

Book reviews

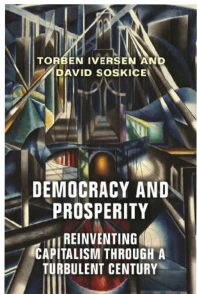
Torben Iversen and
David Soskice · 2019

Democracy and Prosperity. Reinventing Capitalism Through a Turbulent Century.

Princeton, NJ: Princeton University Press

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Democracy and Prosperity, the new monograph by Torben Iversen and David Soskice, reads like your typical political science treatise. It contains

a few regressions, data on attitudes from the *World Value Survey*, median voters, comparisons of party systems, short historical case studies from the OECD world, and creative theory transfers from the new institutional economics. However this style of presentation is deceptive. *Capitalism and Prosperity* is a powerful and provocative intervention in current debates on the past, present, and future of democratic capitalism. In a time in which the political economic debate is being

driven by titles such as *Capital in the 21st Century*, *How Democracies Die* and *How Will Capitalism End?*, Iversen and Soskice, two giants of comparative political economy, plead for relaxed optimism. Neoliberal policies and financialization? In truth, sound measures to unleash knowledge-based growth. Growing inequality? A problem of welfare states, not of capitalism. Financial and fiscal crises? Consequences of insufficient international coordination. The boom of right-wing populism? Primarily a problem of education and regional policy. To many post-2008 scholars of capitalism, this might sound somewhat bizarre. Structural crisis, immanent contradictions and gradual decay? No – even though democratic capitalism is in need of a number of repairs, it is overall *alive and well*.

The extensive connections to contemporary public debates conceal the fact that *Democracy and Prosperity* is a comprehensive intervention in the defining debate of political economy. From Locke to Marx to Hayek, the question of the compatibility and interplay between democracy and capitalism is the core issue of the discipline. And Iversen and Soskice have the rare ability to weave empirical research and theoretical arguments into a counter-argument that tries to stand up to widely-held theories of capitalism. In their view, economists' worries about the threat to free markets posed by too democratic democracies and social-scientific worries about the threat to democracies posed by overly free markets suffer from a similar fallacy. The relationship between democracy and capitalism is historically deeply symbiotic, not antagonistic. This theoretical intervention, however, is not the only – perhaps not even the central – contribution of the book. Along the way it develops suggestions for the improvement of some

long-standing deficits of comparative political economy. The book integrates recent economic geography and comparative political economy by including subnational political economies, it renews the theory of *Varieties of Capitalism* with respect to the secular rise of the service economy and the problem of the *middle income trap*, and it connects historical research on democracy, the welfare state, and capitalism. Many of these analytical moves have been tried before; but in its density and clarity, *Democracy and Prosperity* is nevertheless a remarkable book – challenging, provocative, and productively irritating.

An Equilibrium-model of Democratic Capitalism. Throughout the book, Iversen and Soskice underpin their argument with the observation that historically *advanced capitalist democracies* have been extraordinarily resilient. Since the First World War, early capitalist democracies have remained structurally stable – “apart from temporary German and Italian lapses” (p. 4). The development of a theoretical model explaining this resilience is the primary goal of *Democracy and Prosperity*. The form of their theoretical approach should not come as a surprise to connoisseurs of the work of the two authors. Iversen and Soskice develop an equilibrium model in which aspirational groups of voters, profit-oriented firms and growth-oriented nation states keep each other in check (Figure 6.1, called “The symbiotic relationship”, summarizes this model, see p. 259). The authors' claim that it is only thanks to this particular political-economic configuration that significant sections of the population, nation states, and firms – more or less deliberately – work towards the collective good of a prospering economy and robust democracy. Without intervention by nation-states, capitalists would

tend towards stagnation and rent-seeking; without aspirational voters, governments would degenerate into *predatory forms*; and without the creation of sufficient economic opportunities and state containment of ‘militant’ labor movements, populations would hamper industrial development. At times, the model seems a bit economic-functionalistic, which – to anticipate – it repeatedly is.

For this model to plausibly apply to the development of the rich capitalist democracies of the last 150 years, Iversen and Soskice have to revise a number of common assumptions from political economy. Their quite detailed thoughts on (a) the distribution of power between capital interests and nation states, (b) economic voting, (c) the politics of economic policy, and (d) the growth drivers of the last fifty years are undoubtedly among the most insightful passages of *Democracy and Prosperity*.

(a) Throughout the book, the authors attempt to expose as a misconception the belief that internationally mobile capital limits the capacity of the nation state. The opposite may be the case. Historically, capitalist production has become increasingly *skill-intensive* and geographically clustered. Iversen and Soskice have large agglomerations of the new service economy in mind, such as Boston, London, Hamburg, New York City and the Bay Area. To the extent that capitalist firms are dependent on the resources of these new clusters, capital is anything but *foot-loose*. And if it is the case that the balance of power between nation states and capital interests depends above all on the credible withholding threats of the latter, political action should generally be interpreted as the “democratic choice of autonomous governments” (p. 156). In its radicality, this conclusion seems somewhat absurd in

view of the library-filling research on the political influence of capital interests. However, it raises the exciting question of whether and when the tendency of new knowledge-intensive industries to form geographical clusters opens up an unexpected space for political action against corporate interests. Think, for example, of the recently unveiled, surprising capabilities of the American state to abuse large IT firms for its security policies.

(b) Iversen and Soskice are also firmly opposed to the assumption that voters’ reasoning consists of short-term cost benefit-calculations. Instead, significant groups of voters reward parties having a reputation of being competent promoters of the *advanced sectors* of an economy. The reasons for this are personal and family aspirational dynamics, as well as a good deal of long-term rationality. The inclusion of meaning-based categories – such as expectations, reputation, attributions of competence and aspirations – in economic models of democratic elections is instructive and stimulating. In parts, however, Iversen and Soskice seem to overstrain the notion of rational choice. What prompts their meditations on the nature of economic voting is the ambition to harmonize the neo-liberal reform wave of the eighties and nineties with a median voter model – Thatcher thus acted on behalf of, not in contradiction with, the enlightened interests of democratic majorities (pp. 167–171). The number of behavioral curves necessary to match model and reality, begs the question of whether an alternative model of representative democracy would not have been the simpler way – even if it would have entailed a reduction in the economy and elegance of the model as well as its normative thrust.

(c) Iversen and Soskice see a similar level of long-term rationality at

work in the emergence of economic policies. They criticize the widespread economic folk-wisdom that governments are short-term maximizers of electoral chances and that democratic governments therefore tend to act in “irresponsible” ways. Instead, they argue that parties try to strengthen their reputation as ‘responsible’ economic managers across election cycles. This analytical move helps the authors to explain why self-interested political actors would push through “painful reforms” that may be in the long-term interest of economic development. The authors point to a bundle of reforms matching this logic: the massive expansion of tertiary education since the 1960s, market-making reforms in the financial sector, the liquidation of ‘old industries,’ and the reduction of international trade barriers, i.e., the common canon of ‘responsible economic policy.’ The extension of models of democratic politics is packed with interesting observations and insights. Nevertheless, the question remains if the original explanatory problem does not emanate from a simplistic initial model of representative democracy rather than from the behavioral assumptions *within the model*. Here and elsewhere, Iversen and Soskice are fighting on two fronts to connect with two heterogeneous literatures, one from economics and one from the social sciences.

(d) Lastly, *Democracy and Prosperity* exposes as a myth the assumption that economic development emerges spontaneously from free enterprise and markets or from technological shocks – especially in the past five decades. In line with a growing literature in innovation research, Iversen and Soskice argue that the rise of the *knowledge economy* was and is a state-induced process: “Capitalism was reinvented by democratically elected governments” (p. 143). It was only

thanks to their education, investment and competition policies that rich democracies were able to develop technological inventions such as the microchip into catalysts for a growth regime. For readers familiar with recent innovation research in the social sciences, this is not too surprising.¹ In contrast to this literature, however, Iversen and Soskice do not focus on actual innovation policies, for example by the US Department of Defense, but on macroeconomic policies. The causal connection of many of these policies with economic development is not readily apparent. If it is true that financialisation has primarily pushed firms to realize short-term results, as documented by an extensive research literature, shouldn't they invest less, rather than more, in research and development? Similarly, the authors' assertion that Western states have tightened their competition policy regimes since the 1970s (p. 153) amounts to the exact opposite result of recent economic, legal, and social science research (Robert Bork influentially criticized *over-enforcement*, not *under-enforcement*, what notwithstanding might have been a boon to knowledge-based growth). Compared to the model of innovation from *Varieties of Capitalism*, in which 'radical innovations' – fitting the nineties – emerge in 'market-oriented' regimes, the more recent depiction seems much more realistic.

Equipped with these premises, Iversen and Soskice develop interpretations of four historical phases that fit in with their main thesis of a symbiotic relationship between democracy and capitalism: the emergence of capitalist democracies and Fordism, the emergence of the *knowledge economy* and the recent boom of right-wing populism. For all periods, the authors try to show that politically potent cross-class coalitions have formed to develop

and stabilize the respective political-economic regimes – to the advantage of democracy *and* capitalism. None of the regimes was essentially characterized by a simple class conflict between capital and labor; rather, alliances between the capital-owners, educated workers, and aspirational classes were decisive.

In early democratization processes, for example, they observe two typical processes. In countries with fragmented labor movements, coalitions between workers, the urban middle class and the industrial bourgeoisie formed that supported elite-driven democratization processes – especially to expand accumulation-friendly public goods such as education and sanitation. Iversen and Soskice call this democratization path *protoliberal* because it has led to majoritarian electoral systems and a comparably modest expansion of the welfare state. In countries with well-organized labor movements – called *protocorporatist* – democratization tended to prevail against the interests of elites, which explains why more comprehensive redistributive institutions and systems of proportional representation prevailed.

As usual in comparative political economy, the authors depict the golden age of cross-class alliances in Fordism. Fordist regimes relied on coalitions between the middle and working classes and on an arrangement between large manufacturing companies and a moderately redistributive policy. As a result, the interests between "urban and rural areas, between large and small cities and between different quarters in cities" were held in balance (p. 108). It is precisely these alliances of interests that have eroded in the *knowledge economy*. This erosion, however, had less to do with a counter-movement of capital interests than with a political reconfiguration of cross-class coalitions in response to tech-

nological change and the exhaustion of the Fordist growth model. Since the 1970s, the well-educated strata, urban regions, and their political representatives have split off not only from the lower middle class and lower class, but also from suburban and rural areas. Even if these new alliances were capable of winning a majority *and were* conducive to capitalism, they have created an opening for populist counter-movements. In this respect, populism is not a danger inherent to the new growth regime, but a problem caused by a lack of inclusive policies. Thus, more inclusive regional, educational and redistribution policies may send right-wing populist movements back into insignificance.

Broadband expansion, publicly funded tertiary education, *Coding Bootcamps*, and Scandinavian *flexicurity* instead of "Aufstehen!" Demands to finally support the losers in knowledge capitalism in their 'catch up' modernization are nothing new. However, Iversen and Soskice show a confidence that is rather rare in current debates that the winners of the *knowledge economy* will develop an enlightened self-interest to get less fortunate groups on board or to compensate them. And they are equally optimistic that the repair of contemporary democratic capitalism is above all a question of political will to better distribute its economic benefits. Such optimism presupposes that there are viable ways to sustainably compensate for the imbalances of the *knowledge economy*. And it presupposes that populist movements actually feed on a primarily material dissatisfaction. In fact, the regional examples of successful post-industrial restructuring selected by Iversen and Soskices stand in contrast to at least as many regions in which ambitious restructuring programs undertaken since the mid-1970s to cushion the damage caused by massive

deindustrialization have comprehensively failed. While the authors have by no means missed cultural fault lines in contemporary knowledge capitalism, they are confident that cultural fault lines play second fiddle. If it is the case that the new right-wing populism thrives on the basis of significant non-economic motives such as xenophobia and concerns about the loss of social status, appeals for material compensation and cosmopolitan inclusion would be of little help.

Democracy and Prosperity and the debate on capitalism. In my view, much of what can be criticized about *Democracy and Prosperity* can be traced back to the fact that Iversen and Soskice connect to extremely heterogeneous debates and literatures. Things that may seem particularly unrealistic to most sociologists are core assumptions of the economic democracy and capitalism debate. While the economic variety of the thesis of the incompatibility between democracy and capitalism rarely figures prominently in critical social science discourse, it is enormously influential both in international scholarly discussions and in political debates. The reference to this debate explains why the authors assume, without any further qualification, that innovations emerge from intensified competition, that the neoliberal reforms of the 1980s and 1990s were unambiguously necessary and economically appropriate, and that institutional regimes are stable when they sufficiently function in economic terms. The ambition to connect not only to social scientific, but also to economic debates had arguably already shaped the *Varieties of Capitalism*. And almost twenty years later, it is by no means clear that this was a profitable strategy for this now classic work.

It can thus be assumed that *Democracy and Prosperity* will be met with structurally similar

critique in the social sciences as *Varieties of Capitalism*. To some extent, the authors seem to anticipate such reactions. Passages that sound very economic-functionalist – in which the economic function of certain institutions is quickly cited as the reason of their emergence – contain extensive concessions that emergence only happened after extensive conflicts, irrational action, and political experimentation. Such decorations do not really change the explanatory logic. Given that Iversen and Soskice designed a model for the understanding of 150 years of political and economic history across the OECD world, their arguments are suspiciously clean and neat. One and the same logic of development fits Great Britain in the late 19th century and in the USA in the early 21st century? Critical objections will probably be forthcoming very soon. However, if *Democracy and Prosperity* were to succeed in sparking a debate as lively as the publication of *Varieties of Capitalism*, its pointed formulations and simplifications would have been more than worth it. If *Democracy and Prosperity* is understood as an argumentative quarry for future empirical research – instead of a last word in the debate on democratic capitalism – the book's potential becomes clear.

Endnotes

A German version of this review has been published with Soziopolis available at <https://soziopolis.de/lesen/buecher/artikel/crisis-what-crisis>

- 1 The 2011 anthology *State of Innovation, The U.S. Government's Role in Technology Development*, edited by Matthew Keller and Fred Block, and the monograph by Mariana Mazzucato, *The Entrepreneurial State, Debunking Public vs. Private Sector Myths*, published in 2013, offer a good introduction to recent social science research on innovation policy.