



# Torben Iversen and David Soskice: Democracy and prosperity: reinventing capitalism through a turbulent century

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## Are modern doctors Pangloss right?

Since the early 2010s many social scientists have converged towards a shared if not totally common understanding of the transformations of contemporary societies. It is based upon three pillars.

- First, the internationalization of economies and the high capital mobility have caused a reduction in the bargaining power of labor and they are the source of an open conflict between capitalism, national sovereignty and democracy (Rodrik 2012).
- Second, the fact that the rate of return on capital is now far superior to the growth rate implies a widening of income inequality in favor of a new class of rentiers (Piketty 2014).
- Third, these two processes mean an emerging open conflict between economic dynamism and social justice, finally between a transnational capitalism and the political legitimacy of democratic principles, mainly organized at the National State level (Streeck 2017).

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## 1 An alternative paradigm for the political economy of contemporary capitalism

These are the analyses of Thomas Piketty, Wolfgang Streeck and Dani Rodrik (PSR), now largely diffused as capturing an important part of contemporary structural changes. Torben Iversen and David Soskice's book dramatically challenges this orthodoxy among political scientists and proposes an alternative and opposed paradigm:

- First, the key structural transformation is not so much about globalization but about the technical and organizational changes associated with Information and Communication Technologies (ICT).
- Second, this new productive model calls for a large diffusion of education that allows a well-balanced distribution of income to the middle-class population that may thus adhere to this change.
- Third, democratic regimes deliver such strategic investments in education, innovation and public infrastructures. Therefore, as observed in the past, democracy and advanced capitalisms will continue to co-evolve and they are able to contain and even resorb the present populist threat.

The cover of *Democracy and Prosperity* is quite explicit indeed:

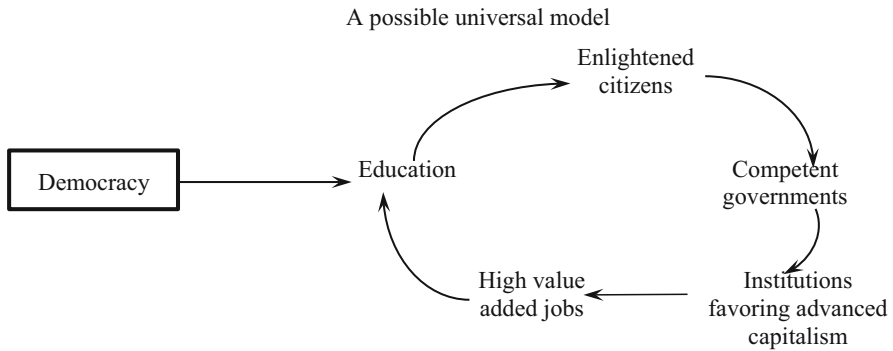
Democratic states continuously reinvent their economies through massive public investment in research and education, by imposing competitive product markets and cooperation at the work place and by securing macroeconomic discipline as the precondition for innovation and the promotion of the advanced sectors of the economy

The authors deliver an impressive series of empirical findings and theoretical arguments in favor of this unconventional and bold thesis at odds with an era in which illiberal democracies and populist movements prosper.

## 2 From one postulate to another, but no full test of the thesis

The core argument that organizes the entire book is “*that the common view of a footloose capitalism makes little sense in relation to advanced companies, or at least their knowledge based part*” (p. 15). Firms are nationally embedded and rely upon skilled workforces nurtured by each economy. The book develops the concept of location co-specificity to be opposed to that of financial capital mobility. From an empirical standpoint, the implicit tax rate of capital shows no tendency to decline, a strong objection to the PSR vision (p. 17). The authors are to be praised for the vigor of their challenge of PSR and the clarity of their analytical framework (Fig. 1).

Nevertheless, one finds no explicit index measuring the fraction of the productive systems that is based upon location specificity. Various cross national analyses suggest that it could be the case but many other complementarities may explain the correlation between high skills and economic prosperity, as evidenced by the distinctiveness of social democratic Nordic countries in many figures (p. 24, 27, 107, 221). Note that



**Fig. 1** The synergy between democracy and advanced capitalism: A possible universal model

most of the data point out specific national configurations more than variants of a single modality for the mutual relations between polity and economy.

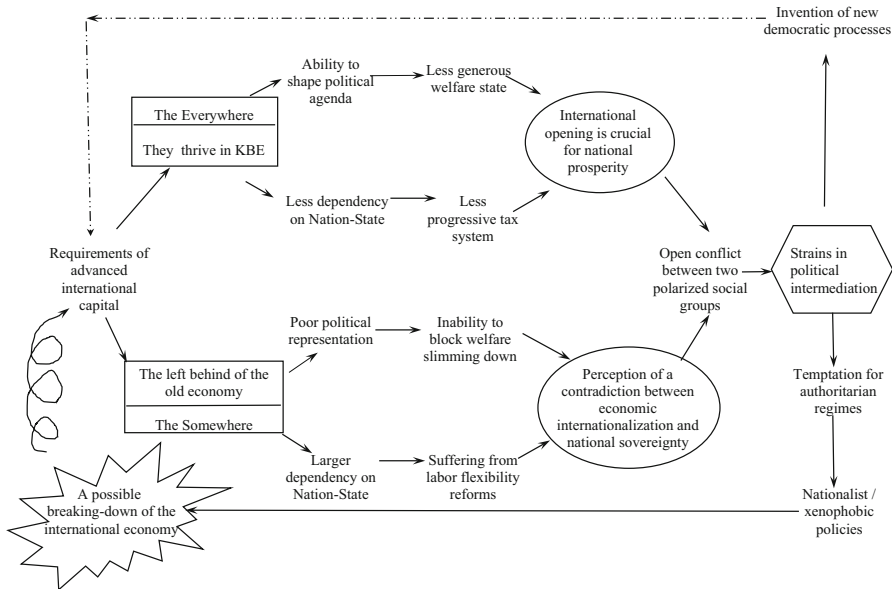
### 3 The leadership of the new educated middle class can be challenged by the losers

The authors propose a new reading of income inequality and use the ratio of the disposable income of the decisive voter compared to the average disposable income. They then find that: “*The median income group has been exceptionally successful in keeping up with the overall growth of income. We think this is also bound to be true for more accurate measures of decisive voter income since decisive voters tend to be closer to the means as voter non-turnout is concentrated among the poor*” (p. 23). This is the nexus of the interpretation that states that the winners of the knowledge-based economy (KBE) thus acquire, via typically democratic voting processes, the political power to set State policy in order to sustain innovation, education, competitive markets and sound macroeconomic policy. This closes the virtuous circle described by Fig. 1.

Nevertheless, this might well be a statistical artefact: in 1985 the middle class was the heir of a declining fordist regime, whereas in 2010 a new one has replaced it with quite different social background. The conversion from the first to the second is quite difficult, not least for demographic reasons: the highly paid unionized worker of the car industry has been replaced by the symbolic analyst of the service and financial economy. This is the source of an open social conflict between the winners and the losers of the dual transformation boosted by the interaction of internationalization of value chains and the ICT paradigm.

The authors are conscious of this objection and they extensively discuss why and how populist movements prosper via the inability of firms and governments to involve the left-behind into KBE (chapter 5). They nevertheless conclude that everything is up to the degree of substitution between skilled labor and Artificial Intelligence (AI) (p. 272), as this will affect the majority of the population.

Using the same empirical data gathered by Torben Iversen and David Soskice, one may develop an alternative vision that leaves open the issue: either a victory of



**Fig. 2** The social polarization generated by knowledge based economy may put at risk representative democracy

populist movement will block trans-nationalization and the global value chains created by KBE by winning national elections, or we have to invent new democratic processes that would rebuild the source of a more socially inclusive national strategy (Fig. 2).

#### 4 A subtle technological determinism downplays the role of political intermediation

The authors dramatically simplify the complexity of political intermediation in contemporary societies: everything is up to the decisive voter, not so far away from the median voter only amended by the differentiation across social groups or classes in their participation to elections. The authors undervalue the vast literature that shows how the concentration of income and wealth in the economic sphere has been converted into the power to influence if not dictate economic policies, in parallel or in opposition with the formal voting system (Hacker and Pierson 2011; Stiglitz 2012; Cagé 2019), even if they mention the possible influence of money in the electoral process.

Furthermore, the idealization of the electoral process by the authors discards how the electoral code can convert a relative majority into an absolute one. Still more, the idea of a smooth distribution of voters' preferences is falsified by the most recent elections that took place in the US, the UK or in France: all these societies have evolved towards the confrontation of two opposed social groups that puts at risk the legitimation of governments. Consequently, it becomes more and more difficult to develop political programs that are sustained by a stable coalition (Amable and Palombarini 2017; Amable 2017).

This might explain the formation of technocratic governments that defend the search for competitiveness, frequently against the majority of public opinion.

Such an undervaluation of political intermediation originates in a core hypothesis: when leading countries such as US and UK adopt a knowledge-based liberal framework, this is sufficient to tip the balance in favor of reform in other advanced countries (p. 162 and Figure 4.7). For the authors, this is the consequence neither of new ideas, nor pressures from capital but it derives from the Pareto superior outcomes that allow responding to electoral pressures for economic progress. This mechanism is assumed to diffuse the strategic complementarity between advanced capitalism and democracy, from pioneer countries to the majority of OECD members.

## 5 Some societies can, others cannot nurture this model

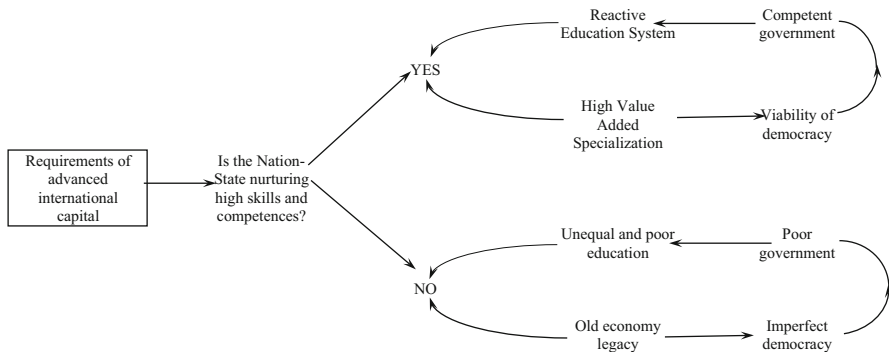
Using the interesting model and data set collected by the authors, the reader may challenge the generality of this transition towards an education-led growth.

- First, note that the three equilibrium model used to analyze the impact of education upon the evolution towards a KBE exhibits the barrier of the unstable intermediary equilibrium: the strategy of continuously improving education is bound to be blocked and the temptation will be to stop the policy by lack of a self-propelling path to a high value-added equilibrium.
- Second, from an empirical standpoint, the dynamism of innovations measured by the intensity of patenting clearly opposes a limited number of advanced economies to the rest of the world (Figure 1.2, 27). Also, the advanced economies benefit from an intensive redistribution that allows sharing the benefits of productive modernization, at odds with the majority of countries (Figure 1.3, p. 36). Most of the statistical data of the book cast a doubt about the universality of the strategy proposed by the authors. By the way, David Soskice does not explain why he has changed his vision of capitalism: coexistence of different varieties in the past (Hall and Soskice 2001), but future convergence towards a canonical and universal model, at least among democratic capitalisms, in the current book.

More importantly, the complementarities between inequality, poor democracy and weak government might well be resilient for political-economy reasons. Furthermore, if technological modernity is brought by foreign direct investment, international firms are logically reluctant to initiate a KBE transition in a lagging country. Let us imagine that this paradigm is global, its very existence is polarizing the world into two contrasted national configurations that are more complementary than in competition to explore the same model (Fig. 3).

## 6 The national economy: advanced sectors or big-city agglomerations?

The core synergies associated with location co-specificity permeate all the chapters but the authors are more hesitant about the pertinent level at which they apply.



**Fig. 3** The knowledge based economy: the source of national diverging strategies

- Basically, their conclusion states that it should be at the level of the Nation-State (Figure 6.1, p. 259) and actually most of the data are national.
- Nevertheless, the very concept of location co-specificity implies a precise geography and the core argument of the authors stresses that the causal linkages among education, the clustering of innovations, the collective infrastructures, and the demand for specialized high value added products take place at the large global city (p. 200, Figure 4.9).
- Many other developments de facto analyze advanced and mainly manufacturing sectors: there is thus a missing link between the sectoral and the national levels.

The juxtaposition of these three levels is quite contradictory indeed. If the knowledge economy requires the density of exchanges typical of large and international cities, where are the possibilities for an integrated development at the national level? Have not geographers shown the divergence of regional trajectories and the decay of public policies aiming at correcting regional unbalances? Instead of Nation–States renaissance under the knowledge-based paradigm, is not a network of global cities emerging out of the divorce from the domestic territory? If so, how can democratic principles be embedded within this radically new configuration? The international regime inherited from the post WWII is eroded at its very core and digital universal democracy is far away from the contemporary protectionist and nationalist temptations of many governments.

## 7 Global value chains as competitors to nationally embedded networks?

Basically, Iversen & Soskice tend to think that even the most dynamic firms have to comply with the domestic social networks that nurture skills and competences: “*In the substantive sense of the value-added of their knowledge, advanced companies are relatively immobile. Equity capital is liquid and can be owned in many different national markets, but its value is still tied to firms that are nationally embedded, hence also to the skilled workforces on which they depend* (p. 15). Actually, some multination-

als, when attracted by growing markets and/or low wages, open subsidiaries abroad, they have to train the manpower not supplied by the domestic education system, thus building enclaves they organize at will, especially when they face weak States eager to attract FDI (Boyer et al. 1998).

Published in 2019, the book surprisingly neglects the maturation of global platforms that display a new business model, deployed quite independently from the local practices and legislations, as evidenced by Uber, Amazon, Facebook (Boyer 2019). They do not belong to the manufacturing sector and potentially disturb the whole economy. Their innovative role is mentioned but not their disruptive role in the changing the bargaining power within Nation-States: “*While new technology may make cross national production networks more feasible, we are inclined to think that knowledge – based MNCs increase the likelihood of a future like the present (...)* There are, in any case, steep costs to organizing production networks that do not coincide with social networks, and even when it happens, it will not affect the capacity of the state to tax income and consumption (the only constraint being the possibility for network arbitrage) (p. 271). Implicitly the authors have in mind the choice for a multinational corporation in the car industry to open a factory either in UK or Germany or for AI firms to invest either in Silicon Valley or in the Boston area. The reasoning does not capture the challenge addressed by international platforms to nationally centered firms and to the tax capabilities of governments. These new business models thrive in organizing strong complementarities across national borders and they destabilize more than they sustain local co-specificity.

## 8 Not necessarily the twenty-first century model

These rather long comments and questions are a testimony about the importance of this book that dares to challenge the conventional wisdom among contemporary political economists who point out the contradictory and explosive links between capitalism and democracy. Torben Iversen and David Soskice remind us of the anticipation of the end of history by Fukuyama back in the 1990s, when democracy and capitalism were supposed to enter an endless synergy. Democracy is built upon the deliberation among antagonistic if not contradictory interests and not at all upon the fusion of identities into a single collective will, only justified by an economic modernization project.

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