Digitalisation and organisational innovation

Lesson 4. Growth regimes, growth strategies and welfare reforms in advanced capitalist economies

Introduction

- The **Trente Glorieuses** — the thirty years of prosperity after World War II — were characterized by strong and continuous economic growth, with GDP (gross domestic product) increasing by about 4% per year and unemployment staying below 2% on average in OECD countries.

- This remarkable period of constant growth and employment expansion was associated with the rapid **expansion of the welfare state**. Between 1945 and the late 1970s, social spending increased five times.

- The growth of the welfare state made it possible to **redistribute** the new wealth. At the same time, it **supported economic growth** by stimulating citizens' consumption and by improving workers' productivity through education, training, and health policies.

- This context changed starting in the **1970s**, when average economic growth has slowed down, while unemployment rates rose by about 5 to 10% and, since the **1980s**, they have remained between 5% and 20% in most countries.

- At the same time, the share of atypical jobs — including part-time and fixed-term contracts — has increased significantly, moving from about 10% of the workforce to between 25% and 35%, depending on the country.

- Since that period, it has become clear that advanced industrialized countries have experienced deep **economic restructuring**.

- In the **2000s**, the growth of **international trade** and **globalization** of production, together with the spread of information and communication technologies (**ICT**), created major challenges for **mature industrial economies**.

- At the same time, **deindustrialization** has led to job losses and slower growth rates. It has also had a strong negative effect on the **sustainability of welfare states**.

- During the restructuring process, the socio-economic systems of many countries have changed.

- The **Netherlands**, once seen as a typical CMEs and a conservative welfare state, now has the largest private pension fund system (as a share of GDP) in the Western world (as a share of GDP).

- **Sweden**, another CMEs known for its generous and equal welfare model, has faced a fast rise in inequality, especially in household incomes.

- **Germany** had the largest low-pay sector in 2019 and has seen the biggest growth in the **working poor** since the late 1990s.

- In contrast, **LMEs** such as the United Kingdom, Australia, and New Zealand now have higher minimum wages (as a percentage of average hourly pay) than Germany, Belgium, and the Netherlands.

- The VoC view that separated advanced economies into two groups (**socially balanced** Continental models and **unequal** Anglo-Saxon ones) needs to be **reconsidered**.

The growth strategies perspective

- In this lesson, we explain the different **trajectories of change** that rich countries have followed over the past forty years.
- Scholars have developed an **analytical framework** to study how economies and welfare systems adapt to common challenges such as post-industrialization, financialization, and the knowledge economy.
- They show that, even in a globalized world, **national patterns of growth** and **policy-making** remain different.
- The **explanation** focuses on how advanced capitalist economies pursuit of different **growth strategies**.

- **Growth strategies** are largely based on **welfare reforms**, such as housing policy, pensions, minimum wages, and education.

- Governments use welfare state policies as tools **to support economic growth**.

- However, national governments follow different **growth strategies**, depending on the type of **growth regime** in which their economies operate.

2. Welfare reforms and growth strategies

- **Growth regimes** are long-term **systems of institutions** that focus on specific economic activities, such as manufacturing exports, financial services, dynamic services, or participation in multinational supply chains.

- This approach builds on two main research traditions.

- The first stream of literature, that combined insights from the Regulation School, comparative welfare state studies, and the Varieties of Capitalism (VoC) approach, was developed by **Bruno Amable** to identify five types of capitalism.

- He argues that, from a supply-side perspective**, institutions shape economic relations in five areas**: product market competition, labor markets and labor relations, social protection, education systems, and financial systems.

- The second stream were developed by Baccaro and Pontusson (2016), that re-emphasized the importance of **demand** for economic growth, developing a “**growth model” approach**.

- They suggest distinguishing three main alternatives to the traditional **Fordist, wage-led growth model**: consumption-led growth, investment-led growth, and export-led growth.

- Focusing on the two main types (consumption-led and export-led models) they identify four examples:

1. Germany, which relies mainly on exports;
2. The United Kingdom, driven by domestic demand, financed through credit;
3. Sweden, which combines both consumption and exports;
4. Italy, where neither exports nor consumption effectively support growth.

- The “growth model” literature focuses on aggregate demand and offers an important complement to earlier research (VoC), which emphasized the supply side of the economy. It does not replace the older classification of economies, but rather enrich it.

- However, the simple binary distinction between export-led and demand-led growth, while clear and elegant, misses important differences among national economies.

The «growth regimes»

- Scholars have therefore developed a deeper analysis of the different types of domestic demand-led and export-led growth models, their **origins**, and their **effects**.

- **Various forms of export-led growth** have emerged, focusing either on manufacturing exports or on dynamic service exports.

- It is also important to distinguish among **different types of consumption-led growth**, depending on the drivers of demand (wage increases, financed by private debt, or public spending on social benefits).

- This approach builds on the concept of “**growth regimes**”.

- Adopting a growth regime perspective helps combine the insights of both approaches (the demand-focused growth model of Baccaro and Pontusson and the supply-side VoC framework of Hall and Soskice).

- It offers a more detailed and nuanced understanding of how capitalist economies **differ** and how they **evolve** over time.

2.1. *Growth regimes*

- A **growth regime** is a **mode of governance** of the economy.

- It includes the institutional, policy, and organizational frameworks that shape the specialization of firms, the consumption and saving patterns of the population, the use of technology and work organization.

- A growth regime can depend on a **specific type of innovation**, the evolution of a high–value-added industry, fiscal and monetary policies, and welfare reforms that influence employment and human capital.

- We identify three key aspects of growth regimes:

1) The **engine of growth** — the sectors that drive wealth creation, job creation, and productivity. These include agriculture, manufacturing, services (high or low-value-added), finance, housing, knowledge-based activities, and ICT.

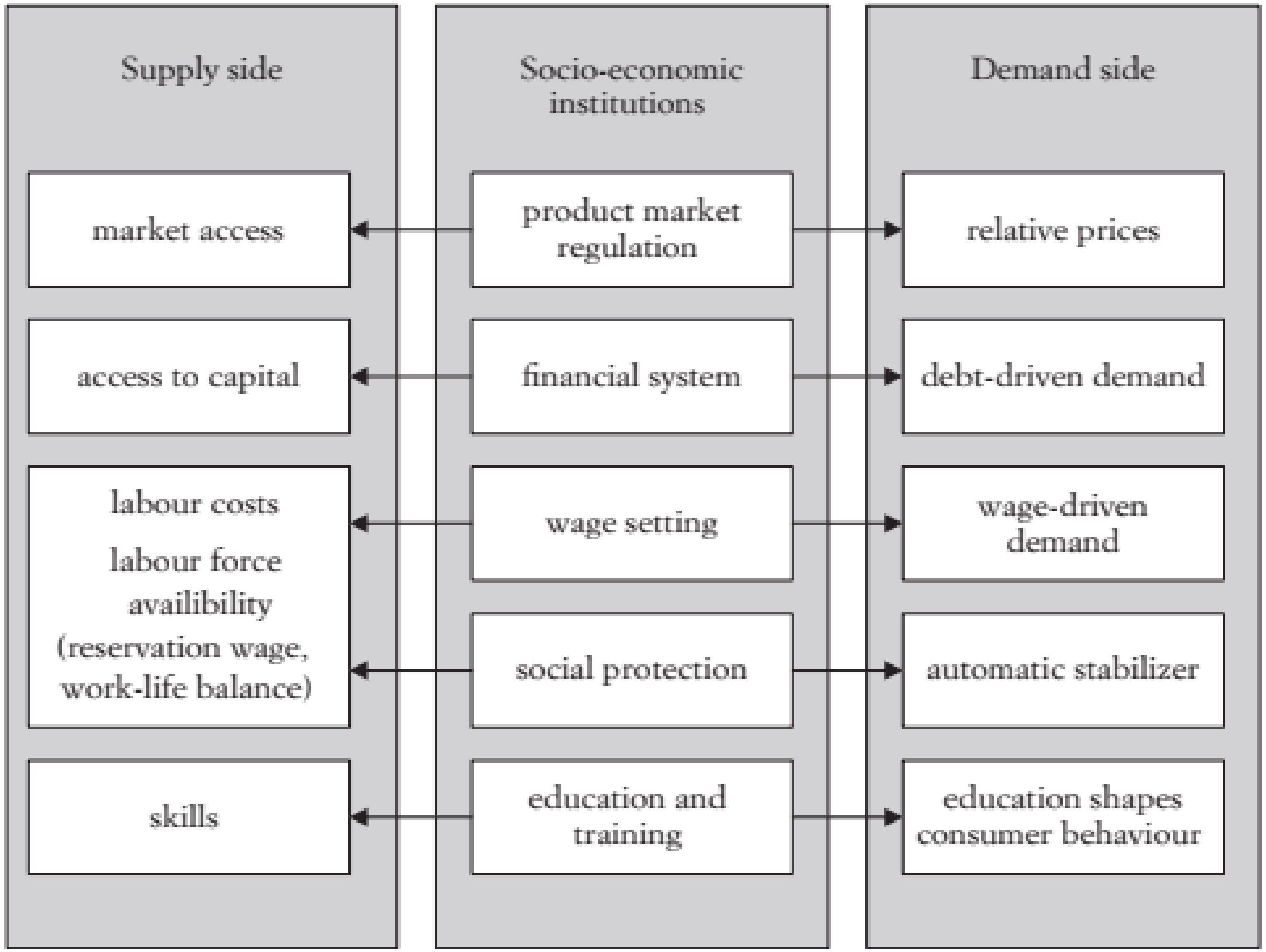
2) The **institutions organizing the economy** — the five areas identified by Amable (2003):

1. modes of financing the economy and corporate governance;
2. product market regulation (including industrial policies, subsidies, state ownership);
3. industrial relations, modes and rules of wage-setting, labor market rules and organizations;
4. skill-formation systems (education and vocational training);
5. social protection policies (social insurance, social investment and social assistance).

3) The **main components of aggregate demand:** private consumption (households and firms), private investment, public spending (both consumption and investment), and net exports.

- Socio-economic institutions, as identified in the comparative political economy literature, shape the main dynamics of growth, influencing the **interaction between supply and demand sides**.

- These institutions also encourage economic actors to specialize in certain types of activities and lead political actors to support and strengthen these specializations through their **economic policies**.


Supply side
Socio-economic institutions
Demand side
market access
product market regulation
relative prices
access to capital
financial system
debt-driven demand
labour costs
labour force availibility (reservation wage, work-life balance)
wage setting
wage-driven demand
social protection
automatic stabilizer
skills
education and training
education shapes consumer behaviour

- For example, **wage-bargaining institutions** play a key role.
- On the supply side, centralized wage bargaining sets wage limits for skilled labor and, together with education and training systems, creates specific skill patterns — forming a skills regime.
- At the same time, shape the overall wage structure of the economy, which then affects the demand side.
- Higher wages and lower wage inequality can lead to stronger domestic demand.
- Similarly, **equity-based corporate finance** and **open capital markets** promote financialization, which increases demand by expanding credit. On the other hand, the fluidity and availability of finance also support radical innovation on the supply side.

2.2. *The role of welfare regimes*

- The **welfare state** is central to national **growth regimes** because **social policies** influence both the demand and the supply sides of the economy.

- For example, **unemployment benefits** affect the activation of the unemployed, and therefore labour supply, and sustain domestic demand at the same time.

- **Education policies** shape the skill set of the population and—when provided by the public sector—create many public jobs and add to overall demand.

- Social policies are often seen as tools to **compensate** the negative effects of capitalism, but they are rarely studied for their positive **interaction with the economy**.

- Key features of the welfare state are thus closely linked to the economy in ways that create **positive complementarities**.

- The design of the welfare state therefore plays an important role in shaping a **country's growth trajectory**.

- Together, these institutions — education systems, labor market rules, and social protection — often (but not always) **complement each other** and work as a **system** to form a “**welfare regime**.”

- For example, centralized wage-setting usually goes together with strong social protection and a focus on mid-level, specific skills.

- In contrast, decentralized wage-setting and low-regulated labor markets often go hand-in-hand with education systems that provide general skills, with limited involvement from the state and employers, and only minimal social policies.

- Education, labor market regulation, social insurance, and other social policies support both the supply and demand sides of the economy. In this way, the welfare regime is a key part of the overall growth regime.

- On the **demand side**, these elements provide certain levels of consumer spending (assistance benefits, unemployment benefits, old-age pensions, etc.), act as **automatic stabilizers**, and can also provide a **minimum reservation wage**.

- On the **supply side**, they can contribute to increasing productivity and employment through targeted labor and education policies. Welfare systems create different **types of skills** used in various production regimes, while unemployment and social insurance protect skill development linked to specific jobs.

- The **balance** between the supply side and the demand side of a national economy is a key political tool that governments use to promote growth.

2.3. *Growth strategies*

- **Growth regimes** have **changed over time**, mainly because of reforms introduced by governments and "producer groups" (collective economic and social actors such as employers' associations and trade unions).

- The decisions made by governments are not random. They define specific ways to promote growth and create jobs. These choices are made within particular institutional and economic contexts and reflect concrete **political compromises**.

- Together, these decisions form a (more or less) coherent set of economic and social decisions and reforms, which we call "**growth strategies.**"

- All theese strategies push for important reforms in the labor market, education, training, and social policies.

- The policy areas and reforms are not the same across countries. They differ in both **content** and **timing**.

- These differences show that each country follows its own **internal logic**, with a certain level of consistency and coherence, that can be understood as a national “strategy”.

- However, much of this coherence comes from the specific growth and welfare regimes that exist in each country.

- These regimes influence how decisions are made and how strategies are formed.

- As a result, the solutions that governments choose are strongly shaped by their **existing economic and welfare systems** (**path dependency**).

- Finally, when countries face new economic contexts (i.e. after the financial crisis), these reforms can gradually change and reshape existing growth regimes. Even when governments do not clearly express a “strategy”, they often develop standard ways of reacting to economic challenges.

- When growth strategies involve welfare reforms, they operate mainly at the **national** level.

- In contrast, other areas of economic policy (such as product market regulation, financial rules, and monetary policy) are managed by **supranational** bodies due to liberalization, globalization, and the independence of central banks. This is especially true for the **EU** and the Eurozone.

- Obviously, the production regime is not the only factor at play.
- Electoral rules, political institutions, political parties, and other external events matter as well.
- However, this approach assume that growth and welfare regimes play an important role in these strategies. This is partly because the preference of the dominant sector informs policy-makers as to what the priorities of economic and social policies should be.

3. Five growth regimes in Europe

- If we look closely at the main components of growth regimes (the engines of growth, the institutions that organize the economy, and the main elements of aggregate demand) we can identify five different configurations:

- Three types of **export-led** growth regimes;
- Two types of **domestic demand-led** ones.

The export-led countries

1. Countries which combine an export focus with strong domestic demand.

- All Nordic economies but one (Denmark is an exception as far as demand is concerned), Luxembourg, and the Netherlands («balanced growth models»).
- They are progressively shifting from the manufacturing industry to dynamic services as the key driver of growth, benefitting from financialization to feed the growth of ICT-based service sectors.
- They have also developed low-pay private services.

2. **Countries where export of manufacturing goods is the main driver of growth**, **with low growth in domestic demand** (below 2%) before the financial crisis.

- Germany, but also Austria, Belgium, and Switzerland.
- These countries rely strongly on the competitiveness of their high-quality manufacturing firms and often use advanced systems of diversified quality production to maintain this advantage.
- They primarily benefit from high growth rates in emerging economies that satisfy their demand for machinery and high-end consumer goods.

3. **Countries with increasing shares of exports, but negative current accounts and relatively high rates of domestic demand**.

- Central and Eastern Europe.
- Like the previous subgroup, these countries follow a manufacturing, exportoriented strategy. They are heavily integrated into German-based production networks and depend even more on low prices (hence low wages and low welfare).
- They (together with Ireland) are also highly dependent on foreign direct investment (FDI).

The domestic demand-led countries

4. **Countries with a high level of domestic consumption, strong financialization, and advanced ICT development**.

- All the English-speaking LMEs of the VoC framework, except Ireland.
- Because restructuring happens faster and fluctuations are stronger, these economies experienced earlier and deeper deindustrialization than the coordinated market economies (CMEs) of Northern Europe.

- For example, the decline of British manufacturing took place already in the 1960s, when British companies could no longer deliver high-quality products at a reasonable price due to higher levels of industrial conflict, lower investment in training and quality, and difficulties in implementing wage moderation.
- Colin Crouch (2009) has shown how easy access to credit and a vibrant housing market have been key to consumption-based growth in the UK and the US since the 1980s.

5. Countries with a high level of domestic consumption but relatively low level of financialization and ICT development

- The countries of Southern Europe, including France.
- This is due to relatively easy access to cheap credit (especially after introduction of the Euro) and generous «consumption-oriented» social insurance.
- In Southern Europe, labor market institutions appear to be centralized, and corporate finance is closer to the model typical of the CMEs. However, these regulations and institutions do not deliver the same collective goods as in typical CMEs. Therefore, this type of countries generally has a lower export orientation.

ICT and Financialisation

- As far as ICT is concerned, all advanced countries are affected by the ICT revolution and embrace investment in ICT.
- About investment in ICT, theese are generally higher in countries with higher levels of financialization.
- Financialization can be driven by rising house prices, but it can also promote growth by financing start-ups and new high-tech sectors based on ICT, which stimulate both domestic consumption and exports.

- This trend sets Continental European countries apart from the Nordic ones (including the Netherlands), which show higher levels of domestic demand, financialization, and ICT investment than the German-speaking CMEs.

- Southern European countries have also experienced some degree of financialization, as high home ownership and rising house prices support domestic consumption. However, this model is less connected to ICT innovation and remains mainly consumption-driven.

Conclusion

- We can then summarize the main traits of the five identified growth regimes: the demand driver of growth, the current account situation, the degree of financialization and the development of the knowledge economy as well as those related to the labor market, education, and welfare systems.
- The next table is heuristic in nature with empirical observations **clustering to ideal types** rather than defined characterizations.
- The different **growth regimes** show a number of characteristics that are particularly relevant for understanding the specific **growth strategies** developed by different countries.
- Within this framework, governments choose particular growth strategies, lead to different types of welfare reforms and innovation policies.

TAB. 2. *Characteristics of the five growth regimes*

	Dynamic services export-led growth regime	High-quality manufacturing export-led growth regime	FDI-financed export-led growth regime	Finance-based domestic demand-led growth regimes	Publicly financed domestic demand-led growth regime
Demand drivers of growth	Export	Export	Export	Domestic consumption	Domestic consumption
Current account	Surplus	Surplus	Mixed	Deficit	Deficit
Financialization	High	Low	Low	High	Low
Knowledge economy (ICT)	High	Medium	Low	High	Low
Education system	Inclusive high-level	Inclusive mid-level	Inclusive mid-level	Elitist	Elitist
Social protection	Social investment	Social insurance	Social insurance	Private insurance and investment	Social insurance
Wage-setting	Coordinated	Coordinated	Deregulated	Deregulated	Regulated

Source: Table 2 is based on empirical observations, Hassel and Palier (2020) Figure 1.2 and Table 1.1; Chevalier (2020) on education; Palier and Hay (2017) on social protection and Visser (2019) ICTWSS database on wage-setting.

Thanks for the attention

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