BOOK REVIEW

Baccaro, L., Blyth, M. & Pontusson, J. (Eds.) (2022). Diminishing returns: The new politics of growth and stagnation. Oxford University Press

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The authoritative article of Baccaro and Pontusson (2016) gave impetus to a special field of comparative political economy, namely the growth model literature. The multi-author volume entitled *Diminishing returns: The new politics of growth and stagnation* can be considered a direct – though much more voluminous – continuation of the aforementioned article. It was published by Oxford University Press in 2022 under the editorship of Jonas Pontusson, Lucio Baccaro and Mark Blyth.

The book's introduction was written by the three editors. It has an important role in laying down the foundations that constitute real coherence between the following seventeen chapters written by twenty-eight authors. The editors acknowledge economic growth as the main source of legitimacy within democratic capitalism. This way, they explain why economic growth, the different models for delivering growth (*growth models*) and the possible lack of growth (*secular stagnation*) were chosen as central concepts throughout the book. They create a framework for the whole book by making some initial arguments about how the discipline of comparative political economy should be reconsidered. First, the exclusive focus on the supply side should be supplemented with an analysis of aggregate demand. Second, macroeconomics should be brought back into the game. Linked to the latter two points, the editors call for a post-Keynesian approach to macroeconomics. Third, it is argued that advanced capitalism is facing a tendency to stagnation. Fourth, the synergies between comparative (CPE) and international political economy (IPE) should be better exploited. Finally, it has to be considered that the sustainability of *growth models* is conditional on both electoral politics and the existence of a supporting *growth coalition*. These five arguments outline the foundations of the *post-Keynesian-based growth model approach,* which constitutes the primary subject of the book.

After introducing the concept of the wage-led regime and its supposed dominance amongst advanced economies, the editors outline the history-based narrative of the growth model literature: the oil crises of the 1970s brought about the end of the so-called Fordist model. This was based on institutionalized wage-bargaining, contributing to a relatively large wage share. The latter perfectly suited the wage-led regimes and resulted in a healthy rate of growth. However, the exhaustion of the Fordist model resulted in a turn in policy-making, referred to as Thatcherism, Reaganomics, or neoliberalism. The important consequence is that the wage share started decreasing, which resulted in depressed aggregate demand that paralysed growth opportunities. In order to cope with the insufficient demand, countries had to look for additional drivers of demand. The different responses of countries to this challenge generated a variety of growth models. Throughout the book, four core models are differentiated: *export-led* and *debt-driven consumption-led models* are the basic ones, while some countries have adopted a mixture of them, resulting in *balanced growth models,* and some countries have failed to adopt a coherent model, leading to *failed models.*

The rest of the book is organized into four parts, first addressing theoretical issues and then larger regions through the lens of growth models. Third, comparative country case studies are delivered, and finally, the political aspects of growth models are presented.

To start with the theoretical elaboration, Engelbert Stockhammer and Özlem Onaran wrote the first chapter on the post-Keynesian foundations of growth models. In the second chapter, Herman Mark Schwartz highlights the special role of intellectual property. The link to the growth model literature is presented as follows: There has been a shift in the corporate organizational structure, giving an advantage to corporations with robust intellectual property rights (IPRs). Those corporations that can establish a certain amount of monopoly power through their protected intellectual property earn the most profit. However, these firms tend to have a relatively low marginal propensity to invest, coupled with limited number of employees. The fact that the highest profits are concentrated in IPR-intensive firms with moderate investment propensity is responsible for the insufficient aggregate demand.

The last chapter of the theoretical overview was written by Schwartz and Blyth. The chapter presents the international considerations and the IPE perspective of growth models. The central argument is formulated in contrast to the observed country-level bias of CPE, claiming that the features of different models are not confined to country-level aspects. More precisely, country-level factors are frequently activated and shaped by global, system-level processes. Throughout the chapter, different mechanisms are presented concerning how the global system and country-level growth models interact.

The high-level empirical part of the book starts with a presentation of the post-crisis growth model of the Eurozone by Alison Johnston and Matthias Matthijs. The authors are unambiguously critical of the post-crisis development of the Eurozone's macroeconomic policies. According to their argumentation, in the 2000s, the Eurozone sensibly accommodated diversity in growth models. However, the Great Financial Crisis (GFC) brought about a turning point: the export-led economies of the North better withstood the crisis compared to countries with debt-driven consumption-led models. This resulted in a shift in power relations that enabled the export-led economies to impose their policy preferences – especially fiscal austerity – on the whole monetary union, leading to sub-par growth performance.

Chapter 5 is written by Yeling Tan and James Conran on the growth models of China. Using the plural form 'models' is not accidental. The main argument is that the growth model based on manufacturing exports is just one of more simultaneously existing models. The export-driven sectors are concentrated on the coast, while the state-led investment-driven model is prevalent in the interior of the country. This way, China is presented as a hybrid case – a *'system of systems'*. This heterogeneity is assumed to be rooted in the incremental and experimental nature of reforms applied in previous decades.

In the sixth chapter, Jazmin Sierra presents Latin American countries as typical examples of commodity-driven growth models based on the extraction and export of primary products. Such a one-sided model is viewed as detrimental. Therefore, several trials have been made historically to rebalance the model – without too much success. The general lesson is that once a growth model is established – even if it is detrimental – it is difficult to change. Such change is blocked most of all by the distributional interests of the previously privileged faction of society.

Chapter 7 is devoted to the FDI-led growth models on the European periphery: East-Central and South-Eastern Europe. Cornel Ban and Dragos Adascalitei present an export-driven model with a specific feature of extensive reliance on incoming foreign direct investment (FDI). As the model might entail the threat of the middle-income trap, the potential upgrading of the model is a crucial question. The main theoretical argument is that model changes are likely to occur when the model becomes strongly dependent on a specific growth driver, and this driver receives a shock. In the examined model, such a driver might be the positive gap between labour productivity and real wages. The main empirical conclusion is that, despite several challenges, the export/FDI-driven model of the region is still in place.

The third part of the book continues with country case studies. In Chapter 8, Alexander Reisenbichler and Andreas Wiedemann present the credit-driven consumption-led growth model of the United States and the United Kingdom. With this model, the insufficient demand caused by the declining wage share in the post-Fordist era is managed by domestic demand stimulus. The model is built on a permissive regulatory and fiscal environment, allowing households to counterbalance their stagnating real wages by resorting to loans.

In Chapter 9, Baccaro and Martin Höpner present an alternative solution to make up for insufficient demand: the export-led growth model of Germany. This model is built on raising export competitiveness through real undervaluation of the currency. Undervaluation is accomplished partly via a wage-bargaining regime centred on the idea of *employment for wage moderation*. Further elements for suppressing domestic demand are conservative fiscal and monetary policy coupled with strict credit regulation. The key challenges to the model are whether the world economy remains open to trade and whether it tolerates large imbalances in the current account. Furthermore, the potential erosion of the euro system also poses a potential threat to sustainability.

The German case hints that an export orientation necessarily comes at the expense of domestic drivers of growth. This is why the Swedish balanced model presented by Pontusson and Lennart Erixon is of great interest. To explain the alignability of different components of growth, the authors of the book refer to the price elasticity of exports. With a heavy reliance on its manufacturing sector, Germany is assessed to face high price elasticity, necessitating the extensive moderation of domestic demand. On the other hand, the Swedish economy has undergone a more pronounced shift towards an ICT-based knowledge economy, making the external demand for its exports less sensitive to prices. As a result, the opportunity has opened up to maintain export performance combined with an increase in the role of domestic drivers of growth.

In Chapter 11, Lucio Baccaro and Fabio Bulfone investigate the growth models of Italy and Spain over the past 30 years. Their main insight is that despite the alleged similarity, the two countries have followed strongly dissimilar growth paths: Italy's comparative surplus of about 30 per cent in GDP per capita in the early 1990s has nearly disappeared. The authors explain the better performance of Spain by the latter's coherent choice of one of the two models facilitated by EMU membership – namely, a credit-fueled domestic-demand-led strategy. On the other hand, Italy lacked coherence and wavered between a credit-fueled model and the German-style export-led growth strategy.

After publishing an article in *Politics & Society* (Bohle & Regan, 2021), Dorothee Bohle and Aidan Regan also published a chapter in *Diminishing returns*. Now the case of Ireland is paired with that of Latvia. The grouping criterion is how small countries find niches that service the interests of global capital. The central concept of the chapter is the global wealth chain (GWC). GWCs incorporate capital movements with the pure intention of optimizing the regulatory environment. The Irish model is praised by the authors for being able to reap the benefits of GWCs in a pro-developmental way. The Latvian model of exploiting global capital movements lacks the pro-developmental feature: it is built on the banking sector attracting illicit wealth from abroad.

The fourth and last part of the book focuses on policies and politics related to growth models. Chapter 13 is written by Cornel Ban and Oddný Helgadóttir to address a gap identified in the VoC literature: the role of financialization. After reading the previous twelve chapters, it is not a surprise that financialization is presented as having an important role in debt-driven consumption-based models, just as the underdeveloped nature of financialization is in export-driven models.

In Chapter 14, Jonathan Hopkins and Dustin Voss intend to fill the gap in the growth model literature that neglects party politics. The authors present a historical evolution of party politics, highlighting that the end of the Cold War left voters with a choice between barely distinguishable mainstream parties. These parties are called *cartel parties,* which fit with the prevalent economic model in that they agree on the key neoliberal policies and close out alternative approaches – such as more interventionist ones. The authors argue that the Great Financial Crisis had the potential to activate previously dissatisfied but acquiescent voters, resulting in an *electoral turn*.

The book dedicates a separate chapter to fiscal policy – more precisely, austerity. The main argument of Evelyne Hübscher and Thomas Sattler in Chapter 15 is that the potential resort to fiscal austerity depends first on the underlying growth model. Their theory opposes the voter-driven bottom-up perspective, which highlights electoral responsiveness.

In Chapter 16, Julia Lynch and Sara Watson investigate how the welfare state shapes the growth model. After presenting various welfare reforms associated with key cases in the growth model literature, the authors do not find strong evidence that welfare states are consciously constructed to promote the economic functioning of the growth models. Instead, based on their assessment, the relation is rather indirect: the welfare state policy has a substantial role in building political legitimation and growth coalition behind the economic models.

In the final chapter, Jonas Nahm investigates green policies through the lens of the growth model perspective. He poses the question of why certain economies are ahead of others in the green transformation. He interprets green growth as a popular strategy for combining climate issues with economic gains – therefore, a strategy for making green policies attractive to certain factions of society from which a supporting coalition may be formed.

To summarise, I recommend the book to anyone who would like to get acquainted with either the growth model literature or its post-Keynesian foundations. After reading the seminal article of Baccaro and Pontusson (2016), *Diminishing returns* will not deliver any surprises. In contrast to the article, however, the book offers much more space to investigate how growth models interact with a wide range of theoretical phenomena. Second, the book as a genre facilitates the authors' going beyond a presentation of the most typical empirical examples of growth models – Germany being export-led, the USA being debt-driven consumption-led, and Sweden having a balanced growth model.

One shortcoming I need to highlight concerns secular stagnation. The narrative of the growth model literature is based on the sub-par growth performance of the post-Fordist era. The book does not provide convincing empirical evidence that secular stagnation is a present challenge. A key value of the publication – for which credit goes to the editors – is that despite the twenty-eight authors, the book has strong internal coherence. The volume is well-edited, and the chapters are organised logically, constructing an easy-to-follow arc of thought.

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