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The Revenge of Coordinated Capitalism? Reflections from the Presidential Plenary in Montreal

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Introduction

The global financial crisis of 2008 initially seemed to mark the bankruptcy of neoliberal deregulation and a transition to a new era of renewed faith in government, yet the rising fortunes of parties on the right seem to belie this easy lesson. This essay considers the persistence of managed and relatively egalitarian capitalism after the crisis of finance capitalism. I reflect on why some societies are more equitable and solidaristic than others, question whether our beliefs about cross-national variation continue to hold true, and ponder how the financial crisis might affect nations' capacities to construct coalitions for social solidarity.

The Social Determinants of an Egalitarian, Coordinated Society

Market inequality and dualism have increased substantially in the past few decades and one wonders why some countries are better able than others to sustain relative equality, redistribution and investment in the skills for low-skilled workers against postindustrial treats. In a series of articles and a book manuscript, Duane Swank and I reflect on the possible role for employers in coalitions to sustain welfare state spending and skills investments. We differ from much of the engaging work on class coalitions for equality by our peers, as we believe that employers are potentially important coalitions for programs for low-skilled workers and investigate the conditions under which employers take positions that further social solidarity.[1]

We argue that the structure of associations shape employers' preferences for social policies and that the state plays a major role in the creation and sustenance of these associations and in coalition building (see also work by Suzanne Berger, Wolfgang Streeck, and Peter Katzenstein). Corporatist associations have political-economic effects (in producing wage compression), collective action effects (in helping employers work jointly for collective social goods), and cognitive effects (in channeling information, creating identities, and shaping preferences.) These effects are especially important to investments in policies for marginal workers; for example, at a cross-national level, countries with high levels of macro-corporatism had the highest levels of spending on active labor market programs, and, at a micro-level, firm membership in corporatist groups is a significant determinant of firm participation in active labor market programs. These associations also matter to redistribution and relative equality (Martin and Swank, *APSR*, 2004; Swank and Martin 2009).

Much of our book concerns the emergence and maintenance of diverse types of associations: macro-corporatist groups found in Scandinavia, pluralist ones found in liberal countries, and ones with an intermediate level of sectoral coordination found in Germany and other continental countries. At the dawn of the 20th century, employers' peak associations were created to further industrialization and to control worker activism and rising democratization. Party leaders and bureaucrats, in fact, organized these peak employers' associations to serve their own policy and electoral agendas and to fight politicians representing agricultural interests. Consequently, the rules of political competition and structures of the state mattered greatly to the ultimate form of the groups. In countries with centralized, multiparty systems (as opposed to two-party systems), business-oriented politicians faced potential coalitions of farmers and workers and had incentives to cultivate the organization of their business allies to bolster electoral support against these political competitors. Because these politicians on the right viewed success in parliamentary channels as unlikely, they sought to delegate policy-making authority to peak organizations of employers and labor, thinking that business had a better chance of retaining control when negotiating with workers than when fighting legislative battles against workers and farmers. Thus, corporatism was born, somewhat paradoxically, out of a desire to evade democratic controls, but the countries that were most successful in this evasion ended up becoming the most egalitarian by the end of the 20th century (Martin and Swank, *APSR*, 2008).

In the past quarter-century, deindustrialization pressured the coordinating capacities of business and labor throughout the world. Yet convergence failed to occur, as some countries have been better able than others to resist neoliberal attacks on the welfare state and deregulation. Somewhat surprisingly, those countries with the highest level of coordination – where one might most expect the greatest departure from the old arrangements – have had the most success in sustaining social pacts among business, labor and the state. We suggest that the same features of government that shaped the emergence of corporatist systems – party system features and the centralization of government – have sustained high levels of coordination and attention to the skills needs of even marginal workers against challenges posed by deindustrialization. In part, this is because political leaders in these multi-party coalition governments still need their private-sector constituency groups to bolster their party's political power against other political parties.

Proportional representation and centralization have also been associated with the growth of the public sector, and countries with large public sectors have greater incentive to enhance the skills of low skilled workers, many of whom end up working within government. Faced with fiscal austerity, public bureaucrats turn to the social partners to help share in the pain of managing economic transition. The associations loathe losing their policymaking authority and tend to participate in these state campaigns to stay in charge. Thus a representative of a Danish peak association told me that "business and labor are like Siamese twins" in seeking to preserve their jurisdictional authority against the state.

The New Logic of Post-Finance Capitalism

The essential question is whether this logic will hold in the wake of the financial crisis. Coordination sustained social solidarity (and certain features of government shored up coordination) during the recent period of globalization and deindustrialization, but what happens when the neoliberal attacks end and when the end of these attacks is accompanied by de-globalization and the collapse of major service sectors (in particular finance and retail)? Will the havens of security gain the upper hand, or will the coordinating capacities of egalitarian countries be scaled back? Will the financial crisis threaten our expectations about the impact of coordination on public policy and will it have implications for social science theory?

Will the financial crisis threaten our expectations about the impact of coordination on public policy, and will it have implications for social science theory?

First, the financial crisis seems to have had an impact on conceptions of appropriate coordination, regulation and big government. Many celebrated the death knoll to deregulation and neoliberalism in the wake of the downturn, and this might ease states' capacity to embrace coordination and big government. Thus in the Warwick Commission, Len Seabrook, Mark Blythe and others observed a greater need for systemic regulation, because monitoring individual financial instruments was insufficient. The Obama victory gave a sense of excitement on the left that progressive ideas would gain salience in political circles. *Newsweek* – hardly a radical rag – declared that "Big Government Is Back – Big Time" (2/16/09). Yet, the ideological legacy of finance capitalism has been rather mixed. Fred Block points out that recent trends in the US have been toward "reregulation" rather than "deregulation," because altering regulations allowed firms to renege on worker commitments and create new risky derivatives markets. Moreover, the public has short-term memory, while parties in charge at the crisis point – think New Labour – have lost their bearing.

Second, the financial crisis has had mixed economic implications for egalitarian capitalism and the fiscal slack that enables collective action toward shared social ends. On the one hand, there has been a huge rise in use of expansionary fiscal policies and government stimulus programs in wake of the crisis and a seeming break with the monetarist policies of Thatcher and Reagan. In a moment reminiscent of Nixon's famous declaration "We are all Keynesians now," Sarkozy remarked, "Am I a socialist? Perhaps."

Yet, deregulation was not the only legacy of finance capitalism. Despite lip service to supply-side economics, economic growth in the past decades has been stimulated by consumer-debt-driven demand. If failure is blamed on debt-driven consumption rather than on deregulation, the resurgence of big government is in trouble. As Johannes Lindvall points out, there has been a decoupling of economic policy from other policymaking realms and macroeconomic stabilization policies with strong commitments to enhancing employment are unlikely to emerge with this crisis as they did during the Great Depression.

Moreover, while the failures of finance capitalism may undercut neoliberal ideology, they also undercut social investments. Bubble economies created fiscal slack for social solidarity and high rates of employment created a labor market need for the low skilled workers, but the financial woes have both reduced economic slack and increased unemployment. Thus a year after the crisis, the *Economist* (9/26/2009, 29-32) announced that "a leaner and fitter state should emerge" from the crisis, and recommended various forms of "liposuction" to cut away the fat.

In addition, the economic crisis may threaten international economic relations, with the rise of economic nationalism and trade protectionism (*Financial Times* 9/14/2009). Coordinated winners may sustain coordinated capitalism at home, but handle the crisis by "beggaring their debtors" in less developed countries. Before the crisis, coordinated countries were like college undergraduates on spring break in Eastern Europe, encouraging risky financial ventures with low-interest loans. After the crisis, the major Latvian bank had to be nationalized, the housing bubble burst, and the country's credit rating was downgraded to junk status (*Economist* 2/28/09, 27). Thus, even if coordinated countries survive, there may be a dangerous drying up of credit across borders and resurgence of economic nationalism.

Third, the financial crisis seems to confirm our beliefs about the institutional benefits of coordinated capitalism and a large, vibrant state: coordinated countries with high levels of macrocorporatism, infrastructure-bolstering social investments, and large states are best surviving the storm. The Danish bailout plan won high praise from the EU (*Outlook* 3/12/09), and the Lausanne's Institute for Management Development ranked Denmark number one in responding to the financial crisis (*Financial Times* 2/25/09). Firms in coordinated countries also seem to recognize the benefits of coordination during these troubled times; thus, the Danish Ministry of Foreign Affairs declared the crisis good for Danish energy companies because cooperation improved firms' competitive positions ("Financial Crisis is Good for the Danish Energy Companies, 10/28/08)." Liberal countries are learning rather different lessons from the crisis, moving to cut spending to the bone. Thus our theories about continuing divergence are likely to withstand this new critical juncture.

Yet, at this moment of transition, a big question about the persistence of social solidarity concerns solidarity for whom? Are we only concerned about the insular countries of Western Europe, or should we worry about a broader cross-section of humanity? Perhaps the financial crisis reinforces our beliefs about the benefits of coordination and a strong state, but one wonders what will be the impact of the end of finance capitalism on the truly disadvantaged.

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