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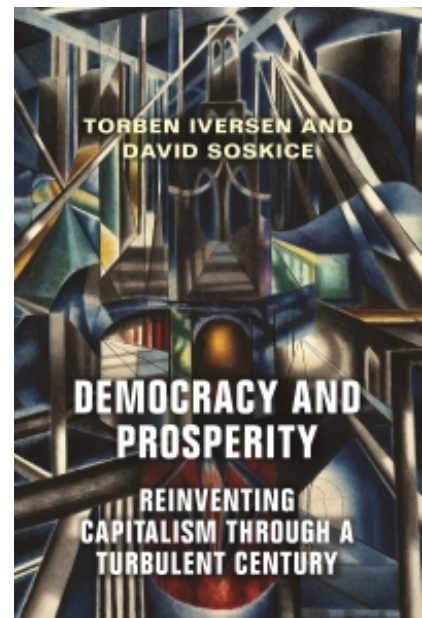
blogs.lse.ac.uk/businessreview/2019/11/03/democracy-and-prosperity-reinventing-capitalism-through-a-turbulent-century-book-review/

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***Democracy and Prosperity: Reinventing Capitalism through a Turbulent Century.* Torben Iversen and David Soskice. Princeton University Press. 2019.**

Is democracy compatible with (advanced) capitalism? And how has (advanced) democracy maintained resilience? In *Democracy and Prosperity: Reinventing Capitalism through a Turbulent Century*, Torben Iversen and David Soskice, two prominent scholars of comparative political economy, take up the challenge to contribute to the debate concerning the relationship between democracy and capitalism with a unique and provocative analytical framework. It should be stated at the very beginning that this review cannot do full justice to every noteworthy point raised in this significant contribution given the space limitation. This is because the book offers an extended view of the relationship between democracy and capitalism over a long period of time, aiming to enable us to understand the drivers of the middle income trap, how democratic politics strengthen capitalism, how capitalism and democracy have risen in tandem, why we observe varieties of capitalism across advanced capitalist democracies and the rise of inequality without redistribution.



A multi-tiered, multi-factorial historical comparative analysis of the relationship between capitalism and democracy provides a thick description of democracy driving capitalism in the twentieth-century Fordist economy and the twenty-first-century knowledge economy. The main argument asserts, firstly, that both during the Fordist era and for the construction of the knowledge economy, democracy has been the main driver of capitalism. For this to happen, the state has played a central role in investing in education, (re)skilling, (re)training and enforcing rules for a solid playing field that enables firms to flourish.

Secondly, capital is geographically bounded because capitalism (both Fordist and post-Fordist) needs co-located labour with co-specific skills that rely on social networks. As such networks constitute skill clusters, capital cannot move freely since it is chasing labour and skills. Thirdly, the electorate look for politicians known as 'good economic managers' who can manage labour (read this as pacifying unions to limit 'militant behaviour') and implement policies that contribute to ensure the success of capitalism by expanding educational, financial and economic opportunities, mainly through neoliberal policies. Together, these key elements constitute a symbiotic, two-way relationship between democracy and capitalism.

Here, the demands of the middle class, which are mediated through either majoritarian or proportional electoral systems, are the key to understanding how democracy reinforces capitalism and how capitalist economies have remained resilient democratically. More specifically and related to the emergence of the knowledge economy, as capitalist democracies have advanced, the preferences of the middle class have evolved towards favouring more liberalisation and financialisation among other processes. Motivated by a political survival logic which dictates that they must be reputed as 'good economic managers', politicians have responded to the demands of the middle class to liberalise economies, which has facilitated the emergence of the knowledge economy. Here, it is useful to note that the authors build the theoretical and analytical framework upon the 'middle class' and its political-economic preferences which have a central role in explaining how political economies evolve and which policies are more likely to be pursued (11-14).

This transformation has naturally created a group of 'losers' (the 'old middle class' that is stuck in low-paying jobs with low productivity) that has observed erosion in their socio-economic rights, as well as 'winners' (the 'new middle class') that have benefited most from globalisation, liberalisation and the rise of the knowledge economy which requires sophisticated skills. Positioned in a dense social network in big cities where skill clusters attract and preserve capital, the 'new middle class' has a totally different set of preferences, which creates a gap between the 'old' and the 'new' middle classes. The authors argue that democracy is not about equality or redistribution, but about furthering the relative position of the middle classes. As such, the 'new middle class' only cares about its own welfare, and its members are not concerned about the compensation of the 'losers'. In this regard, interests diverge, and the 'losers' start to feel the tunnel effect, which is based on overly optimistic imagined futures of social

mobility and greater equality. Consequently, when the ‘tunnel effect’ becomes a fiction that fails to materialise greater equality through social mobility, we observe the ‘losers’ voting for populists. The authors maintain that the rise of populism is not a cultural phenomenon, but is the very product of socio-economic and political phenomena that have their origins in how the knowledge economy and its political-economic bases have failed to compensate the ‘losers’.

While the book presents a rich historical and contemporary analysis of the relationship between democracy and capitalism, the main arguments are not immune from weaknesses. Firstly, the authors argue that we observe the rise as well as the persistence of neoliberalism because the electorate vote for politicians known as ‘good economic managers’ who are devoted to expanding socio-economic opportunities mainly through liberalisation: in other words, market deregulation. Such a justification reads like a plausible argument, but the authors fail to acknowledge the causal role played by neoliberalism in the puzzle of increased inequality without redistribution and its impact on the rise of populism given liberalisation, privatisation and the transformation from the welfare state to the regulatory state.

Further, the authors claim that the new middle class favours financialisation because it enables “‘non-linear’ careers with more frequent changes in jobs, house purchases, flexible mortgages and savings, time off for retaining and additional schooling and moves back and forth between work and family’ (151). The argument reads like a euphemism for the dominance of finance in economic and cultural life, and the structural change that has caused a dramatic decline in labour share in income and the rise in household indebtedness. In this regard, a high debt burden can hardly be driven by what I might call a ‘liquid lifestyle’. It is the product of a structural change and what it imposes on us. The authors tend to overlook such structural transformation and its costly consequences.

Secondly, *Democracy and Prosperity* considers that education and training have a central role both in democratic resilience and welfare since it is a key asset for social mobility. Iversen and Soskice therefore have a recommendation: ‘the real solution’ for the resilience of capitalist democracies against the populist backlash and to boost social welfare is improvements in access to and an increase in investment in education and (re)training (243). Yet, this is not a panacea, especially in a world where ‘the son also rises’ and entrance to elite universities (where students have access to better education as well as ‘high-powered social networks’) can be a corrupt system. Under these circumstances, improving access to and/or investing more in education cannot solve all the problems and needs of advanced capitalist democracies. More is needed.

Thirdly, the authors argue that skill and education systems that facilitate ‘equal distribution of income and inter- and intra-generational mobility’, company-specific skills and skill upgrading that reduces mass unemployment and cities as hubs for co-specific assets and social networks together limit the spread of populist parties and values (218). Moreover, it is not in the interest of the new middle class to vote for populists because ‘intolerance [to immigration, a cosmopolitan outlook] and

conformism is not conducive to economic success in the knowledge economy' (217). Since the new middle class has a stake in the success of the knowledge economy for its own welfare, capitalist democracies remain resilient to the populist backlash. Yet, this expectation is implicitly based on the understanding that interests would trump ideas that are cultivated socially, and that skill and education systems are capable of creating equal or fairer income distribution and the conditions for inter- and intra-generational mobility. Perhaps more importantly, there would always be 'good economic managers' that have a cosmopolitan outlook, are tolerant of immigrants and are devoted to improving socio-economic opportunities. If the above conditions are not met, the current political-economic system might not be able to withstand the populist backlash, as the new middle class may be socialised into populist ideas and join the old middle class to vote for populist leaders.

All in all, Iversen and Soskice present a unique analysis of the relationship between capitalism and democracy. Whether or not one is convinced by the argument, *Democracy and Prosperity* is a great addition to the recent debate on the 'crisis of democratic capitalism' (see also *Buying Time* by Wolfgang Streeck, *Democratic Capitalism at the Crossroads* by Carles Boix and *Cultural Backlash* by Pippa Norris and Ronald Inglehart, among many others). The book offers a brilliant framework that will be greatly acknowledged as well as critiqued in the coming years.



Notes:

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