



# The Politics of Growth

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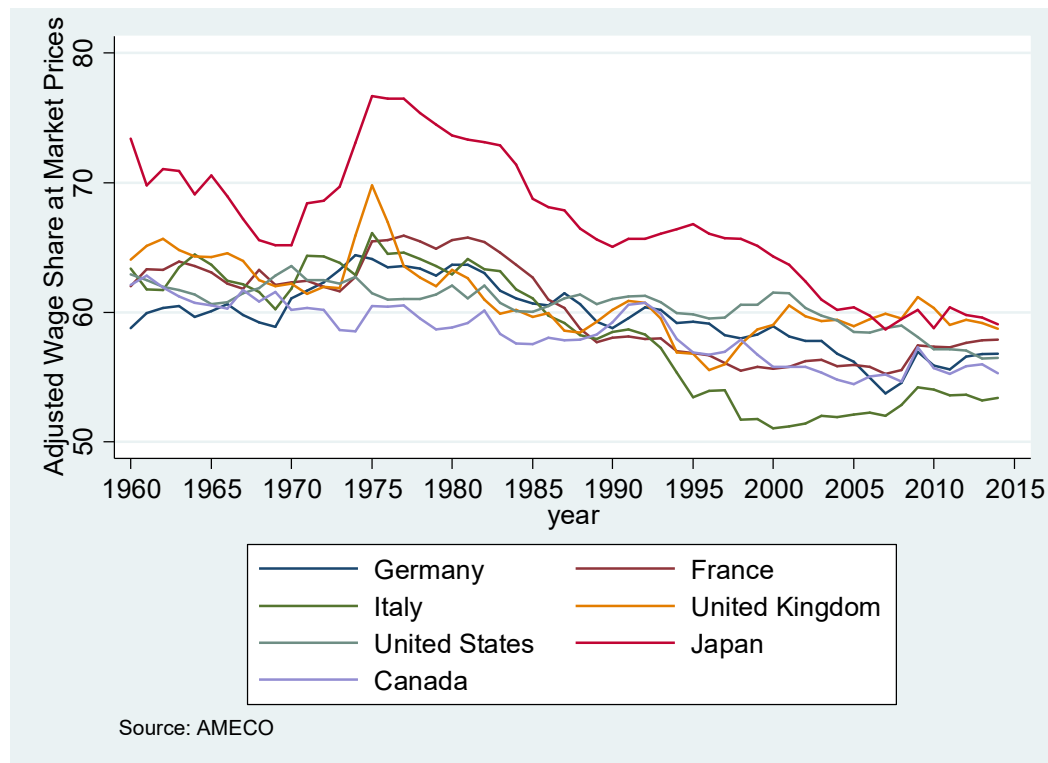
## Three Common Trends of Capitalist Countries

- > 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





## 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

### Consumption-led growth model (UK)

- Endemic current account deficits
- Growth of household debt
- Large and liquid financial market attracting cross-border financial flows
- Buoyant demand for medium- and low-skilled service labor demand allowing for healthy real wage growth

### Export-led growth model (Germany)

- Large and growing export sector
- Endemic current account surpluses
- Trade-off between consumption and exports due to the price-sensitivity of exports
- Low wage growth and atypical employment in the service sector





## **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)



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