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# Democracy and social democracy facing contemporary capitalisms: A "régulationist" approach

Robert Boyer

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**Democracy and social democracy facing contemporary  
capitalisms: A «régulationist» approach**

**Robert Boyer**

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# Democracy and Social Democracy facing Contemporary Capitalism: *A “régulationist” approach*

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# DEMOCRATIE ET SOCIAL-DEMOCRATIE CONFRONTEES AUX CAPITALISMES CONTEMPORAINS : Une analyse régulationniste

Robert Boyer

## Résumé

Les transformations à long terme et la diversité contemporaine des relations croisées entre Etat, société civile et économie sont analysées à la lumière de recherches en économie politique, tant anciennes que récentes. L'hypothèse de complémentarité institutionnelle utilisée par la théorie de la régulation pour rendre compte de la cohérence des régimes de croissance est ici étendue à l'étude des relations mutuelles entre sphères politique et économique. En dépit de processus communs d'individualisation, de globalisation et de financiarisation, coexistent, aujourd'hui encore, différents régimes socioéconomiques et politiques. Une mise en perspective des mérites comparés du capitalisme libéral, du social-libéralisme et d'une nouvelle social-démocratie suggère que ce dernier régime est le mieux placé pour limiter le processus de de-démocratisation mis en avant par Charles Tilly dans son ouvrage « *Democracy* » publié en 2007. La nouvelle social-démocratie serait-elle le meilleur rempart contre le désenchantement contemporain concernant la démocratie ? Le charme de cette hypothèse peu conventionnelle doit être tempéré par le fait que la social-démocratie – pas plus que la démocratie libérale – ne peut s'importer telle quelle mais que ses principes de base doivent connaître un processus d'hybridation avec des traditions nationales variées qu'elles soient étatiques en France ou méso-corporatistes au Japon, sachant que l'enjeu tient à la prise en compte des nouvelles demandes exprimées par les différentes sociétés civiles.

## Democracy and Social Democracy facing Contemporary Capitalisms: A “*régulationist*” approach

### Abstract

This article surveys some old and recent political economy research about the long term transformations and contemporary diversity in the mutual relationships between State, civil society and the economy. The hypothesis of institutional complementarity is extended from the institutional forms that sustain “*regulation*” modes to the analysis of the spill over from the polity to the economy and conversely from the economy to the polity. In spite of common challenges originating from individualization, globalization and financiarization, contrasted national trajectories for socio-economic and political regimes still coexist in contemporary world. The assessment of the relative merits of liberal capitalism, social-liberalism and renewed social-democracy suggests that the later regime is the best suited to limit the process of de-democratization to follow the concept coined by Charles Tilly in his 2007 book on “*Democracy*”. Would social-democracy be the best rampart against the contemporary disenchantment about democracy? This unconventional hypothesis has to be mitigated by the fact that social-democracy – but also liberal democracy – cannot be imported as such. Its basic principles have to follow a process of hybridization according to various national traditions, let them be statist in France or meso-corporatist in Japan since the new demands from diverse civil societies have to be taken into account.

**JEL Classification:** A12 – G30 – H10 – I31 – P16 – P51

**Mots Clés :** Variété des Capitalismes – Evolutions à long terme du capitalisme – Hypothèse de complémentarité institutionnelle – Régimes socioéconomiques et politiques – Libéralisme – Variété des formes de démocratie – Ancienne et nouvelle social-démocratie – Théorie de la régulation.

**Keywords :** Variety of capitalisms – Long run evolutions of capitalism – Institutional complementarity hypothesis – socioeconomic–political regimes – Liberalism – Variety of democracies – Old and new social-democracy – *Régulation* Theory.

# Democracy and Social Democracy facing Contemporary Capitalisms: A “régulationist” approach

**Robert BOYER**

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## INTRODUCTION: WHAT RELATIONSHIP BETWEEN ECONOMY AND POLITY IN CONTEMPORARY SOCIETIES?

After the collapse of Soviet Union, many observers and analysts had accepted a common diagnosis concerning the future of modern societies: they should converge towards a canonical socioeconomic regime featuring the complementarity between a market economy and the diffusion of democracy (Fukuyama, 1992). They were supposed to replace the previous planned economies governed by authoritarian political regimes. In retrospect, this prognosis is far from confirmed by the evolution of the two last decades. On one side, the transition from plan to market has proven to be much more difficult than expected (World Bank, 1993). Instead of being an obstacle to the implementation of market logic, a form of another of State is required in order to deliver the prerequisites for the implementation of market mechanisms. On the other side, democracy does not appear any more as the automatic outcome of the collapse of authoritarian regimes. Clearly, the political transformations in Iraq for instance have not at all followed the same trajectory than Europe or Japan after the Second World War: social peace, empowerment of citizens and democratization. Organizing general elections does not necessarily open the path to democratization. Similarly, a modern, efficient and legitimate State cannot be imported, since it has to be generated by the very domestic processes of interacting and negotiating socioeconomic groups (Fukuyama, 2004).

Therefore, most social sciences have to face a basic challenge, i.e. to provide tools and theories in order to understand these quite complex processes. Under this respect, the so-called French *Régulation* School has precisely the objective to enlighten the structural transformations that are taking place since the demise of the post World War II golden age. The present paper aims at presenting some of the related results and to enlarge the scope of *Régulation* Theory in the direction of a political economy of the various mixes of democracy and capitalism. It is first argued that capitalism emerged out of the struggles of merchants, industrialists and financiers in order to be independent from the direct control of political power, but that the progressive rise of market relations has called for a new role of the State in the domain of money and credit, taxation and public spending and even external trade (I). In order to assess the possible impact of democracy upon the evolution of capitalism, it is important to try to propose a rather general definition of democracy, that would incorporate its historical developments (II). Therefore, the political organization has to be compatible with, if not complementary to, a configuration of capitalism, but historical as well as comparative analyses suggest that there is not a single one best way in terms of State and capitalism configurations (III). What is the role of ideas in the related processes? Many social scientists tend to overemphasize the impact of liberalism upon the constitution of modern societies. By contrast, *Régulation* Theory stresses the role of collective actors defending their own interests and not so much that of theoreticians and intellectuals. Consequently, the links between liberalism, at the dual level of polity and economy, and the actual trajectory of democracy and capitalism are much more complex than considered by typically ideological interpretations of modern societies (IV). Nevertheless, some *régulationist* researches have pointed out a conjecture about the links between economic and social democracy on one side, economic performance on the other side: the insertion of the diversity of socioeconomic groups in the political process governing economic policy may help the long run viability of a growth regime (V). The rest of the paper is devoted to some analyses of the factors that shape the future of democracy, with a special emphasis upon the fate of social-democratic regimes. How to explain the following paradox: finally democracy is diffusing to Eastern and Central European countries and most Latin-American countries, whereas many political scientists point out the limits and the risks upon democracy in old democratic societies (VI). It is then important to contrast Scandinavian countries and its possible demise by a form of social three

contemporary configurations: liberal capitalism, social liberalism and the renewed social democracy that emerged out its major crises of the 80s and 90s (VII). Finally, there is a surprising convergence between the most recent *régulationist* researches and the findings of some social and political historians, such as Charles Tilly, in the diagnosis of the flux of the forces that push toward more democracy and those that imply a decline in the empowerment of the citizens. In this framework, democracy appears much more resilient in social democratic societies than for those transformed by liberal capitalism (VIII). A brief conclusion wraps up the main propositions and findings and call for further researches.

## I. ACCUMULATION OF WEALTH VERSUS ACCUMULATION OF POWER: TWO CONTRASTED LOGICS...

As democracy is a form of organization of the political arena whereas capitalism is generally defined as an economic regime, any analysis of their relations calls for a clear definition of the nature of polity and economy. Within a political economic approach, one is tempted by a quite holistic definition. On one side in the political sphere, the actors struggle for the conquest and exercise of power. On the other side in the economy, agents play the game of exchange and production and in a capitalist economy this implies the accumulation of wealth by enterprises and individuals (Théret, 1992).

But this conceptual distinction is the outcome of a long term structural transformation of societies and its reflection in modern social sciences.

- *Economic history* research, especially the *Annales* tradition (Braudel, 1979), has recurrently shown that markets emerge out of the innovations of merchants, traders, bankers, financiers in order to create organizations and institutions enhancing exchanges. In the related process they have to fight in order to be more and more autonomous from the princes and the local political authorities' arbitrary decisions (Grief, 2006). In this first and rough analysis, democratic regimes are the outcome of political struggles over several centuries, whereas capitalist economies are the long term consequence of the inner forces that shape the various phases of accumulation.
- This autonomization trend manifests itself in the evolution of the *doctrines and theories* that aim at analyzing the related processes. If initially the political economy of the founding fathers mixes intimately economic and political factors, the progressive rise of capitalism induces the emergence of a new discipline torn by controversies – for instance about value and crisis theories – but unified by a common vision of the specificity of the economy. This is especially so with the emergence of marginalism and neoclassical representation of economic equilibrium. The triumph of rational choice theory and its export to other social sciences that is observed in contemporary academic research pushes a step further this intellectual primacy of economics and its trend towards autonomization with respect to other social sciences.

This very basic framework may find some support in various other contemporary approaches. In response to liberalization and globalization, one observes the revival of Karl Polanyi's vision about the inner trend of market logic to get disembedded from other social relations. More generally, the relationship between the sovereign state and the free market is quite paradoxical indeed. Before the market could be made free from political interference, it was necessary for political power to be disembedded from the rest of society and concentrated in a single agency – the state – so that it could then be separated from the market. There is a double movement – both economy and polity become specialized institutional spheres. In this sense, this is a major teaching of system theory when applied to more and more differentiated spheres of activities that

tend to interact via the exchange of information and resources (Luhman, 1995). Thus, this cursory analysis suggests a first hypothesis about contemporary evolutions. Do not we observe a symmetric autonomization: on one side, most governments and actors believe that markets are self regulating, on the other side, political competition tends to be concerned by typical political, with few references to economic organization?

**Proposition 1:** *The contemporary trend towards an autonomization of the political game, observed in old democracies, might be in conformity with the very rationale of polity, i.e. accumulation of power, in the context of an adherence to a (naive) free market vision of the economy.*

## ....THAT HAVE TO BE MADE COMPATIBLE WITHIN VIABLE SOCIO-ECONOMIC CONFIGURATIONS

But this vision is quite extreme and assumes that the regime of political and economic ideas totally shape the institutional configurations of societies. By contrast, historical evidence shows that, *de facto*, even if political and economic rationales are distinct, the configurations they are embedded into have to be *compatible* or even in some instances *complementary*. Basically, the political sphere needs resources extracted from economic activity and conversely economic actors only prosper given an institutional and legal order governing their transactions and relations. This theme is a major dividing line in the history of economic doctrines: “Contrary to the exaggerated claims of Adam’s fallacy, market capitalism is not a stable self-regulating system. Just as it requires conscious political effort to foster the institutions necessary to make it function at all, it requires continuing political and regulatory interventions to keep the pursuit of self-interest from running of the rails.” (Foley, 2006: 224).

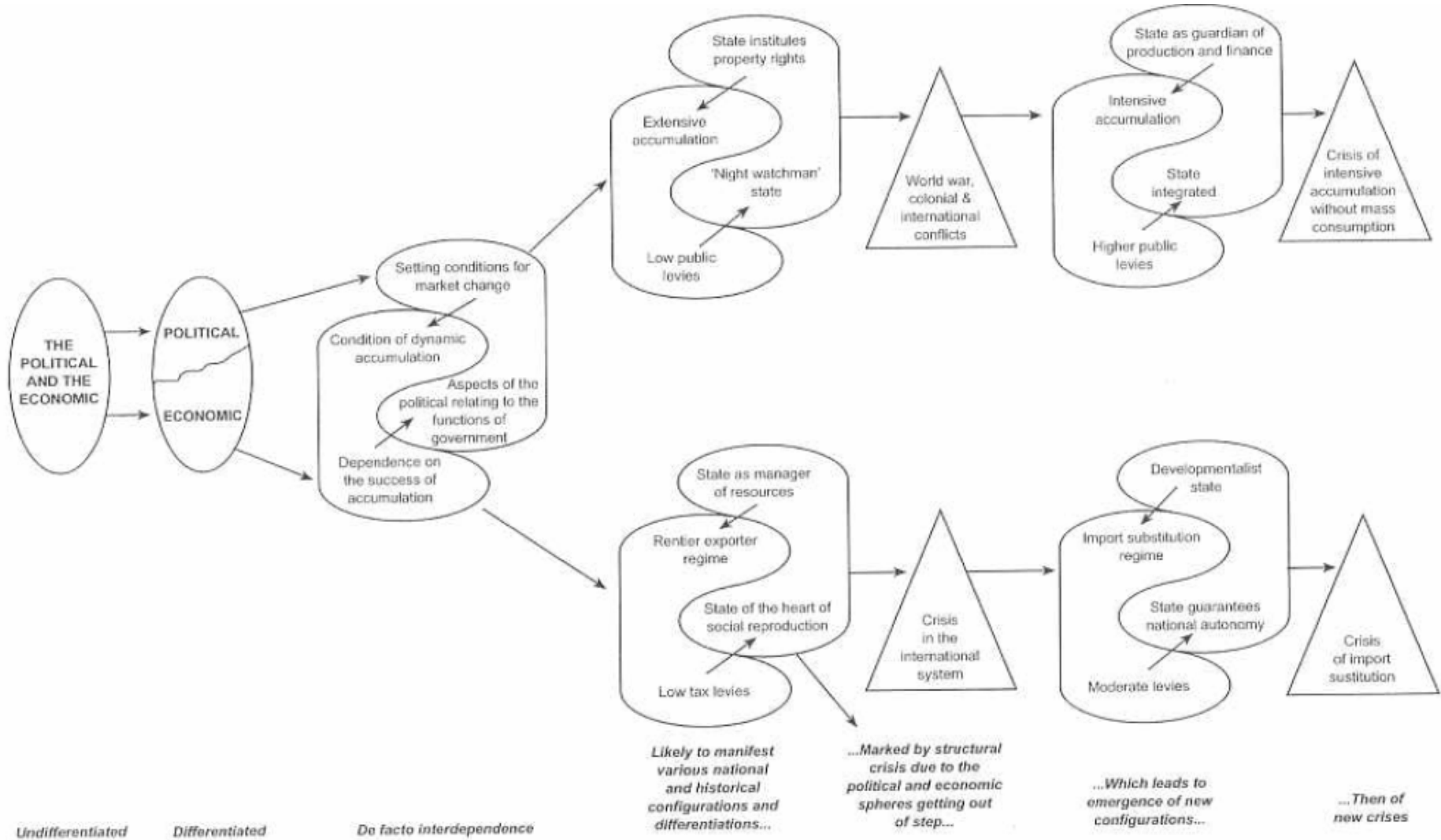
Actually, historical investigations confirm this co-evolution of political organization and economic institutions. Researches inspired by *Régulation* Theory exhibit the succession of a series of such political and economic regimes (Théret, 1992; 1999). They are not necessary viable since the related political and economic configurations might turn to be incompatible: they then induce structural crises, stagnation and recurring social conflicts. Viable regimes are the unintended outcome of trial and error processes in order to adjust mutually the polity and the economy. This framework helps to understand simultaneously the existence of well behaved political economic regimes as well as structural crises and periods of flux in societies.

Consequently, the contemporary configurations are the outcomes of a long term process of permanent adjustment and they manifest a significant path dependency (figure 1).

- In currently *industrialized economies*, the State interventions have been closely related to the nature of the accumulation regime, even if they are not totally determined by pure economic mechanisms. Public interventions have constantly evolved in reaction to structural crises. For instance, in the Fordist regime, the extension of welfare and progressive taxation has been the expression of a very specific compromise between State and citizens. Democratic political institutions have been quite crucial in the implementation of such a regime.
- By contrast, *rentier economies* exhibit quite different political and economic regimes. First of all, the State can prosper from the appropriation and redistribution of a fraction of the rent to various clienteles, which tends to down-play the democratic consent of citizens to pay taxes as a *qui pro quo* for a form of control of State policies. Second, rentier regimes call for very



Figure 1 – Differentiated but interdependent economic and political spheres and their joint development



distinctive institutional forms and *régulation* modes, where by the management of the rent permeates the monetary regime, the tax system, the nature of the insertion into the world economy.

Therefore, the broad taxonomy of economic regimes derived from *régulation* theory shows a surprising similarity with a political and historical approach of the factors that shape democracy and democratization (Tilly, 2007).

**Proposition 2:** *Democracy is more difficult in rentier regimes, where the State can easily appropriate the rents, than in typical capitalist regimes, where the governments have to negotiate with citizens to extract taxes and legitimacy.*

#### .....THE POLITICAL FOUNDATIONS FOR THE VIABILITY OF A SELF INTEREST ECONOMY

The most popular paradigm in economics is a follow up of the invisible hand story, back to Adam Smith who imagined that the self-interest and the natural propensity to exchange would be sufficient to implement a market economy reconciling individual autonomy with society wide coherence. A significant part of academic research in economics is trying to show that the principle of rationality and individual calculus should be sufficient in order to promote the emergence of quite all the institutions shaping market economies. But recurrently, crises, stagnation and open conflicts upon economic governance show, quite on the contrary, that collective action is absolutely necessary for the implementation of any simple market. Similarly, historical record, as well as sociological analyses argue, that private contract, economic rationality and markets presuppose the institution of basic legal forms. Furthermore since the 19<sup>th</sup> century, the Nation-state is the normal locus of economic activity and this assumes a preexisting community (Marglin, 2008, p. 191). Briefly stated the paradox of modern societies is clear: they require holistic foundations for typically individualistic behaviors to prosper.

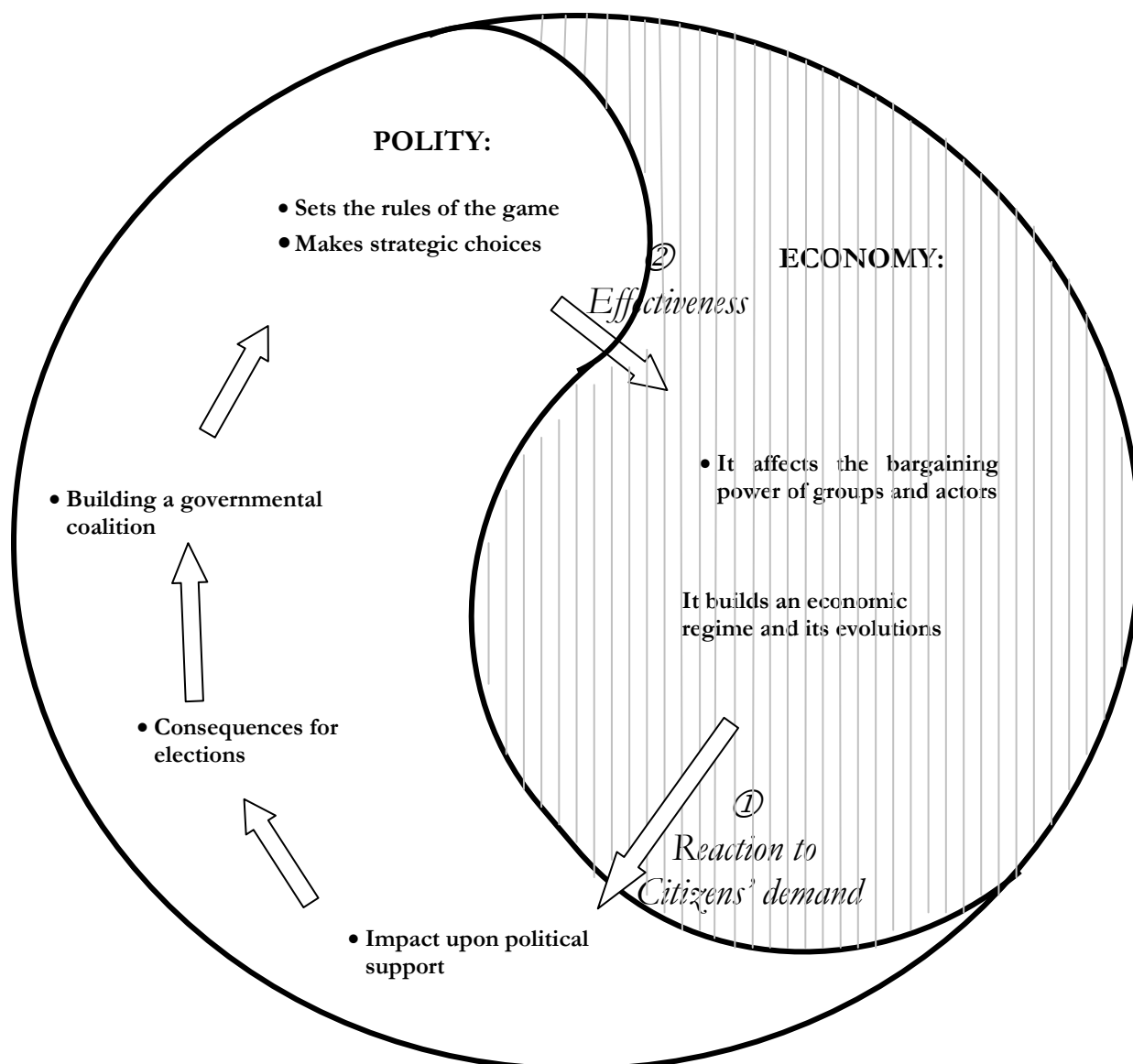
**Proposition 3:** *As soon as a Nation is conceived as a community, and not as a collection of self-interested individuals, polity and economy are structurally intertwined.*

Contemporary examples of such an embeddedness of market relations abound. For instance, financiers have been privately designing many financial innovations, such as energy derivatives, creative accounting, Initial Public Offer of start-ups of the new economy, securitization, and finally sub prime loans. In quite all cases, they have been so successful that they have triggered a macroeconomic boom that ended up into vibrant speculation and a financial crisis. In order to restore the viability of the related markets, public authorities have been constrained, whatever their free market or interventionist ideology, to design new rules of the game in order to restore the long run viability of market relations: the Sarbanes-Oxley Law, the bailing out of Bear Stearns and planned reform of the mortgage credit are good examples of such public interventions. Therefore the financial markets themselves that are supposed to be the most refined expression of rationality and pure market mechanisms cannot function without the surveillance authorities, and when they fail, the State has to intervene directly in order to re-open the distressed markets.

Such a interweaving of economy and polity is a quite general property of really existing economies. During a first phase, in reaction to citizens' demand the politicians are building governmental coalitions that implement new rules of the game and orient strategic choices. This opens a second phase when the related constraints and incentives (North, 1990) progressively

permeate into the behavior of economic actors. In democratic societies, citizens may support or not the present government according to their ideological preferences and the consequence of past policies upon their economic status and welfare. This initiates a new retroaction from the economy to the polity. Basically, this is one of the mechanisms that sets into motion modern democratic and capitalist societies (figure 2)

Figure 2 – The interactions between the political and economic spheres



**Proposition 4:** *The interactions between polity and economy explain both the evolutions of modern societies and the variety of their socioeconomic regimes*

## II. DEMOCRACY IS NOT A SINGLE AND PERFECT POLITICAL REGIME....

There is not any generally agreed definition of democracy, precisely because it supposes a complex web of procedures, organizations and institutions (Tilly, 2007). Some authors propose a

*constitutional approach* of democracy that focuses on laws governing political activity. Other scholars concentrate upon the *substantive consequences* of democracy on the conditions of life associated to a political regime, in terms of welfare, individual freedoms, security, equity, social equality.... A more restricted approach focuses upon a *procedural definition* of the rules that may qualify a political regime as democratic: for instance, the organization of competitive election, the extent of electorate, the possibility of referenda, the existence of a multiparty political system...and so on. A fourth vision stresses a *process oriented analysis* of democracy by pointing out the minimum set of processes that are at the core of a democracy: effective participation, voting equality, enlightened understanding of each member of the community, control by them of the agenda, inclusion of all adult population.

It is clear that combining all these approaches might define a very large variety of assessments of the extent of democracy for the same society at a given historical period. Let us follow Charles Tilly in search for a core definition of democracy. The social scientists have to “judge conformity of a State’s behavior to his citizens’ expressed demand: how wide a range of citizens’ expressed demands come into play; how equally different groups of citizens experience a translation of their demands into state behavior; to what extent the expression of demands itself receives the state’s political protection; and how much the process of translation commits both sides, citizens and state.” (Tilly, 2007: 13). Hence a simplified and general definition:

*“A regime is democratic to the degree that political relations between the State and its citizens feature broad, equal protected and mutually binding consultation.” (ibidem: 13-14).*

This general definition has to be complemented by another feature concerning the ability of the State to enforce its political decisions. Taking into account, this variable explain why some legally democratic regimes are actually unable to enforce the related order due to the weakness of State capacity. On the contrary, some Nation-State may exhibit a high capacity of State but weak democracy principles. Ideally, the more relevant democracies combine high State capacity along with a complete range of democratic processes. This new variable is introduced into figure 2: democratic principles relate to the translation of citizens’ demand into the political sphere, whereas State capacity measures the effectiveness of the impact of political decisions upon societal and economic organizations.

Therefore democracy concerns the *quality* and density of the mutual relationships between the political arena and civil society. In the same line of thought, how to define social democracy? Basically, it can be conceived as the extension to the economic domain of the democratic principles: concern for equality and voice within production, access to the State by social partners, and finally, legitimacy of State intervention in the economy by its fairness and effectiveness (figure 3).

Basically, a social democratic regime can be defined as:

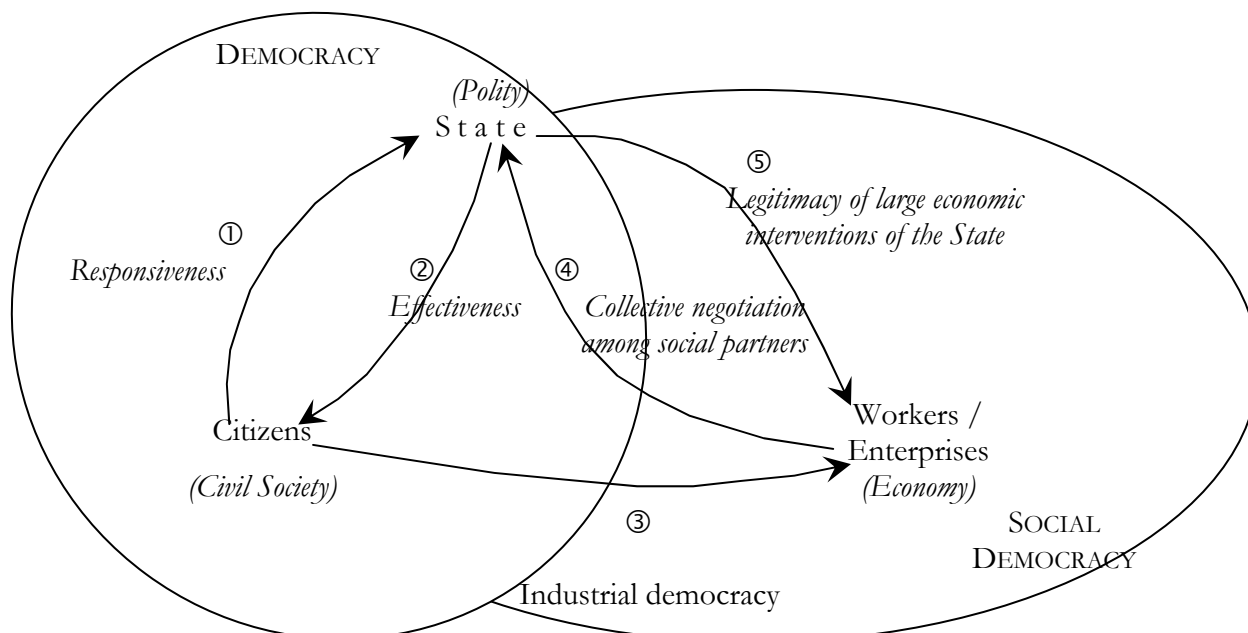
*The high degree of political relations between the State and the citizens also concern welfare, firm organization and major social issues*

More precisely, this means that:

- The *welfare system is universal* and financed by general taxation and not by social contributions by wage earners.
- The democratic ideal is extended to firms’ organization, under the term *industrial democracy*.

- The redesign of economic and social institutions and the design of new ones imply the *consultation and negotiation among all the relevant collective actors* (business' associations, unions, citizens' associations, public administrations).

Figure 3 – From democracy to social democracy

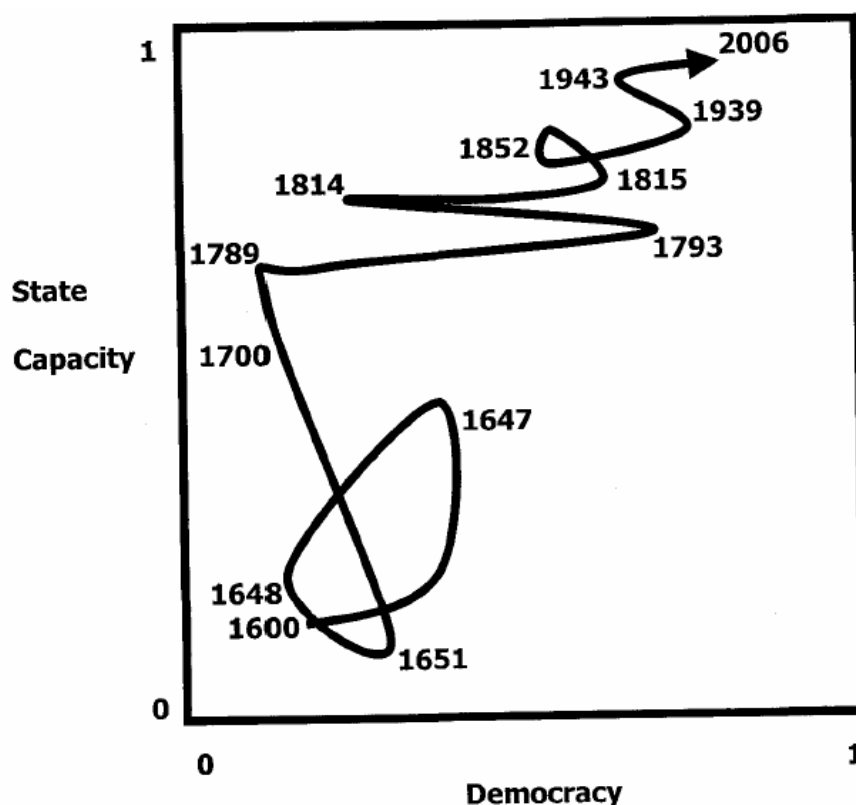


But of course, social democracy is only one of the *many configurations* observed in history and comparative analyses, and it seems to characterize mainly small open economies exhibiting a strong communitarian legacy extended from the local to the national level.

....AND IT IS THE OUTCOME OF A PROCESS OF DEMOCRATIZATION / DE-DEMOCRATIZATION

The direct consequence of the complexity of democratic regimes is that they cannot be implemented at short notice, nor be imported as such from one country to another. The labor of history is determinant in understanding the permanent process of re-composition of political institutions. Furthermore, the superiority of any democratic configuration is quite difficult to assess, therefore no constraining force guides the political system toward a more and more complete democratization. If one dares to build a synthetic index of democratization, just to give a sketchy vision of long term evolutions, one is surprised to observe the succession of progress and regression of democratic principles (Tilly, 2007: 35, for instance). Nevertheless, across centuries seems to prevail a general trend in favor of the improvement of democratization and State capacity to implement these principles (figure 4).

Figure 4 – The Trajectory of French democracy



Source: Tilly Ch. (2007: 35)

Any such evolution is country specific and consequently the naïve idea of democracy as a once for all movement in the direction of citizens' voice is falsified by many historical evidences. Forces of democratization and countervailing factors of reversal toward authoritarian regimes alternate according a quite complex process. Basically, the same statement can be made concerning the implementation of market mechanisms: they never derive from once for all big bang, since the inner trends they trigger tend to develop obstacles and struggles against their generalization (Polanyi, 1944).

**Proposition 5:** *Democratization is a long term and uneven process, featuring progress and regress periods.*

### III. A VARIETY OF CAPITALISMS WITH DISTINCTIVE REGULATION MODES....

Capitalism is everywhere in contemporary world, but it is not an easy task to propose any general and common definition, and this difficulty is quite similar to those experienced when searching for the meaning and content of democracy. Some authors point out that capitalism is basically grounded on private property, others prefer to stress the role of open competition on markets still others diagnose its consequences upon technical change and social inequalities. Let us risk a synthetic definition:

*Capitalism is a socioeconomic regime in which the distribution of power in production, and by extension in society, is closely related to the position of actors with respect to market relations on one side, production relations on the other.*

One major consequence of this definition is that power is not any more limited to the political sphere but it concerns too and more importantly the economic sphere by the way of concentration of property rights and asymmetric relations between entrepreneurs and wage-earners. Symmetrically, it means that some of its major institutional forms originate in the political sphere: labor laws, enforcement of competition, organization of the financial system, political and economic diplomacy, not to speak about the core of polity, i.e. the relations between State and citizens. If contrary to vulgar Marxism, economic relations do not totally determine political relations then the intricacy of the expression of political power may have clear consequences upon the functioning of the economy.

Given the idiosyncrasies of social, political and economic struggles, typical of each society, many brands of capitalism emerged from the commercial and then industrial revolutions and they continue to coexist in contemporary world, in spite (actually because) of the so-called globalization. Let us summarize the converging findings of researches upon the variety of capitalisms (Amable & al., 1997; Chavance & al., 1999; Aoki, 2000; Hall and Soskice, 2001; Amable, 2003; Boyer, 2004b). At least, four brands of capitalism derive from contrasted institutionalization of typical social relations of this socioeconomic regime (table 1), and the list could be extended considering former communist countries in Central and Eastern Europe, China, India, Brazil.

- The *market-led capitalism* is built upon the domination of market mechanisms in quite all spheres of the related societies. But since competition on free markets leads to collusion, oligopoly or monopoly, periodically public authorities have to intervene in opening again the market via the enforcement of fair competition. The ideal of market competition is present, not only on product, credit and labour market, but also in the organization of research, the governance of welfare, and of course the organization of pension funds. Still more, some analysts stress the symmetry between *the vote of the consumers* and the choice of citizens during the electoral competition on the *political market*. Not to speak about the role of financial support in electoral campaigns. In this brand of capitalism, the leading institutional form is competition, even if it might shift from product to financial markets since the 80s. Contemporary US and to some extent UK are key examples of this configuration.
- The *meso-corporatist capitalism* is extending traditional community ties from the family and the locality to the large conglomerate corporation. This is the cohesive factor that explains the nature of employment contract that codifies long term relations with a given company, the nature of competition among *keiretsu* or *chaebols*, and even the relations of top-managers with State officials. The democratic process is not seen as a market for ideas and politicians but quite on the contrary as the *preservation of long term ties* at the local and national levels. A sophisticated form of clientelism is permeating the whole society, including during the electoral process and government deliberations. In any case, the core actor is thus the large corporation, and market competition is not the key driving force. Japan and South Korea are typical of this meso-corporatist capitalism and they exhibit a quite significant divergence with respect with American or English type of capitalism.
- The *State-led capitalism* is still another configuration, where the intermediation of the State is present in the organization and functioning of quite any institutional forms. The labor market is highly regulated by the State (minimum wage, legal duration of work, legal restriction upon hiring and firing...). Until the last two decades, the financial market was also highly controlled via specific laws and even nationalized commercial banks. In the productive sector,

Table 1 – *Régulation* theory findings (RT): at least four institutional architectures

	<i>Régulation</i>			
	Market-led	Meso-Corporatist	State-led	Social Democratic
<i>1. Overall logic and hierarchical principle</i>	Market logic is the organizing principle of almost all institutional forms.	The principle of sharing and mobility lies at the heart of an economic unit that is large in size and diversified in production.	Economic activity shaped by public interventions in the areas of production, demand and institutional codification.	Rules governing most of the elements of society and of the economy are negotiated between social partners.
<i>2. Implication for institutional forms:</i>				
Wage relations	Broad decentralization of wage negotiations, individualized remuneration and segmentation of the labor market.	Wage bargaining within major firms but synchronized wage increases.	Tendency towards strong institutionalization of rules in the areas of employment, working time, wages and social protection.	Traditionally, centralized collective bargaining, constrained by short- and medium-term competitiveness.
Competition	Limiting concentration by legislation, with one oligopoly reforming into another.	Relatively intense on the market in goods between large firms present on a large number of markets.	Moderated, since channeled through public regulations or by professional associations, strong concentration of capital.	Small number of large firms: strongly internationalized, however, therefore subject to competition.
Money and finance	Independence of the central bank, financial market logic, increases in the number of financial innovations, strong control of firms through finance.	Role of the main bank and of keiretsu in financing and allocation of capital. Strong control by public authorities (Treasury, central bank).	Credit and monetary policy strongly controlled by the state. Traditionally, weak autonomy of the central bank, determining role of the Treasury.	Mainly bank financing, with monetary policy supporting the objective of full employment and only then of competitiveness
The state	Fragmented into a series of agencies and supervisory authorities, the state is strongly limited by competition on the political market.	Ensures the provision of collective services and co-ordination which cannot be fulfilled by large firms. Small size but significant role.	Strong quantitative and qualitative development of public interventions: nationalized enterprises, regulations, public expenditure, social protection etc.	Multitude of public interventions in the form of financial transfers and extensive, restrictive regulations.
International integration	Adheres to the principles of free trade, greater or lesser autonomy according to status and size (differences between the US and the UK).	Choices in the matter of trade and finance are conditioned by the imperative of technological and economic development.	Traditionally strong state control of external relations (tariffs, standards, quotas, restrictions on financial flows).	Acceptance of principle of competitiveness through technological and organizational innovation.
<i>3. Characteristics of mode of régulation</i>	Very broadly, market-led <i>régulation</i> , under the control of sophisticated legal mechanisms.	Adjustments at the meso-economic level of the large firm; state and market have a secondary role.	The state is at the centre of macro-economic adjustments; markets and firms adapt to its rules of the game.	Tripartite negotiation (employers-unions-state) at the heart of institutional forms.
<i>4. Typical examples</i>	<ul style="list-style-type: none"> <li>• US economy in the 80s</li> <li>• UK after Thatcher to some extent</li> </ul>	<ul style="list-style-type: none"> <li>• US in the epoch of Henry Ford</li> <li>• Japan after 1945 and until 1991</li> <li>• South Korea before 1997</li> </ul>	<ul style="list-style-type: none"> <li>• France in the Golden-age</li> <li>• Germany at the level of Länder</li> <li>• Possibly developmentist State in Latin America</li> </ul>	<ul style="list-style-type: none"> <li>• Scandinavian countries after 1945, Sweden, Denmark, Finland</li> </ul>



traditionally, the State is very present via extensive regulation and/or control of competition and again the presence of nationalized firms even in the sector exposed to foreign competition. The conception of democracy is itself quite dependent from the omnipresent role of the State: *public administration* is perceived as the *tutor of citizens* and the *vector of democracy*. Any social conflict, economic disequilibria or financial trouble is shifted from the direct responsibility of actors to State responsibility, perceived as an insurer of last resort. France is a key example of this capitalism, but Germany displays equivalent principles at the level of each *länder*.

- *Social democratic capitalism* is the consequence of the permanent consultation and negotiation of collective actors in the organization and re-organization of institutional forms. In this model, the voice of citizens – directly via election or indirectly via a dense organization of civil society – is replacing the exit mechanism that is typical of market-led capitalism. The involvement of quite all social actors brings a significant stability of political compromises, i.e. of the expectations governing economic decisions. Since most of the related societies are quite small, *representative democracy* is easily complemented by various forms of *direct democracy*. It is probably in these countries that the gap between citizens and politicians is the smaller. Scandinavian countries are emblematic of this fourth configuration.

**Proposition 6:** *The very core institutional forms of a capitalist economy (the monetary regime, the insertion into the world economy, the labor institutions) originate from the political sphere. Nevertheless, their compatibility is up to a search trial and error process. This is the origin of long term evolution and the persisting diversity of capitalist economies.*

### ....AGAINST THE BELIEF OF A ONE BEST WAY

Given this diversity, one may ask which of these capitalisms deliver superior outcomes. Actually, conventional economic theory is obsessed by the issue of economic efficiency, Pareto optima, whereas managerial literature – that has invaded public management – is desperately looking for one best way organizations. Even the European Union is looking for best practices in economic and social policies, via the so-called Open Method of Coordination (OMC). Such a quest is not necessarily relevant (table 2).

- In strict economic terms, there is *no natural synthetic index* of economic performance, let it be proximity to full employment, level of standard of living, level or increase of total factor productivity or rate of returns on equity...
- The choice of a performance index is function of the implicit or explicit objectives that are associated to a *political coalition*. For a developmentist State, the growth rate may capture the main objective pursued but within social democratic capitalism, the preservation of social justice is a preferred and quite different objective. A finance-led capitalism measures its success by the progression of total financial wealth, whereas a meso-corporatist one will privilege the stability of long term trust and loyalty relations, possibly at the cost of poor macroeconomic performance, as experienced by the Japanese lost decade.
- Even assuming that a given brand of capitalism is Pareto superior to any other (more growth, better employment, more profits, more equality...), comparative historical analyses show that there is *no single case of a pure and perfect imitation* of a given successful form of capitalism. In all

Table 2 – Strengths and weaknesses of the various modes of régulation

	<i>Régulation</i>			
	Market-led	Meso-Corporatist	State-led	Social Democratic
Conditions permitting this mode	<ul style="list-style-type: none"> <li>• Sufficient level of development</li> <li>• Broad decentralization of research and economic activity</li> </ul>	<ul style="list-style-type: none"> <li>• Efficient general education system</li> <li>• Existence of large multi-product firms</li> </ul>	<ul style="list-style-type: none"> <li>• Objective: economic and technological catch-up</li> <li>• Accepting and legitimizing multiple forms of intervention on the part of the state</li> </ul>	<ul style="list-style-type: none"> <li>• Accepting the principle of openness and competitiveness</li> <li>• Values of solidarity and social justice</li> </ul>
Strengths	<ul style="list-style-type: none"> <li>• Specialization in codifiable knowledge</li> <li>• Rapid response to structural change</li> <li>• Capacity for radical innovation</li> </ul>	<ul style="list-style-type: none"> <li>• Specialization in activities where localized learning predominates</li> <li>• Cumulative nature of the effects of experience</li> <li>• Advantages for incremental innovations</li> </ul>	<ul style="list-style-type: none"> <li>• Specialization in activities linked to collective needs (transport, health, telecommunications)</li> <li>• Favors catch-up</li> <li>• Major long-term programs open to radical innovations</li> </ul>	<ul style="list-style-type: none"> <li>• Specialization in activities linked to natural resources and welfare</li> <li>• Lower levels of inequality</li> <li>• Pressure to adopt new techniques in high technology sectors</li> </ul>
Weaknesses	<ul style="list-style-type: none"> <li>• Under-investment in collective elements</li> <li>• Possible growth of inequalities</li> <li>• Short-termism in decision-making</li> </ul>	<ul style="list-style-type: none"> <li>• Under-investment in fundamental research</li> <li>• Possible delays in reacting to economic circumstances</li> <li>• Relatively lax control over investment decisions</li> </ul>	<ul style="list-style-type: none"> <li>• Under-investment in product innovations which satisfy consumer needs</li> <li>• Slowness in adapting public interventions</li> </ul>	<ul style="list-style-type: none"> <li>• High taxation, potentially dissuasive of investment and RD</li> <li>• Inadequacy of financial system</li> </ul>
Sources of destabilization	<ul style="list-style-type: none"> <li>• Reduction of expenditure and public subsidy to education and research</li> <li>• Incapable of creating the coordination needed for certain branches of industry</li> </ul>	<ul style="list-style-type: none"> <li>• Paradigm shift in production towards sectors linked to science</li> <li>• Destabilization by financial deregulation</li> </ul>	<ul style="list-style-type: none"> <li>• Advances at the technological frontier call for other forms of organization</li> <li>• Constraints on economic policy block the stimulating role of the state</li> </ul>	<ul style="list-style-type: none"> <li>• Divergence from international trends</li> <li>• Destabilization through internationalization and financial deregulation</li> </ul>

*Source:* Amable, Barré, and Boyer [1997: 194-195]

cases, a process of *hybridization* takes place and ends up in a genuine and different brand of capitalism. Let us remember the German or French trajectory compared with England during the first industrial revolution or the strong differentiation of mass production after Second World War, respectively in the United States, Europe, and Japan. What about the probability of China to converge towards a typical American capitalism? *A priori* nil or very small indeed!

Looking at the comparative merits and limits of the four capitalisms, it is quite evident that these arguments are quite relevant: the criteria of success vary from one brand to another. Even if the social democratic model were perceived as the best mix between dynamic efficiency and social justice by a social scientist, could any American politician convince citizens to accept the related increase of taxation and social contribution?

#### IV. LIBERALISM IS A MULTIFACETED DOCTRINE....

There is a lot of confusion about the mutual relations between liberalism and democracy on one side, liberalism and capitalism on the other side. In the 19<sup>th</sup> century, political liberalism was distinguished from democracy but nowadays liberalism tends to be associated with democracy. Past national experiences during the 20<sup>th</sup> century have allied economic liberalism with quite authoritarian, un-democratic political regimes. Furthermore, political and ideological debates frequently confuse liberalism and capitalism as synonyms, a quite strange conception indeed. If capitalism is an existing socio-political regime, economic liberalism is a doctrine or a theory that is supposed to be legitimating a precise form of free market capitalism. Has the emergence of liberalism been the key factor in the constitution of capitalist economies? One may have some doubts on several grounds.

- First, Adam Smith, David Ricardo and others were building doctrines and theories and not at all directly the institutions of capitalism. Political economic theories have no performativity by themselves, even though they might inspire some economic and political actors.
- Second, who were the real architects of contemporary capitalisms? Economic and social history suggests that capitalist organizations emerged out of the inventiveness, the struggles and the competences of the actors themselves: the merchants, the traders, the changers, the bankers, the entrepreneurs, the inventors, the engineers, the financiers, the accountants, the lawyers and even the political elite of merchants' cities.
- Third, one may consider that the progressive rise of economists, as professionals, brings the final touch to this complex co-evolution of market, industrial and financial innovations on one side, economic analyses and theories on the other side.

A second issue relates to the *duality of liberalism*, as a supposed unified doctrine. For economists, liberalism recommends to organize the economy according to the free functioning of markets. *Economic liberalism* is thus totally opposed to interventionism. For political scientists, this is a principle for organizing the relations between the State and citizens in the direction of the empowerment of individuals in reaction to the rest of concentration of political power. *Political liberalism* is the antidote to the doctrine justifying the monopolization of power.

Generally, these two components of liberalism are assumed to be strictly complementary: without political liberalism no successful economic liberalism and conversely the task of political liberalism is to promote and institute economic liberalism. Again, comparative and historical

evidences contradict the generality of this association, actually observed in many English speaking countries (table 3). Furthermore, from a pure semantic point of view and to add to the confusion, in the USA “liberal” trends to mean “left”, and therefore can include hostility to free markets!

- One finds in Latin-America many instances of *dictatorial regimes*, that destroyed democracy but that have been using the strong State capacity to promote *free market capitalism*. In the case of Chile, this strategy has finally been successful, anticipating in many domains the policy of conservative governments in old democracies. Contemporary China is another example of quasi complementarity between an authoritarian political regime and the promotion and extension of a typical capitalist logic.
- A more conventional association is mixing an *authoritarian military regime* along with *interventionism*, i.e. a strong and heavy public hand in the organization of economic activity, via the channeling of credit, the manipulation of external tariff, the coordination of strategies by an omnipotent public administration. One could recognize the South Korean configuration until 1985.
- A last configuration associates a rather *extended democratization* in the political sphere along with a clear distrust about the efficiency and legitimacy of pure market mechanism allocations. This was the case for many *mixed economies* after de Second World War and until the 60s (Shonfield, 1965): France was a good example of the merits of this original intertwining of political liberalism and strong economic interventionism.

Table 3 – The multiple configurations of liberalism in history

		THE POLITY	
		DEMOCRACY	AUTHORITARIAN REGIME
THE ECONOMY	LAISSEZ-FAIRE	England early 20 <sup>th</sup> Century United States	Chile 1973-1989
	INTERVENTIONISM	France during the Golden Age	South Korea 1945-1985

**Proposition 7:** *The historical evidence invalidates the hypothesis of a structural complementarity between political and economic liberalism*

.....AND CAPITALISM IS A SOCIOECONOMIC REGIME....

A brief survey concerning the relations between capitalism and its representations and theorizing suggests an equivalent complexity. Naturally, it is tempting to closely associate the theories and doctrines to socioeconomic regimes: is not Adam Smith frequently considered not only the

founding father of political economy but also the reference and tutor of the emergence of industrial capitalism? Are not some analysts closely associating neo-liberalism, neoclassical theory deregulation and contemporary competition led capitalism? Symmetrically, socialism is perceived as the opposite socioeconomic regime: the political organization is based upon the concentration of power within a single party, the economic transactions are centrally planned, and Marxism is supposed to be the relevant theory/ideology.

But two other configurations manifest that this black and white picture does not capture the diversity of the links between ideas and socioeconomic regimes (table 4):

- Is liberalism a necessary ingredient in the building of a capitalist Nation-State? Clearly few if any national economies have replicated the British strategy that relied so much to laissez faire principles domestically and abroad, but mitigated by the clever use of the empire to support the domestic economy. France, Germany, Japan have adopted a different route and they massively used public interventions in the name of the defense of infant industries (List 1841). Similarly the industrialization of larger Latin American countries was based on a strong impulse by the State in order to overcome the obstacles of their dependence from the specialization on primary commodities exports. Last but not least, South Asian tigers, China and India are building their strategies upon the multiple interventions of a developmentist State: their present good performance is not at all associated to naïve reliance upon the invisible hand.
- During the interwar, some theoreticians have proposed a quite daring conception of *socialism*: if capitalism lead to collusion, concentration and monopoly, the task of a socialist government should be to *restore free competition* in order to maximize the welfare of the society .In a sense the concentration of political power could obtain the outcome aimed at by economic liberalism (Lange and Taylor, 1938). Some of the reformers of the Soviet economic system in the 60s were imagining that powerful computers could allow the central planning to get an unprecedented efficiency in the allocation of labor and resources, i.e. to beat capitalism at its own game. It was a kind of tribute to the two welfare theorems: planning could deliver that the really existing markets were unable to do!

Table 4 – The complex relations between liberalism and capitalism in social theories

		SOCIO-ECONOMIC REGIMES	
		CAPITALISM	SOCIALISM
POLITICAL STYLES	LIBERALISM	Adam SMITH	Market Socialism LANGE, TAYLOR
	INTERVENTIONISM	LIST GERSCHENKRON	PREOBRAZHENSKI

**Proposition 8:** *The adhesion to economic liberalism is neither a necessary nor sufficient condition for the building of a capitalist economy, since interventionism has proven quite instrumental for late comers.*

## .....IN PERMANENT TRANSFORMATION

The previous examples point out one of the key features of capitalist regimes, i.e. their capacity to transform themselves in reaction to social struggles, major crises and political regime changes. This is not a surprise since according to the Marxist analysis this mode of production really sets into motion the history of mankind by periodically altering the configuration of the capital/labor relation, the nature of competition, the geographical extension of markets and even organizations, technologies and lifestyles. Emerging out of the decomposition of feudalist regimes, capitalism was so dynamic and contradictory that it was expected by Karl Marx to engender the very collective forms of organizations that would unfold into its demise and replacement by socialism and ultimately communism.

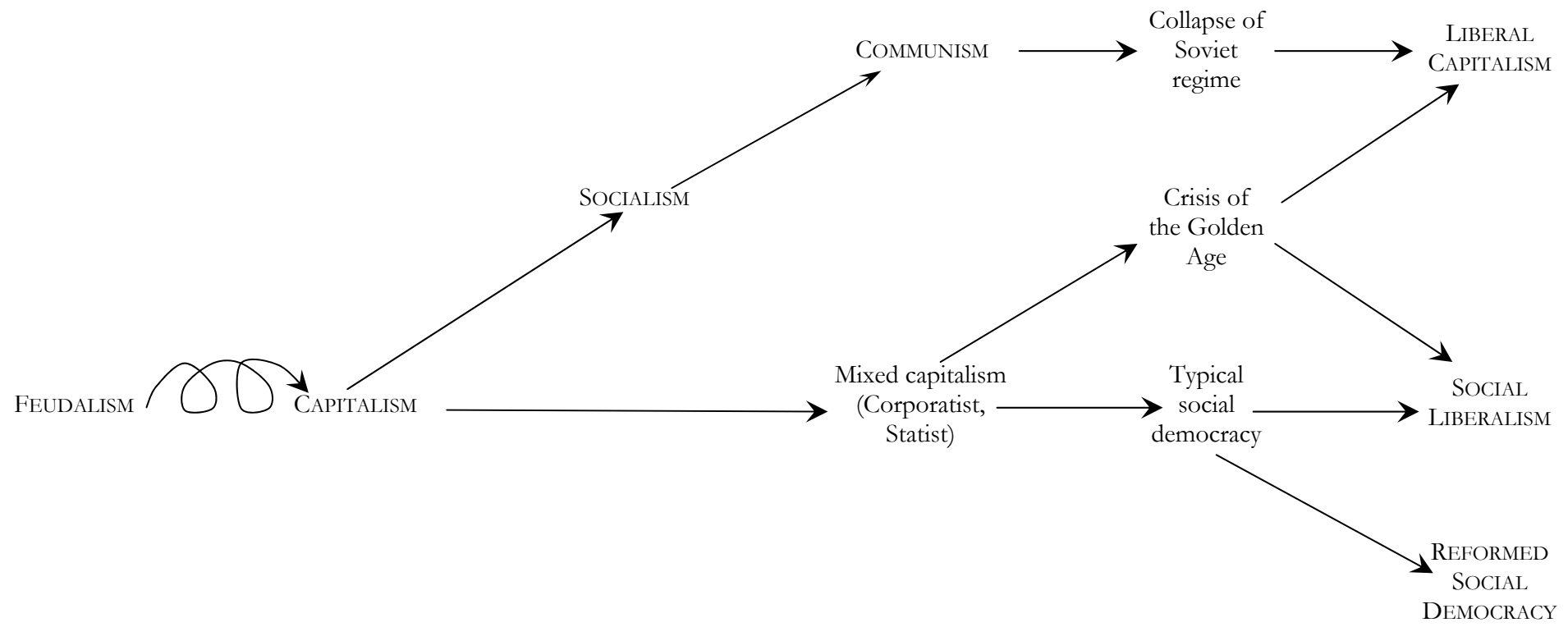
This prognosis has been refuted on many grounds:

- The communist revolution has taken place not in the most advanced capitalist societies, i.e. England, but within a lagging and quasi feudalist society such as Russia. The soviet regime was supposed to overcome the capitalism in terms of economic performance if not democratic principles. Its collapse in 1989 is thus a benchmark in the so called competition of economic and political systems.
- Symmetrically, the various capitalisms have drastically been changed via the succession of economic and financial crises, social and political conflicts and the geographical diffusion of market relations. For instance, at odds with the prognosis of the formation of a vast proletariat, the social division of labor has generated a growing middle class and this has largely mitigated the trends towards social inequality. This was supposed to slowdown the dynamism of innovation (Schumpeter, 1942) and that prognosis has not been confirmed by post-WWII evolutions. At the level of the mode of production, the mixing of public institutions and private organizations has converged towards various forms of a mixed capitalism (Shonfield, 1965).
- But the very success of this new regime generates adverse trends that unfold into the crisis the Golden Age. Frequently it is interpreted as the limit of public intervention in the economy due to the opening domestic economies and an unprecedented internationalization that challenges the degree of autonomy of national policies. Back to the early 90s, this demise of the post WWII order was supposed to open a new epoch featuring the smooth and easy diffusion of a canonical model based on two pillars: markets for the organization of economic activity, and representative democracy in the political sphere. Liberal capitalism was supposed to represent this common economic and political regime (Fukuyama, 1992).

Nowadays this convergence hypothesis has been significantly reassessed since for old democracies at least three conceptions still coexist (figure 5):

- *Liberal Capitalism* continues to be seen as the benchmark but recent events have mitigated its appeal. Its export has proven quite problematic, especially when implemented by foreign intervention and in the context of a complete destruction of State capacity (Fukuyama, 2004). Furthermore, liberal capitalism exhibits flexibility and a large capacity to innovate but at the cost of rising inequalities and financial instability.

Figure 5 – The historical evolution of political and economic regimes: A bird’s eyes view



- Most *social democratic societies* experienced a crisis and significant restructuring during the 80s or 90s. But far from converging towards a typical liberal economy where coordination is let to market mechanisms (Hall and Soskice, 2001), they have been successful in redesigning their welfare, tax system and public sector while preserving the objective of social justice. The New Social Democracy is therefore reconciling efficiency along with solidarity in the context of a large opening to the world economy and the insertion into the knowledge based productive paradigm (Boyer, 2004b).
- *Social Liberalism* is a third political agenda in many other European societies where the weakness of collective actors and their recurring conflicts and mutual distrust do not allow them to go along the typical social democratic route of permanent negotiation of new compromises. The core objective is to prepare the individuals to exploit the opportunities of the market and accept the related constraints in terms of mobility, flexibility, remuneration, and lean welfare. This has been theorized under the label of Third Way (Giddens, 1998). *De facto* but not *de jure*, in Europe, it is a source of inspiration both for some socialist and many right wing politicians. The promotion of economic liberalism goes along with the implementation of a minimalist safety net via targeted welfare interventions.

**Proposition 9:** *In a sense, the Third Way is an updating for social-democracy of the Lange/Taylor proposal about market socialism: polity has to promote the adhesion to a free market economy.*

## V. A CONJECTURE: THE INSERTION OF KEY SOCIO-ECONOMIC GROUPS INTO THE POLITICAL PROCESS HELPS IN STABILIZING LONG TERM GROWTH...

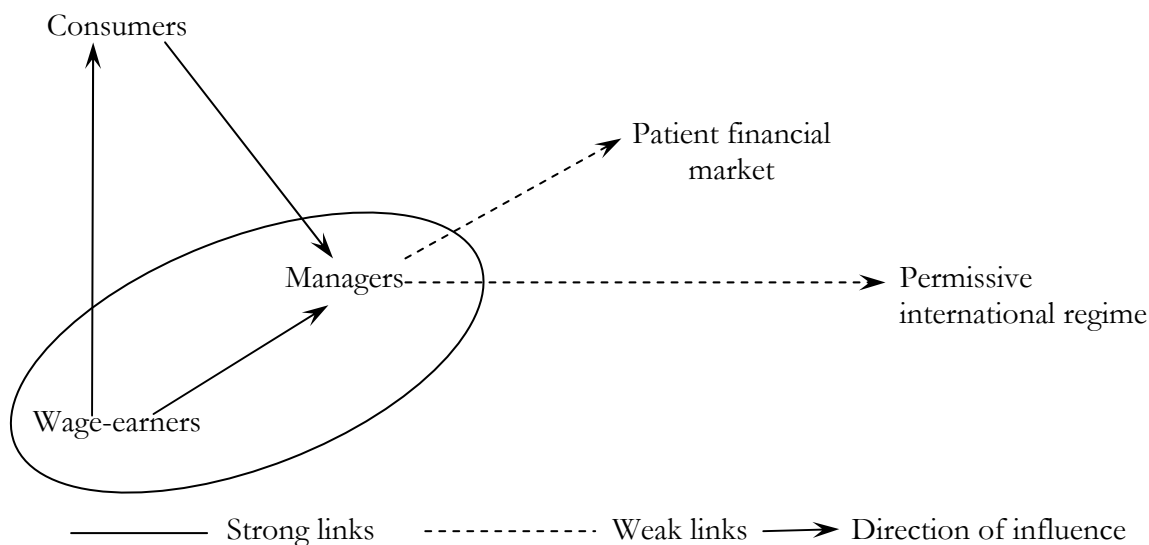
Before coming back to the discussion of the exact content of these political programs, it might be useful to remind some of the main findings delivered by previous *régulationist* research concerning some possible links between democratization and economic performance.

- **The alliance between managers and wage earners leads to an unprecedented growth regime: 1945-1966**

After World War II, wage-earners became the majority of the working population but it was not a sufficient condition for the emergence of the new Fordist growth regime. Already during the interwar period, this social group was the majority but it was collectively unable to alter the highly competitive pattern of wage formation. This has proven to be an obstacle to the viability of mass production since, it was not synchronized, with an equivalent mass-consumption originating from wage-earners. After WWII quite on the contrary, the institutionalization of wage indexing upon consumer price and productivity has promoted the viability of an unprecedented growth regime that was reconciling stable and high profit along with the progression of living standard of quite all wage earners. In a sense, this new *institutionalized power* of workers in the economic sphere was the consequence of the *democratization* of political life. Clearly, this process has been quite favorable to the dynamism and stability of growth. The related Fordist compromise was the consequence of a significant democratization process under the challenge that represented at that time the Soviet regime (figure 6).



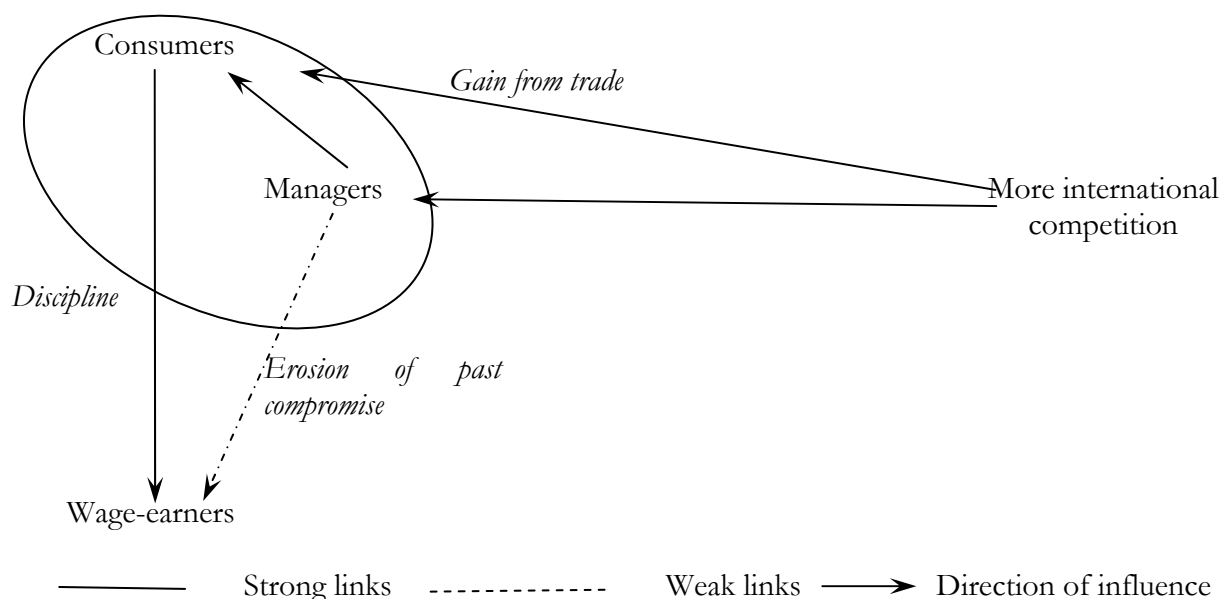
Figure 6 - The 60's. The first configuration of actors: the Fordist compromise



- **From wage-earners to consumers, the first step of the conservative backlash: 1967-1985**

The very success of the mobilization of increasing returns to scale, typical of mass-production, has triggered the surge of international trade in order to continue to reap the related benefits at a larger geographical scale. But then, the wage-led demand regime has progressively been replaced by an export i.e. profit-led demand, and this economic structural change has progressively eroded the basis of the Fordist compromise. In order to cope with foreign competition, firms and governments have pointed out the necessity of wage moderation, productivity increases and better product quality. Wage moderation policies are adopted and the Fordist wage formula is abandoned: the unemployment is eroding the bargaining power of workers and under the threat of plant closures the managers obtain wage concession, higher labor intensity and the adoption of new methods in order to promote quality, perceived as a decisive factor in international competition along with unit costs (figure 7).

Figure 7 - The 80's. The second configuration of actors: An international competition led regime

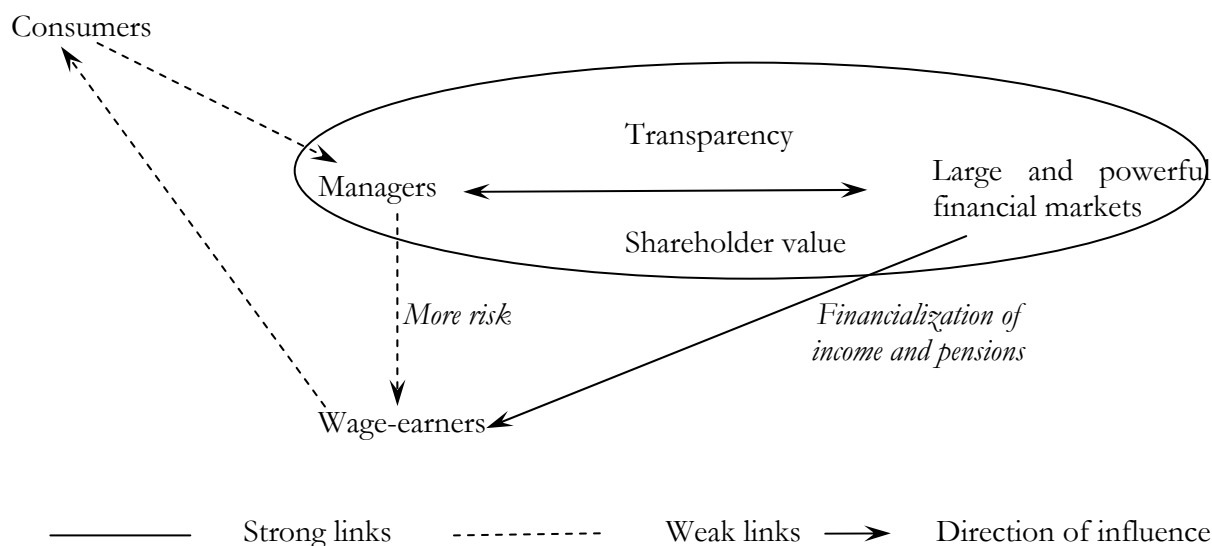


Basically, the managers use domestic consumers as well as foreign demands in order to discipline wage-earners. *De facto* and ultimately *de jure*, the past national compromises are progressively replaced by a series of micro-corporatist arrangements at the firm level that imply various forms of concession bargaining. This is a turning point with the original aim of collective bargaining and of neo-corporatism that was to protect improvements in workers' wages and conditions from high levels of competition among firms. Thus, firm-level industrial relations immediately destroy an important component of both collective bargaining and neo-corporatism. In order to defend the opening to the world economy, business and governments stress the positive role of price moderation upon standard of living, since nominal wage has been de-indexed from consumer prices. Thus, the consumer tends to replace the wage earners as the key targeted group of economic policy via price competition and wage moderation. Ultimately, the same process takes place concerning the organization of collective goods and public services: the citizens are considered as clients and consumers and this is one of the bases of the conservative counter revolution from Margaret Thatcher to Tony Blair (Faucher-King and Le Galès, 2007: 179).

- **The exclusion of wage earners triggers a finance led regime, quite unequal and unstable: 1986-2008**

But the deregulation of product and labor markets was also associated to financial opening, deregulation and innovation, i.e. a structural move that turns out to have drastic consequences. In the name of shareholder value, the top managers of quoted large public companies have allied with financiers both in order to shift a larger fraction of risk upon wage-earners and then stabilize the rate of return on equities and to share a fraction of capital gains via stock options and various other mechanisms. Symmetrically, in the US for instance, the welfare has been more and more privatized and pay as you go systems have been replaced by pension funds (Montagne, 2006). After two decades, this financialization has directly affected macroeconomic evolutions and even permeated wage earners remunerations (figure 8). *De facto*, the wage-earners are excluded from the previous alliance at the level of the firm, but at the political level too, as evidenced, for instance in the US, by the domination of republicans at the detriment of the democrats that were traditionally allied of the workers movements. Furthermore, the new financial regime is essentially international whereas political deliberation and democracy are stuck at the level of National State, at the possible exception of the European Union, as an embryonic federal State in search for democratic legitimacy.

Figure 8 - The 90's. The third configuration of actors: the alliance of investors and managers



This exclusion of the larger social group of wage earners is an evidence for de-democratization and the macroeconomic outcomes have been disappointing compared with the expectations generated by the alliance of finance with new technologies. American growth has been quite moderate and finally unstable, and two major financial crises burst out respectively on 2001 and 2007-2008. Seemingly, this is *a contrario* a confirmation of the following conjecture:

*For the democracies where wage-earners are the majority group, their voices into the political process usually favors macroeconomic performance. Conversely, their exclusion generally hinders long-term macroeconomic performances.*

- **A possible origin of the collapse of Christian democrats' hegemony in Italy: the exclusion of wage earners**

This intuition derived from this retrospective and comparative analysis is confirmed by a detailed case study devoted to the interpretation of the collapse of the post-WWII political order in Italy (Palombarini, 1997; 1998; 2001). The basic idea is that wage-earners and firms bargain under the conditions set by the macroeconomic policy, i.e. the choice of the exchange rate regime, and the size of the public deficit. This choice is determined according to the political coalition that emerges from periodic elections. During elections, each of the three social groups (entrepreneurs, rentiers who live out of the interest paid on the public debt, and wage-earners) vote for parties, according to their ideological preferences and their degree of satisfaction related to the macroeconomic variables relevant for them (respectively the profit rate, the real interest rate and a mix of real wage and employment) (figure 9).

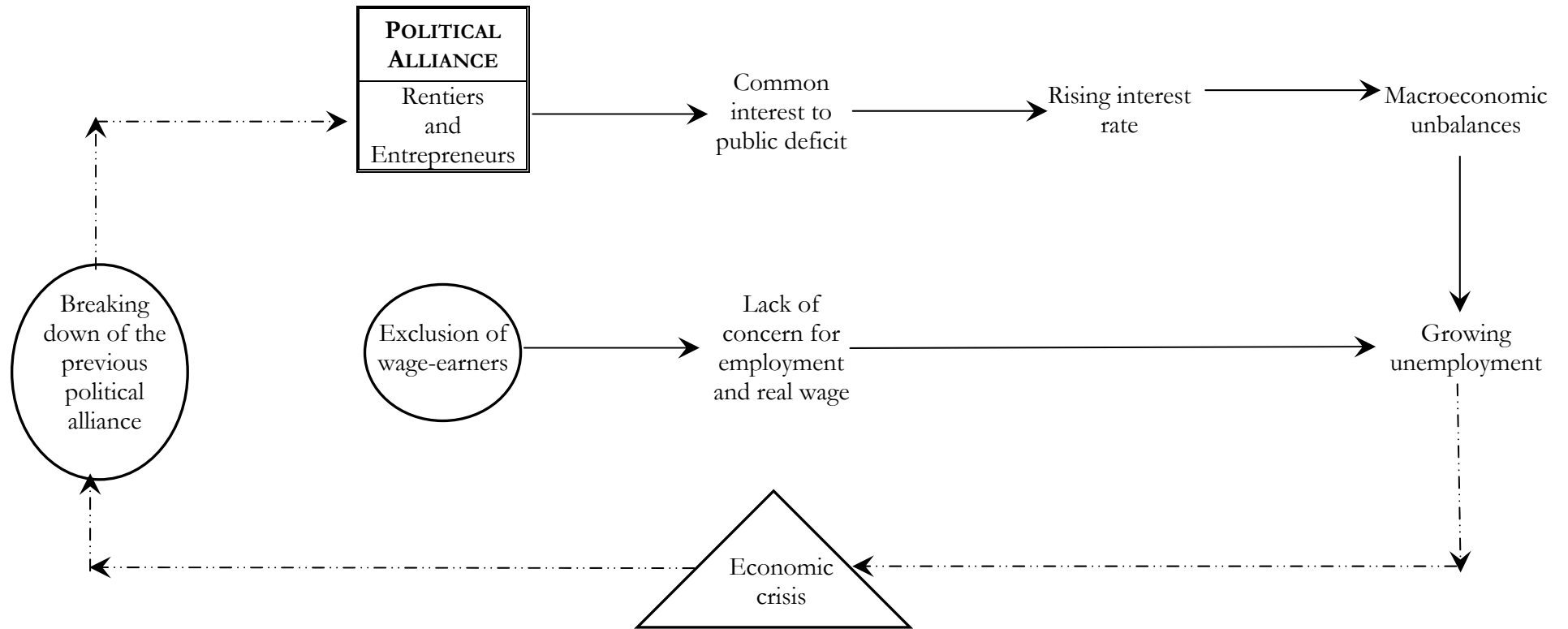
Actually since the end of the second-World War, the distribution of political power was such that the Christian Democratic Party used to express the alliance of rentiers with entrepreneurs. The expansion of public spending and debt stimulated the demand addressed to firms and was increasing the income of rentiers who represent a large fraction of the population. If these two games – at the firm level on one side, at the national political level on the other side – are inserted into a macroeconomic model describing this very specific *régulation* mode, simulations show that the expansion of the debt is cumulative; therefore the interest rate paid is increasing, due to a growing risk premium. Up to a threshold the interests of the business and the rentiers diverge and the incompatibility of their strategies shifts the burden of the adjustments upon the shoulders of the wage-earners. Therefore the crisis is simultaneously economic and political. Of course, this is a drastic simplification of the Italian case, and clearly this model does pretend to exhaust the various possible explanations of the collapse of Christian Democrats<sup>1</sup>, but it brings a quite stimulating vision of the relations between polity and economy.

The long lasting political exclusion of representatives of wage-earners has finally been detrimental to the long run viability of the strategy of the leading Christian Democrat political coalition. This is an argument in favor of the access of this social group to an alternative political coalition.

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<sup>1</sup> As pointed out by Colin Crouch “It makes no reference to: (1) the fact that Christian Democracy had a working-class component that had to be satisfied to some extent; (2) that both polity and economy of the Mezzogiorno were sustained by webs of tax evasion and corruption that eventually became a crisis because the public started to demand public services in exchange for the taxes that many people were not paying; (3) the impact on the post-war political configuration of the decline of the ‘communist threat’ and of the power of the Church.”

Figure 9 – The exclusion of a large social group may be detrimental to the viability of an economic regime: the Italian trajectory



Source: Inspired from Stefano Palombarini (2001)

**Proposition 10:** *The inclusion of the majority socio-economic groups in the political process generally contributes to the long run viability of an economic regime*

#### .....POLITICAL INTERMEDIATION MATTERS

The same research points out another proposition (Palombarini, 2001): the intricacies of political interventions may matter a lot for economic performance and the viability of a socioeconomic regime. The characteristics of the electoral process, that used to be proportional, induce a fragmentation of the parties, and thus some of them become pivotal for the sustainability of the existing political coalition. Therefore, the inner political game may periodically destabilize economic policy formation. Consequently, the structure of the political sphere induces the generalization of short termism among policy makers. This is another factor of macroeconomic crisis since no political actor has interest in internalizing the long term consequences of the economic policies they decide.

Conversely, this feature may enlighten why some authoritarian regimes (in Latin-America in the 70s and 80s, South Korea until 1985, Taiwan, and of course contemporary China) take into account the long term growth and stability in their decisions and consequently experience surprisingly good macroeconomic results, not in spite but because of the absence of democracy, i.e. the exclusion of the majority of the population. Therefore, a badly designed electoral system (Italy) or an irrelevant one with respect to the actual social cleavages of a given society (Russia under Gorbachev, Iraq after Saddam Hussein) might be detrimental simultaneously to democratization and macroeconomic stability and performance.

**Proposition 11:** *The very intricacies of the political process of intermediation may help or on the contrary hinder the objective of democratization.*

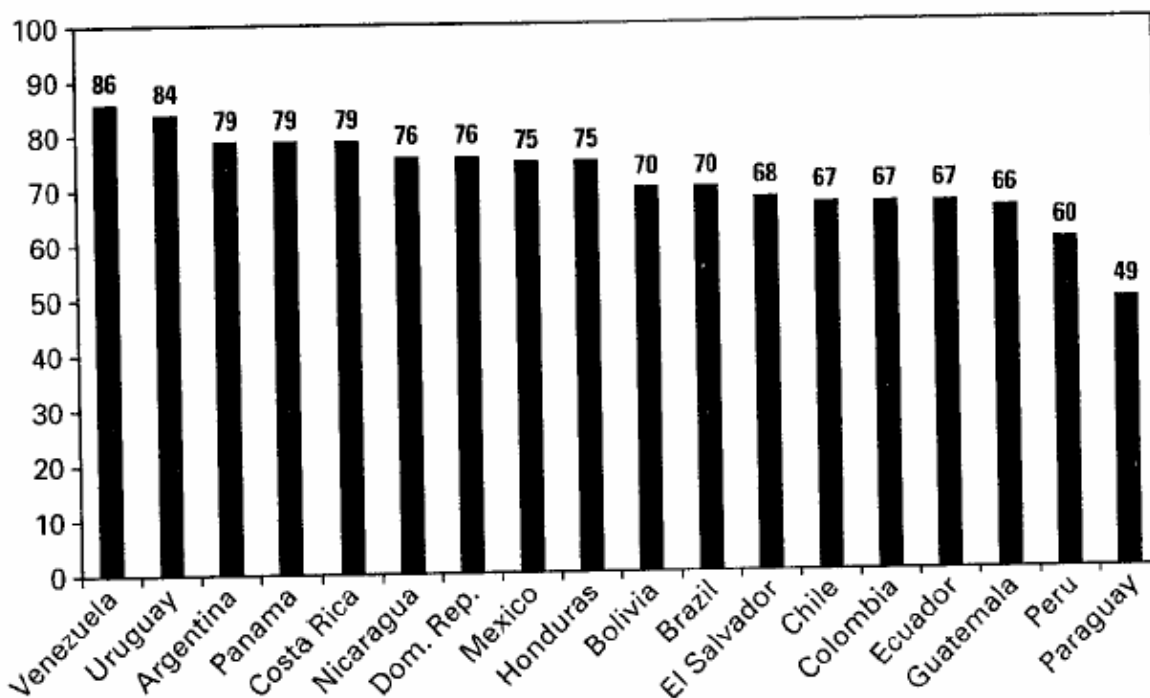
## VI. A CONTEMPORARY PARADOX: AN EXTENSION OF DEMOCRATIZATION TO NEW SOCIETIES...

With the collapse of Soviet Union regime, many observers have diagnosed a wave of democratization, and it actually took place in Central and Eastern Europe, to less extend in Asia (India is a democracy since its independence, but China is not) and finally Latin America. This continent is especially interesting since it was the territory of the theory and the practice of a developmentist State, sometimes built after a military coup<sup>2</sup>. The autocratic governments cancelled a series of democratic rights...but nevertheless in some instances the developmentist State generally triggered an economic modernization at possible large social costs (Santiso, 2007). The transformations of the 90s are therefore surprising. On one side, in spite of the turmoil associated to financial and economic crises, public opinion has been converted to the merits of democracy. On the other side, most Latin-American citizens do think that democracy is good for the development of their country (figure 10).

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<sup>2</sup> This does not mean that all military regimes had interest in economic development, nor that civilian governments could not promote a developmentist State.

Figure 10 – Public opinion concerning democracy in Latin American societies



Source: Percentage of responses affirming the statement “Democracy is the only political system that can help the development of the country” from Latinobarometro polls, in Javier Santiso (2007: 31)

Therefore, many political scientists have devoted a lot of research in order to understand the factors that shape this process of democratization (see for instance, Przeworski, 1991; 2004). But the adhesion to democracy is far from angelic or naïve “*As happened in the old democracy, the citizens’ dissatisfaction with respect to their leaders has increased. [...] Between 1996 and 2003 satisfaction decreased considerably. In all countries, with the exception of Venezuela, satisfaction with democracy has receded. Above all, this dissatisfaction refers to the economic achievements of the democratic regime*” (Santiso, 2007: 33). Clearly, complex factors shape the assessment by citizens of their government actions: on one side, political and ideological preferences; on the other side, appraisal of the practical consequences, including economic ones, for each individual of the past policies.

#### .....BUT DISENCHANTMENT OF CITIZENS IN NEW AND OLD DEMOCRACIES

Actually, one of the key reasons for the dissatisfaction of citizens is precisely that most governments have not delivered outcomes in line with their electoral promises. Therefore, this is a rupture with respect to the Golden Age. During this period, even conservative politicians declared they were Keynesians (Nixon in the US) or social democrats (Valery Giscard d’Estaing in France) because they wanted to appear as progressist and to be attributed the origins of an unprecedented economic dynamism. Conversely nowadays, citizens blame governments for poor macroeconomic performances even if their real responsibility is quite indirect.

But beneath the surface, this disenchanted view of democratic regimes has deeper explanations (table 5).

- A frequently called upon factor is of course the impact of *globalization*. During the Golden Age, firms and wage-earners were *de facto* interdependent since mass-production was servicing the domestic market composed mainly by these wage-earners. This economic complementarity had a counterpart in the political sphere and this explains the remarkable stability of this socio-political regime. By contrast nowadays, domestic firms are responding to a world demand and they can invest everywhere in the world: the structural complementarity with the workforce has broken down.
- Furthermore, the stability of the hierarchy of income among wage-earners used to correspond to the large division of labour exhibited by the emblematic assembly line. Today, the deepening of division of labour has generated a stronger individualization of competences (Beffa, Boyer, Touffut, 1999). Professionals (the symbolist analysts of Robert Reich) are at the origin of a new *productive paradigm*, based upon innovation, differentiation and quality of products and services. They are highly mobile from one job to another and they move easily across national borders. By contrast, flexible workers continue to suffer from low competences and a clear dependence with respect to the domestic market. In between, polyvalent workers continue to benefit from the previous compromise between managers and workers, since they display firm's specific competences but their number is shrinking. This segmentation of workers has weakened their collective bargaining power.

Table 5 – Risks and opportunities for a renewal of democracy

RISKS	OPPORTUNITIES
1. "Globalization" entitles symbolic analysts to free themselves from national politics: a real risk	1. Call for more democracy at the international level, via a reform of United Nation institutions: a potential opportunity
2. Rise of transnational corporation as an actor inaccessible to domestic democratic control in the era of neo-liberalism	2. Civil society organizations develop at the transnational level and try to be a countervailing force
3. Generation of new inequalities in the knowledge based economy	3. Some social-democratic societies have been successful in preserving moderate inequalities while mastering the KBE
4. Divorce between the higher complexity of modern societies and the limits of representative democracy	4. Learning from failed experiments (Iraq) and progressive learning (Latin-America) re-politization of independent administrative entities( Europe)
5. Crisis of political intermediation	5. Renewed interest for participatory democracy and other forms of democracy in complement to representative democracy
6. The fusion of finance, media and politics endangers the democratic process	6. New regulations about the civic control of media, finance and politicians

- The *increasing heterogeneity* of competences, life styles, and political preferences makes political intermediation more and more difficult. If the mass-production / mass-consumption regime initially produced homogeneity, its very maturing has on the contrary generated more and more differentiations of status. It is therefore increasingly difficult to satisfy a majority of citizens, the more so the more diversified the issues at stake (employment, income, security, quality of life, ecology,...).

- Contrary to Luhman's prognosis, we seem to observe a trend toward the *mixing* if not the fusion of three previously distinctive spheres: *finance, media, and politics*. Consequently, the typical democratic process is no more the only relevant mechanism in many domains of economic and social policies. For instance, stock-markets tend to react quite quickly to political statements, faster than the process of democratic deliberation. Similarly, communication and media tend to have an increasing role in electoral periods but also afterwards in the everyday conduct of polity. Furthermore, one observes the growing dependency of politicians from large financial support that rarely comes from citizens and associations of civil society but from large corporations<sup>3</sup>.

Nevertheless, it is too early to conclude that a general process of *de-democratization* is under way, just to use the term coined by Charles Tilly. Clearly, some factors of *democratization* do exist (table 5, supra). First, some societies, especially in the *social democratic* tradition, have preserved the efficacy and legitimacy of democratic procedures even though new migrants put some tensions, especially in the access to welfare. Second, old European democracies have learnt from their failures to implement from outside democratic institutions, for example in Middle-East. Third, some Latin-American trajectories bring some hope since actors have learnt from previous mistakes both in terms of excessive economic liberalization and authoritarian governments.

Last but not least, many philosophers and political scientists are investigating various *complements to representative democracy*. They propose for instance to develop *participative democracy* at all level of social and economic organizations (Canto-Sperber, 2003; Crouch, 2004; Fukuyama, 2004; Schmitter and Trechsel, 2005; Rosanvallon, 2006; Crowley, 2007; Blondiaux, 2008). Recently, some politicians have been introducing these proposals into electoral debates. Finally, the current *subprime* crisis makes clear that one of the tasks of the governments is to *discipline finance* in order to assess whether innovations do contribute, or not, to the welfare of the society and are compatible with macroeconomic stability. Similarly, some governments dare to put limits to the *concentration of media* and their merging with economic interests...but others do not when politicians become the lobbyists of special economic interests.

**Proposition 12:** *The contemporary world exhibits contradictory trends: diffusion of constitutional democracy to new countries but perceived crisis of representative democracy in new and old democratic societies...nevertheless de-democratization is not unavoidable.*

## VII. A DILEMMA: RENEWED SOCIAL DEMOCRACY OR SOCIAL LIBERALISM?

The first stage of globalization had popularized the idea of a complete economic determinism for national policies: There Is No Alternative (TINA) was a typical motto of this period. Consequently, all previous organizations and institutions were supposed to be made fully compatible with an extended economic logic expressed at the world level. The demands of financiers in terms of shareholder value have renewed these pressures all over the world. For some leftist governments, social liberalism appeared as an imperative since the old social democratic model was assumed to be obsolete. Nowadays, it is more and more recognized, including by international organizations such as OECD, that several institutional configurations and not only one, have proven their relevance, resilience and viability.

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<sup>3</sup> The Barack Obama campaign in the 2008 US presidential elections may be an exception to this trend.



Let us here risk an assessment of the two options open to left wing political coalitions (table 6) and focus upon the specific features of a *new social democracy* (NSD).

- Basically, both social democracy and social liberalism accept the challenge of *openness* to world competition, but they differ concerning the respective role of *collective action* and markets. Instead of considering as given all the signals of the market, especially on the labor market, NSD defends the imperative of social inclusion, decent living wages and an extended solidarity via welfare eventually against the spontaneous market adjustments. Markets operate within limits set by rules emerging out of collective deliberation. They are requisites for the permanent redeployment of labor in response to competition, changes in the demand and innovations.
- Whereas the role of the State is residual in typical liberal regimes, NSD recognizes to *the State* a *central role* in financing and organizing the primary and secondary education, the universities, research, life long training, the health care and most public services. Consequently, the tax system has to be simultaneous well designed and progressive since it redistributes a very large fraction of national income (half of GDP in Denmark for instance).
- Instead of correcting ex post the inequalities generated by markets, NSD attributes to initial *education* the task to develop the generic competences for the larger fraction possible of the population, in terms of *citizenship*, ability to get access to *well paid jobs* and permanent adaptation to the evolution of the economy and technical change via *life long learning*.
- Given a long tradition of socialization in local *communities of equals*, the density of social networks concerned by policy formation at the national level and generally the small size of social democratic societies, the politicians are deeply embedded into the society. This clear evidence of persisting democratic principles and practices contrasts with the trend towards the segregation of political elites from the citizens observed in many other political regimes.

Table 6 – The competition between new social democracy and social-liberalism

New social-democracy	Social-liberalism
1. Empowerment of workers	1. Adaptation of workers to markets
2. Transformations of market relations in response to the primacy of <i>social</i> inclusion	2. Pure market mechanisms as sources of efficiency in response to the primacy of <i>market</i> inclusion
...They are both responses to globalization	
3. Centrality of the State as instituting a universal welfare	3. A residual role of the State in means tested welfare
4. Education is a source of social inclusion and equalization of opportunities and possibly of outcomes	4. Education is a selection device for access to elite and a bridge towards employment
5. Relative openness and flexibility in the access to political careers	5. Possible trend towards the segregation of the political elite with possible constitution of dynasties
6. Flexicurity or secure-flexibility	6. Flex-flexibility
7. Search for the eradication of the intrinsic sources of inequalities upstream of market mechanisms	7. Correct by taxation and social transfers the more visible inequalities generated by the market

**Proposition 13:** *The reformed social democratic societies do continue to reconcile economic dynamic efficiency and the stabilization of inequalities*

## THE DANISH FLEXICURITY IS NOT A VARIANT OF THE WORKFARE

Just to contrast the NSD with liberal regime, it might be enlightening to compare the workfare typical of liberal capitalism and social liberalism. Both deliver good employment performance but they deploy different strategies and have different outcomes (figures 11 and 12).

- The common principle is to accept *labor mobility* as a response to the impact of competition on the flux of job destruction and creation. But workfare might imply a wage reduction if the competences of the workers have become obsolete, whereas NSD requires that labor mobility is oriented towards *higher skills and value added jobs* (Boyer, 2006a).

Figure 11 – The *workfare*: Reducing welfare in order to strengthen market mechanisms

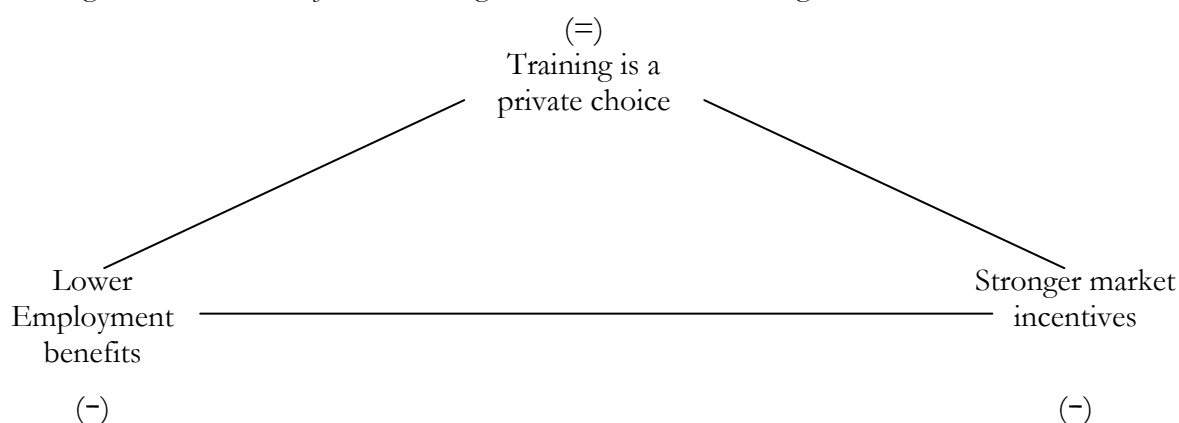
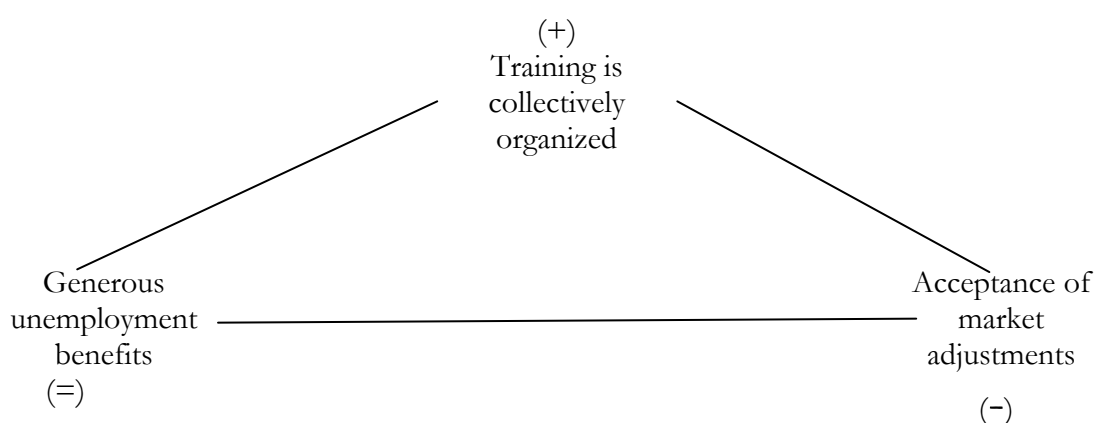


Figure 12 – The *flexicurity*: A new configuration for solidarity via a reform of welfare



- A second divergence relates precisely to *training* decisions. In workfare regimes, the priority is the return to employment even in a low paid job with few or no concern for an upward career in terms of skills. The choice of training is up to individuals. Social democratic regimes put strong incentives and even constraints in order to propitiate the return to an employment but they take into account the medium term perspectives concerning the competences and the probability of keeping a good job in the long run. A public agency simultaneously

manages and organizes training and unemployment benefits in order to optimize careers and not instantaneous access to an employment.

- A third difference concerns precisely the *level of unemployment benefits* (UB). Of course any government is trying to optimize the management of this component of the welfare. In one case, the UB are voluntarily kept as low as possible in order to put strong incentives for new job acceptance under the threat of pauperization. In the NSD no unemployed has to become poor during the move from one job to another, since the UB are *sufficiently generous* for low wage earners. An active employment policy is in charge of controlling the opportunist behavior of the unemployed, rather rare indeed, whereas this is the obsession of liberal regimes.

In theoretical terms, the *Danish flexicurity* model just described displays an original complementarity between the absence of legal constraints upon hiring and firing, a generous welfare and an active employment policy. By contrast, *American and British workfares* organize a complementarity between labor mobility and a quite lean welfare (low and stable minimum wage, poor unemployment benefit for the low skill workers). No surprise then if inequalities are much more reduced within NSD than for liberal regimes.

**Proposition 14:** *Reformed social democracy and social liberalism are competing strategies, since flexicurity is not equivalent to workfare.*

## VIII. THE CONTRASTED FACTORS THAT SHAPE THE FUTURE OF DEMOCRACY AND CAPITALISM

All the previous results converge toward a major conclusion: it would be erroneous to try to find a general and unique answer to the issues of the directions of contemporary transformations of capitalism and democracy. The same factors have a different intensity and interact with quite different national trajectories. But this recognition of the diversity of configurations is not at all an evidence for a complete relativism (“every thing goes”). Actually, an Institutional Historical Comparative Analysis is quite enlightening (Thelen, 2003). This methodology has been adopted by *régulationist* research and applied to the transformations of economic regimes, but some social historians have developed a similar approach concerning the configuration of democracy. Let us follow here the approach by Charles Tilly (2007) in his final chapter about the future of democracy. Looking back at history, he found that three distinctive factors shape democratization (table 7).

- The *integration of trust networks* into public politics exhibits a strong differentiation among old democracies. If Denmark is again a good example of integration and if Japan is also in a favorable position, by contrast the American society shows multiple evidences of autonomization of trust networks: finance has become more and more powerful and influential, whereas media tend to overcome the voice of citizens in the expression of demand addressed to the State. France enjoys the legacy of a good State capacity, but some of the American and quite preoccupying trends are present in French politics.
- The second criteria, i.e. the risk of the emergence of *autonomous powers* independent from the State is not so much relevant for old democracies, but of course it is the crucial problem in most African societies and in the past even in contemporary Russia.

Table 7 –The three factors that shape domestic democratization processes

	DENMARK	US	UK	FRANCE	JAPAN
INTEGRATION OF TRUST NETWORKS	Extended	Trend towards an autonomization of finance, politics, media	In public services, trust networks tend to be replaced by market mechanisms	Traditionally high but declining	Significant at the local level and to some extent in the political sphere
REDUCTION OF AUTONOMOUS POWER	No more the issue	Increased behind the scene power	State more dependent from economic and financial interests	Still an integrative role of the State, but emerging social and urban exclusion	No more a problem
INSULATION FROM CATEGORICAL INEQUALITIES	Clear for Danish citizens, but contradictory tensions for migrants	No, still ethnic based inequalities, gated communities, Unequal access to health, education	In spite of an early welfare, growing inequalities reflected into polity	Rhetorical equality but emerging breach between elite and citizens	Traditional belief (belonging to a middle class) but potentially challenged since the 90s

Source: Largely inspired by Tilly's model (2007).

- The insulation of public politics from *categorical inequality* is an important issue for quite all democracies. Even in Denmark, the integration in the society of migrant workers is a hot question, with direct consequences for the access to welfare. But quite interestingly, social partners do develop integrating procedures for migrant workers into the Danish high skill, high wage economy. This tension between political citizenship and social rights of workers is quite significant indeed in most of the countries that built a form of flexicurity, such as Denmark but also Netherlands. Under the same criteria, the US are experiencing a form of de-democratization since the integration of the poorest fraction of the black community has receded, the access to education and health is more and more unequal and gated communities prosper... In a sense, France is suffering from a severe urban exclusion, but of course the legacy of a universalist welfare system still moderate the widening of inequalities. In Japan, economists debate about the depth of inequalities after the bursting out of the 80s bubble (Tachibanaki, 2005) but international comparisons show that this country is closer to Europe and social democratic societies than to the US. Could the Japanese society evolve towards a civic social democracy in order to stop a mild form of de-democratization presently observed (Yamaguchi, 2005; 2007; Yamaguchi & al., 2005)

**Proposition 15:** *In spite of common factors and threats, among them globalization, the Nation State still is the main arena where economy and polity interact and generate idiosyncratic trajectories.*

.....WOULD THE NEW SOCIAL DEMOCRACY BE THE BEST RAMPART OF POLITICAL DEMOCRATIC RIGHTS?

The cursory international comparison sketched previously suggests the following taxonomy:

- On one side of *US type liberal capitalism*, the triangular relationships between State, Civil Society and the Economy, display a quite specific configuration. The rise of the bargaining power of business and finance exert a strong influence over the formation of economic policy. In a sense the State reflects these specific interests and in some instances it imposes to civil society a downgrading of economic, social and ultimately political rights. Consequently, in liberal capitalism, weak workers finally mean weak citizens, or at least a quite unequal use of political rights, as evidenced for instance by electoral participation rates across social groups. Thus the weakness of social rights negatively spills over civil and political rights (figure 13): this might be a general interpretation for the de-democratization process occurring in US, already pointed out by table 7.

Figure 13 – Weak socioeconomic rights and democratization: the dilemma of liberal capitalism?

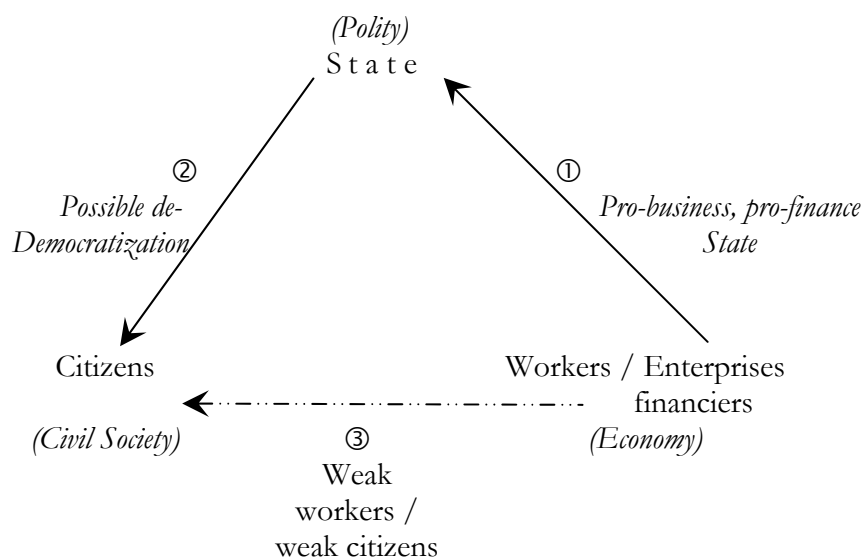
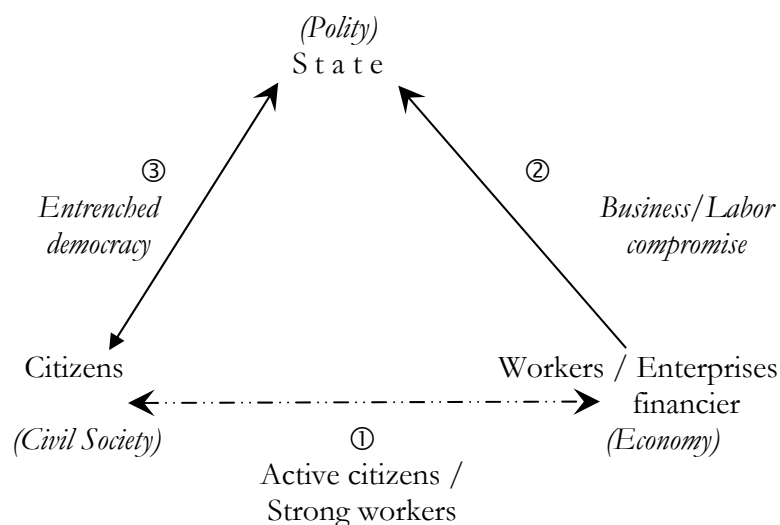


Figure 14 – The virtuous circle between democracy and social democracy



- This negative spiral is not a universal phenomenon since most social democratic countries experience a noticeable stability of democratic rights or even their extension to new domains (gender, disability, life long learning,...). This configuration can be interpreted as an evidence for a synergy between a basic business/labour compromise, permanently updated in its content, and strong codification of citizens rights that correct the structural unbalance typical of the employment relation. Active citizens, largely entitled of various social rights (free access to education at all levels, to healthcare, generous unemployment benefits, intense retraining,...) make strong workers in the economic arena itself. The embeddedness of social democracy makes quite resilient the democratic principles and practices in the political sphere (figure 14).

The present analytical framework delivers a quite unconventional diagnosis. Mainstream analysts forecast the irreversible rolling back of welfare and consequently the progressive erosion of social democracy and its convergence towards a minor variant of liberal capitalism. Here it is argued that this is neither the unique nor a necessary evolution. Firstly, once reformed, social democracy has exhibited a strong resilience since it still makes compatible dynamic efficiency along with the search for social justice and moderate inequalities. Secondly, the recognition of socioeconomic rights make democracy in the political sphere more active and lively and it seems to prevent any post democracy fatigue (Crouch, 2004), and minimize the risk of de-democratization (Tilly, 2007). Hence this last proposition:

**Proposition 16:** *In liberal capitalism, the weakness of social rights makes probable a process of de-democratization, but in renewed social democracy, extended socioeconomic rights do sustain the ongoing process of democratization.*

## CONCLUSION:

The conjunction of the previous propositions is already a kind of summary, but they can themselves be synthesized.

- C1. The so called *market democratic society* does not represent a *single configuration*, nor is it a one best way that would be easy to implement or import.
- C2. *Capitalism* sets into motion a *permanent evolution* of economic and social institutions and organizations. *Democratization* does not converge towards a steady state but it is a permanent *process*, featuring both epochs of progress and regress.
- C3. At odds with the trend to the *autonomization* of economics and political sciences and the different logics of the economy and the polity, de facto *economic regimes* and *political organizations* co-evolve. Consequently, one observes *contrasted trajectories*, even in the presence of common general trends such as individualization, globalization and financialization.
- C4. Since two decades, *democratization* has been *diffusing* to Eastern and Central Europe, Latin America and many other post colonial societies but simultaneously citizens have been more and more *disenchanted* with the actual working of *representative democracy*. Quite a paradox indeed! One understands then the general search for other democratic forms such as participatory democracy.

- C5. From an ideological/ programmatic point of view, old democracies face the choice among at least *three strategies*: liberal capitalism, social liberalism and renewed social democracy. They correspond to different *political alliances* and they display quite *contrasted complementarities* among the political and economic spheres.
- C6. The *Nation State still matters* in terms of political constitutional order and implementation of the institutional forms that shape economic activity i.e. *régulation modes*: the threats and challenges addressed to democratization drastically differ from one Nation State to another.
- C7. The *renewed social democracy* seems to prolong the Golden Age since it reconciles dynamic efficiency and social justice in the context of globalization. This could or should replace the liberal capitalism as the *benchmark* for policy makers. Nevertheless, there are many obstacles to the diffusion of this new form of social-democracy since it is the outcome of century long and quite specific co-evolution of polity and economy, and it was initiated by small and densely networked *communities* that extended the related *trust and procedures* at the national State level. More than a pure but impossible imitation, governments should aim at *hybridizing social democratic principles* along with the nature of specialization, domestic traditions and political styles. In France, State should play a major role in such a process of hybridization but in Japan it could originate from the initiative of civil society, thus generating a Civic Social Democratic configuration.

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