politicians are hemmed in not only by citizens’ preference distributions on the *demand side*, but also by *supply-side constraints*, that is, by the differential capabilities of incumbents across political economies to offer an adequate response to changes in policy demand. This is key to our model of constrained partisanship. With respect to the political supply side, our analysis emphasizes constraints induced by previous policy decisions, and the feedback effects deriving from existing institutional arrangements. The strategic adaptation of actors and the institutional feedback from the context in which they operate mediate the ways in which political demands are actually articulated, and ultimately the responses in terms of political supply by collective actors and governments. Moreover, in some polities, state capacities – for tax extraction and policy implementation requiring professionalized bureaucracies – may simply be too limited to make credible policy commitments.

<sup>1</sup> We are relying here on Laver’s (2005) critique of the precariousness and fragility of equilibrium results in formal models of party competition.

Cambridge University Press

978-1-107-09986-9 - The Politics of Advanced Capitalism

Edited by Pablo Beramendi, Silja Häusermann, Herbert Kitschelt and Hanspeter Kriesi

Excerpt

[More information](#)

The emphasis on *electoral politics* – understood as the dynamics of constrained coalition formation in a two-dimensional policy space against the background of changing voter preferences – sets our approach apart from much of the literature that has focused on interest groups, in particular producer groups, as the key actors of the politics of advanced capitalism. We certainly do not argue that these actors are irrelevant. However, the recent literature has tended to neglect the electoral arena, precisely because most of it still assumes a unidimensional conceptualization of partisan competition between Right (capital) and Left (labor), which – indeed – is not very helpful to understanding current dynamics of coalition formation and policy choice. By contrast, explicitly conceptualizing the two-dimensionality of partisan competition and policy strategies allows us to shed light on the complexity of partisan coalition formation in advanced capitalist democracies. In our view, an updated electoral-partisan approach regains analytical leverage. This volume is intended to advocate and contribute to an “electoral turn” in current political economy research.

Let us point out one more important analytical premise that frames our argument before proceeding. In agreement with much of the established political economy literature, almost all contributions to this volume treat advanced capitalist democracies as an object of theoretical analysis *sui generis*, separable from a treatment of political challenges of economic development and distribution more generally. We focus on advanced industrial democracies: countries whose democracies have been in operation for more than one generation, whose purchasing power parity assessed affluence (per capita GDP) according to World Bank data exceeded \$25,000 international dollars in 2011, and whose population is greater than 4 million inhabitants.<sup>2</sup> While there are significant differences among them in terms of the legal and fiscal capacity of the state and development indicators (Besley and Persson 2011), advanced industrial societies are separated by a surprisingly wide gulf from most middle-income countries.<sup>3</sup> They industrialized and democratized significantly earlier than the rest and as a result have enjoyed, with the partial exception of Southern Europe, much higher levels of institutional stability. Two chapters in the volume (those by Boix and by Rueda, Wibbels, and Altamirano) reinforce this point by situating this group of countries within a global and historical context.

<sup>2</sup> We are relying here on the World Development Indicator databank, as last updated on April 16, 2013, accessed on June 4, 2013. <http://databank.worldbank.org/data/home.aspx>

<sup>3</sup> The only larger democracies with per capita incomes in 2011 between \$15,000 and \$25,000 and more than 10 million inhabitants were Hungary (\$22,000); Poland (\$21,000); Chile, Turkey, and Mexico (all around \$17,000); and Romania (\$16,000). Taking all large countries – regardless of regime and regime legacy – into account, our list excludes only two affluent countries (Korea and Taiwan) and a handful of upper middle-income nondemocratic countries (Russia at \$22,000 and Malaysia at \$16,000). The majority of populous middle-income countries – democratic or not – have well below half of the income level chosen as the lower cutoff point of our affluent group, \$25,000.

Cambridge University Press

978-1-107-09986-9 - The Politics of Advanced Capitalism

Edited by Pablo Beramendi, Silja Häusermann, Herbert Kitschelt and Hanspeter Kriesi

Excerpt

[More information](#)*Introduction: The Politics of Advanced Capitalism*

5

Our delineation of the observational universe is more than an inconvenient pragmatic choice of focus due to data or length restrictions. Rather, it is only this set of countries that exhibits an institutional integrity and stability, and a cumulative experience of collective action and interest aggregation, that hold constant many fundamental variables that shape policy making and policy outcomes elsewhere all over the world. Whereas elsewhere the fragility and variability of the rule of law and citizens' and politicians' basic compliance with universal, institutionalized rules and civil liberties are precarious and account for much of the variance in observed patterns of policy and outcomes, such matters can be taken for granted in advanced capitalist democracies. Moreover, all of the polities we are dealing with have a long history of collective mobilization of economic interest groups. For this reason, explaining variance across policy and outcomes within the restricted group and across the entire global universe of cases would face a problem of causal heterogeneity. In other words, the relevant set of drivers of policy and outcomes is conditional on the level of development: The factors accounting for differences among developed societies either do not explain differences between developed and developing democracies or work differently in the latter.<sup>4</sup>

The rest of this introductory chapter is organized as follows: Section 1.1 begins with a selective overview of major structural changes, policy strategies, and outcomes observable in advanced capitalist societies over the last decades. It provides the empirical and conceptual background against which we then develop the elements of our model of constrained partisanship in section 1.2: We introduce the supply and demand side of politics, including a justification of focusing on parties and elections more than interest groups, before developing in section 1.3 how their combination and interaction shape and restrict the feasibility sets for governments in different countries. This will allow us to generate an alternative interpretation of the evolution of advanced capitalism over the last three decades. Section 1.4 follows up on the exposition of our approach with a brief consideration of existing alternatives. Section 1.5 closes this chapter by outlining the organization of the rest of the book.

### 1.1. Advanced Capitalism Twenty Years Later: Patterns and Puzzles

For several decades advanced capitalist democracies have undergone massive structural transformations in the domestic and international divisions of

<sup>4</sup> An early empirical example in the political economy literature illuminating this causal heterogeneity is Harold Wilensky's (1975) analysis of global social expenditure patterns. In global comparison, all that accounts for expenditure variance are demand side factors (percentage of the elderly, sanitation/hygiene levels), whereas political processes and divisions come into view only when Wilensky turns to the variance among the advanced capitalist democracies alone. For more recent evidence on causal heterogeneity between the developed and the developing world, see Wibbels (2006).

Cambridge University Press

978-1-107-09986-9 - The Politics of Advanced Capitalism

Edited by Pablo Beramendi, Silja Häusermann, Herbert Kitschelt and Hanspeter Kriesi

Excerpt

[More information](#)

labor. The connection between the transition from a manufacturing to a service economy and the size of the welfare state is a well-established finding. Whether the major engine of the transition lies in endogenous productivity changes (Rowthorn and Ramaswamy 1997, 1999), increasing international competition (Wood 1995), or an interaction between the two continues to be an object of debate among labor and international economists. The facts remain, however, that advanced capitalism has *deindustrialized and tertiarized*, thus producing significant changes in its occupational structure and the demand side of the welfare state (Iversen and Cusack 2000). While routine and medium-skilled occupations, especially in the industrial sector, are shrinking massively, employment in some countries is expanding strongly in the low-skilled service sector, and – throughout advanced capitalist countries – strong job growth is observable in the high-skilled high-quality professions of the private and public service sectors (Goos and Manning 2007; Oesch and Rodríguez Menés 2011; Oesch 2013). Alongside these processes of generalized upgrading and differential polarization of the employment structure, advanced capitalism has become *more integrated* for capital and labor alike (Rodrik 2011) with differential migration in- and outflows contributing to major transformations in the employment structure.

The first few chapters in this volume lay out and explain the dynamics of this postindustrial transformation of advanced capitalism, as well as its consequences for the structural and institutional context of the politics of advanced capitalism. In his chapter, Boix points to sectoral shifts as the main determinants of cross-country and longitudinal developments of economic growth and productivity. He finds substantial cross-country variation in the extent to which countries have adapted to the decline of the manufacturing sector, that is, to deindustrialization, but he also emphasizes that the loss of employment in the manufacturing sector is universal across advanced capitalist economies: From about 20 percent of the total working age population, employment in the manufacturing sector declined to around 10 to 15 percent on average in Europe and the United States, whereas the service sector provides employment for about 50 to 70 percent of people of working age.<sup>5</sup> This sectoral shift has entailed a substantial slowdown in growth and brings about a number of political-economic consequences that are likely to challenge existing postwar capitalist arrangements fundamentally. The most straightforward consequence is a more severe constraint on public finances, especially in countries that have not managed to readjust to deindustrialization through service sector growth – both low- and high-skilled – and suffer from poor productivity in the remaining industrial sector, notably the Southern European countries. As Rueda, Wibbels, and Altamirano (this volume) argue, the distributive implications of

<sup>5</sup> These numbers are calculated over the entire working age population (active population), not only the employed. Since several countries have rather low employment rates, the numbers do not add up to 100 percent.



Cambridge University Press

978-1-107-09986-9 - The Politics of Advanced Capitalism

Edited by Pablo Beramendi, Silja Häusermann, Herbert Kitschelt and Hanspeter Kriesi

Excerpt

[More information](#)*Introduction: The Politics of Advanced Capitalism*

7

these sectoral shifts in terms of labor market performance and inclusiveness differ strongly among countries depending on their historical pathway of industrialization. Countries with a record of economic openness and interdependence have developed institutions that allow for a more flexible adaptation to structural shifts, while those countries that industrialized via protectionism institutionalized strong elements of employment protection. Over time, this has led to increasing dualization of their labor markets with a growing share of politically and economically marginalized labor market outsiders.

Deindustrialization is induced by technological innovation in competitive markets, as well as by the globalization of production, often in interaction with each other. Dancygier and Walter (this volume) argue that low-skilled labor is increasingly threatened not only by such a globalization of production and the threat that jobs can be moved abroad, but also by the globalization of labor. The inflow of substantial numbers of low-skilled migrant workers, most notably into nontradable service sector occupations, has led to globalization pressures both from abroad and from within. As a result, low-skilled labor in manufacturing and service sector jobs constitutes a group of “globalization losers.” These workers not only voice increased needs and demands for protection and compensation by regulative and redistributive public policies; they also form an important (electoral) segment of antiglobalization and antiimmigration voters, further constraining politics in advanced capitalism.

But the increasing scarcity of low-skill jobs is not the only feature of postindustrial occupational structures. At the other end of the skill distribution, deindustrialization has gone hand in hand with a massive growth in service sector employment, much of it in medium- and high-skilled professions. Oesch (this volume) examines this process of “upgrading” of the employment structure, which affects mostly the expansion of employment in the high-skilled financial business sector, and in creative businesses, as well as in public and private social services, notably education, health, and welfare state services for families, the unemployed, and the youth more generally. Job creation in high-skilled employment has outnumbered the decline in low-skilled manufacturing jobs across Europe. This development in turn changes the electoral landscape governments face in advanced capitalist countries, as it produces a large segment of (public and private) highly educated managerial, technical, and client interactive professions, while it erodes employment prospects of production workers and office clerks. As with deindustrialization, this process impacts the needs and electoral demands governments face. On the one hand, much of the upgrading job growth is tied to the public sector and strengthens the support for and demand for extensive public services in times of fiscal constraint. This development is partly driven by the female educational revolution and the massive entry of women into the labor force. The incorporation of women into the labor market has produced a revolution across firms, public sectors, and households (Esping Andersen 2009; Iversen and Rosenbluth 2010). Oesch explains why and how female employment changes the occupational structure

Cambridge University Press

978-1-107-09986-9 - The Politics of Advanced Capitalism

Edited by Pablo Beramendi, Silja Häusermann, Herbert Kitschelt and Hanspeter Kriesi

Excerpt

[More information](#)

of advanced capitalism, while Esping-Andersen (this volume) points to the consequences of this development in terms of household formation and distribution. Esping-Andersen argues that occupational upgrading and changing gender roles in the society will eventually lead to a reconfiguration of household composition around more educational homogamy. He calls this process the “return of the family.” The political consequences are obvious: Increases in the number of homogeneous dual earner households lead to increasing household income inequality, and to increasing social policy demands for policies that support labor market participation.

This brief overview has shown that the politics of advanced capitalism unfold in a context that differs deeply from the context of the politics of industrial capitalism, in terms of its economic, sociostructural, and institutional features. How have governments coped with the changing context? We present here some simple empirical results, distinguishing two dimensions to motivate our theoretical treatment in the next section of the Introduction. Consider as the roughest measure of government response the total “effort” governments are making to address citizens’ quest for income, measured in terms of the financial resources extracted from the private economy and channeled back into society, as a percentage of GDP, through a myriad of programs for social transfers and services. A large social policy-related resource flow through the government sector does not characterize a specific policy program structure or profile of distributive effects on society, but it does make possible certain effects, whether they concern equality, (un)employment, earnings, or quality of life.

Then, as a second dimension, divide up these state expenditures into two categories, those that empower people to earn a living in the labor market – with policies classified under the rubrics of education, child care, labor market activation, research and development, and public infrastructure – and those that help people cope with the loss of income, whether due to old age (pensions), skill redundancy (unemployment insurance), or illness (disability benefits and sick leave from employment, medical diagnostics and therapy). We refer to social expenditures aimed at immediate income restoration as “consumption” and to policies aimed at increasing people’s capacity for future earnings as “investment.”

Let us begin with an inspection of countries’ efforts to dedicate funds to social investments and consumption (Figure 1.1.). Overall, countries spend more money on social consumption than on economic and social investment policies. While consumption expenditures account for between 6 and 18 percent of GDP, investment expenditures for education, public and private research and development, child care services, and active labor market policies only total between 2 and 8 percent of GDP. The second point of interest in Figure 1.1 concerns the considerable stability of investment-oriented spending over the past two or three decades (investment-oriented data are available only from the early 1990s onward and unavailable for Norway and Switzerland). Nevertheless, there are more countries above the diagonal line,



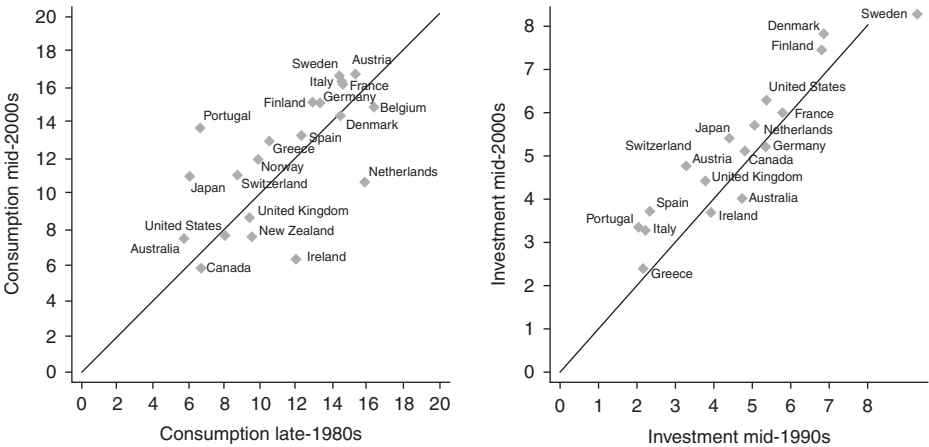


FIGURE 1.1. Public expenditure on public consumption and investment as a percentage of GDP over time.

*Note:* Consumption refers to the sum of per GDP expenditures on old age pensions, survivors' pensions, unemployment benefits, and incapacity pensions, 1983–1987, 2003–2007, OECD data; investment refers to the per GDP expenditures on public and private research and development, tertiary education, child care services, and active labor market policies, 1992–1995, 2003–2007, OECD data. Investment data are lacking for Switzerland and Norway for the 1992–1995 period.

indicating that, over time, a greater share of countries managed to increase their investment expenditure. The intertemporal continuity of expenditure is similarly high on consumption, although some countries exhibit substantial changes: The Netherlands has strongly reduced consumption-oriented social spending, together with Ireland, whereas countries such as Portugal, Greece, Japan, Switzerland, and Norway have increased consumption spending. Both the Anglo-Saxon and the Southern European countries cluster at the lower end of consumption spending generosity. Overall, there does not seem to be a uniform trend; nor is there convergence or group clustering. Regarding investment,<sup>6</sup> the distribution of countries is rather stable over time, but there is wide variation of levels across countries: The Southern European countries are clearly the lowest spenders on investment, whereas the Nordic countries spend the highest part of their GDP on investment. In the middle, however, we have a heterogeneous mixture of countries.

We turn now to the analysis of the relationship between the overall spending effort (the sum of spending on both investment and consumption) and its composition, measured by the relative importance countries attribute to investment versus consumption. Figure 1.2 shows roughly four groups of countries. In the

<sup>6</sup> Since we do not have data on public expenditure on infrastructure, we include expenditure on private research and development in our measure of investment, with the idea that investments in infrastructure attract private investments in R&D.

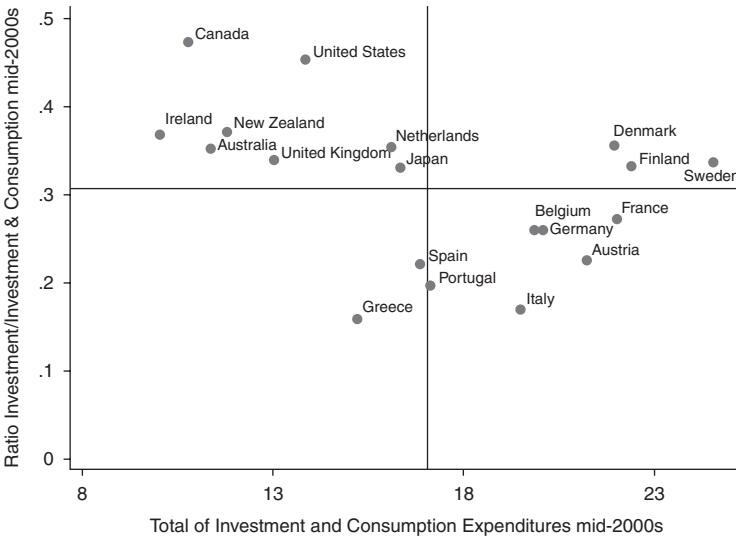


FIGURE 1.2. Total expenditures for consumption and investment in the mid-2000s and the weight of spending on investment in total expenditure (2003–2007, OECD data).

upper right-hand quadrant of the graph, we see the Nordic countries Denmark, Finland, and Sweden with high overall levels of expenditures as well as a strong accent on investment (investment-related expenditures account for about 30–40 percent of total expenditures). In their emphasis on investment-related expenditures, these countries resemble the liberal market economies in the upper left-hand quadrant. In Canada and the United States, investment counts for about half of total expenditures. We also see the Netherlands and Japan in this quadrant: In combination with Figure 1.1 earlier, it appears clearly that the Netherlands has “moved” over time to the upper left-hand quadrant by reducing its consumption expenditures while maintaining a strong emphasis on investment. Japan, by contrast, has expanded both consumption and investment expenditures jointly. In the lower right-hand quadrant we see two groups of countries: The continental countries France, Austria, Germany, and Belgium are “big” and generous welfare states, but investment accounts for only about 20 to 30 percent of their efforts. Finally, the Southern European countries Greece, Spain, Portugal, and Italy have both the lowest levels of overall spending among the continental countries and the most consumption-oriented pattern of expenditure.

Critically, Figure 1.2 shows that advanced capitalist democracies are highly different in terms of their profile of public spending. These patterns have been relatively stable over time, even though some countries have shifted their emphasis, but we do not see signs of convergence in these data.

Finally, let us consider employment protection as an important aspect of consumption policy in capitalist democracies. Employment protection