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Comparative Political Economy and Varieties of Macroeconomics

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Abstract

This paper provides a historical overview of comparative political economy as an interdisciplinary field of study anchored in political science and focused on advanced capitalist states. We argue that this field of inquiry has reached an impasse and that a more sustained engagement with macroeconomics provides a way forward. Against this backdrop, we review two distinct traditions of macroeconomics – New Keynesian and Post-Keynesian macroeconomics – and discuss their relative merits as vehicles for renewing the research agenda of comparative political economy.

Keywords: comparative capitalisms, comparative political economy, growth models, macroeconomics, varieties of capitalism

Zusammenfassung

Dieses Paper bietet einen historischen Überblick über die Vergleichende Politische Ökonomie als interdisziplinäres, in der Politikwissenschaft verankertes und auf die entwickelten kapitalistischen Länder bezogenes Forschungsfeld. Wir argumentieren, dass dieses Forschungsfeld in einer Sackgasse steckt und dass eine grundlegendere Auseinandersetzung mit der Makroökonomie nötig ist, um voranzukommen. Vor diesem Hintergrund wenden wir uns zwei unterschiedlichen Traditionen der Makroökonomie zu – dem Neokeynesianismus und dem Postkeynesianismus – und diskutieren, inwiefern diese als Instrumente zur Erneuerung der Forschungsagenda der Vergleichenden Politischen Ökonomie beitragen können.

Schlagwörter: Makroökonomie, Spielarten des Kapitalismus, Vergleichende Kapitalismusforschung, Vergleichende Politische Ökonomie, Wachstumsmodelle

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Comparative Political Economy and Varieties of Macroeconomics

1 Introduction

The comparative study of advanced capitalist political economies has been a vibrant subfield of comparative politics since the 1980s, characterized by innovative research and empirically-grounded theoretical debates. The dominant debate in comparative political economy (CPE) over the last ten years or so pits scholars who focus on persistent differences among advanced capitalist political economies against scholars who instead focus on dynamics that these political economies have in common. We think that this debate has too often been framed in terms of the importance of "varieties" relative to "commonalities." Our goal in this paper, which forms part of a larger theoretical and empirical undertaking (Baccaro and Pontusson 2016), is to advance the debate among CPE scholars, and with it our common research agenda, by focusing attention on the following questions: What are the outcomes that we are trying to explain (or should be trying to explain)? How are cross-national differences relevant to these outcomes and, at the same time, congruent with a common capitalist logic?

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

We echo David Soskice and collaborators (e.g., Iversen and Soskice 2006; Carlin and Soskice 2009) in arguing that CPE scholars need to engage with macroeconomics in a more sustained fashion. However, our discussion draws inspiration from Post-Keynesian (PK) macroeconomics as well as the New Keynesian (NK) macroeconomics propagated by Soskice and collaborators (in Soskice's preferred terminology, "modern mac-

An earlier version of this paper was presented at the 25th International Conference of Europeanists (Chicago, March 28–30, 2018). We thank the discussant, Alison Johnston, and members of the audience for perceptive questions and useful criticisms. We are also grateful to Martin Höpner for detailed written comments.

1 As we discuss below, their analytical emphasis on partisan electoral competition leads Beramendi et al. (2015) to neglect macroeconomic policy altogether.

roeconomics"). As we shall spell out in due course, core ideas in the PK tradition of macroeconomics bear an elective affinity with core ideas shared by most CPE scholars. Relegating rational expectations and inter-temporal optimization to second-order concerns, the PK tradition treats distributive conflict and power relations as critical for understanding macroeconomic relationships and outcomes. Relatedly, much of the PK tradition challenges the mainstream idea of a unique and stable equilibrium that defines long-term levels of unemployment and output (an idea that NK macroeconomists share with neoclassical macroeconomists).

In previous work (Baccaro and Pontusson 2016), we have argued for a new approach to thinking about varieties of capitalism, emphasizing demand drivers of growth rather than supply-side institutions (see also Johnston and Regan 2016). In this paper, we make the case that the macroeconomic ideas of Soskice and other scholars identified with the Varieties of Capitalism (VofC) school of comparative political economy deserve more critical scrutiny than they have received to date.

Our discussion proceeds as follows. We begin by reviewing the CPE literature of the 1980s and then revisit debates generated by the rise of VofC as the dominant CPE paradigm in the 1990s. Thereafter, we consider how macroeconomics might be incorporated into comparative political economy in two steps: first, we set out the macroeconomic framework of Carlin and Soskice (2006; 2015) and discuss its relevance for CPE; and, second, we introduce the PK tradition and discuss how this alternative approach to macroeconomics relates to long-standing themes in comparative political economy as well as our own interest in understanding post-Fordist growth models. We conclude with some reflections on the politics of macroeconomic policy in the contemporary era.

2 1980s comparative political economy

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

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

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

Commonly referred to as "neo-corporatism," the third CPE stream in the 1980s is of particular interest for our purposes. In a sense, our objective here is to resurrect the macroeconomic concerns that motivated the neo-corporatist literature. The concept of "political exchange" played a critical role in early contributions to this literature (e.g., Pizzorno 1978; Regini 1984). Essentially, neo-corporatist CPE scholars sought to identify the conditions under which unions might deliver wage restraint in return for government policies to combat unemployment and to expand social benefits. Sidestepping the question of whether or not governments could credibly promise to deliver such policies, the dominant view emphasized the institutional power of organized labor, positing that encompassing unions have an interest in wage restraint and also the capacity to exercise wage restraint, with centralization of authority within unions and the absence of inter-union rivalries conceived as correlates of encompassment (see also Cameron 1984).

In a different vein, Hibbs (1977) relied on the idea of a trade-off between unemployment and inflation to generate a partisan model of macroeconomic policy choices. In Hibbs' formulation, Left parties prioritize low unemployment because their core constituencies more or less exclusively derive their income from employment, while Right

2 The crisis of Fordism also features prominently in the analytical framework of the French regulation school (e.g., Boyer 2004), but note that French regulationists conceive "Fordism" as a macroeconomic regime.

parties prioritize low inflation because their core constituencies derive more of their income from financial assets. Combining Hibbs' partisan model with the insights of the neocorporatist literature, Garrett (1998) posited that partisan differences with regard to macroeconomic management and social spending are most pronounced when unions are encompassing and economic openness renders wage restraint imperative.[3] Under these conditions, according to Garrett, unions are both willing and able to engage in political exchange with Left parties.

The assumption that wage restraint is the key to competitiveness – and, by extension, the key to economic growth and prosperity – represents a conspicuous feature of the neo-corporatist research program of the 1980s. It is fair to say, we think, that neo-corporatist CPE scholars never systematically tested or otherwise justified this assumption. The importance assigned to competitiveness in this literature reflects the apparent success of small European states, measured by social as well as economic criteria (Katzenstein 1985), but the importance assigned to wage restraint does not sit well with the CPE literature's emphasis on productivity growth as the key to the export prowess of these countries. A core proposition of the analytical framework that we will sketch below is that the role of exports in economic growth and the importance of labor costs for export performance vary across growth models. For the time being, suffice it to note that the CPE literature of the 1980s was deeply influenced by the anti-Keynesian turn in macroeconomics, adapting to this development by focusing on supply-side issues and, for the most part, ignoring aggregate demand. The importance assigned to institutional conditions for wage restraint by CPE scholars seeking to explain cross-national variation in macroeconomic performance represents one manifestation of this adaptation to the anti-Keynesian turn in macroeconomics. While eager to assert that politics matter, CPE scholars have been reluctant to challenge mainstream economists on their home turf.

3 Varieties of Capitalism and its critics

The Varieties of Capitalism (VofC) approach successfully integrated insights from earlier CPE research programs into a single analytical framework. Though some VofC scholars have subsequently sought to "bring macroeconomics back in," the core VofC framework, as articulated by Hall and Soskice in the introduction to their 2001 edited volume entitled *Varieties of Capitalism*, heavily emphasizes supply-side issues. Indeed, the rise of VofC as the dominant paradigm might be said to have reinforced the supply-

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

side emphasis of comparative political economy, shifting attention away from macroeconomic outcomes such as unemployment, inflation, and economic growth.[4]

The VofC research program is closely bound up with a particular typology of capitalisms. Relative to the 1980s literature on national models, VofC scholars drop the "statist" category and propose an overarching binary distinction between "liberal market economies" (LMEs) and "coordinated market economies" (CMEs). "Mixed market economies" (MMEs) feature in many contributions to the VofC literature, but this is essentially a residual category, encompassing any and all countries that cannot be classified as either LMEs or CMEs. In the VofC framework, the distinguishing feature of MMEs is their lack of institutional coherence. Emphasizing similarities between Germany and Japan, the VofC typology downplays not only the role of the state, but also the role of tripartism. The first question comparative political economists ought to ask, according to the VofC perspective, is whether or not firms have the capacity to engage in strategic coordination with respect to wage bargaining, vocational training, technological innovation, and lobbying of political authorities. Coordinating capacity depends, VofC scholars tell us, on some combination of concentrated ownership, banks as stakeholders in corporations, and associational networks that link firms to each other.

The concept of institutional complementarities plays a key role in the VofC approach. In Hall and Gingerich's (2009) formulation, coordination in corporate governance increases the returns to coordination in labor relations and vice-versa.[5] The other constitutive component of the VofC framework is the idea of comparative institutional advantage. From the VofC perspective, the distinction between LMEs and CMEs does not have much, if any, bearing on overall efficiency and long-term growth rates.[6] What distinguishes these two types of capitalism has to do with the economic activities that generate growth. While the institutional framework of LMEs favors the expansion of low-wage services and high-tech sectors engaged in radical (product) innovation, the institutional framework of CMEs favors incremental (process) innovation in manufacturing and, more specifically, diversified quality production.

Building on these ideas, VofC scholars argue forcefully against the proposition that globalization generates convergence across varieties of capitalism. Contrary to conventional wisdom among "market liberals," the VofC framework implies that international competition leads to a crystallization of LME/CME differences, as firms specialized in economic activities that are advantaged by existing institutions thrive and governments

4 It is noteworthy that only one contribution to the 2001 volume directly addresses macroeconomic issues (Franzese 2001).
5 Focusing on skill formation, Estevez-Abe, Iversen, and Soskice (2001) emphasize complementarities between production regimes and welfare states.
6 Hall and Gingerich's (2009) empirical analysis suggests that there is no significant difference between average growth rates of LMEs and CMEs over the period 1971–97 (and that average growth in MMEs lagged behind).

seek to promote growth by engaging in reforms that render institutional frameworks more coherent (and thus enhance institutional complementarities).[7]

As with any analytical paradigm that aspires to reconfigure an existing field of inquiry, the VofC approach has been subjected to a wide variety of criticisms. For our present purposes, three debates deserve to be briefly mentioned.[8] The first debate concerns the conceptual foundations and empirical adequacy of the binary typology proposed by the VofC school. Critics commonly argue that the coding of countries as LMEs and CMEs by VofC scholars lumps together political economies operating according to different logics and, by the same token, that the LME/CME distinction fails to encompass the full range of advanced capitalist economies. In this spirit, Amable (2003) identifies five distinct models of modern capitalism based on rigorous empirical analyses. For their part, VofC scholars have always conceded that some countries cannot be coded as LMEs or CMEs and have sought to accommodate variation among CMEs by distinguishing different (functionally-equivalent) forms of coordination. From our perspective, a striking feature of the how-many-varieties debate is the shared focus on supply-side issues and coordination. In addition, the thorny question of how to evaluate the utility of alternative typologies remains unresolved.[9]

Accepting the distinction between LMEs and CMEs as the foundation for a meaningful typology of advanced capitalist political economies, a second set of critics have taken VofC scholars to task for failing to explain why some countries are LMEs while others are CMEs. Focusing on the implications of welfare-state provisions for skill formation, Korpi (2006) exemplifies this line of attack. Crudely put, Korpi argues that working-class mobilization explains welfare-state development and that welfare-state development in turn alters the incentives for firms to pursue different production strategies. In response, Iversen and Soskice (2009) point out that Korpi does not have any explanation of why organized labor is stronger in some countries than in others and suggest that labor strength should be seen as a consequence (rather than a cause) of coordinated capitalism. Iversen and Soskice proceed to argue that the divergence between LMEs and CMEs originates in pre-industrial institutional arrangements.[10]

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

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

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

10 In marked contrast to Iversen and Soskice's (2009) emphasis on the "shadow of the 19th century,"

A third debate between VofC scholars and their critics concerns institutional changes in advanced capitalist political economies since the 1980s. In this debate, the critics (notably Baccaro and Howell 2011; 2017) emphasize common trends across LMEs and CMEs, frequently construed as "liberalization," while VofC scholars insist on the persistence of fundamental differences between LMEs and CMEs (Hall and Gingerich 2009). As noted by Thelen (2012, 140), the two sides fundamentally agree on "where we should be looking for important changes," and the disagreement between them often boils down to a matter of emphasis. Thelen (2012; 2014) stakes out a distinctive position – something of a compromise – by identifying two different liberalization trajectories in CMEs ("embedded flexibilization" and "dualization") while insisting that both of these trajectories are very different from the trajectory of LMEs ("deregulation").

In our view, debates on the merits of the VofC framework have become increasingly stale over the last ten years or so. Many CPE scholars seem to have responded to this impasse by focusing on individual social policy preferences and their implications for electoral politics, abandoning the macro-comparative *problématique* of the CPE tradition and, more specifically, the idea that CPE is about understanding capitalism(s). As indicated at the outset, our goal in this paper is to propose an alternative path for CPE scholars. By incorporating macroeconomic dynamics, we seek to recast the question of national diversity and thus move beyond debates between VofC and its supply-side critics.

4 New Keynesian macroeconomics

As noted at the outset, Soskice has been a leading advocate of bringing macroeconomics (back) into CPE since the publication of *Varieties of Capitalism* in 2001. We will engage critically with what Soskice and his coauthors have written on this topic in the next section. In this section, we present, as briefly as possible, the main features of the macroeconomic framework that informs Soskice's approach to the comparative political economy of macroeconomic performance. Developed in macroeconomic textbooks that Soskice has written together with Carlin (Carlin and Soskice 2006; 2015), this framework draws extensively on New Keynesian (NK) macroeconomics.[11] Seeking to convey the key intuitions of the Carlin–Soskice framework, our discussion focuses on the case of a closed economy, leaves out nuances, and avoids mathematical formalization.

Soskice (2009, 96) posits that "the VofC analysis pertains to the different types of economies which emerged in the aftermath of the profound shocks which hit the advanced economies in the period from the late 1960s to the mid- to late 1980s."

11 The Carlin–Soskice three-equation model can be characterized as a simplified version of New Keynesian macroeconomic models, but there is one key difference: with the exception of central banks, actors' expectations are adaptive rather than rational.

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

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

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

The unique intersection of the wage-setting and price-setting curves identifies the equilibrium level of output along with the equilibrium level of employment, around which the economy gravitates in the short-to-medium run. Commonly known as the Non-Accelerating Inflation Rate of Unemployment (NAIRU), this equilibrium is entirely determined by the aforementioned supply-side factors: labor productivity and the institutional framework of labor markets and product markets.[12]

12 The notion of NAIRU is a theoretical hybrid, which can be given New Keynesian, Post-Keynes-

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

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

How does the economy return to equilibrium after a bout of worker militancy or a positive shock to aggregate demand? While neoclassical economists have traditionally relied on a contraction of the real money supply as the key equilibrating mechanism, Carlin and Soskice consider the money supply to be endogenous. As aggregate demand expands, demand for credit increases and banks effectively create money by extending loans to consumers and firms.[13] This brings us to the third equation in Carlin and Soskice's three-equation model. Like other NK models, the Carlin–Soskice model posits that it is the monetary response of the central bank that brings the economy back to equilibrium. If the central bank forecasts that wage militancy or a boost in demand would lead to higher inflation than its target, it responds by increasing the nominal interest rate for given levels of inflationary expectations or, in other words, by increasing the real interest rate. This causes a temporary increase in unemployment above the equilibrium level, but ultimately brings the economy back to equilibrium. In a sense, NK macroeconomics, at least as articulated by Carlin and Soskice, abandons the idea of equilibrium as an "objective fact." When all is said and done, it seems the economy is in equilibrium if and when the central bank considers it to be so.

ian, and Marxian interpretations. In addition, it shares some features with the monetarist theory of the natural rate of unemployment, although the latter is a theory of voluntary, as opposed to involuntary, unemployment. See Stockhammer (2008) for a discussion of different theoretical interpretations of the NAIRU.

13 Endogenous money is also a key feature of post-Keynesian macroeconomics (see Lavoie 2014, chap. 4).

5 Macroeconomics in Varieties of Capitalism

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

The first proposition follows directly from the New Keynesian framework set out above. According to Iversen and Soskice (2006, 435–7), "modern macroeconomics" rejects the neoclassical assumption that markets are perfectly competitive and posit a lag structure that allows for government policy to have an effect on the real economy. Iversen and Soskice quickly add, however, that government efforts to bring unemployment below the equilibrium rate are bound to fail within a short period of time. In their words, "parties that care about employment" should be "more interested in designing policies that can reduce the equilibrium level of unemployment than in policies that generate brief bursts of employment" (Iversen and Soskice 2006, 432).

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

Related to the latter point, Soskice's discussion of how aggregate demand management relates to varieties of capitalism proceeds from the observation that CMEs typically pursue more "conservative" macroeconomic policies than LMEs, prioritizing price stability over other macroeconomic objectives. Surveying institutional arrangements pertaining to macroeconomic policy-making, Soskice (2007) concludes that central banks are responsive to government concerns in LMEs but not in continental CMEs, and that the centralization of discretionary spending decisions in the hands of the Ministry of Finance is more pronounced in CMEs.[14] To explain the conservative bent of the macroeconomic

14 Soskice (2000) arrives at similar conclusions by subtracting the current-account balance (in percent of GDP) from the rate of unemployment.

policy regime in CMEs, Soskice in turn invokes two potential collective action problems that CMEs need to resolve. First, Soskice affirms that a strong, credible commitment to low inflation is necessary in order to keep wage growth under control in the "small-N union systems" that characterizes most CMEs. Secondly, he suggests that centralization of fiscal policy in the hands of politicians committed to fiscal discipline should be seen as a solution to the "common pool problem" of multi-party coalition government (Persson and Tabellini 2003), which tends to be the norm in CMEs (and not in LMEs).

While Carlin and Soskice (2009) seem to suggest that Germany could have pursued more expansionary macroeconomic policies and that the failure to do so served the distributive interests of specific political-economic actors, Soskice's (2007) argumentation implies that a conservative macroeconomic policy stance is actually the optimal one under the labor-market conditions and electoral rules characteristic of continental CMEs and, to a lesser extent, Nordic CMEs as well. An obvious question arises concerning counter-cyclical macroeconomic policy in LMEs. Is the alleged activism of governments in these countries simply about short-term "employment bursts" or has it contributed to higher growth rates and lower unemployment over sustained periods of time? In Soskice's framework, macroeconomic policy in LMEs as well as CMEs is pinned down in the long run by the equilibrium rate of unemployment. Thus, a demand stimulus can only lead to a higher equilibrium level of employment and output if accompanied by either supply-side reforms or voluntary wage restraint. It is quite possible that the equilibrium rate of unemployment is lower in LMEs than in CMEs, on account of weak unions and weaker labor market institutions, but it is difficult to see why (or how) demand stimulus matters to the real economy under LME conditions.[15]

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

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

In our view, this line of argument represents an important contribution to the growing literature on the interdependence of macroeconomic growth models, highlighting the role of monetary policy rules. That said, the articles reviewed here leave something to be desired in terms of explaining where monetary policy rules come from and why (or how) inflation-targeting became the dominant policy rule across the OECD area. More directly relevant for our purposes, these articles fall short of their stated objective of demonstrating that modern macroeconomics allows for political intervention in the process of economic growth. If expansionary macroeconomic policies' only positive effects are delivered in conjunction with wage restraint exercised by encompassing unions, it is far from obvious that macroeconomic policy choices deserve to be brought back to the center stage of comparative political economy in the current era. Relatedly, the lack of attention to different components of aggregate demand and relations among different "demand drivers" of growth represents a striking feature of the NK framework, as presented to CPE scholars by Soskice and collaborators. In what follows, we show how the tradition of Post-Keynesian macroeconomics opens up space for politics by rejecting the idea of unique supply-side-determined equilibrium rate of unemployment.

6 Post-Keynesian macroeconomics

The PK tradition of macroeconomics has not produced a comprehensive model comparable to the Carlin–Soskice three-equation model. Rather, "PK macroeconomics" refers to a family of models that share fundamental features. In the following discussion, our main reference will be PK models inspired by Kalecki (Lavoie 2009; 2014). As indicated above, the most important feature distinguishing these models from the NK model is that the supply-side of the economy is not conceived as an external constraint: aggregate demand affects the long-term potential of the economy as well as short-term fluctuations in output and employment (Lavoie 2018).

In their approach to labor market dynamics, PK and NK economists alike start from the view that workers and firms have competing claims over the distribution of productivity and that firms have market power, allowing them to set their prices as a mark-up on unit labor costs. In contrast to the Carlin–Soskice framework, however, the standard PK model of firm behavior assumes that firms have some unused capacity (and that their marginal costs are constant). In addition, PK models typically incorporate Kalecki's insight that workers have a higher propensity to spend their income than capitalists (see, e.g., Stockhammer 2015). It follows from the latter postulate that an increase in labor's share of income boosts aggregate demand. And, because they have unused capacity, firms' immediate response to an increase in aggregate demand is to increase output rather than prices. This, then, is the key idea of Kaleckian macroeconomics: so long as the real wage does not exceed the value of the marginal unit of production, there is a positive relationship between the wage share and output.

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

PK economists agree with NK economists that the Phillips curve, describing the relationship between unemployment and inflation, is vertical when the economy operates at full capacity. Below full capacity, however, PK models typically posit a horizontal or weakly upward-sloping Phillips curve, meaning that sustained wage militancy does not lead to infinitely accelerating inflation, as in the NK model, but to a higher level of inflation combined with a higher level of output. Again, a key difference between NK and PK economists has to do with whether full capacity is considered to be the norm or the exception.[16]

Kaleckian models do not have a built-in equilibrating mechanism and are potentially unstable (Stockhammer 2008). A shift in the balance of power in favor of labor increases the real wage, which leads to an increase in employment and this in turn strengthens the bargaining power of labor further, and so on. If productivity gains do not keep up with workers' escalating wage claims, this process is bound to generate inflation. Drawing on regulation theory (e.g., Boyer 2004), "political exchange" between labor and capital, by which labor agrees to moderate its wage demands in order to keep inflation at moderate levels, might be conceived as the equilibrating mechanism at work in PK models.[17] Some economists would surely object that this represents something of a *deux ex machina*, but it is important to keep in mind, as we have already noted, that Carlin and Soskice also rely on political intervention, in the form of inflation-targeting central banks, to secure the equilibrium properties of their model.

An important feature of PK macroeconomics is the proposition that demand affects the supply-side of the economy, notably labor productivity. PK economists emphasize that labor productivity tends to increase as real wages rise and aggregate demand increases and explain this regularity, commonly referred to as the "Kaldor–Verdoorn effect," with reference to several mechanisms (Storm and Naastepad 2012). To begin with,

16 Interestingly, recent research in the NK tradition also comes to the conclusion that the Phillips curve is flatter than was previously believed. See Blanchard (2016).

17 Arguably, current account constraint also stabilizes the system: to the extent that wage-led growth increases domestic demand and stimulates imports, while external demand remains constant, there is a tendency for the trade balance to go into deficit, which will have to be corrected, sooner or later, by reducing domestic demand (Thirlwall 1983). Another conceivable equilibrating mechanism is represented by taxes: as the economy approaches full employment, taxes increase in order to reduce demand pressures.

expanding demand allows firms to realize productivity gains associated with economies of scale. Secondly, expanding demand also stimulates new investment, which renders capital more productive to the extent that it incorporates new technology. A related mechanism involves factor substitution: if the price of labor goes up while the price of capital stays put, capital intensity (capital per unit of labor) and labor productivity will both increase.[18]

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

$$P/K = P/Y \times Y/Yfc \times Yfc/K$$

where P/Y is the profit share (profits divided by output); Y/Yfc represents capacity utilization (output divided by output at full capacity); and Yfc/K is the potential productivity of capital. Against standard Kaleckian assumptions, Bhaduri and Marglin (1990) argued that the rate of capacity utilization has to be considered fixed in the medium run and that capitalists, in making investment decisions, target a normal rate of profit corresponding to normal capacity use. This logic implies that Y/Yfc and Yfc/K both have to be considered fixed or, in other words, the profit rate must fall with the profit share.

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

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

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

In an open economy, part of the expansionary effect of real-wage increases (controlling for productivity) leaks into imports. Assuming foreign demand remains constant, this leads to a deterioration of the current account. In addition, the impact on the real exchange rate has to be taken into consideration. To the extent that the wage increase leads to higher domestic prices, keeping foreign prices and the nominal exchange rate constant (e.g. due to fixed exchange rates), this produces an appreciation of the real exchange rate, which translates into a deterioration of the trade balance (Lavoie 2014, 532–6). Note that the effect of the wage-share increase on the real exchange rate implies that firms respond to a cost increase by changing prices and not just output, as Kaleckians traditionally assumed. However, the core idea of the PK framework remains relevant so long as firms do not transfer the full impact of cost increases into prices.

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

To summarize, both PK and NK approaches to macroeconomics posit that wages and employment are determined by bargaining rather than market forces. In both approaches, there is conflict between labor and capital, but the NK approach developed by Carlin and Soskice strongly restricts the scope for labor to exercise power and to advance its distributive interests. Within the Carlin–Soskice framework, demand stimulus can bring the economy back to equilibrium after a shock, but it cannot affect equilibrium output and employment. If encompassing unions decide to moderate their wage claims, equilibrium output and employment can be increased without liberalization of labor markets, but any attempt to redistribute income from capital to labor is doomed to fail. If necessary, central banks persuade workers to accept the profit-margin requirements of firms by creating unemployment.

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

Like most PK models, the Carlin–Soskice framework relies on policy intervention to ensure equilibrium outcomes, but Carlin and Soskice conceive inflation-targeting central banks as an essentially technical device, serving the interests of all actors by preempting infinitely accelerating inflation. By contrast, PK economists (e.g., Stockhammer 2018) emphasize that independent central banks and monetary policy rules are political constructs with distributive implications. To reiterate our main theme, this feature of the PK framework resonates with the insights (and instincts) of CPE scholars.[19]

7 The growth models perspective in CPE

With the preceding discussion of PK macroeconomics as a backdrop, let us now summarize, as briefly as possible, the account of post-Fordist growth models that we develop in Baccaro and Pontusson (2016). Our starting point is that postwar growth was wage-led across the OECD area (Onaran and Galanis 2014). At the core of the postwar settlements was an institutionalized compromise between labor and capital, with capital recognizing labor as a partner in workplace relations and elsewhere, and labor recognizing the legitimacy of managerial prerogatives as well as private property. Well captured by the neo-corporatism literature, the main elements of differentiation across countries were the timing and degree of institutionalization of class compromise: early and durable in Sweden and Germany; delayed and unstable in Italy and the UK (Gourevitch et al. 1984; Regini 1984).

The key institution of wage-led growth was multi-employer collective bargaining, which ensured that productivity increases translated into real wage increases, stimulating household consumption and, by extension, investment (Lavoie and Stockhammer 2013). Crucially, from our viewpoint, the transfer of productivity increases into wages did not happen spontaneously through competitive markets, as neoclassical macroeconomics would have us believe. Rather, it involved particular institutions and a particular power balance between labor and capital (Boyer 2004). It is also important to recognize that the logic of class compromise and wage formation though multi-employers was supported by restrictions on capital mobility and, by historical standards, relatively limited trade openness.

Fordist employment relations did not just affect the distribution of productivity increases, but also their generation (Storm and Naastepad 2012). Following Streeck (1997), postwar employment regulations favorable to workers can be conceived as “beneficial constraints,” which incentivized employers to adopt competitive strategies and workplace practices they would not spontaneously embrace (Streeck 1997). In addition,

19 See Adolph (2013) and Jacobs and King (2016) on the political nature of independent central banks. Stockhammer (2018) draws a sharp contrast between PK and NK perspectives on the role of finance as well as monetary policy. Space does not allow us to address the literature on financialization in this paper.

economists working in the Kaleckian tradition argue persuasively that rising demand generated economies of scale and that wage pressure stimulated investment in labor-saving technology, which in turn led to capital deepening. In short, Fordist institutions affected the supply side as well as the demand side of the postwar economies, contributing to the productivity gains that collective bargaining would then distribute.

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

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

The main features of the British growth model in this period were the growth of household debt and endemic current account deficits, financed by attracting capital flows from abroad. Arguably, the presence of a large and liquid financial center – the City of London – has served to relax the current account constraint for the British economy, allowing it to "live beyond its means." Most certainly, the financial sector can be characterized as the leading sector of the British economy in this period. While a good deal of the consumption boom of 1994–2007 was financed by credit, buoyant domestic demand created favorable labor market conditions for workers, including relatively low skilled workers in the service sector. While the incidence of low pay held steady, real wages grew much faster in the UK than in Germany (let alone Italy).

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

Real wages grew much more slowly than labor productivity between 1994 and 2014 in Germany. At the same time, the burden of wage repression was asymmetrically distributed: real wage growth was more robust in manufacturing than in low-skilled services such as hospitality, retailing, or parts of the public sector. Far from reducing inter-sectoral wage differentials, as suggested by Iversen and Soskice (2010), German coordinated bargaining seems to have reinforced such differentials, tying sectoral wage increases more closely to sectoral productivity rates. As suggested by many observers (e.g., Palier and Thelen 2010; Hassel 2014), cooperative relations with core workers and works councils remain important to the success of German manufacturing firms and real wage growth remains an important condition for such cooperation.

Unlike Germany, Sweden appears to have escaped the trade-off between export growth and consumption growth. Over the period 1994–2007, the Swedish export mix shifted dramatically from manufacturing towards ICT and high value-added service exports (in the first instance business services), and this shift appears to have rendered Swedish exports less price-sensitive than German exports. Squeezing the service sector in order to improve the competitiveness of the manufacturing sector was much less of an option in Sweden than in Germany because service-sector workers – in particular, public-sector workers – are much better organized than in Germany. A plausible hypothesis is that the strength of service-sector unions has acted as a beneficial constraint for the Swedish economy, forcing structural change towards sectors characterized by a lower price elasticity of demand. While real wages grew faster in Sweden than in the UK or Germany, intersectional differentials between manufacturing and low-end services essentially held steady over the period 1994–2007.

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

To conclude, the crisis of wage-led growth led to the search for alternative growth models, in which real wage growth was no longer the driving force, but only, at best, a derivative of growth. While a consumption-led growth model emerged in the UK, an export-led growth model emerged in Germany, and Sweden managed to strike a balance between consumption-led and export-led growth. With current-account deficits in Britain (and the US) as the counterpart of current-account surpluses in Germany (and China), these growth models are complementary (as noted by Iversen and Soskice 2012, among others), but this complementarity does not necessarily render them more stable. As illustrated so forcefully in 2007–08, credit-finance consumption-led growth is prone to asset bubbles, whose bursting can precipitate global recessions (Koo 2011). And export-led growth is only feasible if it remains a peculiarity of small countries. Its generalization would likely lead to economic stagnation.

8 Concluding remarks

It has not been our purpose in this paper to argue that the PK approach to macroeconomics is better than the NK approach in some objective sense. Conceived as "research programmes" in the Lakatosian sense (Lakatos 1978), these alternative approaches to macroeconomics ought to be evaluated in terms of the kinds of questions they invite us to ask and the analytical insights that they provide, not only in terms of the empirical veracity of specific hypotheses. Once again, we have sought to show that the PK tradition represents a coherent analytical framework that can accommodate intuitions that animate CPE scholars more readily than the NK tradition. More importantly, our goal in this paper has been to highlight that macroeconomics should not be conceived of as a single body of thought to be accepted at face value by non-economists. Political scientists and sociologists working in comparative political economy ought to engage with alternative approaches to macroeconomics and, indeed, take advantage of pluralism among economists.

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

The Kalecki-inspired PK tradition is also attractive to CPE scholars because of the links that it establishes between macroeconomic management and distributive politics. The PK tradition focuses attention on the distribution of functional income, i.e., the distribution of income between capital (profits) and labor (wages), but the underlying argument about the propensity to save being a function of income ought to apply to the distribution among wage-earners as well, as noted by Kalecki (1944).

The sources and consequences of rising income inequality have emerged as a major concern – perhaps *the* major concern – of comparative political economists over the last fifteen to twenty years, but the CPE literature on this topic has paid remarkably little attention to the role of macroeconomic dynamics as a source of rising inequality. As noted by Pontusson and Weisstanner (2017), the rise of inequality has not been as linear as this literature sometimes suggests: inequality tends to jump during economic downturns and the rate of unemployment is a good predictor of cross-national as well as temporal variation in inequality trends. On the other hand, the Kaleckian tradition invites CPE scholars to consider the macroeconomic implications of social policy. For example, Katzenstein (1985) and Garrett (1998) alike note that small corporatist states have historically engaged in domestic "social compensation" while eschewing deficit spending to boost aggregate demand. From a Kaleckian perspective, we ought to question the distinction that these authors implicitly draw between demand stimulus and welfare provision.[20] By extension, the slowdown of welfare-state expansion from the late 1970s onwards might be seen as a factor contributing to the OECD-wide slowdown of wage-led growth and the search for alternative, "post-Fordist" growth models.

The lack of attention to macroeconomic policy in the volume entitled *Politics of Advanced Capitalism*, edited by Beramendi et al. (2015), represents a continuation of the supply-side focus that has characterized CPE since the 1990s. In their own contribution, two of the editors, Häusermann and Kriesi (2015, 207–8), explain that they focus on labor market regulation and welfare policies because these issues – also economic or "material" in nature – remain within the discretion of national governments and because party policies and voter preferences continue to diverge with respect to these issues. According to Häusermann and Kriesi, macroeconomic management is no longer a matter of partisan-electoral politics and therefore not very interesting.

Arguably, there is more partisan conflict over macroeconomic policy in OECD countries, even EU member states, than Häusermann and Kriesi suggest.[21] In particular, we hypothesize that parties of the Left and Right are likely to have different macroeconomic policy priorities when growth models are less coherent or, in other words, "growth

20 In a similar vein, the Kaleckian perspective challenges the common view of solidaristic wage policy *à la* Rehn-Meidner as strictly a form of supply-side policy (promoting productivity growth through a differential profits squeeze).

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

requirements" are less well-specified. More importantly, we want to contest the idea that CPE scholars should restrict their attention to issues on which parties take divergent positions. Even if the major contenders to run the government share macroeconomic policy priorities and a common view of how the economy works, as is surely the case in Germany today, macroeconomic policy-making involves losers, and partisan consensus is a political construction that must be reproduced over time. Across countries and over time, there is a good deal of variation in the terms of partisan consensus over macroeconomic policy and this, too, is something that ought to be of interest to CPE scholars.

In our view, the strong focus on the divide between labor and capital in the PK tradition represents a limitation from the point of view of explaining the politics of macroeconomic management as well as regulatory practices and selective supply-side interventions in the economy. As we conceive them, growth models are distinguished by the strategic importance of different economic sectors. Building on Gourevitch (1986), among others, we argue elsewhere (Baccaro and Pontusson 2016; 2018) that sectors have different macroeconomic requirements, depending on the extent to which they cater to foreign demand and to the extent to which demand for their products and services is price-sensitive or interest-sensitive. These requirements inform the macroeconomic preferences of workers, managers, and owners with significant stakes in particular sectors.

In Baccaro and Pontusson (2018), we begin to elaborate a conception of the politics of growth models inspired by the Gramscian notion of "social blocs," which we conceive as institutionalized, more or less durable, constellations of actors defined by sectoral as well as class interests.[22] In contrast to the social coalitions tradition in CPE (Gourevitch 1986; Thelen 2014), we do not conceive social blocs as competing coalitions of interest groups. In any given country, at any point in time, there is only one social bloc. Also, we want to emphasize that social blocs are characterized by hierarchical power relations among their members and by some form of hegemonic discourse. But social blocs are not static: their scope and internal hierarchy changes as some groups become more powerful relative to others and the interests of different groups become more or less aligned.

Inspired by New Keynesian as well as Post-Keynesian macroeconomics, our approach to comparative political economy emphasizes the role of aggregate demand for economic growth and distinguishes growth models based on the relative importance of different components of aggregate demand. In articulating this approach, we have deliberately pushed against the supply-side orientation of the dominant paradigm in comparative political economy and may be faulted for "bending the stick too far in the opposite direction." We do not mean to claim that innovation and productivity are simply a re-

22 The concept of social blocs also features prominently in Amable (2017). See Baccaro and Pontusson (2018) for some discussion of how our use of the concept differs from Amable's.

sponse to developments on the demand side of the economy. In future work, we want to develop the supply side of our growth models perspective in a more systematic fashion and, in particular, to explore how some sectors (e.g., manufacturing) contribute to productivity growth while other sectors (e.g., public services) serve to sustain household consumption. We would expect both sets of sectors to be represented in the social bloc.

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