DAVID COATES

# Models of Capitalism

## *Growth and Stagnation in the Modern Era*

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*In memory of Robert Coates and Jack McKenna,*
*who are much missed*

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## Growth and Stagnation in the Modern Era

**David Coates**

Polity Press

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First published in 2000 by Polity Press in association with Blackwell Publishers Ltd

Reprinted 2001, 2006

Polity Press
65 Bridge Street
Cambridge CB2 1UR, UK

Polity Press
350 Main Street
Malden, MA 02148, USA

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A catalogue record for this book is available from the British Library.

**Library of Congress Cataloging-in-Publication Data**

Coates, David.
Models of capitalism: growth and stagnation in the modern era / David Coates.
p. cm.
Includes bibliographical references and index.
ISBN 0-7456-2058-2
ISBN 0-7456-2059-0 (pbk.)
1. Capitalism. I. Title.
HB501 .C63 2000
330.12'2 – dc21

99–32965
CIP

Typeset in 10.5 on 12 pt Ehrhardt
by Best-set Typesetter Ltd., Hong Kong
Printed and bound in Great Britain by Marston Book Services Limited, Oxford

This book is printed on acid-free paper.

For further information on Polity, visit our website: www.polity.co.uk

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# Acknowledgements

Table 1.1 is reproduced by kind permission of the Social Market Foundation; tables 1.2, 1.3, 1.6, 6.1 and 8.1 by kind permission of the National Institute of Economic and Social Research; table 8.2 by kind permission of the editors of *Competition and Change*; figure 1.1 by kind permission of the Controller of Her Majesty's Stationery Office; figure 5.1 by kind permission of Nicholas Brealey Publishing Company; figure 7.1 with the permission of the publisher, Stanford University Press, © 1989 by the Board of Trustees of the Leland Stanford Junior University. The extract from W. Streeck's *Social Institutions and Economic Performance* is reproduced with the permission of Sage Publications. An earlier version of chapter 4 appeared in L. Panitch and C. Leys (eds), *The Socialist Register 1999* (Merlin Press); and a fuller version of the Appendix is to be found in *New Political Economy*, volume 4, number 1.

# Preface

By the time a broad comparative study of this kind is completed, whole new sets of debts have necessarily been accumulated: debts to scholars on whose detailed labours the general analysis rests; debts to colleagues who have provided the climate and space in which to read and reflect upon that scholarship; and debts to friends who have read or discussed parts or all of the results of that reading and reflection. The references cited at the end of this volume stand as testimony to the scale of that first debt. Here I would simply like to record my thanks to a smaller group of colleagues and friends.

My understandings of the issues discussed in this volume have benefited enormously from conversations down the years with Leo Panitch, Greg Albo, Peter Nolan and Jeff Henderson. Individual parts of the argument developed here were strengthened by listening to and taking advice from (among others) Andreas Bieler, Phil Cerny, Tony Elger, Diane Elson, Richard Higgott, Colin Leys, Steve Ludlam, David Marsh, Stan Metcalfe, Jamie Peck, Hugo Radice, Gareth Api Richards, Ngai-Ling Sum, Matthew Watson, Rorden Wilkinson and Karel Williams; and the whole manuscript was read (and improved immensely) by Colin Hay, in a characteristic act of generosity and rigour which went far beyond the call of duty. None of them bear any responsibility, of course, for any deficiencies that remain, but each has helped in his or her different way to keep those deficiencies to manageable proportions: and I thank them for that.

Three other sets of acknowledgements are necessary and appropriate. One is to the economic journalists writing for the *Financial Times*, and in particular to Robert Taylor, for the sheer quality of the reporting on which so many of us now depend. The second is to my former colleagues in the Government Department of the University of Manchester, without whose

support and comradeship this whole exercise could never have been completed. And the third, by far the most important, is to both my immediate and my extended family. The writing of this book has been a pleasure because my family have been a pleasure: in the UK most centrally Eileen and Jonathan, but also Edward and Thomas, Anna, Ben, Emma and now Megan, and in the US Mary Jane, Pete and Loran, Mike and Donna, Chris and Carol, Steve and Jo. As Eileen, Jonathan and I now switch locations, from one side of our Atlantic family to the other, it is an appropriate moment to record publicly the extent of my private debt to them all. It is impossible not to believe in the potentiality of the human spirit when surrounded by a family of such quality and love.

# Guide to Country Story Lines

The following table indicates the main blocks of material on particular countries.

| Chapter | US | UK | Sweden | West Germany | Japan |
|---|---|---|---|---|---|
| 1 | 2–6 | 2–6 | 2–6 | 2–6 | 2–6 |
| 2 | 24–43 | 43–53 | – | – | – |
| 3 | – | – | 72–4 | 64–72 | 54–64 |
| 4 | – | 86–94 | 94–101 | – | – |
| 5 | – | 135–41 | – | – | 127–35 |
| 6 | 149–57 | – | – | 167–77 | 177–90 |
| 7 | 201–10 | 193–201 | – | 210–13 | 213–23 |
| 8 | 248–50 | 244–7 | 239–44 | 239–44 | 234–9 |

# 1

# Capitalist Models and Economic Growth

Amid the optimism of a new century, the legacies of the past still lie like a nightmare on the brain of the living. Communism may have fallen (in Europe at least) but in the policy-making circles of the advanced capitalist world three quite enormous issues of economic policy remain to be resolved. In a capitalist economy, is the achievement of economic growth best left to the market, or should its orchestration be a central task of government? Do old ways of governing capitalist economies need now to be replaced by new ones? And should we be in pursuit of the one 'right way' of ordering economic and social life in the pursuit of economic growth, or do we still face a range of viable capitalist models?

These questions have all been around for a very long time, but they have gathered new urgency and force of late, as the pattern of economic performance among advanced capitalist economies has altered sharply. In the 1980s, in both the US and the UK, the policy debate was dominated by questions of economic decline, power was held by advocates of market-based capitalism, and the majority of their critics were pressing strongly for a managed economy of the seemingly more successful German or Japanese variety. By the late 1990s, in contrast, it was the German and Japanese economies that were widely perceived to be in difficulties, governmental power in both Washington and London had been captured by centre-left parties, and it was the advocates of unregulated capitalism who now offered sceptical opposition to the new 'third way' in politics. Suddenly, in the context of increasing globalization, old certainties have been replaced by new doubts; and the search is on again for solutions to problems of economic growth which, only a decade ago, appeared to have clear, definite, but varied solutions. In the face of such uncertainties, students of contempo-

rary politics need rapidly to familiarize themselves with things hitherto of concern only to academic specialists: the causes of the various postwar economic 'miracles', the meaning and significance of globalization, the virtues and vices of flexible labour markets, the difference between first, second and third 'ways' in economic management, the nature of different capitalist models, and so on. The purpose of this volume is to facilitate that process of rapid learning.

## The pattern of postwar economic growth

Economic growth is not the easiest thing to measure. On the contrary, the empirical and conceptual complexities of economic measurement are so contentious (and the implications of different modes of measurement for the results generated so vast) that 'measuring the wealth of nations' is now the subject of a vast technical literature (see in particular Maddison, 1995a; Shaikh and Tonak, 1994; Coates, 1995a). But that literature notwithstanding, it is clear that, even among advanced capitalist economies, patterns of economic performance have varied significantly over the postwar period as a whole, and that they have varied no matter how that performance is measured. Whether we use discrete indicators (such as output growth, the productivity of capital or labour, trade share, investment, or living standards) or simply competitive league tables, the picture remains broadly the same. It is a picture of initial postwar US economic supremacy (a supremacy shared in the late 1940s by the UK as the capitalist bloc's second major economic power); it is a picture of subsequent convergence and catch-up by a select group of northern European and Asian economies; and it is a picture of recent unexpected economic turbulence.

If we take the figures in table 1.1 as our starting point, they confirm that per capita income in the US in 1950 was significantly higher than elsewhere in the world system, and that in 1950 at least, living standards in the UK were only rarely exceeded in Western Europe, and then only just. They also show that forty years later average per capita income in the US was still higher than elsewhere (although the margin of difference was much less), that living standards in Japan were by then close to North American standards, and that those in the UK had slipped well behind average levels in most of northern Europe. The figures also show that what links the two dates are spectacularly different overall growth performances: an increase of per capita income in the US and UK of 230 per cent compared with a change in GDP per head of more than 900 per cent in Japan and Taiwan and of around 500 per cent in West Germany and Italy.

Statistics are, of course, highly malleable, and in consequence have to be approached with a developed sensitivity to the manner of their construction and to their framework of underpinning assumptions. In table 1.1 the choice of 1950 as the base year is critical: it was a time when the former Axis powers were still suffering extreme postwar dislocation and the Allies

**Table 1.1** Real GDP per person, 1950–1994 (international dollars at 1990 values)

| | *1950* | | *1973* | | *1994*[a] | |
|---|---|---|---|---|---|---|
| 1 | USA | 9,573 | Switzerland | 17,903 | USA | 22,569 |
| 2 | Switzerland | 8,939 | USA | 16,607 | Switzerland | 20,830 |
| 3 | New Zealand | 8,495 | Canada | 13,644 | Hong Kong | 19,592 |
| 4 | Australia | 7,218 | Sweden | 13,494 | Japan | 19,505 |
| 5 | Canada | 7,047 | Denmark | 13,416 | Denmark | 19,305 |
| 6 | UK | 6,847 | Germany | 13,152 | Germany | 19,097 |
| 7 | Sweden | 6,738 | France | 12,940 | Singapore | 18,797 |
| 8 | Denmark | 6,683 | Netherlands | 12,763 | Norway | 18,372 |
| 9 | Netherlands | 5,850 | New Zealand | 12,575 | Canada | 18,350 |
| 10 | Belgium | 5,346 | Australia | 12,485 | France | 17,968 |
| 11 | France | 5,221 | UK | 11,992 | Austria | 17,285 |
| 12 | Norway | 4,969 | Belgium | 11,905 | Belgium | 17,225 |
| 13 | Germany | 4,281 | Austria | 11,308 | Netherlands | 17,152 |
| 14 | Finland | 4,131 | Japan | 11,017 | Australia | 17,107 |
| 15 | Austria | 3,731 | Finland | 10,768 | Sweden | 16,710 |
| 16 | Ireland | 3,518 | Italy | 10,409 | Italy | 16,404 |
| 17 | Italy | 3,425 | Norway | 10,229 | UK | 16,371 |
| 18 | Spain | 2,397 | Spain | 8,739 | New Zealand | 15,085 |
| 19 | Portugal | 2,132 | Greece | 7,779 | Finland | 14,779 |
| 20 | Singapore | 2,038 | Portugal | 7,568 | Taiwan | 12,985 |
| 21 | Hong Kong | 1,962 | Ireland | 7,023 | Ireland | 12,624 |
| 22 | Greece | 1,951 | Hong Kong | 6,768 | Spain | 12,544 |
| 23 | Japan | 1,873 | Singapore | 5,412 | South Korea | 11,235 |
| 24 | Taiwan | 922 | Taiwan | 3,669 | Portugal | 11,083 |
| 25 | South Korea | 876 | South Korea | 2,840 | Greece | 10,165 |

*Source*: Crafts, 1997a: 15

[a] Provisional calculations on the 1997 data suggest further movement still, with Japan slipping to 6th place, Germany to 13th, Sweden to 17th and even the USA to 2nd (behind Singapore). Of our five key economies, only the UK improved its ranking between 1994 and 1997, moving to 14th. I am grateful to Gareth Api Richards for this information.

were enjoying a brief period of unchallenged world supremacy. The choice of end year (1994) is also significant, marking the moment when the Japanese economy had settled firmly into its first major postwar recession and the US and UK economies had begun their prolonged 1990s period of growth and job creation. The choice of *base level* is equally important: spectacular growth rates are much easier to achieve if the starting point is low (as it was with Japan in 1950), if economies are at different points in their own growth histories (as was visibly the case with South Korea), and if economies lie ahead with superior technologies that can be copied and with markets that can be raided (as did the US and the UK). There is a dimension – actually

a very large dimension – of simple 'catch up and convergence' tucked away in the figures of table 1.1 (whose importance and significance we shall discuss fully in chapter 6); but there are real changes tucked away there too, changes that cannot be simply explained – and explained away – in such a fashion. Three sets of such changes deserve our particular attention.

1 The first is the significant weakening in the relative positions of both the US and the UK economies over the period as a whole, the gap between levels of performance in the US economy and those in other leading capitalist economies diminishing over time, and the UK economy slipping down a variety of league tables on such things as output, productivity, investment and living standards, particularly before 1979.
2 The second is the remarkable surge of growth in a number of northern European economies (including the German, Benelux and Scandinavian economies) in the 1950s and 1960s, the more prolonged growth of the Japanese economy and the recent growth surge of the Asian Tiger economies – a surge that has effectively added a new regional grouping of major capitalist industrial economies to the regional groupings in north America and northern Europe laid down before 1945.
3 The third (hinted at in table 1.1, but clearly evident in table 1.2) is the revival of the post-1979 UK economy relative initially to the German and recently even to the Japanese economies, and the revival too of the US economy's capacity to generate growth and employment. In fact, by as early as 1994 the US had replaced Japan as the world's 'most competitive nation' in the league tables produced by the Geneva-based World Economic Forum, Japan having occupied the top position for the previous seven years (*Financial Times*, 6 September 1995). All this before the more provisional statistical data covering the second half of the 1990s began to document the scale of the post-1992 Japanese recession, the post-1997 East Asian economic 'crisis' and the slowing down of productivity, growth and employment rates in most (although by no means all) of the northern European economies. These were all developments that restored some degree of international competitiveness to some economies (the UK's perhaps, the US more certainly), which had been widely seen before 1980 as weakening (and even as potentially terminally flawed).

Indeed each of the major capitalist economies has a slightly different postwar growth story to tell, as table 1.4 attempts to indicate. The best decades for the West German economy, in terms of economic growth, were definitely those before 1973. After the first oil crisis, West German growth rates settled back to nearer the average for the OECD as a whole. The Swedish economy also had its best decades before 1973; but it then settled into a growth rate that was lower than the OECD average. The Japanese

**Table 1.2** Annual percentage change in GDP, 1992–1997

| *Country* | *1992* | *1993* | *1994* | *1995* | *1996* | *1997* |
|---|---|---|---|---|---|---|
| US | 2.7 | 2.3 | 3.5 | 2.0 | 2.8 | 3.8 |
| UK | –0.5 | 2.1 | 4.3 | 2.7 | 2.2 | 3.3 |
| Germany | 1.9 | –1.2 | 2.8 | 1.9 | 1.4 | 2.3 |
| Japan | 1.0 | 0.3 | 0.7 | 1.4 | 4.1 | 0.8 |
| South Korea | 6.2 | 4.8 | 6.3 | 4.5 | 4.9 | 4.4 |

*Source*: National Institute Economic Review, 3/98: 121

**Table 1.3** Rates of unemployment, 1992–1997 (seasonally adjusted per cent of total labour force, by national definition)

| *Country* | *1992* | *1993* | *1994* | *1995* | *1996* | *1997* |
|---|---|---|---|---|---|---|
| US | 7.5 | 6.9 | 6.1 | 5.6 | 5.4 | 4.9 |
| UK | 9.9 | 10.5 | 9.5 | 8.3 | 7.6 | 5.7 |
| Germany | 7.8 | 9.1 | 9.6 | 9.5 | 10.5 | 11.5 |
| Japan | 2.2 | 2.5 | 2.9 | 3.2 | 3.3 | 3.4 |

*Source*: National Institute Economic Review, 3/98: 121

**Table 1.4** Real GDP growth, 1950–1990 (average annual percentage change)[a]

| | *1950–1960* | *1960–1973* | *1973–1980* | *1980–1990* |
|---|---|---|---|---|
| US | 3.3 | 4.0 | 2.1 | 3.0 |
| UK | 2.8 | 3.1 | 0.9 | 2.7 |
| Germany | 8.2 | 4.4 | 2.2 | 1.9 |
| Sweden | 3.4 | 4.6 | 1.7[b] | 1.7 |
| Japan | 8.8 | 9.6 | 3.7 | 4.2 |
| South Korea[c] | 1.3 | 6.5 | 7.4 | 6.8 |

[a] OECD rates: 1950–73, 4.7%; 1973–87, 2.4%.
[b] the Swedish figure is an average for 1970–92.
[c] the South Korean figures are GDP per head.
*Sources*: Giersch et al., 1992: 4; Pilat, 1994: 8; Henrekson et al., 1996: 243–4; Henderson, 1990: 276, 279

economy, by contrast, sustained its high-growth performance relative to that average right up to 1992, although in its case also the years of truly spectacular rates of growth were over by 1973. The 'Asian growth miracle' after 1973 occurred elsewhere, in places such as South Korea. By contrast, the growth performance of both the US and the UK economies was more sluggish throughout, and was particularly dire in the years between the first oil crisis and the second (1973–1979). In comparative terms, the best growth decade for those economies was the 1990s. Certainly the UK economy then managed to pull itself out of the long recession into which it had settled between 1989 and 1992, to perform its own small 'catch up' operation on its main European rivals; both it and the US economy spent most of the 1990s lowering their officially recorded levels of unemployment as unemployment *rose* both in the newly united Germany and in Japan.

## The question of capitalist models

It is with the origins and determinants of these key features of the postwar economic growth story that the text which follows is primarily concerned; and it is so for at least three distinguishable sets of reasons. The first is that the causes of that growth pattern are academically contentious, and that those academic disputes trigger very different bodies of advice for politicians and civil servants committed to the pursuit of growth. Which explanation is correct, therefore, is of immense political (and not just academic) interest. The second is that behind these academic debates and policy recommendations lie real disagreements about the viability of particular models of capitalist organization and their associated political projects, and hence real issues about desirable and attainable futures. The rights of workers in particular rise and fall with the viability of these underlying models. And the third is that economic growth touches so many aspects of social life, and does so regardless of the political projects within which it occurs, that its achievement is a prerequisite for the protection of so much that is of importance to us all, workers or not.

At the core of the contemporary debate on why growth rates differ stands a *neo-liberal* economic orthodoxy. In that dominant paradigm, economic growth is explained as a consequence of the freeing of market forces and the associated development of appropriate factors of production; and differences in growth performance are explained as by-products of the degree of market freedom achieved and of the resulting differences in factor quantity and quality. As is explained in more detail in the Appendix, neo-liberalism has both an 'old' and a 'new' face, but in both these forms neo-liberal explanations of economic performance have never been entirely without challenge. To their right has long stood a *conservative* strand of argument uneasy with the social consequences of untrammelled markets, an unease normally articulated without the support of a complete and distinctive theory of how capitalist economies grow, and one prone to emphasize

the pivotal role of non-market factors (of trust and culture) in explaining different patterns of economic growth. To their left have long stood both *centre-left* and *Marxist* explanations of how capitalist economies perform: explanations of different growth rates that either emphasize discrete non-market-based factors as key shapers of the way markets operate or point to the manner in which market-based interactions are qualitatively transformed by their insertion into different capitalist-based class systems and the resulting social structures of accumulation. There was a time (throughout the 1960s, and in certain circles well into the 1970s) when centre-left arguments were the dominant ones, pushing liberal views of markets off centre-stage; but since the 'crisis of Keynesianism' in the 1970s liberalism has returned apace – and economic policy now is shaped by a much narrower and more right-wing range of views than was conventional two decades ago.

As we shall see in more detail as the argument unfolds, there is a close affinity between the policy packages adopted in the pursuit of economic growth and wider bodies of economic theory. Advocates of market-based capitalism tend to draw on the arguments of neo-classical economics in defence of their case. Advocates of 'third way' packages tend to empathize with 'new growth theory' (as was once famously admitted by Gordon Brown, Chancellor of the Exchequer in the UK's New Labour Government after 1997). Certain conservative-inspired popularizers of more trust-based forms of capitalism (Fukuyama in particular) tend to treat neo-classical economics as essentially correct but limited, and to talk of 'a missing twenty per cent of human behaviour about which neo-classical economics can give only a poor account' (Fukuyama, 1995: 13). And more centre-left advocates of German and Japanese modes of capitalist organization tend, as we shall see, to mobilize Schumpeterian or post-Keynesian understandings of the growth process to sustain their preference for cartelized forms of corporate organization and proactive government spending. These particular economic theories are therefore yet another 'academic specialism' with which the general student of politics now needs to be familiar. (They are surveyed briefly in the Appendix, to assist those readers whose knowledge of economic theory is currently limited.)

For it is hard to overstate the contemporary political importance of the current academic debate on why growth rates differ, or to overestimate the centrality of the 'labour question' to that debate. As we shall see later, both 'old' and 'new' versions of neo-liberal growth theory ultimately subscribe to the view that growth depends on competitiveness, and that competitiveness depends in large part on the control of labour costs. 'Old growth theory' points the finger of responsibility for labour costs at 'inflexibilities' created by trade union organization and power. 'New growth theory' tends to shift the focus of responsibility away from trade unionism towards issues of labour skills and training, and even on occasions dabbles sympathetically with the more conventional centre-left argument that the key to labour-market flexibility is a set of trust-based industrial relationships guaranteed

by extensive worker rights and trade union powers. Yet within that entire policy spectrum – from those who would achieve economic growth by cutting trade union powers to those who would achieve economic growth by increasing them – the relationship of labour power to international competitiveness is still seen as central. More radical voices still problematize other social actors and processes, as we shall see. The nature of *capital*, the force of *culture*, the capacities of the *state* – these too have a presence in the contemporary debate on why growth rates differ. But the central preoccupation of most academic commentators and contemporary policy-makers is with questions of labour power. In most policy-making circles these days, labour power and international competitiveness are invariably seen as incompatible, and policy is inexorably directed at reducing the first in order to enhance the second.

This is why one of the main research questions underpinning this study is whether 'flexible' labour markets are a necessary condition for successful capital accumulation: whether they were in the immediate past, and whether the new conditions of intensified global competition now make the erosion of trade union rights and levels of labour remuneration even more vital to the achievement and retention of international competitiveness. We need to know whether it was always necessary in the past, and is always necessary now, to cut wages, intensify work routines and reduce workers' and trade union rights, if the economic growth of a particular economy is to be sustained in the face of competition from companies based abroad. As we shall see in more detail in chapter 4, that was certainly the thrust of the neo-liberal project developed in the UK by Margaret Thatcher in the 1980s; and even now, when UK politics is dominated by the 'third way' thinking of New Labour, it remains conventional to argue both that UK labour markets have to *remain flexible* if competitiveness is to be sustained and that European labour markets have to *become more flexible* if unemployment is to be reduced. The Thatcherite solution to the diminished competitiveness of European welfare capitalism was to dismantle welfare rights. The Blairites talk only of reforming those rights: but in practice the direction of policy is similar. Because it is, particularly the European-based debate about how to encourage economic growth in the new millennium is in essence a debate about the viability of a particular capitalist model. It is a debate about the future of welfare capitalism, as that has been understood and lived by northern European labour movements since 1945.

Ultimately this should not surprise us, for in fact each of the major positions in the contemporary debate on why growth rates differ among advanced capitalist economies has historically been associated with a distinct set of attitudes to the viability or otherwise of discrete *models* of capitalism. Indeed the varying fortunes of economies thought to exemplify those models have shaped (and continue to shape) the popular (and to a degree even the academic) discussion of contemporary growth strategies in important ways, the confidence of their advocates ebbing and flowing as their particular exemplars prosper and decline. So enthusiasts for market-led cap-

italisms lost ground to their opponents as the United States' competitive advantage was eroded – first by Western-European-based companies and then by Japanese-based ones – in the 1970s and 1980s; and in the same manner critics of market-led models had their confidence shaken by the growing sclerosis of Western European economies in the 1990s and by the 'crisis of the Asian model' which broke in the summer of 1997. For there can be no doubting the close fit that exists between different theories of economic growth and the institutional arrangements characteristic of different capitalist models. Broadly speaking, neo-liberal scholarship tends to favour Anglo-American practices, in which neither the state nor the unions have a significant economic role or voice. Conservative scholarship tends to favour developmental models of the East Asian kind, or occasionally the French kind, in which political institutions work closely with private capital in the pursuit of growth (Barnett, 1986; Albert, 1993; Fukuyama, 1995). Centre-left scholarship invariably has a penchant for consensual models of a Scandinavian or German hue, in which trade unions figure as a junior governing partner, and extensive welfare rights underpin private economic relationships, while Marxist scholarship, which in the West has long eschewed centrally planned economic models of Soviet derivation, tends predictably to see deep and irresolvable contradictions in capitalism however organized, and therefore calls down a plague on all these houses.

In the broadest sense the choice of model in that clash of political projects can be (and should be) reduced to one of three: to a choice between a *market-led* form of capitalism and two differing forms of capitalist organization which are often presented by their advocates as more *trust-based* than market-led, one in which state power is of central importance to local capital accumulation, and one built around an explicit compact between capital, labour and the state. It should be said, in passing, that the relevant academic literature is more profligate that that (for a full survey, see Coates, 1999b). It is replete with models differentiated either by geographical location (the 'Scandinavian model', the 'Asian model' and the like) or by institutional variation (bank-based systems versus credit-based, 'individualistic' versus 'communitarian' value systems, 'coordinated' versus 'non co-ordinated' forms of labour market regulation, and so on). It is also replete with schemas that differentiate capitalism into a wide range of polar types. Sometimes capitalism comes in two types (Albert, 1993), sometimes in four (Scott, 1997: 16–18), but quite often, as here, in three (Thurow, 1992; Hart, 1992a; 1992b; Marquand, 1988). For there is a broad recognition in the work of scholars now often referred to in the professional literature on political science as the 'new institutionalists' that over the postwar period as a whole it has been possible to discern in the debate about the growth performance of advanced capitalist economies the presence of a number of ideal types of capitalist organization, of at least the following kind.

- *Market-led* capitalisms, in which accumulation decisions lie overwhelmingly with private companies, which are left free to pursue

their own short-term profit motives and to raise their capital in open financial markets. In such capitalisms, workers enjoy only limited statutory industrial and social rights, and earn only what they can extract from their employers in largely unregulated labour markets. State involvement in economic management is limited largely to the creation and protection of markets; and the dominant understandings of politics and morality in the society as a whole tend to be individualistic and liberal in form. The USA is conventionally treated as the quintessential example of a market-led capitalism, although the UK has often also been included, in its 1979–1997 Thatcherite form – hence the general label 'neo-American' or 'Anglo-Saxon' capitalism often attached to this generic model (Albert, 1993). In this text they will be referred to as 'liberal capitalisms'.

- *State-led* capitalisms, in which, by contrast, accumulation decisions are again primarily seen as the right and responsibility of private companies, but in which those decisions are invariably taken only after close liaison with public agencies, and are often indirectly determined through administrative guidance and bank leadership. In such capitalisms, labour movements still tend to lack strong political and social rights; but there is space for forms of labour relations that tie some workers to private corporations through company-based welfare provision. The dominant cultural forms in such capitalisms are likely to be conservative-nationalist in content. The Japanese economy in the immediate postwar period and the South Korean economy more recently have often been cited as the prime examples of state-led capitalisms: hence the tendency to label this model either 'Asian capitalism' or the 'developmental state' form.
- *Negotiated or consensual* capitalisms, in which the degree of direct state regulation of capital accumulation may still be small, but the political system entrenches a set of strong worker rights and welfare provision which give organized labour a powerful market presence and the ability to participate directly in industrial decision-making. The dominant cultural networks in these capitalisms tend to be either social democratic or Christian democratic ones. The postwar Scandinavian and West German economies have often been offered as exemplars of this capitalist type: hence the label 'European welfare capitalism' or even the 'Rhine model' (Albert, 1993).

The academic debate on why growth rates differ, and on the associated desirability of particular capitalist models, has therefore been (and remains) simultaneously a technical and a political debate. It remains a technical debate in the sense that each position embodies a different assessment of the relation of the market to the state (both in the past and in the future) in successful cases of economic growth. For some, the state is a vital economic actor. For others, states help economies best by leaving things to the

market. But since in a capitalist economy leaving things to the market means leaving things to private capital, technical assessments of appropriate state–market relations necessarily and quickly slide into political assessments of which set of private interests are most compatible with interests of a more general kind. So each argument on how states and markets did or should interact quickly transmutes itself into a judgement about the extent to which economic growth was or is best attained. Should it be by leaving accumulation to the owners of private capital, free of regulation and constraint, or by supplementing (even, in extreme cases, replacing) their role with that of others – political agencies, like the state, or social agencies, like trade unions? And that in its turn means that what ultimately is central to the debate on why growth rates differ is the question of social power and privilege: who governs, who is rewarded, who pays the price, whose economic and political interests should take precedence and why? The debate on why growth rates differ is thus in part an arena for the pursuit of technical disagreements, but it is also an arena for the pursuit of interests and values.

## The parameters of the study

If we are to examine the causes of the postwar growth performance of advanced capitalist economies and assess the past and future viability of a range of capitalist models as routes to growth, we need to set down at the outset a number of parameters: on how we shall measure economic performance, at what level of economic activity we shall measure it, and with which economies we shall be centrally concerned.

(1) *The measurement of economic performance* As we noted at the outset, there are genuine problems of conceptualization and measurement to be settled before growth rates can be adequately compared and their significance assessed. At the simplest level we need to be aware that there are problems of reliability and signification. Conventionally, when the performance of national economies is being examined, the data available for use are organized under such indices as gross national product, rate of inflation, level of unemployment, the state of the balance of payments, the level and growth of labour and the scale and quality of investment. It is not always easy, even with these indices, to gather data that can safely be compared either over time or between countries (on this, Hart, 1992a: 204–10; Levitas and Guy, 1996); and even when we can, the choice of time frame and countries of reference remains critical for the shape of the resulting argument. We have seen that already in the construction of the first set of tables. To slice time up, to show one economy growing rapidly and another not, and to imply thereby that the first has structural strengths denied to the second, may be to misread the position each occupies in two linked sequences: their position in the sequence of catch-up and convergence, and their position on their own growth trajectory from 'under-development' to 'maturity' – a tra-

jectory along which, according to many writers, growth rates necessarily vary over time (Rostow, 1960; Kaldor, 1966; Porter, 1990). All we can do in relation to this set of legitimate concerns is attempt to control or allow for both catch-up and trajectory (on this, see chapter 6), while extending the time frame of analysis to a period which allows us to treat different growth paths within it as genuinely indicative of underlying differences in economic strength.

Yet the selection of indicators to locate underlying economic strength is itself highly contentious, and dependent on prior positions in a number of fiercely contested debates. One concerns the proper weighting of economic and social variables in the calculation of economic growth. Not all commentators on relative competitive performance are content with indicators that rest on economic indicators alone (of the kind which underlay table 1.1), some preferring instead to use what they term a 'misery index': 'the sum of the inflation rate and the standardised unemployment rate' (Crafts, 1993b: 328–9). Indeed of late even the United Nations has taken to producing a more socially sensitive indicator – a Human Development Index (HDI) – 'based on three elements – life expectancy at birth, knowledge measured by a weighted average of literacy and school enrolment, and income which is discounted heavily above some threshold' (Crafts, 1997b: 77; also Crafts, 1997c). That index, as table 1.5 shows, leaves the position of the US, Japan, Germany and the UK largely unaltered in world league tables of performance; but it does reposition a number of the Asian 'tiger economies' in a quite dramatic way. And if, in addition, instead of measuring simply GDP per head, we include a measure of hours worked (and thereby GDP per hour worked), that repositioning becomes more dramatic still. Table 1.5 suggests that the impact of making such adjustments is both to indicate the greater leisure time enjoyed by European and (until recently) North American workers and to raise European growth rates while depressing Asian ones. Japan in particular drops from third place in GDP per person to eighteenth in GDP per hour. The overall result, as Crafts suggests, is that 'conventional rankings of economic performance based on real GDP/person underplay European success' such that when measuring living standards at least, 'comparison should not be confined to levels or growth rates of real GDP/person' (1997b: 81, 83). The full significance of the dramatic shift in the position of the Japanese economy in such tables will be discussed more fully, first in chapter 5, then in chapter 8.

A second point of contention surrounding the measurement of economic performance concerns the supposedly special importance of manufacturing industry as the 'engine of growth' in modern economies, and hence the use of indices of *de-industrialization* as measures of underperformance. There are certainly political economists committed to the view that 'manufacturing matters' (Cohen and Zysman, 1987), for whom the strengths and weaknesses of an economy's industrial base are vital to its growth. But there are others, probably more plentiful, who see service-sector growth as

**Table 1.5** Rankings for 1992

| | *GDP per person* | *GDP per hour* | *HDI* |
|---|---|---|---|
| US | 1 | 9 | 1 |
| Switzerland | 2 | 6 | 2 |
| Japan | 3 | 18 | 3 |
| West Germany | 4 | 4 | 5 |
| Hong Kong | 5 | 19 | 13 |
| Denmark | 6 | 11 | 8 |
| Canada | 7 | 7 | 4 |
| France | 8 | 2 | 6 |
| Norway | 9 | 5 | 7 |
| Belgium | 10 | 1 | 10 = |
| Austria | 11 | 8 | 12 |
| Sweden | 12 | 10 | 10 = |
| Netherlands | 13 | 3 | 9 |
| Australia | 14 | 12 | 14 |
| Italy | 15 | 14 | 15 |
| Singapore | 16 | 21 | 18 |
| UK | 17 | 15 | 17 |
| Finland | 18 | 17 | 16 |
| Spain | 19 | 13 | 19 |
| Ireland | 20 | 16 | 20 |
| Taiwan | 21 | 23 | 22 |
| Portugal | 22 | 22 | 23 |
| Greece | 23 | 20 | 21 |
| South Korea | 24 | 24 | 24 |

*Source*: Crafts, 1997b: 81

inevitable in a mature economy and a sign of its general health, for whom measures of manufacturing's contribution to GDP and employment do not, of themselves, say anything of particular significance. For our purposes, the resolution of this important disagreement lies in a sensitivity to the distinction between positive and negative de-industrialization (Rowthorn and Wells, 1987). The contribution of the manufacturing sector to employment can decline for one of two reasons. It can decline because the manufacturing sector is highly productive and competitive, able to shed labour into service employment without generating inflation or trade deficits; or it can decline for lack of competitiveness, when labour is shed either into unemployment or into service employment, which then sucks in large volumes of manufactured goods. It is the first (positive) form of de-industrialization that indicates economic strength, the second (negative) that indicates weakness. The distinction between the two therefore points to the value of retain-

ing, for our purposes here, the test of economic growth established by A.J. Singh two decades ago: that in a strong economy, the manufacturing sector should be able to satisfy 'the demands of consumers at home [and] also to sell enough of its product abroad to pay for the nation's import requirements' and to do so 'at socially acceptable levels of output, employment and the exchange rate' (Singh, 1977: 128). It is a test echoed elsewhere in the growth literature, not least by the President's Commission on Industrial Competitiveness in the United States, which in 1985 set as 'the industry standard' 'the degree to which a nation can, under free and fair market conditions, produce goods and services that meet the test of international markets while simultaneously maintaining or expanding the real income of its citizens' (cited in Cohen, 1995: 22; see also Tyson, 1992: 1). It is also a test which puts a very large question mark over the adequacy of the UK's postwar economic performance, as the data captured so starkly in figure 1.1 indicates.

Indeed there is much to be gained from differentiating 'growth performance' from 'trade performance', because although the two are obviously

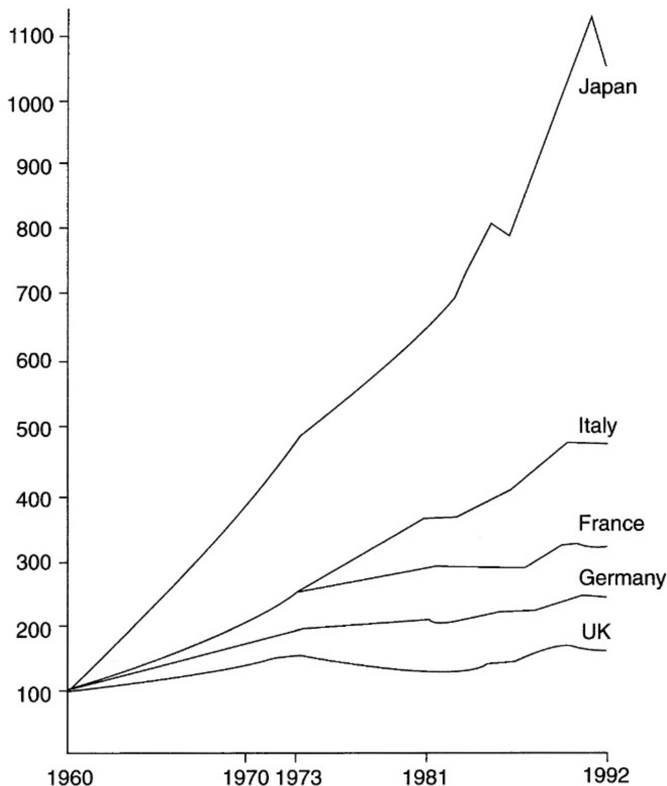


**Figure 1.1** Manufacturing output 1960–1992 (1960 = 100)
*Source*: Select Committee on Trade and Industry, 1994: 16

**Table 1.6** Current balance of payments (US$ billions)

| | *1989* | *1990* | *1991* | *1992* | *1993* | *1994* | *1995* | *1996* | *1997* |
|---|---|---|---|---|---|---|---|---|---|
| US | −104 | −92 | −4 | −51 | −86 | −124 | −115 | −135 | −155 |
| UK | −37 | −33 | −14 | −18 | −15 | −2 | −6 | −3 | 7 |
| Germany | 57 | 49 | −15 | −19 | −15 | −21 | −23 | −14 | −2 |
| Japan | 59 | 36 | 71 | 112 | 132 | 131 | 111 | 66 | 94 |

*Source*: National Institute Economic Review, 3/98: 123

related, they do not necessarily coincide in time. The Japanese 'growth miracle', for example, slowed after 1973; yet it was after 1973 that the penetration of US markets for cars and consumer electronics by Japanese-based producers became so marked, and so politically significant. In fact, as table 1.6 shows, the US and UK economies continued to run large deficits on their balance of payments throughout most of the 1990s, even as their growth performance improved. Those deficits were lower at the end of the 1990s than they were at their peak in the mid and late 1980s; but they remain in place none the less. Japan, by contrast, ended the century still in possession of a large surplus in its overseas accounts, even though by then its growth performance had seriously declined.

Such a linking of growth performance and trade performance places the emphasis of attention on questions of competitiveness, and privileges the strengths and weaknesses of those sectors of a modern economy producing commodities that are traded across national borders. Not everyone, however, feels such a focus is in any way desirable or legitimate. Paul Krugman, for example, is on record as seeing such an 'obsession with competitiveness as both wrong and dangerous' (1994a: 44), because – in his view – world trade is not a zero-sum game, and 'it is simply not the case that the world's leading nations are to any important degree in competition with each other, or that any of their major economic problems can be attributed to failures to compete on world markets' (ibid.: 30). While seeing the force of his underlying concern with productivity rather than with competitiveness, such a level of scepticism is still hard to square with the constraints on growth and investment experienced by those postwar economies, not least the UK's, whose manufacturing sectors progressively failed to meet Singh's test. It seems safer to go along with the larger number of economists who have pointed to the importance, for long-term sustainable growth, of the achievement by nationally based firms of competitiveness in its various forms: price competitiveness, non-price competitiveness (the two together being what Pfaller and his colleagues term 'performing competitiveness'), and a more general form of competitiveness (which they term 'structural competitiveness'). This last is particularly important for our purposes here (Pfaller et al., 1991).

By 'performing competitiveness' Pfaller, Therborn and Gough mean the ability of nationally based firms to compete in open markets at home and abroad, something usually measured by market share. By 'structural competitiveness' they mean the ability of national economies to provide high and growing per capita incomes while exposed to foreign competition, something best measured, in their view, by growth in productivity. The distinction between the two forms of competitiveness is important because the notion of structural competitiveness inserts into the analysis, from the outset, concerns with the *consequences* of economic growth, and in particular with its impact on the people caught up in it. Performing competitiveness alone does not do that. Performing competitiveness is obviously a prerequisite for structural competitiveness, but it can be achieved (and often is achieved) by the use of devices (low wages and competitive devaluations among others) which erode long-term structural strength. The distinction between the two forms of competitiveness then leaves us in a position to judge the social desirability of different routes to economic growth, and locks into the analysis from its inception indicators of performance which are social and economic rather than merely financial and economic – indicators such as income levels, leisure time, the provision of welfare and job security as well as those charting output growth, inflation rates and exchange rate stability.

The distinction between the two forms of competitiveness also points to the manner in which the general performance of an economy (its structural competitiveness) is necessarily the product of the performing competitiveness of its constituent parts, and thus raises for us another issue on which prior clarification is required – the appropriate level of analysis at which studies of international competitiveness and economic growth ought properly to be pitched.

(2) *Whose economic performance?* Normally, in discussions on economic growth and international competitiveness, the main unit of analysis adopted is the 'national economy', and the main question asked is why some national economies out-perform others in both output growth and trade share. That question has never precluded other questions being put as well: questions about the competitiveness of firms or industries across national boundaries, and questions about the competitiveness of regional blocs containing more than one national economy. But until recently at least, in most of the relevant academic literature (and in the associated popular commentary), sectoral and regional concerns have normally been subordinated to, or subsumed within, national ones, partly because most of the easily accessible statistical material was (and still is) generated by national bodies and organized in national categories, and partly because in the past national economies have visibly operated as reasonably self-contained units, interacting with each other only at the margin. Recently, however, the appropriateness of this focus on competing *national* economies has been seriously challenged as being – in a critical sense – 'yesterday's problem', one ren-

dered anachronistic by economic developments at both the supra-national and sub-national levels.

This study's concern with national economic performance sits in tension with the arguments of those who feel that to focus on the national economy is now to *undershoot* – that national economies have become too small, and too penetrated by global processes of trade, production and communication, to be any longer the appropriate focus of analysis. The argument here is that, when the largest private corporations have sales only just below the entire GDP of economies as substantial as Sweden and Indonesia, we now find ourselves in an age of 'the borderless economy', in which 'nation states are no longer meaningful units in which to think about economic activity. In a borderless world, they combine things at the wrong level of aggregation' (Ohmae, 1995: vii, 131).

And this study's concern with national economies also sits uneasily with the arguments of those who feel that to focus on the national economy is to *overshoot* – that 'macro national-level analysis is too generalised, too gross and too deterministic' (Wilks and Wright, 1991: 18); that a national economy is really a sum of regional economies or industrial clusters, such that the analysis of the competitiveness of whole economies ought properly to be reset as the analysis of the competitiveness of its parts. Michael Porter is a case in point; he argues that:

> No nation can be competitive in everything. So to seek to explain competitiveness at the national level is to ask the wrong question. . . . To find answers, we must focus not on the economy as a whole, but on specific industries and industry segments. While efforts to explain aggregate productivity growth in entire economies have illuminated the importance of the quality of a nation's human resources and the need for improving technology, an examination at this level must by necessity focus on very broad and general determinants that are not sufficiently complete and operational to guide company strategy or public policy. It cannot address the central issue [of] why and how meaningful and commercially viable skills and technology are created. This can only be understood fully at the level of particular industries. *(Porter, 1990: 8)*

Porter and others are quite right to point to the different roles played by particular industries in different economies, and hence to the importance of explaining why particular sectors are more successful than others within one national economy. There certainly can be no disagreement with the argument that, to be fully understood, economies need to be disaggregated; and indeed such disaggregation will occur in many of the chapters that follow. But what is also true is that to be fully understood economies also need to be put back together. For if the injunction from Porter were one that would have us study economic growth and international competitiveness *only* at the level of particular industries, then it would arbitrarily and illegitimately shut down an important analytical space. In particular it would preclude any exploration of the impact of broader social, cultural and political forces on the competitiveness of particular industries (broader forces that are invari-