

The background of the book cover is a complex, abstract geometric composition. It features a dense network of intersecting lines and planes in various shades of blue, yellow, and red. The overall effect is one of dynamic movement and architectural complexity, reminiscent of a cubist or futurist painting. The lines create a sense of depth and perspective, drawing the viewer's eye towards the center of the composition.

**TORBEN IVERSEN AND
DAVID SOSKICE**

**DEMOCRACY AND
PROSPERITY**

**REINVENTING
CAPITALISM THROUGH A
TURBULENT CENTURY**

Background:

Deep pessimism about the future of democratic capitalism

- Right populism, Trump, Brexit
 - Longest economic recession since the 1930s
 - Sharply rising inequality
 - Retreat of governments from redistribution
- ➔ Critique of advanced capitalist democracies (ACDs)

Two varieties of the left critique

- (i) Footloose capital undermines the autonomy of the democratic state (Streeck, Piketty, Glyn)
- (ii) The rich and business subvert democracy through money and lobbying (Gilens, Bartels, Hacker & Pierson)
- [Also a right critique going back to Hayek and echoed in public choice literature: democracy undermines capitalism]

Danger of this analysis

- Reasonable inferences from recent events may turn into a *systemic pessimism*:
 - That ACDs are in deep crisis
 - That ACDs are fundamentally flawed
 - That capitalism only works for small minority
 - That capitalism and democracy cannot coexist
 - In the 1930s such systemic pessimism split the left into communism and social democracy (and split the right too)

Our argument

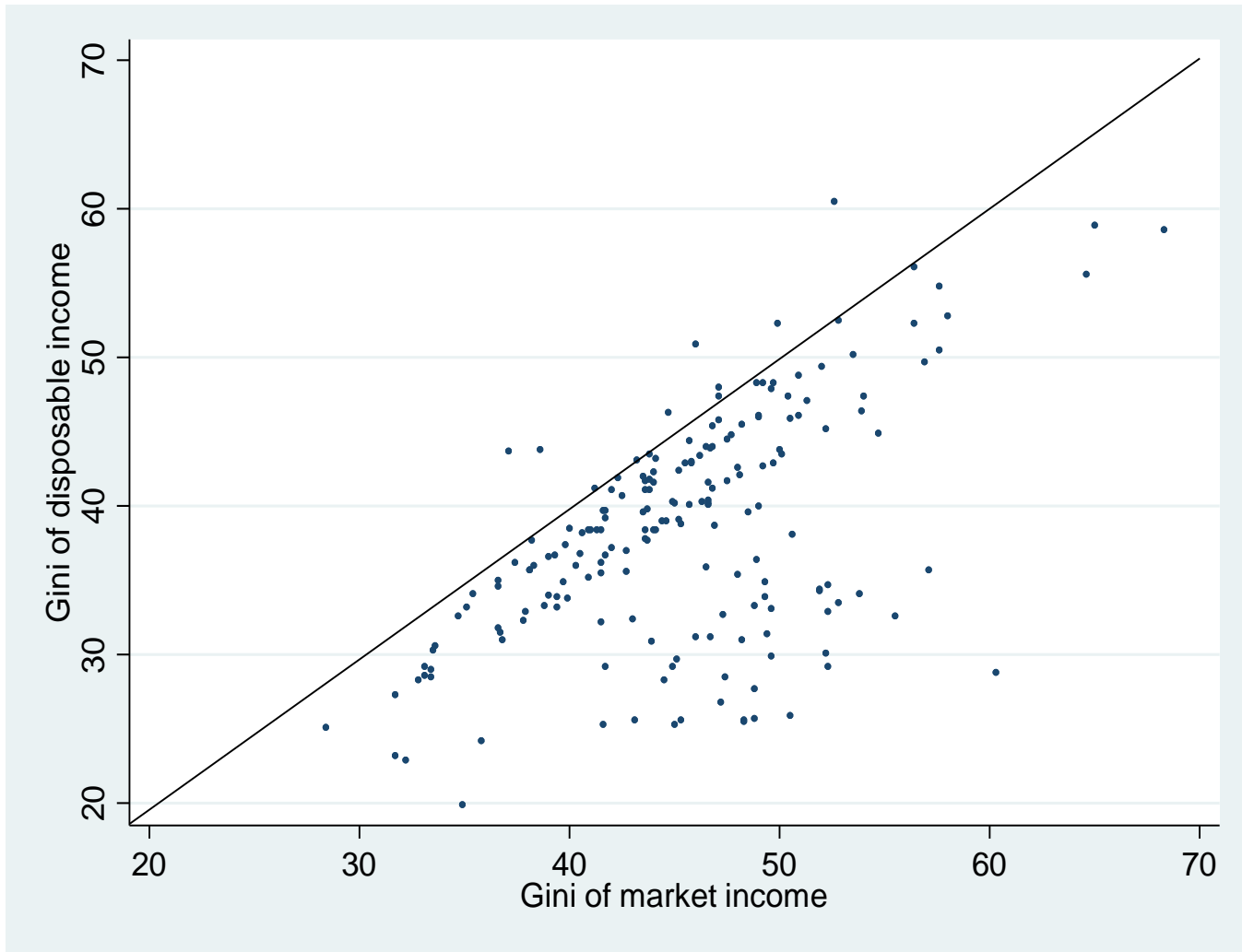
- These are real and serious concerns that we share
- BUT: From a long-term perspective ACDs have created unprecedented prosperity and relative levels of income equality
- ADCs have also been remarkable resilient through a turbulent century: the Great Depression, two world wars, the end of empires, technological revolutions, fall of the wall, and the financial crisis
- We argue in the book that this reflects, when considered over a long period of time, a *symbiotic relationship* between democracy and advanced capitalism
- We do not think that recent developments have fundamentally changed this relationship
- Rather, we see populism, rising inequality, and so on as expressions of how the relationship has evolved in the transition to a new knowledge economy.

Highlights

- Advanced capitalism is nationally embedded
- The advanced nation-state remains strong and autonomous
- Democracy is not suborned by capital or the rich
- Populism is a new cleavage, but it is not a threat to democracy or capitalism
- *But* democracy also does not guarantee equality and the welfare of those at the bottom

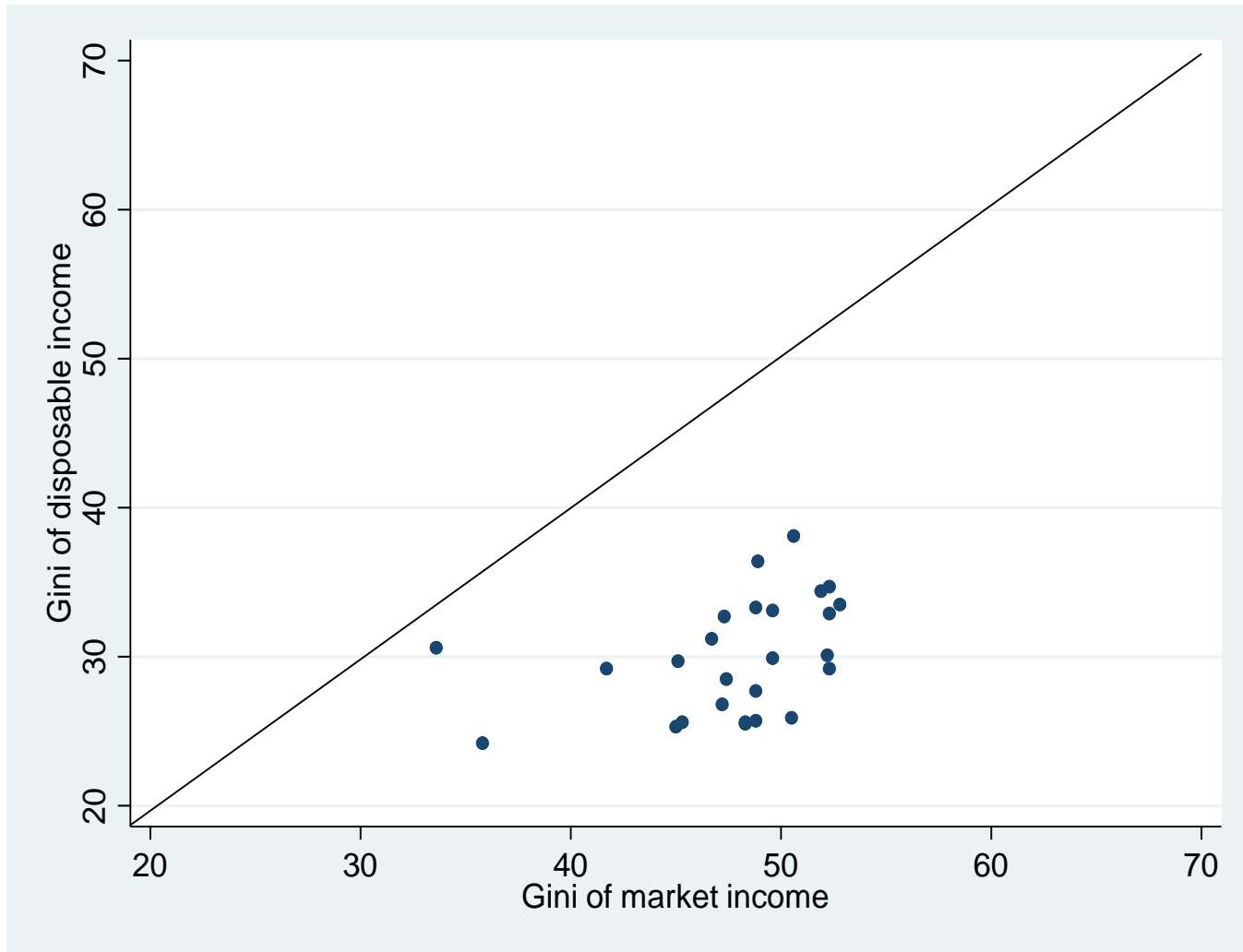
Government redistribution

Whole world



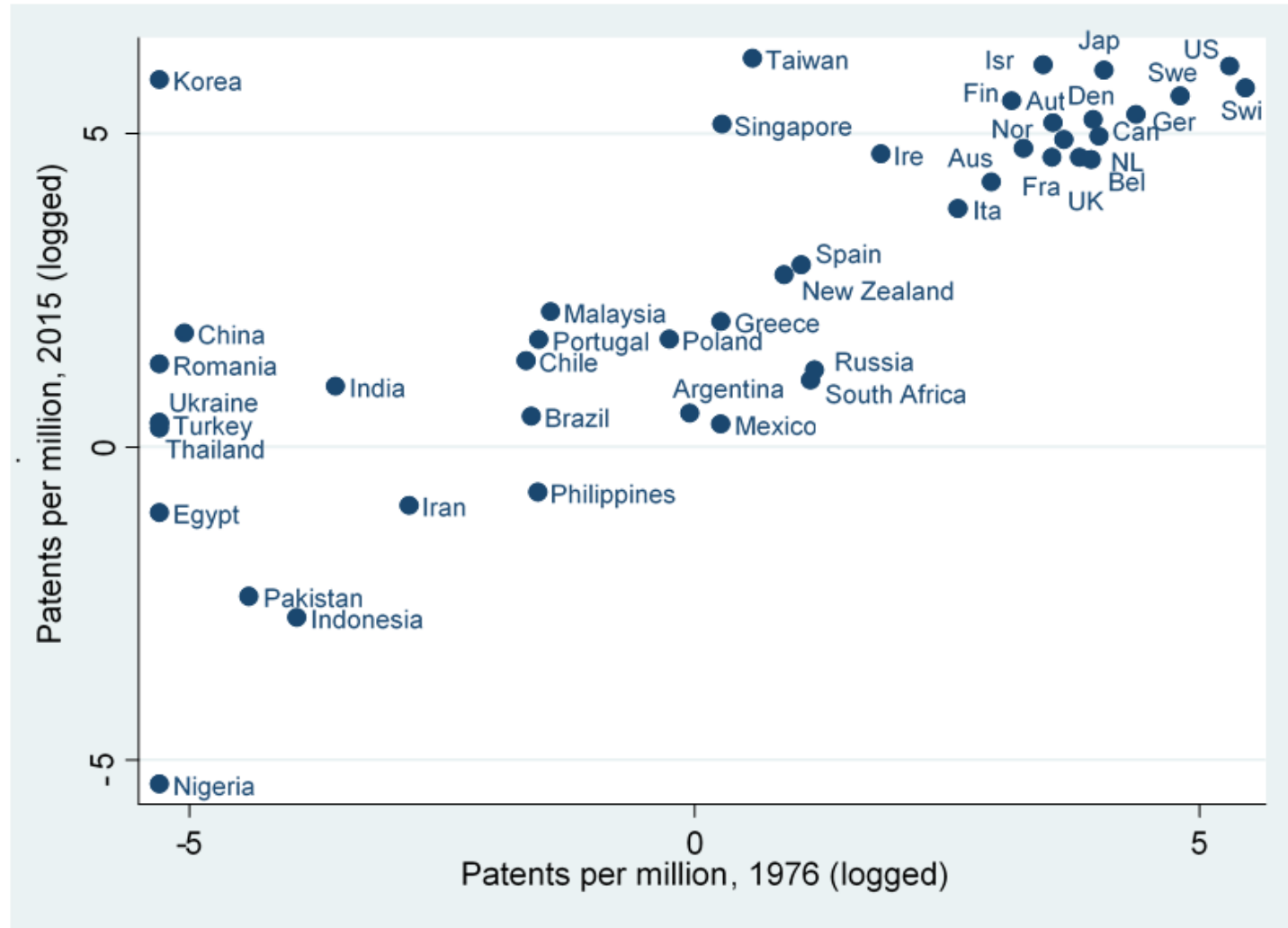
Government redistribution

Advanced capitalist democracies



Patents per one million people (log)

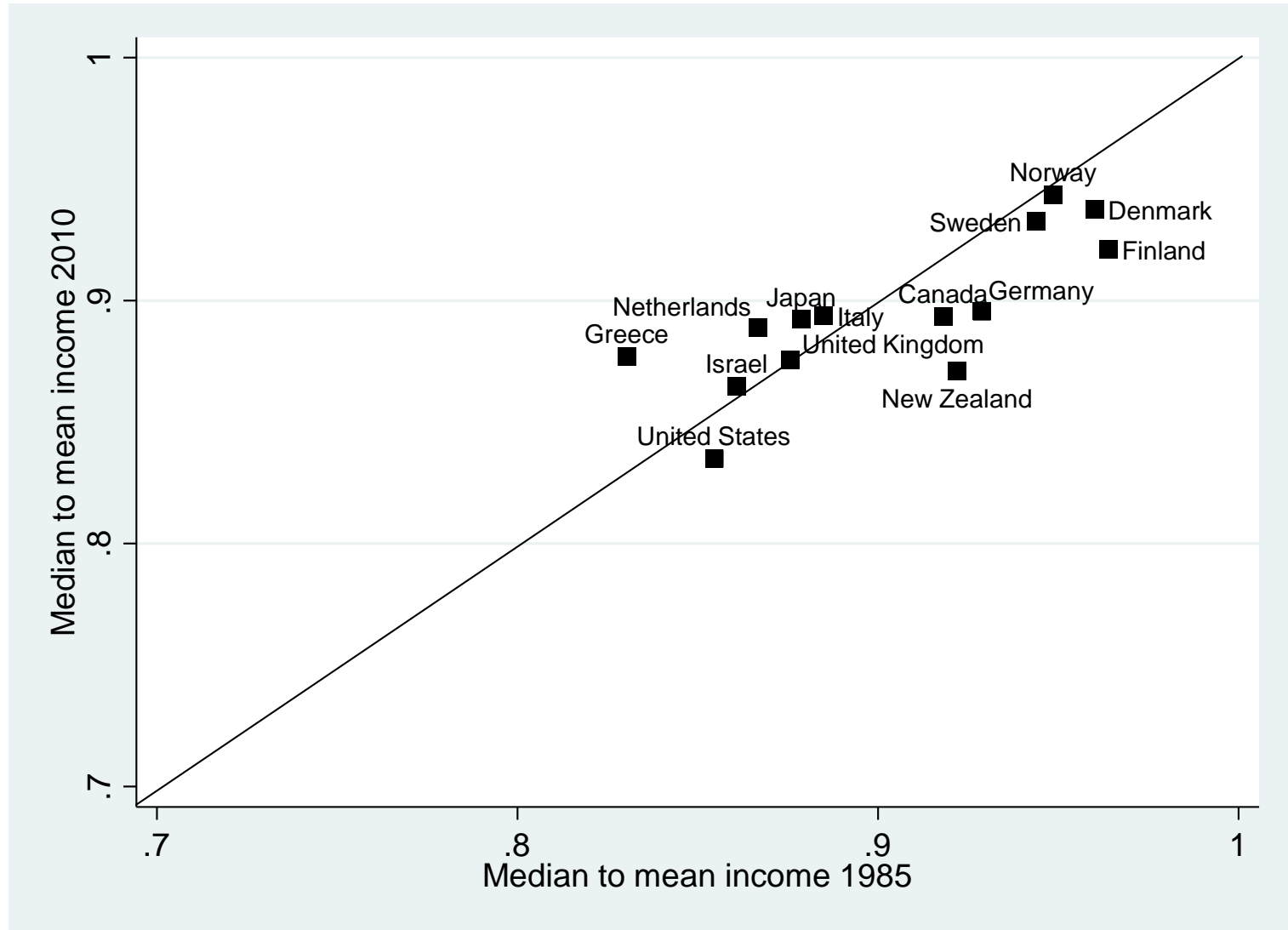
2015 versus 1976



Foundation of symbiotic relationship

- *Economic*: Advanced capitalism is based on high-skilled labor (empirical fact)
 - ➔ Advanced firms depend on local knowledge clusters of highly educated and specialized labor, embedded in social networks. Reinforced by FDI. *Capital is not footloose.*
 - ➔ Nation state is strong with wide scope for regulation and redistribution
 - ➔ Large constituency for policies promoting advanced sectors: the educated middle classes plus “aspirational voters”
- *Political*: Governments build reputation for good governance by investing in education and middle-class social programs, and by perpetuating the institutional infrastructure that supports the advanced sectors
 - ➔ Capital is fragmented by competition and politically weak as a class
 - ➔ Middle class interests are broadly attended to through access to education, public goods provision, and transfers
 - ➔ Lack of redistribution to the poor and low-skilled reflect a failure of democracy, not capitalism

Middle class incorporation



Democracy reinvents capitalism

- The rise of the knowledge economy was not caused by global capitalism, but instead by a set of institutional reforms initiated and implemented by democratic governments:
 - Of financial system (to allow for a much more decentralized and globalized production system with nonlinear careers)
 - Of macroeconomic regime (to anchor inflation and exchange rate expectations)
 - Of product-market competition and trade (to induce innovation and investment)
 - Of higher education and training system plus R&D (to grow local knowledge clusters)

Consequences of reforms

- Allowed the spread of decentralized production networks based on a highly skilled labor force
- It replaced large vertically integrated “Chandlerian” companies with much more decentralized forms of business organization (reinforced by social networks)
- It created strong agglomeration effects (knowledge clusters) concentrated in cities with good universities and infrastructure (reinforced by FDI)
- Undermined complementarities between skilled and semi-skilled workers and between large cities and small towns and rural areas (decline of “feeder towns”)
- ➔ New divisions along skill and geographical lines

New “Rokkanian” cleavage

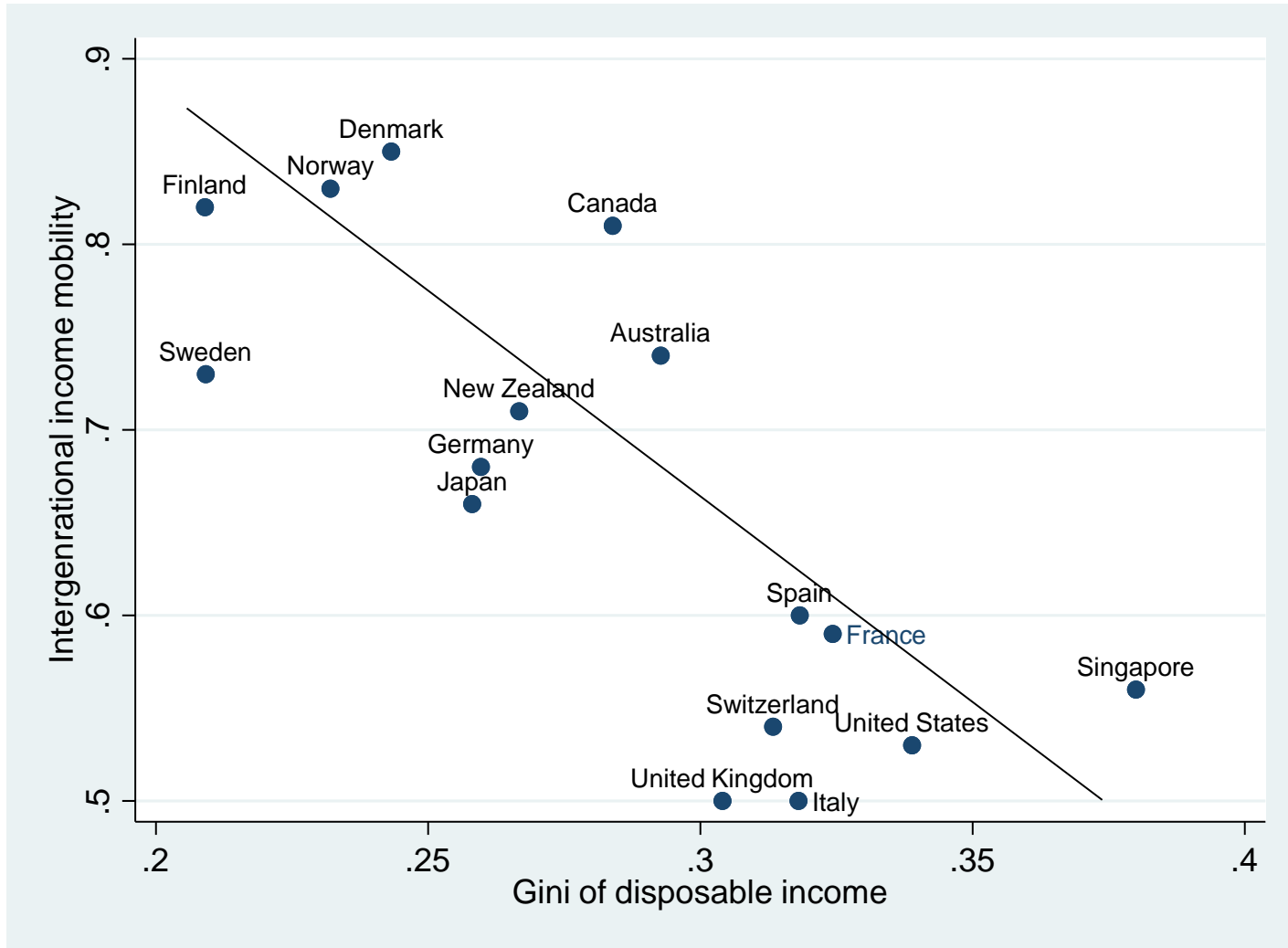
- Structurally the new cleavage is reflected in increased inequality and reduced mobility: an outward shift of the Great Gatsby Curve
- This is a source of reactionary populism/identities: anti-elite, anti-cosmopolitan, anti-immigration → rise populist parties
- Magnified by the economic crisis and lower growth
- But it is moderated by (i) investment in educational opportunity, and (ii) the “mainstreaming” of populist parties (becoming representatives of the economic interests of “losers” and accepted into governing coalitions)

Summary

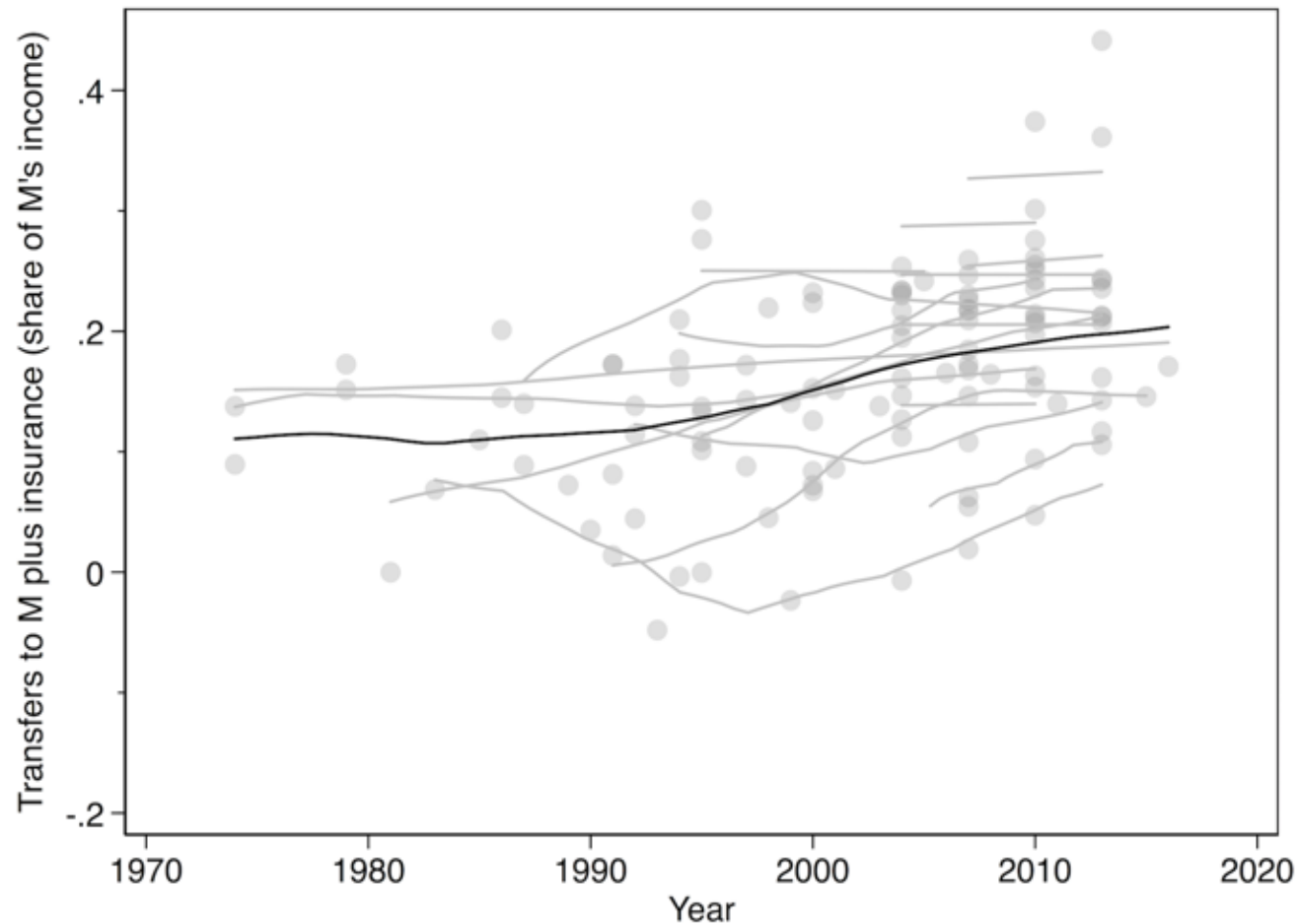
- Governments provide the institutional infrastructure for the knowledge economy; notably education and research, strong competition policies, and a stable macroeconomic environment
- Investment into local knowledge clusters “embeds” capital in the nation-state and gives governments the power to regulate and redistribute
- Decisive voters re-elect governments with good reputation for promoting the advanced sectors and responding to middle-class demand for education and social insurance
- Business is fragmented by competition and politically weak as a class
- Right populism reflects a new cleavage in the knowledge economy – but it is conditioned by government policies, especially access to education
- Democracy is not a guarantee of equality

Extra slides

The Great Gatsby Curve

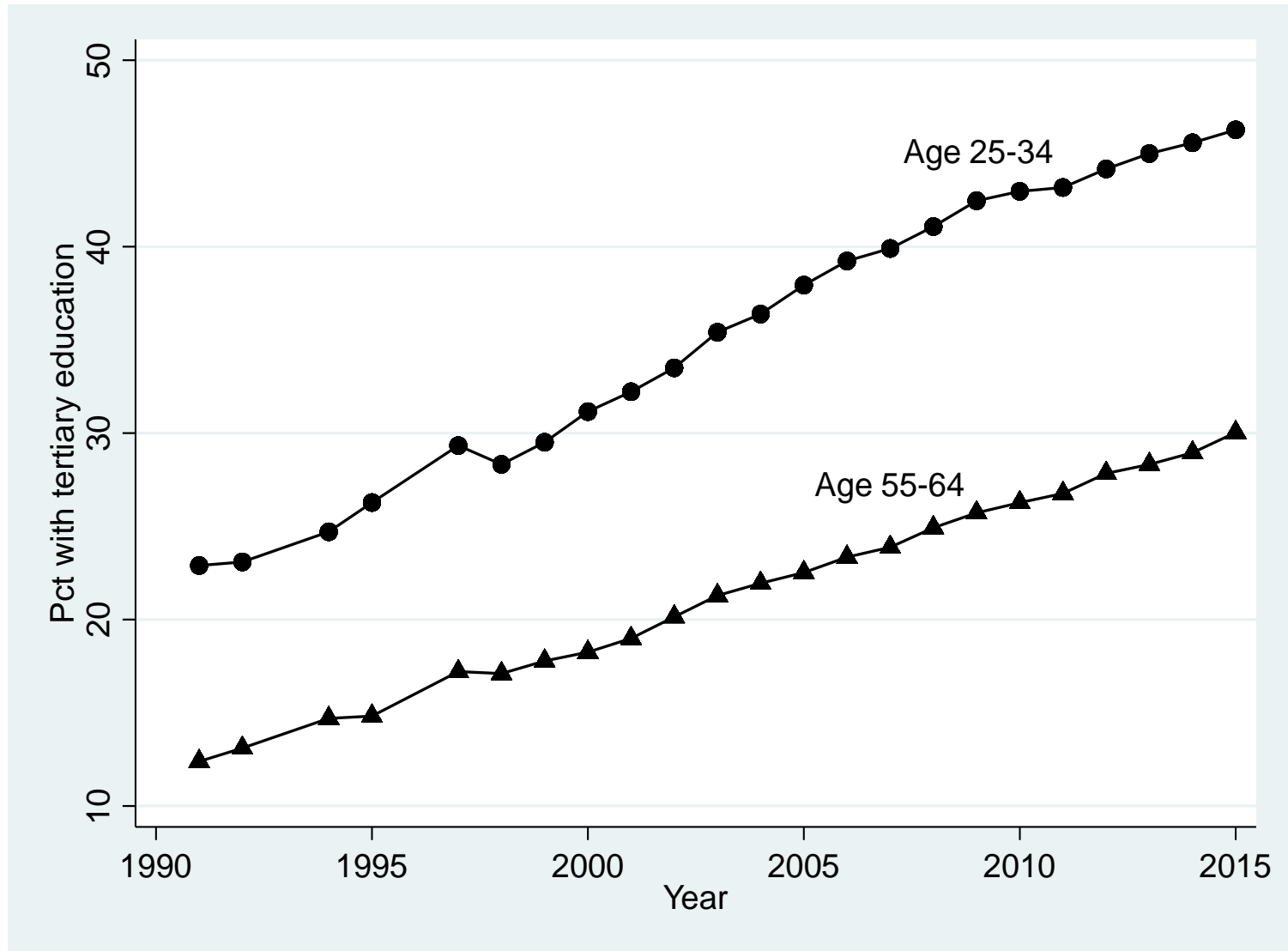


Net transfer to the middle class (middle 10 percent) as a share of net income

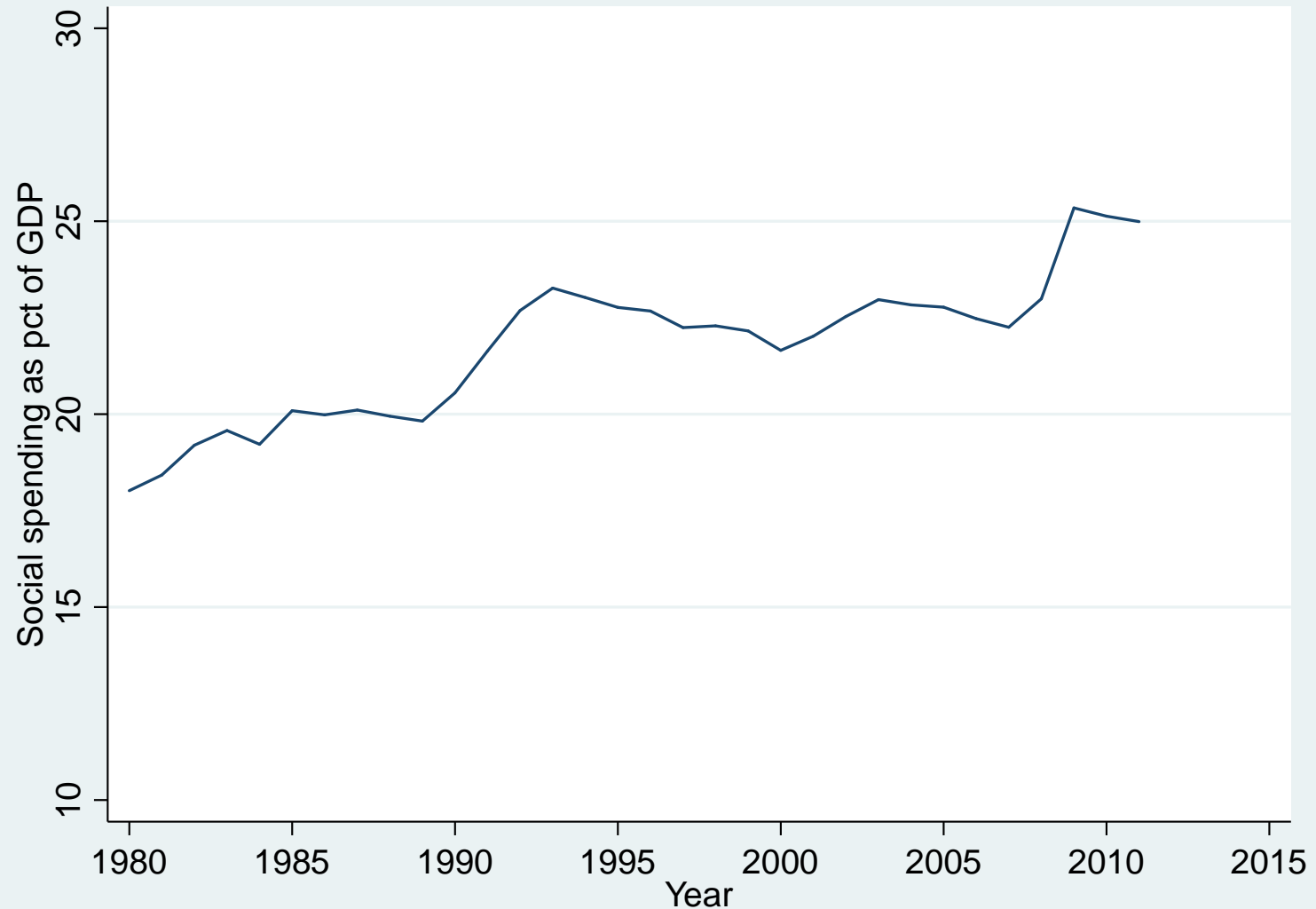


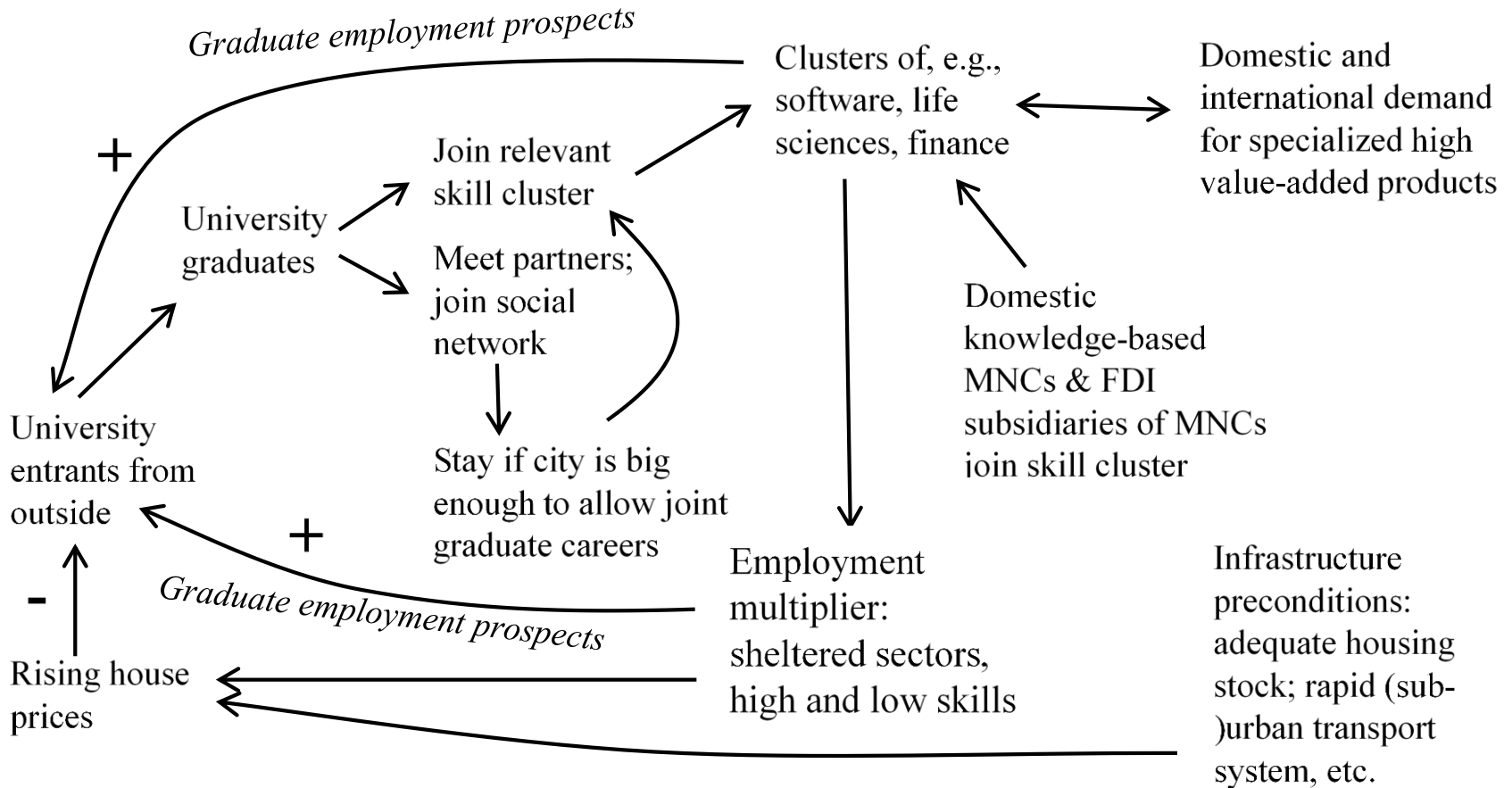
Note: LIS data for 17 advanced democracies (N=143). Grey lines are country-specific local polynomial smoothers, the black line is a local polynomial smoother for all observations.

Expansion of higher education

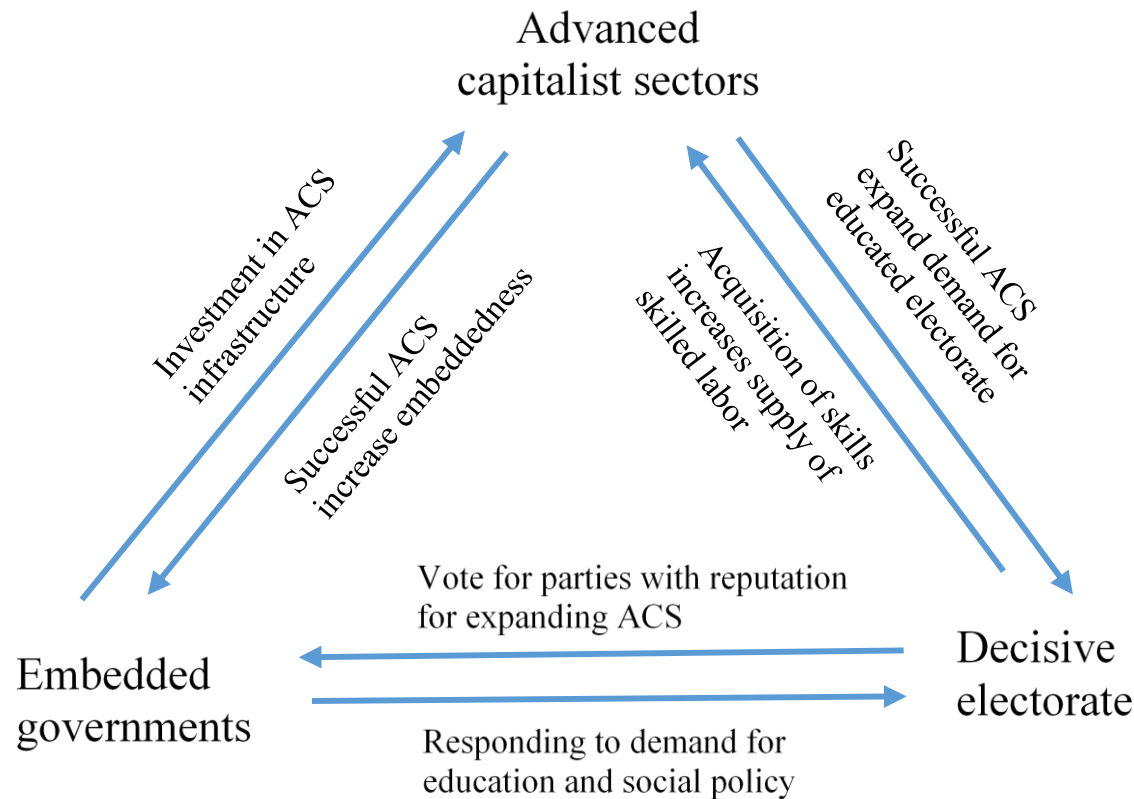


Social spending (21 ACDs)

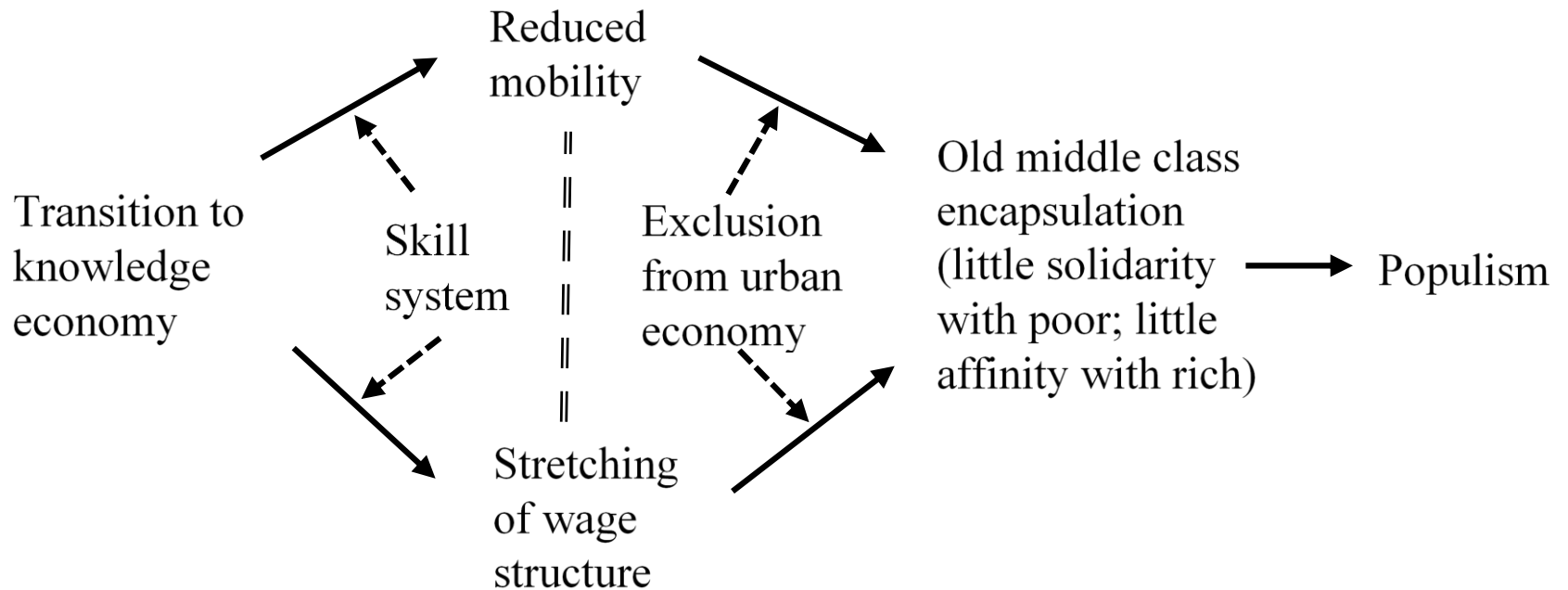




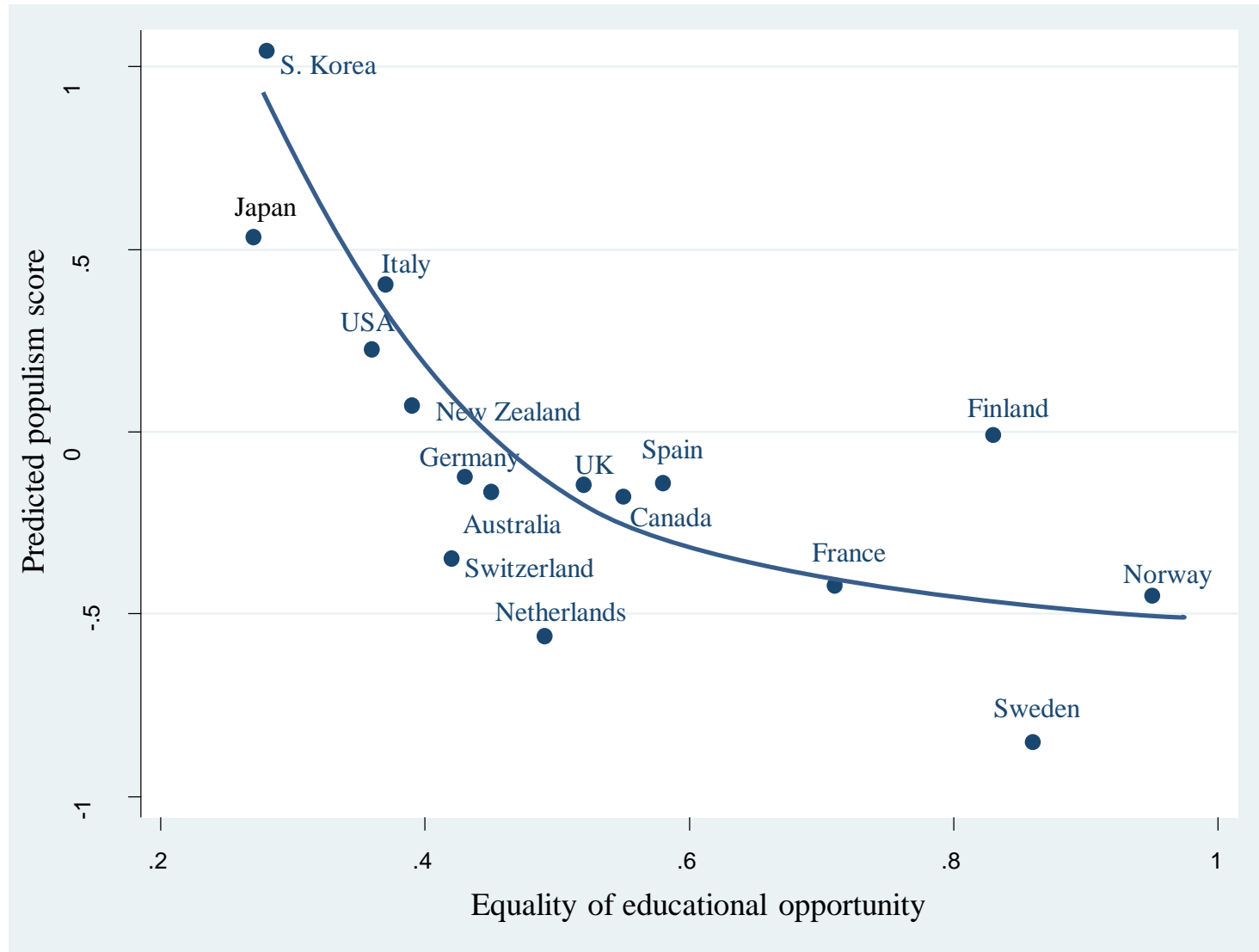
The symbiotic relationship



A new cleavage



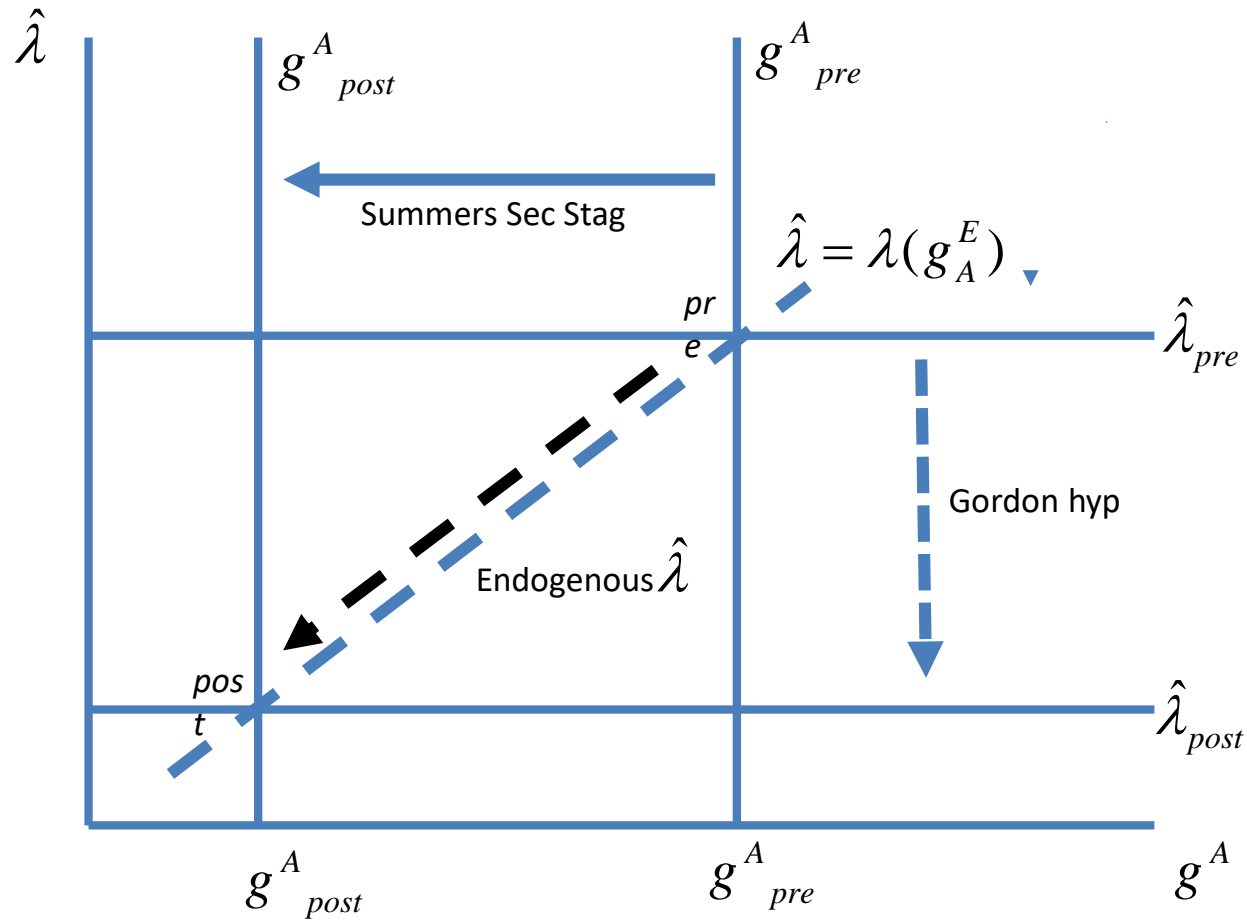
Educational opportunity and populist values



Great Recession

$$\hat{e}_G^D = e^D(\hat{\lambda}, g_A)$$

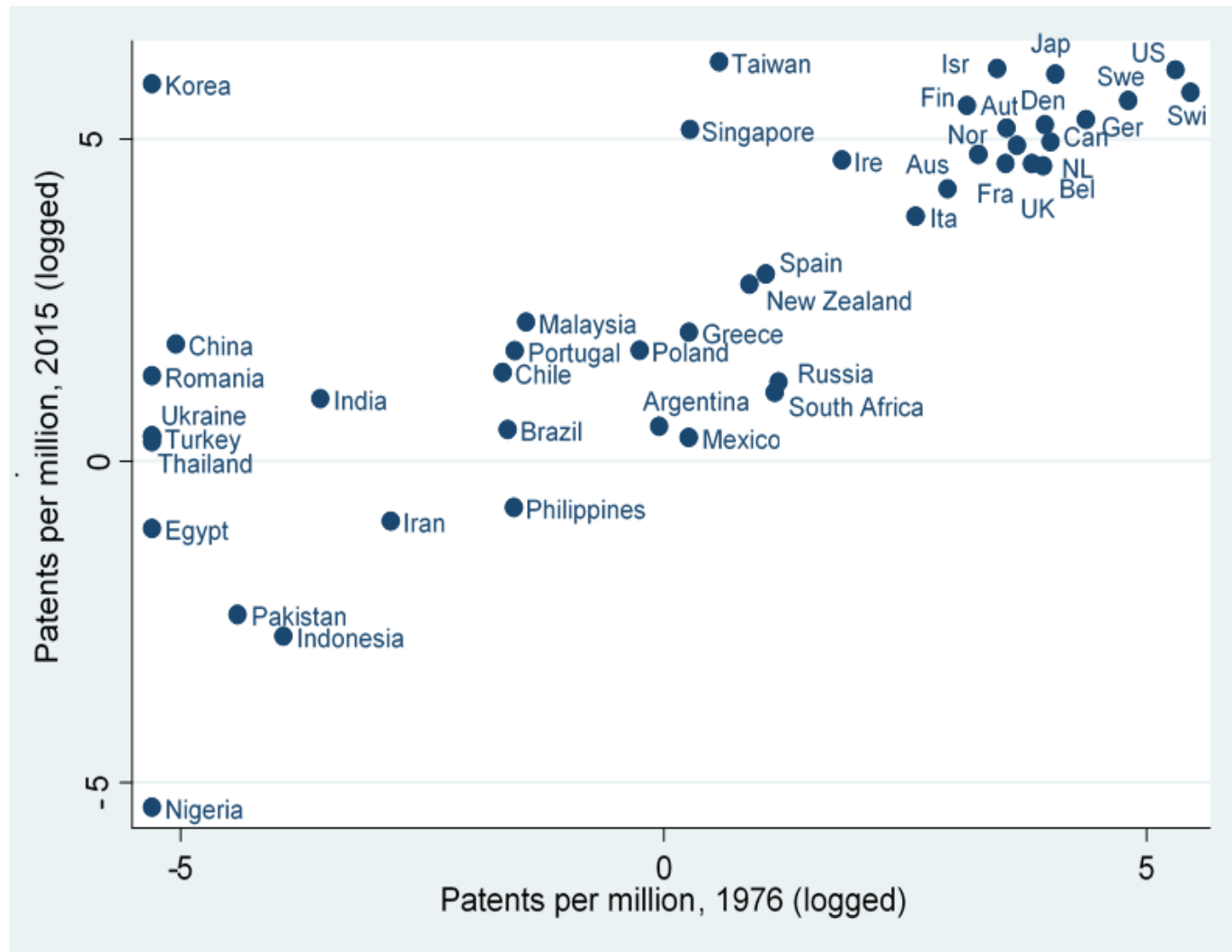
$$\hat{w}_G = \hat{\lambda}$$



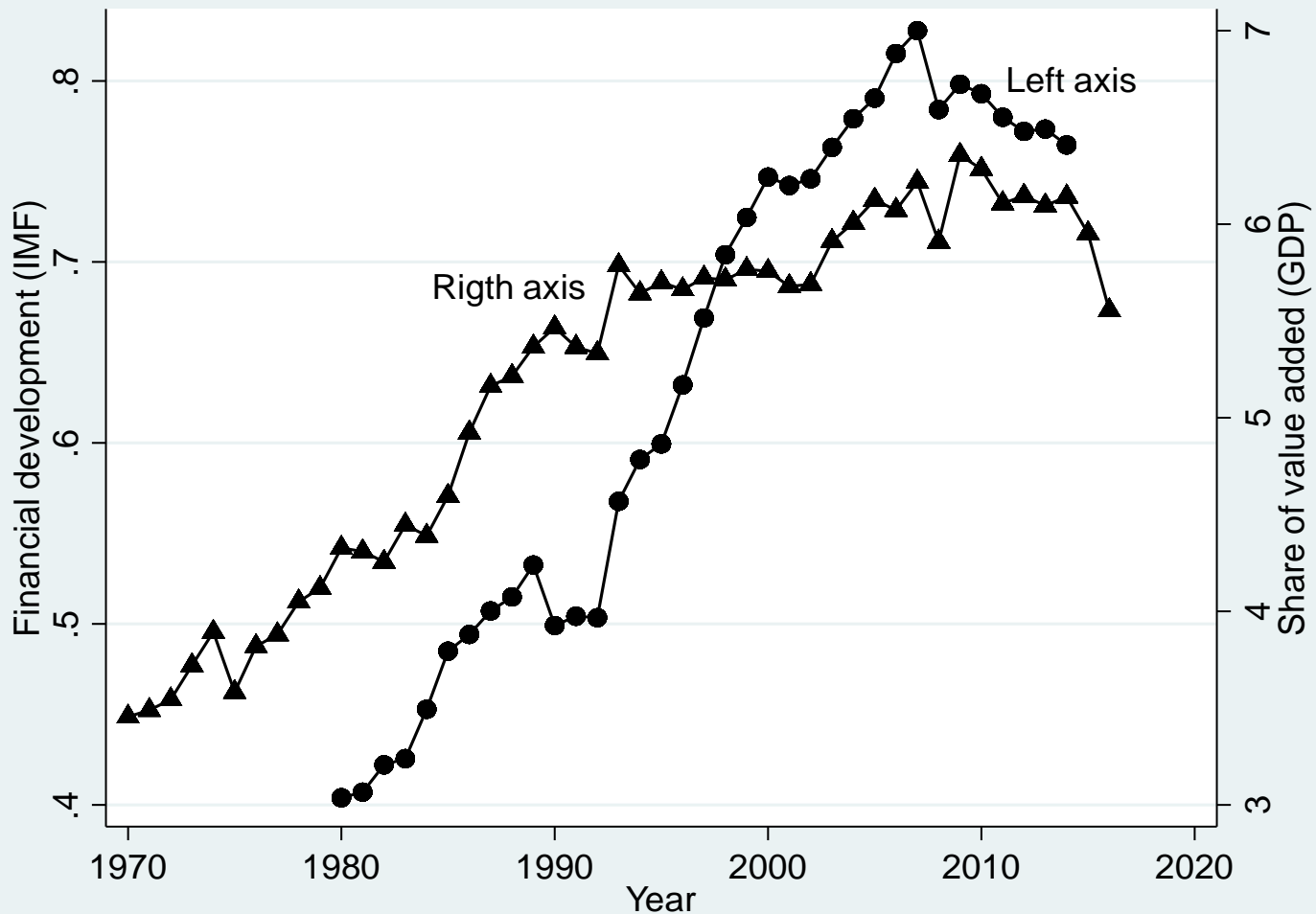
Future Questions

- 1. Will AI and associated developing technologies eliminate whole occupational areas? (eg autonomous vehicles; Amazon and retailing; but also radiologists; family doctors; lecturers; lawyers; finance sectors; ...)
- 2. Somewhat on the contrary: Will innovation and productivity growth and hence real wage growth remain low?
- Until recently, productivity growth was high enough, demanded increased supply of graduates to fill good jobs, with growing real wages. Can we get back to that state?
- 3. Can populism and segregated societies hold back advanced capitalist democracies?
- 4. Can the earth become flattened by the internet and innovations in communications? Anyone can work anywhere. Nation state collapses.

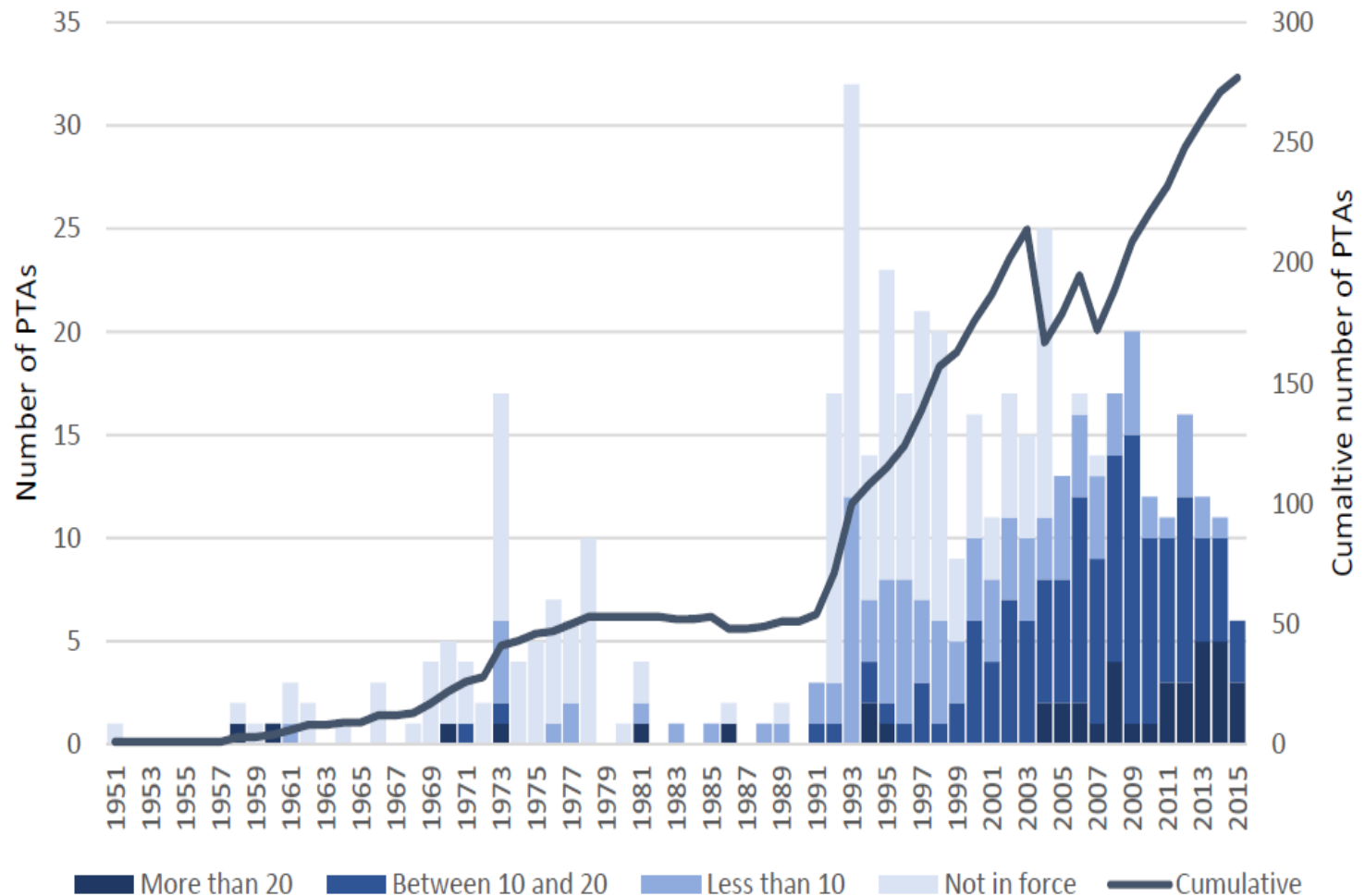
No. of patents per million



Financialization



Number and depth of trade agreements, 1951-2015



The rise of populist voting

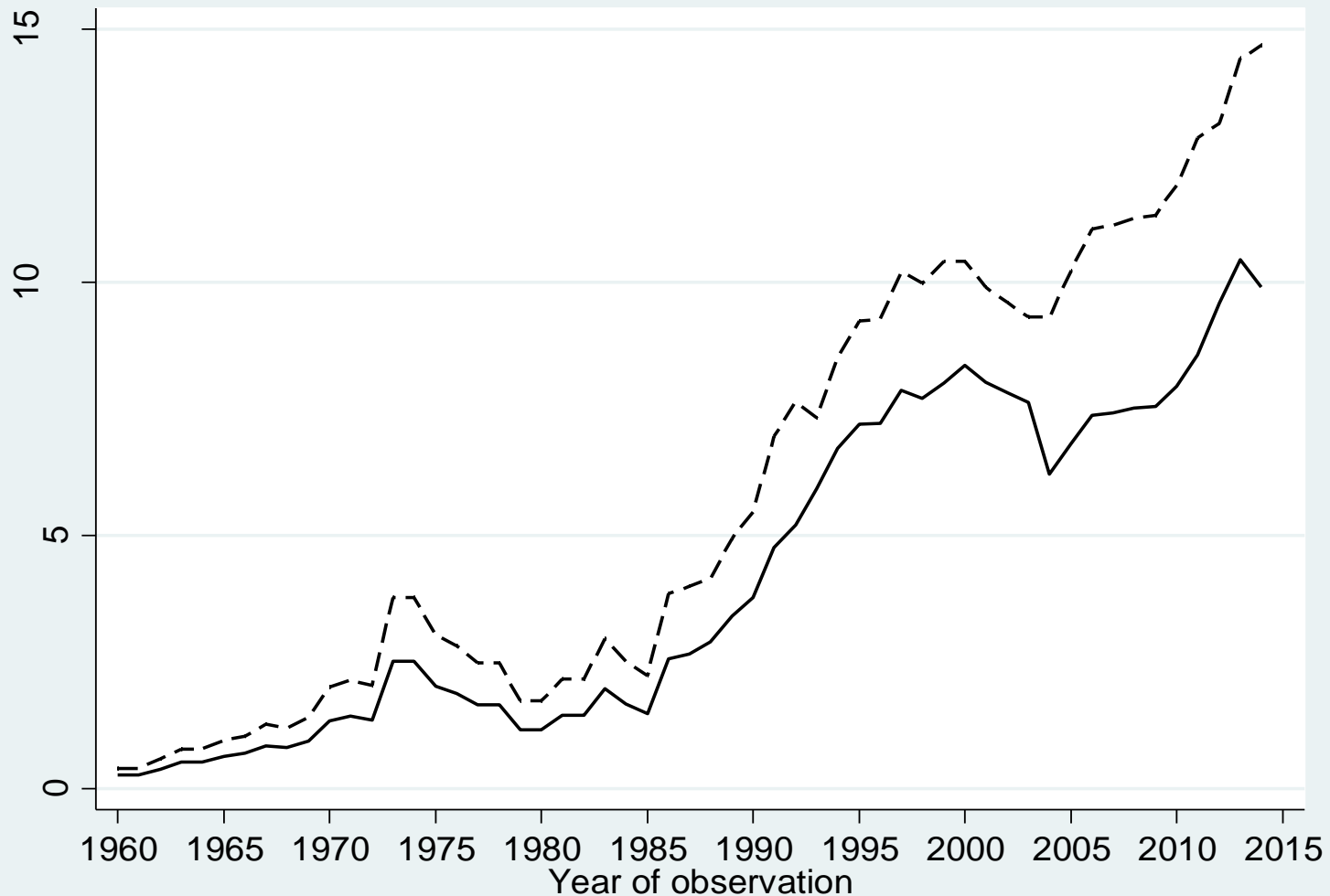
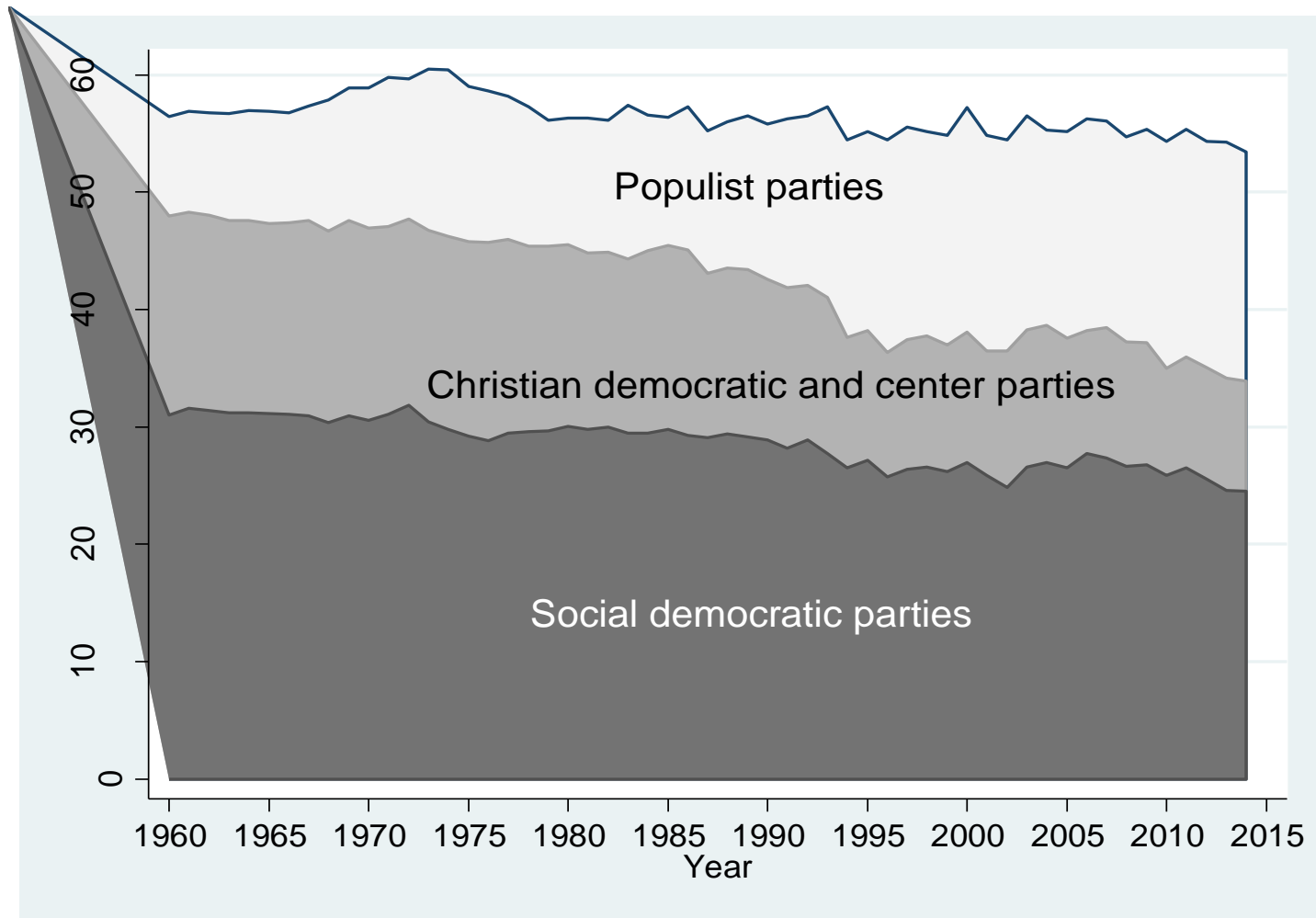


Table 1.1. The implicit tax rates on capital, Western European countries, 1995–2015

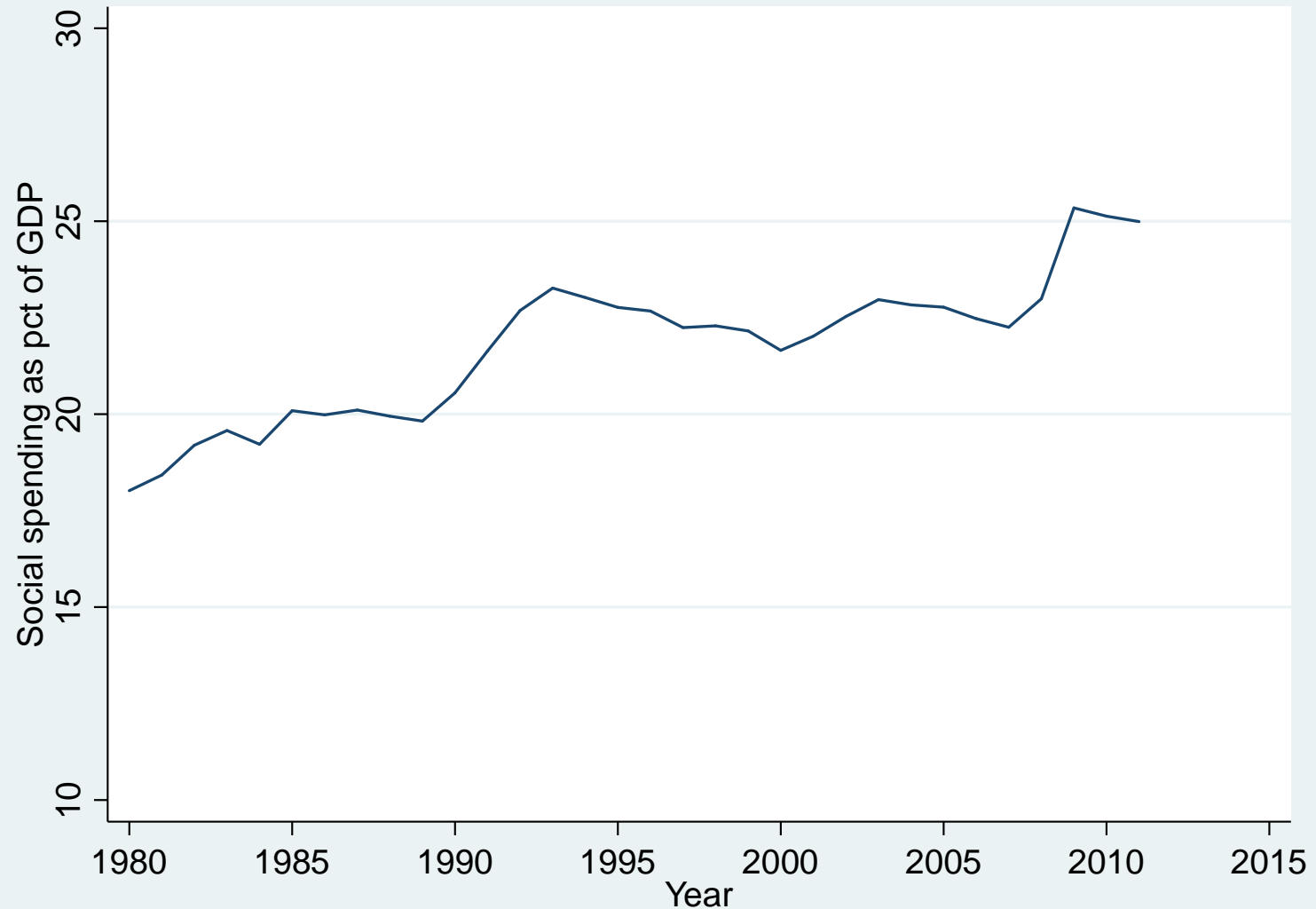
Source: Eurostat–European Commission. 2017. *Taxation trends in the European Union. Data for the EU member states, Iceland and Norway*. Luxembourg: Publications Office of the European Union.

	1995	2000	2005	2010	2015	Diff 2015–1995
Belgium	24.7	28.8	31.1	27.4	38	13.3
Denmark	27.9	31.6	45.3	38.7	34.4	6.5
Germany	20.8	26.4	20.4	19.2	24.2	3.4
Ireland	.	17.2	22.3	16	14.5	-2.4
Spain	.	27.9	35.9	26.2	30.3	2.2
France	36	42.3	44.1	43.5	52.7	16.2
Italy	24	24	24.7	28.6	34.3	10
Netherlands	19.6	18.6	13.5	10.9	12.1	-7.5
Austria	25.9	26.8	24.3	23.4	29.9	4
Portugal	19	28.4	24.4	25.4	26.5	7.4
Finland	31.5	40.6	28.6	29.2	31.4	-0.1
Sweden	18.8	39.2	31.5	27.5	32.7	14
UK	24.4	34	33.4	32.6	31.6	7.2
Norway	38.7	42.5	41	42.7	30.3	-8.5

Rising populism



Social spending (21 ACDs)



Piketty

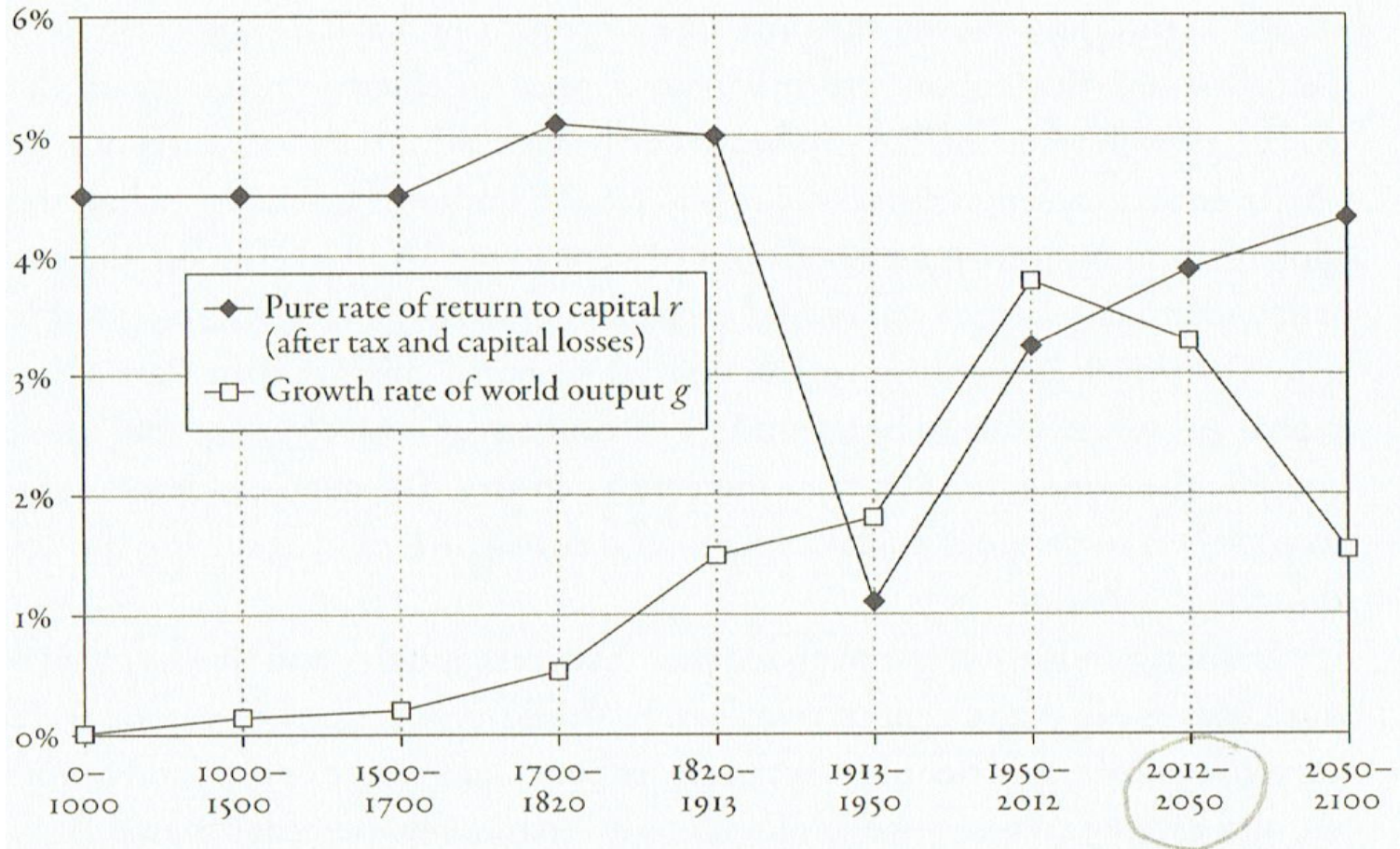


FIGURE 10.10. After tax rate of return versus growth rate at the world level, from Antiquity until 2100

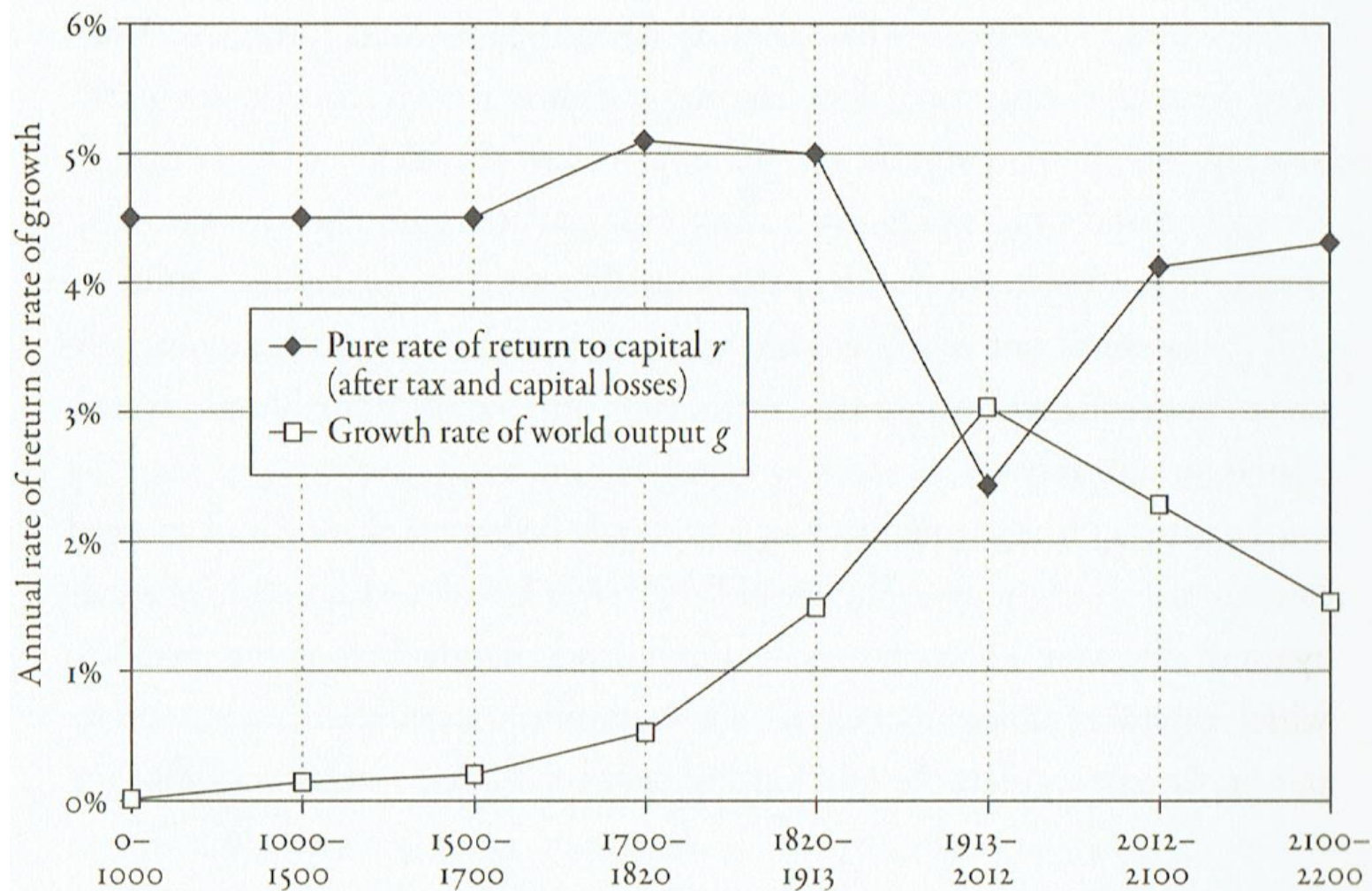


FIGURE 10.11. After tax rate of return versus growth rate at the world level, from Antiquity until 2200