The Politics of Growth

Lucio Baccaro

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Three Common Trends of Capitalist Countries

> Liberalization

> Decline of the labor share and increase of the profit share

> Difficulty of all capitalist models to generate sufficient levels of demand
The Wage Share in G7 Countries

Source: AMECO
The Problem of Demand Shortfall

> Advanced countries address this common potential problem in different ways:

- By stimulating consumption through easier access to debt in addition to real wage growth
- By relying on net foreign demand
- Stagnation is also a possibility
Growth Models in the Pre-Crisis Period

• Consumption-led (UK)
• Export-led (Germany)
• Both consumption- and export-led (Sweden)
• Neither consumption- nor export-led (Italy)
### Features of Growth Models

<table>
<thead>
<tr>
<th>Consumption-led growth model (UK)</th>
<th>Export-led growth model (Germany)</th>
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<td>- Endemic current account deficits</td>
<td>- Large and growing export sector</td>
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<td>- Growth of household debt</td>
<td>- Endemic current account surpluses</td>
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<td>- Large and liquid financial market attracting cross-border financial flows</td>
<td>- Trade-off between consumption and exports due to the price-sensitivity of exports</td>
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<td>- Buoyant demand for medium- and low-skilled service labor demand allowing for healthy real wage growth</td>
<td>- Low wage growth and atypical employment in the service sector</td>
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Both consumption- and export-led (Sweden)

- No necessary trade-off between export and consumption growth
- Exports price-insensitive (shifting focus on ICT and high value-added services)
- Real wages grow faster than elsewhere and service-sector wages grow in line with manufacturing wages

Neither consumption- nor export-led (Italy)

- Low real wage growth, insufficient expansion of debt, fiscal corrections (tax increases and expenditure cuts)
- Export sector too small; exports price-sensitive; real exchange rate uncompetitive
The Politics of Growth Models

1. Growth models rest on dominant social blocs

2. Social blocs are *producer coalitions* (capital + labor) hinging on one or more *key sectors*
   
a. They develop a hegemonic discourse which has an effect of ideological obfuscation on (some) individuals' preferences
Sectoral Requirements

1. Sectors have distinct requirements, which influence actors' preferences

2. Distinction between "exposed" and "protected" sectors
   a. Real interest rate-sensitive sectors (e.g. construction)
   b. Real exchange rate-sensitive sectors (manufacturing)

3. Finance-construction nexus
   a. House price inflation high but moderate wage inflation
Party Politics

1. Parties manage the requirements of the growth model
   a. Party cartelization and policy consensus

2. Parties extend the electoral support of the growth model through side payments and redistribution as well as cultural reinterpretation (hegemonic component)
Thank You!