

Is Cohesive Capitalism Under Threat?

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1 Introduction

During the forty years following the end of World War II, the world largely bifurcated into two camps. Among the broadly capitalist countries emerged a club that, in spite of institutional differences, were part of a common core project: to try to make capitalism work for the vast majority of its citizens and to supplement its failings with strong and effective states. I will refer to this as *cohesive capitalism*.²

From a global perspective, the challenges of creating sustained growth through a largely market-driven model has not brought prosperity to all parts of the world. In some cases, where law and order remains a challenge, governments struggle to deliver basic services and there has been a struggle to establish a strong private sector. Among these, a group of so-called "fragile states" remain a major challenge for international policy makers and multi-lateral organizations.³ Reflecting on this brings into sharp relief both triumphs and tragedies of capitalist development. Yet, in spite of this mixed picture, there is more or less global acceptance of the proposition that economies are more likely to be successful when there is a significant role for markets; the socialist experiment that began with the Russian Revolution has little prospect of resurrection.

That said, following the fall of the Berlin Wall and China's decision to move towards a more market-oriented economy, there is a wider set of capitalist models now being pursued. Countries in the former Soviet bloc have attempted to embrace cohesive capitalism to varying degrees; Russia has not. China has liberalized economically, creating a remarkable economic transformation leading to sustained reductions in absolute poverty. However, it too has shunned a central element of the cohesive capitalist model:

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² There are many efforts in political economy to classify countries, for example, Hall and Soskice 2001.

³ For a discussion of the struggle to overcome state fragility, see IGC (2018).

strong constraints on the power of policy makers and open contests for power.⁴ For all of its economic achievements, there is limited respect for the rule of law and few political freedoms.

These alternative conceptions of capitalism are based on differing views on the nature and role of government. As well as differences in how people are represented and government is held to account, the extent of the market in many areas, such as the provision of healthcare, infrastructure and education, are key examples of sectors where government involvement is central but with varying organizational structures. Governments also tax, spend and regulate in vastly different ways. Focusing on the future of capitalism, therefore, means focusing not so much on the role of markets but on the future of government.

Even among systems of government broadly described as “democratic”, political institutions differ a great deal. Nonetheless, the main argument developed here is that the late twentieth century saw the flowering of cohesive capitalism, whose hallmark is the capacity of government to harness the benefits of a market economy, such as its capacity for innovation, and permitting freedom of choice in economics and politics while using state structures to enhance the market system. The term “cohesive” is used in the sense of Besley and Persson (2011), who use it to describe a system for resolving conflicts of interest among citizens in peaceful ways and endeavoring to promote common over sectional interests.⁵ They argue that this encourages forms of government intervention such as building universal public programs, respect for the rule of law and the openness of markets to competition. Creating cohesive capitalism means understanding problems of market failure and institutionalizing solutions to them. For all its faults, cohesive capitalism is arguably the best system that has been found to date to institutionalize the kind of collective action that is needed to limit the use of state violence, and to promote capabilities, wellbeing and material prosperity.

Cohesive capitalism is neither a Utopian vision nor an evolutionary endpoint. It remains imperfect and maintaining its benefits requires both vigilance and responsiveness to developments in society and the economy. Even though strategic choices are important in maintaining it, nobody *designed* cohesive capitalism; it emerged as a response to events such as changing technology, pandemics, and wars. Since we live in a world with emerging threats and opportunities, it will need to evolve as we learn and develop making it essential to debate and discuss how that change should happen.

⁴ Their importance to economic success has been stressed in particular by Acemoglu and Robinson (2011) and Besley and Persson (2011).

⁵ Acemoglu and Robinson (2011) use the term *inclusive institutions*.

The paper will discuss some of the emerging threats to cohesive capitalism and how to respond to them. The analysis is based on an underlying model for understanding the emergence of cohesive states developed in Besley and Persson (2009, 2011) and refined further in Besley (2020). It will begin by showing that there is indeed a distinctive group of states that make up the cohesive capitalist cluster, discuss how that cluster emerged, and then use this as a springboard for assessing some of the threats. It will then propose some potential responses.

2 What is cohesive capitalism?

Cohesive capitalism has four core elements, all of which are (imperfectly) measurable. This can be approached inductively using a range of country-level measures to classify countries using a machine learning algorithm with interrelated elements including political institutions, the legal system, public provision of goods and services, and peace and security.

Core to cohesive capitalism is that it combines democratic policymaking with the market system. However, as any scholar of political institutions knows, there is a world of difference between formal institutions of policymaking and their practical operation. The innovative data collection projects that have emerged in recent years, such as the Varieties of Democracy project, V-Dem, are premised on the need to combine expert judgement with institutional analysis.⁶ Even though there is no established definition, it is important to distinguish between formal elements of democracy and how the system works in practice. Merely holding elections is not enough, if they are compromised by electoral violence, voter suppression, intimidation, fraud and lack of media scrutiny of competing parties.⁷ To measure political institutions, we use the V-Dem measure of *free and fair* elections alongside other measures that try to measure political freedom.

Much of cohesive capitalism is about making the market system work better using legal and regulatory interventions, aspiring to a level playing field among market participants alongside regulation of potential harms. Behind this, lies a legal system that allows citizens to have established property rights as well as a legal system that disciplines firms who harm their customers and/or their workers. It also requires competition policies and institutions for contract enforcement. To capture this empirically, we can use a range of measures to classify country's efforts to support markets.

⁶ See <https://www.v-dem.net/en/>.

⁷ This is what Mukand and Rodrik (2020) refer to as "liberal democracy".

Governments in cohesive capitalist countries augment the market system through public provision with a significant role for government in financing and delivery of healthcare, education, and infrastructure. Income transfers and social insurance are also a feature of welfare states. A decent standard of provision requires the capacity to generate public revenues and hence a broad-based tax system with high levels of compliance.

Cohesive capitalism is also about delivering peace and security for its citizens. This means resolving disputes, including who holds power, peacefully, without civil unrest and internal conflict. A state that achieves this only by repressing the opposition or the disaffected is not cohesive. Thus, measures of civil conflict and repression are included among the attributes that we include when exploring patterns in the data.

Looking at this array of measurable attributes, we can use machine learning (a hierarchical clustering model) to identify clusters of countries.⁸ The results of this exercise are in Figure 1, which shows that the data sorts countries into three distinct groups with the cohesive capitalism group shaded in green.⁹ The "marginal members" of the cohesive capitalist group are on the boundaries of the set and include countries such as South Korea, Greece and Poland. Some EU members such as Bulgaria, Hungary, and Romania are not in the cohesive capitalist group although they are on the boundaries of the middle cluster. There is some evident geographical clustering around Western Europe and North America, but Australia, Japan and New Zealand are notable members of the group, with Chile and Uruguay being the only Latin American members.

(Figure 1 about here)

Figure 1 provides a starting point for a more detailed discussion of the differences and similarities in the way that countries manage the challenges of running a market economy while promoting the wellbeing of its citizens. Besley and Persson (2009, 2011, 2014) developed a conceptual understanding of structures that support cohesive capitalism.

⁸ The details of the variables used are specified in an online appendix available at [URL](#). The approach takes a vector of attributes reflecting the criteria above, identifies two principal components, and then applies a hierarchical clustering algorithm to sort countries into clusters. Dimension 2 mainly captures peace and security whereas Dimension 1 reflects civil liberties, state capacity and pro-market factors. See the Appendix to Besley, Dann and Persson (2021) for further explanation of the methods used.

⁹ Following Besley and Persson (2011), Besley, Dann and Persson (2021) refer to these clusters as weak states (red), redistributive states (blue), and cohesive states (green).

3 Supporting Structures

The contemporary differences in country characteristics that we highlighted in the previous section offer little direct insight into how cohesive capitalism emerged. Countries which are classified as cohesive capitalist have varied histories. Some, such as Belgium, France, Germany, Japan, the Netherlands and the UK were colonial powers, while others, notably Australia, Canada, Finland, Norway, New Zealand and the United States began as colonies. Hence, although history matters, there is no common path to cohesive capitalism.

Besley and Persson (2011) argued that *state capacities* are one of the pillars that support cohesive capitalism. These capacities are defined as those elements of soft and hard infrastructure that enable the state to function effectively in supporting and augmenting markets. They are closer to what is now popularly called “intangible capital” than physical infrastructure, although the power of state is embodied in the symbolic construction of grand buildings to house Parliaments, Supreme Courts and even land registries.¹⁰ Even the intangible elements are enduring as they establish modes of operation, institutional rules and norms which change relatively slowly. Maintaining strong state capacities requires investments to ensure adaptability to changing features in the economy and society. Besley and Persson (2014) suggest three key dimensions of state capacities: fiscal, legal and collective.

One of the remarkable transformations of the twentieth century was the increase in revenue raising capacity by states. *Fiscal capacity* reflects government investment in physical, intangible and human capital. These keep track of earnings, not just annually but over individuals’ lifetimes for the administration of pension arrangements. Alongside changes in the economy, they have also enabled compliance with broad-based income taxes and the diffusion of value-added taxes.

But this process is about much more than building structures as was understood by Schumpeter (1918). The power to tax is at the heart of the social contract since it is an important quasi-voluntary act, i.e. one that requires citizens acknowledge the legitimacy of the state and trust it to use tax revenues in responsible ways.¹¹ It is widely acknowledged that war played a key role in promoting a sense of common interests as well as boosting the demand for tax resources. Institutions that provide scrutiny over the

¹⁰ See Haskell and Westlake (2017) for a discussion of intangible capital and its importance in modern economies.

¹¹ The idea of quasi-voluntary compliance was developed in Levi (1989) to explain the historical record.

state and give the citizens a wider say in how resources are used provide reassurances that public resources will be allocated to collective ends rather than serving the narrow interests of a ruling elite. Constraints on executive power from legislative and judicial oversight are also key to building fiscal capacity. And, alongside this, a culture of compliance can also emerge based on principles of reciprocity between the state and the citizen (Besley, 2020).

Legal capacity refers to the supporting structures needed to have an effective market economy, which also requires a range of investments in legal institutions, courts and regulatory bodies. Preventing the abuse of market power and enhancing competition are a key part of this, as are protecting property rights and enforcing contracts. Beyond market support, legal capacity is also needed to support the rule of law, secure rights and protect personal freedom.

Collective capacity refers to the investments that enable effective delivery of a range of public services, such as health and education. This is underpinned by building statistical agencies to plan service provision and develop a system for lifetime interactions between the state and citizens. Investment in intangible capital is hugely important in finding ways of keeping and maintaining records, ensuring delivery of medicines and other supplies. The recent vaccination programs in response to COVID-19 are a case in point, combining deployment of human resources, a network for contacting members of the population and managing a physical supply chain, including refrigeration facilities for some vaccines. Such programs piggy-back on prior investments in collective capacity.

These three forms of state capacity embody the idea of what it means for a state to be capable and have a symbiotic relationship with each other. For example, collective capacity helps with creating quasi-voluntary compliance when citizens perceive benefits from formal participation in state structures, thus enhancing legal capacity. This in turn makes it easier to raise taxes. And the structures in place also support the capacity to regulate, especially as is increasingly true, data sets that can be matched to better design public programs.

Besley and Persson (2011) argue that a certain kind of politics is needed to promote and sustain state capacity investments. Citizens need to trust the state to deploy state capacities for the public good. This means minimizing corruption and abuse of political power and opening up the system to transparent scrutiny to increase accountability. Judicial institutions need to ensure that public servants and, especially, politicians are constrained by the law. This is built on a bedrock of norms and values that underpin the

system, sometimes referred to as *civic culture*.¹²

Economic development has been a key driver of state capacities. But there is no simple chain of causation, with many aspects of state capacity helping to build a more productive economy supporting physical and human capital accumulation. Also important historically is the role of external threats, such as warfare, which have played a significant role in motivating the need to build state capacities.

In the period during which cohesive capitalism emerged, electoral politics was also supportive, particularly in building collective capacity. The dominant form of democratic politics has been competition between left and right coalitions or parties where middle-class voters play a decisive role in who wins.¹³ This moderated progressivity in the tax system but also led to a range of public services that displaced private alternatives, overcoming market imperfections such as adverse selection, as well as ensuring safety nets and insurance against poverty in old age. This supported the development of fiscal capacity, often with specialized social security taxes. And, given the level of taxation, there were strong incentives to maintain high levels of economic activity and higher levels of productivity.

4 Threats

The past thirty years have seen a well-documented impact of globalization on certain industries and occupations. Moreover, an expanded use of automation and robotics will impact an even wider range of occupations than they have so far. But the pace at which this will happen and who is affected is highly variable. Already, economic threats from technology and globalization are differentially affecting different “working class” groups depending on geography and patterns of specialization.¹⁴ Such changes have been a common feature of capitalist economies throughout history. However, less often discussed are their consequences for governance and politics. In recent times, these changes have fueled a different kind of politics which travels under different names variously described as “populist”, “nationalist” or “radical right”.¹⁵

One may think about this as an increasing importance of identity politics reflecting concerns of those who feel marginalized by political and economic developments and this

¹² See Almond and Verba (1963).

¹³ See Persson and Tabellini (2000) for discussion of a range of formal models with this flavour.

¹⁴ Rueda (2005) describes this as leading a form of “insider-oustider” politics among workers.

¹⁵ See Algan et al (2017) for background analysis on the rise of populism and Rodrik (2018) for an insightful discussion on the links between globalization and populism.

is fragmenting the cohesive politics upon which cohesive capitalism was built. Identity politics combines two powerful psychological elements that have been widely studied: the human need for belonging to a social group and loss aversion.¹⁶ These changes are diminishing the importance of left-right politics which has created a stable policy environment reflecting the interests of largely middle-class voters. Splitting the interests of lower income voters also reduces the salience of income redistribution in politics.¹⁷ This blunts incentives for political action by existing mainstream parties and encourages new entrants to attract the support of the disaffected.

A standard, but questionable, economic view is that this is a problem which requires financial compensation for losses. This conclusion is problematic in at least two ways. First, money does not restore status and respect in society. Second, by making some people more reliant on the largesse of the economically and politically successful, monetary transfers to losing groups could even accentuate divisions.

The political reactions of mainstream politicians to these developments have been awkward since many parties are dominated by cosmopolitan elites. Jibes that describe those who do not subscribe to cosmopolitan values, such as "deplorables" or "bigoted", only fuels the idea that political elites are remote to concerns of some groups. This has made it easier for politicians like Donald Trump or Nigel Farage to establish themselves as having a distinct agenda apart from the mainstream. And many radical right parties have gained significant support with their distinctive anti-mainstream messages across Europe. Alongside this, the last ten years has seen a striking increase in protest around the world as shown in Figure 2 based on Banks and Wilson's (2020) Cross-National Time-Series Data Archive. Moreover, this is true even among the countries classified as cohesive capitalist.

(Figure 2 about here)

One poorly understood issue is how far this is a blip or a trend that will change the policy landscape on a permanent basis. So far, the social democratic left appears to have lost support across a range of countries, and they have been the guardians of some of the policies that have supported cohesive capitalism. The World Values Survey also show an increase in support for overthrow of the system alongside a decline in support for democracy.¹⁸ A key issue, therefore, is how far norms and values that shaped cohesive capitalism could be affected by the failure of mainstream political elites to respond to

¹⁶ See Collier (2018) for insightful discussion.

¹⁷ See Roemer (2001) for models where multiple cleavages can affect the level of redistribution.

¹⁸ See the online Appendix for these charts.

citizens' concerns.¹⁹

Another profound change that is only being recognized slowly concerns developments in the digital world which, alongside its transformational benefits, creates new kinds of externalities and threats. There is convincing evidence, for example, linking this to the rise of political protest.²⁰ Once it is accepted that social media is an important political force in either the organization of political action or even in elections, its social consequences have to be confronted and politics and policy has been slow to respond to this in a decisive way.

On top of this, the new tech giants trade on their access to data with little effective response to these issues among the cohesive capitalist countries. But the power shifts that they have created, including eroding the power to tax, are putting strains on fiscal and legal capacities. One policy response would be to treat digital connectivity as a utility and regulate access to it much as is done for electricity or gas networks historically. It is second best as, in the process of doing so, some suppression of freedoms and creativity is inevitable. And there will be global pressures by businesses whose operations will be more expensive as a consequence. But, failing to deal with the threat which opens countries to major risks from cyberattacks and interference in democratic processes is a threat to the cohesive capitalist model given the importance of the digital media sector throughout the economy and society.

Cohesive capitalism is based on a nation state model of state capacities within national borders. Open markets limit the power of countries to regulate and collect taxes from global businesses. Profit shifting can also allow firms to declare profits in lower tax jurisdictions, thus impacting fiscal capacity. Locations where regulations are least cumbersome to their profitability can impact legal capacity. This also concerns both the quality and quantity of jobs, which have shifted the bargaining power of labor (largely fixed in place) versus capital (internationally mobile). Risks have also been exposed in the recent pandemic of reliance on global supply chains, such as key medical supplies.

These changes come at a time when global externalities are becoming more salient. Climate change based on emissions of greenhouse gases across the world is a vivid illustration, as is the recent COVID-19 pandemic. Movements of populations has also raised concerns about human trafficking which requires solutions beyond nation state boundaries. The challenge of getting meaningful cooperation across country boundaries is

¹⁹ See Besley and Persson (2021a) for discussion based on the study of a dynamic model of politics where political organization and values co-evolve in response to changes in policy.

²⁰ See, for example, Fergusson and Molina (2020).

by no means trivial, particularly among countries with diverse models of governance and core values.

Fewer than 20% of the world's population live in countries in the green cluster in Figure 1. However, global development policy has been dominated by a vision that sees cohesive capitalism as an aspiration. The G7 in June 2021 meeting affirmed the willingness of some countries to show leadership to defend the values that underpin cohesive capitalism. But outside the cohesive capitalist group, there are countries that are openly hostile to elements of the model, specifically its political elements of constrained government with contestable power. At present, they do not see themselves as following a path towards cohesive capitalism, not least because it could threaten the grip on power of existing ruling elites.

What sustained a sense of cohesion among cohesive capitalist countries during the Cold War period was the narrative that the model was under constant challenge and threat. Two key cohesive narratives that bound their interests together were seeing communism as a threat to "our way of life" and the need to invest in the model to "demonstrate its superiority". Identity building within this group of nations was maintained in part by its dominance in key institutions such as the World Bank, GATT (now WTO) and the IMF. Sparring with hostile countries was largely confined to the UN, which inhibited its development as a force for providing global public goods. Successful cooperation was, however, embodied in NATO that bound the security interests of many cohesive capitalist countries together. During the Cold War, therefore, collective action among countries that saw cohesive capitalism as the ideal was stronger and there was suspicion of countries that did not aspire to emulate that model.

The end of the Cold War and the rise of China as an economic power has created a conundrum for the global order.²¹ The World Bank, unlike its sister institution the EBRD, has no mandate to support democratization or cohesive politics. It does not therefore promote the values and institutions that have underpinned the development of cohesive capitalism. The IMF is similarly hamstrung in the engagement that it can offer when confronted with governments who do not support the values of openness and transparency. This means that its policy influence can remain limited to specific domains rather defending or promoting a specific economic and political model.

The fact that China embraced the market system was naively seen as a triumph of the

²¹ This has parallels with the arguments developed in Ikenberry (2018) who discusses threats to "liberal internationalism" and the US-centric liberal global order that grew up to sustain this institutional system.

western model. The Chinese have been open and transparent that they see their future as a new model of capitalism: the market system with “Chinese characteristics”. And Russia has been hostile to cohesive capitalism, perhaps because it blames its own historical decline as a superpower on the success of that model. Moreover, the EU has compromised the model in its understandable rush towards Eastern expansion to countries where the commitment to the cohesive capitalist model is not always clear. The EU also lacks moral authority in relation to debates about cohesive capitalism because of its unwillingness to allow its institutions to grow into a genuinely cohesive form of politics. This requires transcending the importance of domestic politics and achieving legitimacy from citizens directly. The democratic process that really matters is intergovernmental and hence its legitimacy is derivative from that of the governments of nation states. The EU has never been granted the power to tax directly, the sine qua non of state building. And the other core function of the nation state – national defence and security – owes almost nothing to EU institutions. However supportive it tries to be, the EU is not therefore an emblem of cohesive capitalism, even if many of its members are.

The financial crisis of 2008 and the recent pandemic experience cemented this threat to cohesive capitalism. There are two distinctive elements to the financial crisis which complicate the argument that this model is genuinely cohesive. Demonstrably, the authorities across the world were responsive on an unprecedented scale under the banner of “whatever it takes”. And the social safety nets in place in many countries did their job in cushioning the impact of the shocks preventing a replay of the 1930s. Moreover, had the financial system collapsed, its consequences would have left nobody untouched. So the rescue of the financial system that took place was for sure broadly justified by common interests. That said, it did so in ways that left the wealth of those who were culpable in the problems that led up to the crisis largely intact. After some sabre rattling around accountability, very little materialized once it was clear the system had been stabilized creating a sense of injustice given that large amounts of public money were used to protect the interests of many who were culpable in bringing the crisis about. Although we do not know whether this is a part of the unrest that fueled the subsequent decade of protest, it is certainly a candidate. Easy money policies that have propped up asset prices in the period since have also generally contradicted the narrative that the economic system works for all.

The pandemic poses a different threat. It is now evident that the cohesive capitalist countries have on the whole been hit much harder, as manifest in death rates. However, New Zealand and Australia’s “lock down and isolate” approach provides a distinctive policy experiment that has so far kept death rates low. This curious inversion of the expected pattern whereby cohesive capitalist countries have generally fared worse in

terms of deaths, could fuel the argument that the model is broken. More likely than not, the freedoms that are at the heart of the cohesive model limited the options for lockdowns and also made governments more cautious. What this does to the aspirations of countries that are looking for strategies to emulate is yet to be seen.

5 Responding to the Threats

This section speculates about possible responses to the threats based on the framework put forward above for understanding the supporting structures for cohesive capitalism. It is paramount for citizens and policy-makers to appreciate common interests traditional fostered in times of war of existential threats. And narratives have played a key supporting role in how citizens interpret the role of the state and its pursuit of common goals. The proposals here pick up on this theme and discuss how narratives can be shaped to face up to common threats in three possible steps.

Step One: Renewing belief in the project, particularly among the young: At the core of the model is the need to build societies where common interests underpinned by mutually reinforcing policy, norms and institutions. The cohesive capitalist world has become remarkably complacent, not surprisingly given that the generation which experienced world wars and the interwar economic disruption has largely passed on. Shared sacrifice and desire to protect the dominant capitalist required the creation and maintenance of new state capacities. There was no overarching blueprint just “what works” pragmatism with a demanding electorate. There is now waning support for democracy among the young suggesting that intergenerational transmission of values cannot be taken for granted.²²

Step Two: Harnessing the threat narrative: The generations that built cohesive capitalism were aided in this endeavor by the Cold War based on a narrative of an external threat. Climate change and pandemics are a new part of the threat narrative but are less obviously driving the cohesive capitalist world together. Indeed, Australia and New Zealand are using the latter to justify isolationism, at least temporarily. But the threat that needs to be harnessed with renewed vigor is the fact that many countries refuse to embrace the values of cohesive capitalism when it comes to the use of political violence and denying civil and political liberties to their citizens. These risks are also becoming global hubs for organized cybercrime and pose threats to peace and security if they flip into disorder. Evidence suggests that countries with few checks and balances are more

²² See the online Appendix for charts from the World Values Survey which show this is the case for the cohesive capitalist countries.

prone to a range of negative economic and political shocks.²³ Recognizing the spillovers across the world when countries fall into disorder and conflict supports the case for building checks and balances and cohesive institutions.

Step Three: Re-orienting the success narrative: The case for cohesive capitalism does not rest on its superior economic performance. What allows citizens to lead flourishing lives is poorly captured in GDP even though higher incomes do allow more consumption of private and public goods. Cohesive capitalism generates a wide range of economic and non-economic benefits including its personal and political freedoms, something that Amartya Sen has included among the plural goals referred to as *capabilities*.²⁴ These need to be stressed beyond narrow economic conceptions of wellbeing. Having the cohesive capitalist countries taking the lead on climate change and goals of inclusion is one way of stressing its recognition of wider goals other than increasing GDP.

Where will the leadership come from? Although the US has a form of cohesive capitalism, the lack of public provision of healthcare, high inequality and its high level of gun crime limit its appeal as a model.²⁵ Arbitrary changes of mood, such as withdrawing from the Paris accord on climate change, have in recent times sent a negative signal about the reliability of US leadership even though it remains a pivotal nation on global security and an ally in reestablishing the need to promote the cohesive capitalist model in the face of the threats outlined above. While cohesive capitalism is well entrenched among many members of the EU, as an institution it lacks state capacities and has limited direct accountability to its citizens. Thus, while the support of some member states is important, the EU *per se* is limited in the supporting role that it can play. Looking elsewhere for support, the G7 has a natural coherence which was evident in its recent meeting. But its membership is limited. The wider G20 has countries whose values do not align well with cohesive capitalism and also omits many whose are.

So the time has come for a new club of nations to form which is committed to all elements of cohesive capitalism. The group of countries in the cluster in Figure 1 would constitute a powerful force were they to work together and pursue strategic objectives. But what would the initial agenda have to be? Climate change would be central and, although global cooperation is ultimately needed, having this led by a group of nations committed to transparency and open accountability for its actions to its citizens would send a powerful message that could contribute to shaping the direction of values and

²³ See Besley and Mueller (2020).

²⁴ See, for example, Sen (2001).

²⁵ See Case and Deaton (2020) for an analysis of some of the consequences of the US model for health and mortality.

technologies.²⁶ Taking stock of transformations in the digital economy with common platforms for conduct and regulation, including protecting the integrity of the democratic process, would also be a key issue where collective action would be more powerful than when nation states act alone. Ensuring that there is no erosion of fiscal and legal capacity through the digital economy is also key, as are more general decisions about what kind of retreat, if any, is needed from some aspects of globalization to protect supply chains.

In all cases, the burden of proof for introducing new regulations and restrictions has to be high, but the robustness of the political processes in nation states that value political freedoms, is an important asset to mitigate such concerns. In time, a new global club to defend cohesive capitalism may choose to build its own capacities to act directly. But even without this, its creation would affirm commonly held values. Cohesive capitalism requires building common interests leading to collective action. Its history shows that it is possible to promote effective government and markets to further these common interests if the values, norms and institutions support that ambition.

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²⁶ For a dynamic model that explores the interplay of such factors, see Besley and Persson (2021b).

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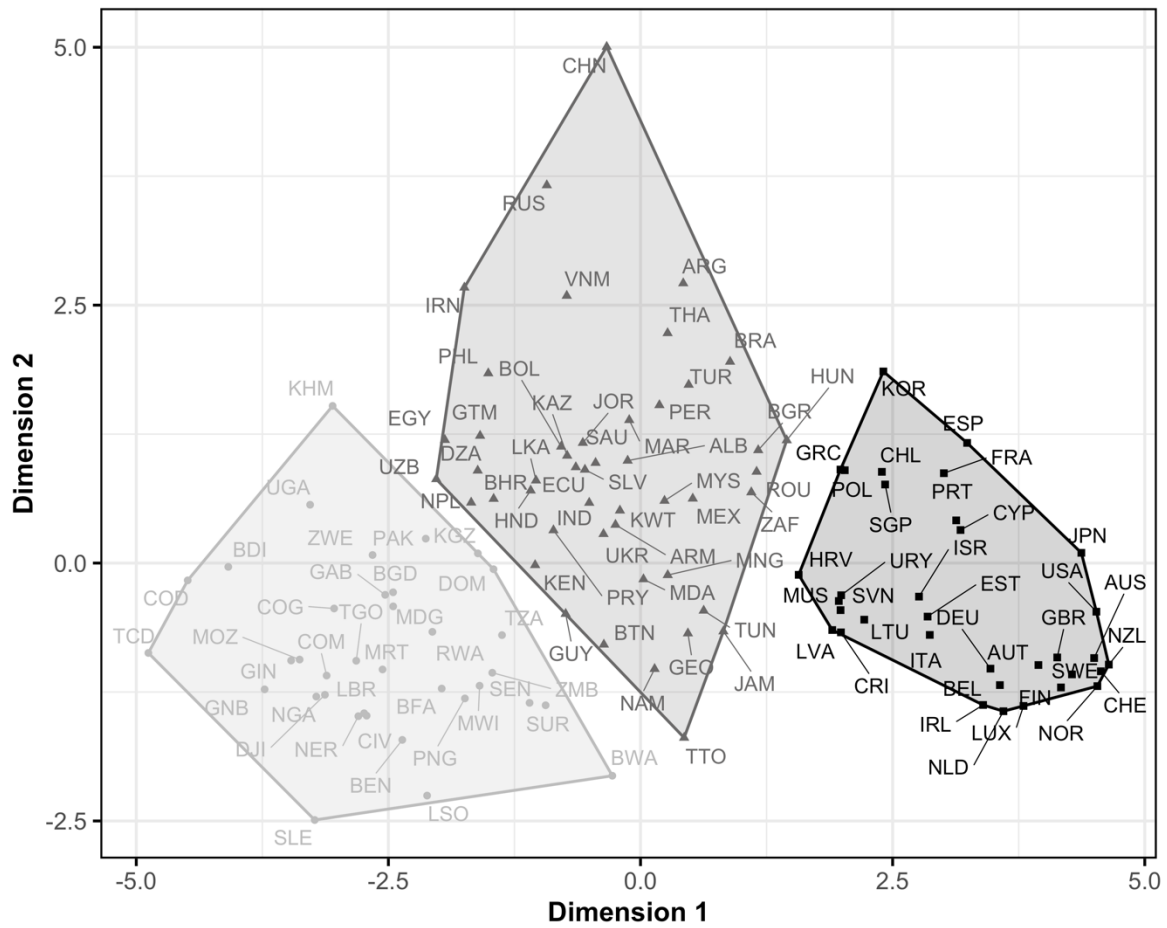


Figure 1: Clusters of Countries

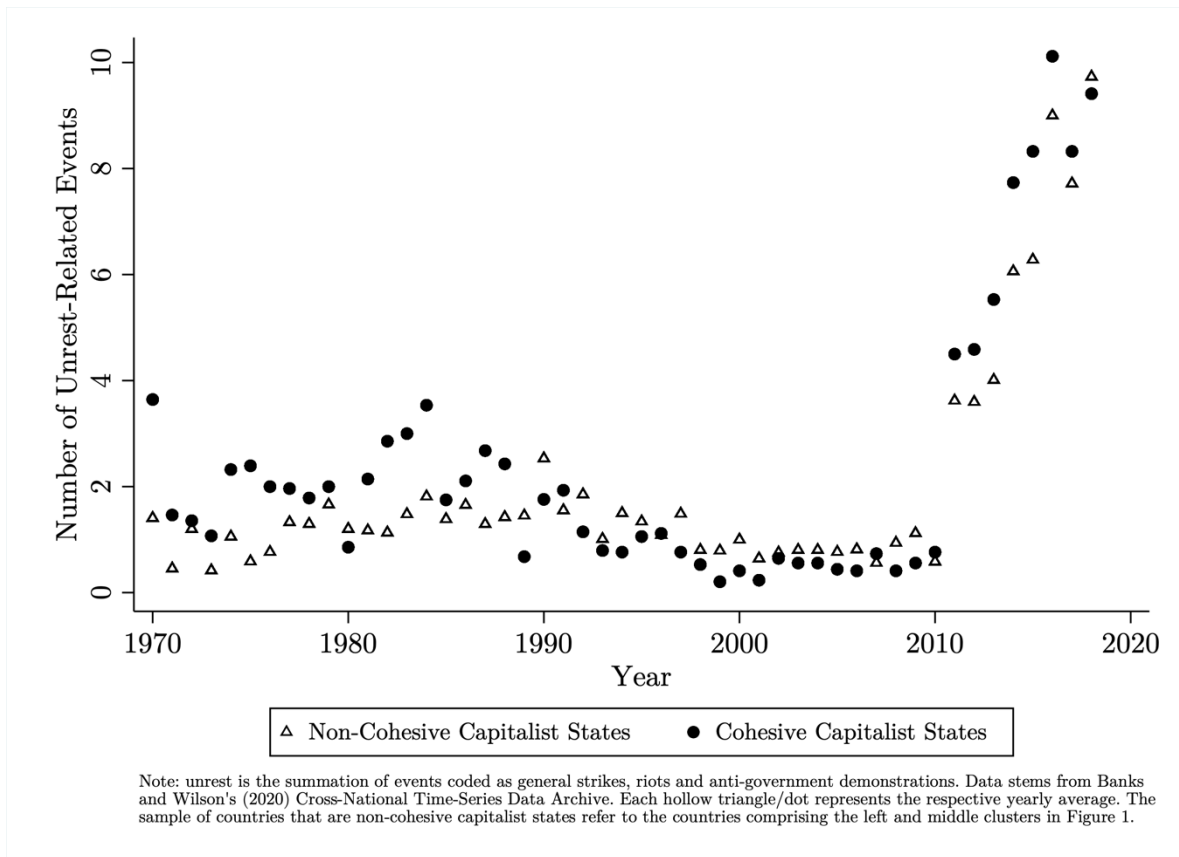


Figure 2: Prevalence of Unrest Across Cohesive and Non-Cohesive Capitalist States

Online Appendix

Cohesive Capitalism Cluster Analysis Figure

For 2015/2016 as a cross-section, we take the first two principal components of the following variables:

Table A1 – Variable Description

Variable	Data Source	Construction Info
Prop. of years with strong executive constraints 1950-2015	Polity	<ul style="list-style-type: none">• Strong exec. Constraints defined as a country having a 7 on the <i>xconst</i> variable from Polity.• We create a dummy from this, and then summate over 1950-2015 and divide by 66 years.
Income tax as a share of total revenue (2015)	International Centre for Taxation and Development	<ul style="list-style-type: none">• Divide income tax as share of GDP by total tax revenue share of GDP.• To maximise country coverage, we use 2015 value or earliest observations to 2015.
Contract enforcement index (2016)	World Bank Doing Business Project	<ul style="list-style-type: none">• Rank countries by raw index, and then divide by total countries

Corruption perceptions index (2015)	Transparency International	<ul style="list-style-type: none"> • Normalise via min-max normalisation
Prop. of years in repression 1950-2010	Cross-National Time-Series Data Archive	<ul style="list-style-type: none"> • Repression is defined as 1 in a given country-year if there was a political purge as per Besley & Persson (2011). • Sum all dummies, and then divide by 61.
Prop. of years in civil war 1950-2010	UCDP/PRIO Armed Conflict Dataset	<ul style="list-style-type: none"> • Civil war is defined as 1 in a given country-year if an internal conflict episode reached >1000 deaths, as per Besley & Persson (2011). • Sum all dummies, and then divide by 61.
Free and fair elections (2015)	V-Dem	<ul style="list-style-type: none"> • Use raw variable which has range 0-1.
Civil liberties (2015)	Freedom House	<ul style="list-style-type: none"> • Subtract each observation by 8 to invert scale (i.e. higher score means more civil liberties).
Private credit as a share of GDP (2015)	World Bank	<ul style="list-style-type: none"> • Standard normalise the variable.
Life expectancy (2015)	World Development Indictors	<ul style="list-style-type: none"> • Use raw variable.

Infant mortality (2015)	World Development Indicators	<ul style="list-style-type: none"> • Use min-max normalisation and then subtract from 1 to invert the scale.
Competition law index	Bradford and Chilton (2018)	<ul style="list-style-type: none"> • This is a 2006-2010 average.

The table on the next page outlines the factor loadings of each variable across both components, and the corresponding factor chart visualizes both dimensions with the factor loadings corresponding to the vector norms of each variable:

Table A2 – Factor Loadings

Variable	Dimension 1	Dimension 2
Prop. of years with strong executive constraints 1950-2015	0.777	-0.238
Income tax as a share of total revenue	0.598	-0.352
Contract enforcement index	0.677	0.230
Corruption perceptions index	0.877	-0.229
Prop. of years in repression 1950-2010	-0.008	0.795
Prop. of years in civil war 1950-2010	-0.302	0.280
Free and fair elections	0.793	-0.230
Civil liberties	0.808	-0.297
Private credit as a share of GDP	0.737	0.231
Life expectancy	0.855	0.322
Infant mortality	0.806	0.401
Competition law index	0.584	0.316

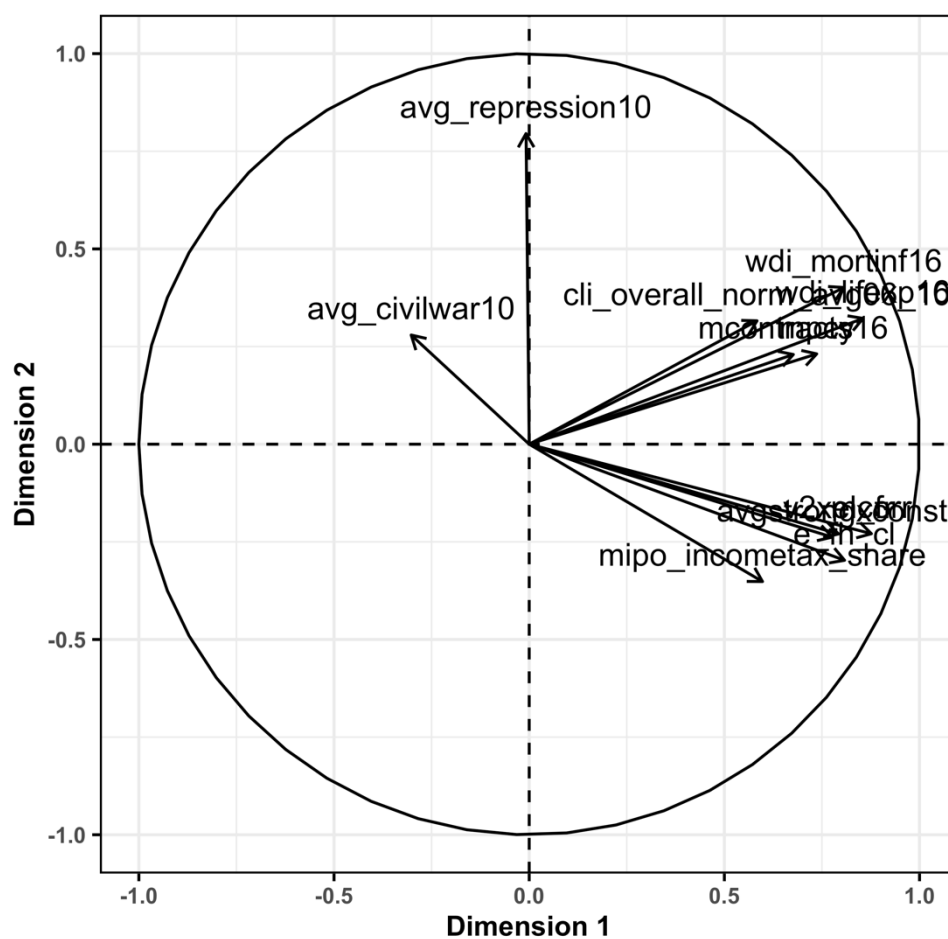


Figure A1 – Principal Components Chart

As we can see, dimension 2 is largely capturing conflict, and is highly correlated with repression. On the other hand, dimension 1 is mostly capturing all other variables, such as state capacity (fiscal, legal, collective) and civil liberties and freedoms.

Using the “elbow test” on the Scree plot below shows two principal components are indeed sufficient, with a reasonably sharp kink at the 2nd dimension.

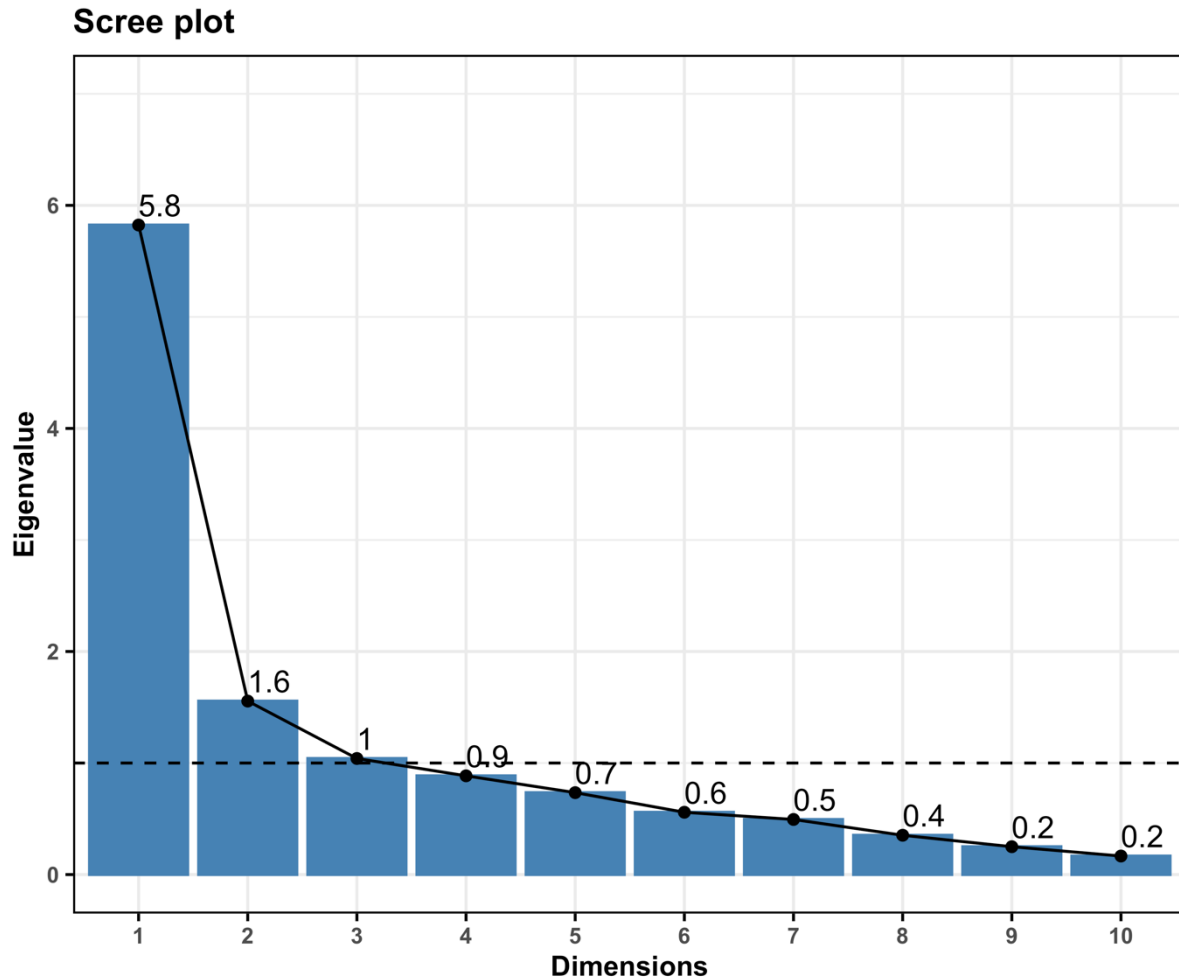


Figure A2 – Scree Plot

Finally, we then use an agglomerative hierarchical clustering algorithm (Ward's method) on the principal components to estimate the clusters, which corresponds with Figure 1 in the paper. See Husson et al. (2010) and Besley, Dann and Persson (2021a, 2021b) for further details. The latter constructs clusters using a narrower set of variables than those specified in table A1, with a focus only on measures of state capacity and political violence. The results from this narrower approach are very similar to those described here, even though it does lead to small number of reclassifications.

The following table outlines the countries with their respective cluster classification.

Table A3 – List of Countries and their Clusters

<u>Cluster 1</u>	<u>Cluster 2</u>	<u>Cluster 3</u>
Chad	Uzbekistan	Croatia
DRC	Egypt	Latvia
Burundi	Iran	Mauritius
Guinea-Bissau	Nepal	Greece
Guinea	Algeria	Slovenia
Mozambique	Guatemala	Costa Rica
Uganda	Philippines	Uruguay
Senegal	Bahrain	Poland
Niger	Honduras	Lithuania
Djibouti	Kenya	Chile
Comoros	Sri Lanka	South Korea
Cambodia	Russia	Singapore
Togo	Paraguay	Israel
Nigeria	Bolivia	Estonia
Liberia	Guyana	Italy
Ivory Coast	Vietnam	France
Zimbabwe	Kazakhstan	Portugal
Mauritania	Ecuador	Cyprus
Gabon	Jordan	Spain
Bangladesh	El Salvador	Ireland
Madagascar	India	Germany
Benin	Saudi Arabia	Belgium
Pakistan	Ukraine	Netherlands
Lesotho	Bhutan	Luxembourg
Rwanda	China	Austria
Burkina Faso	Armenia	United Kingdom
Papua New Guinea	Kuwait	Finland
Kyrgyzstan	Albania	Sweden
Malawi	Morocco	Japan
Zambia	Moldova	Australia
Dominican Republic	Namibia	United States
Tanzania	Peru	Norway
Senegal	Malaysia	Switzerland
Suriname	Thailand	New Zealand
Botswana	Mongolia	
	Argentina	
	Trinidad & Tobago	
	Georgia	
	Turkey	
	Mexico	
	Tunisia	
	Jamaica	
	Brazil	
	South Africa	
	Romania	

Bulgaria
Hungary

Note: countries are listed by their ranking on dimension 1 (i.e. Chad is globally the worst performer and worst amongst cluster 1 countries, New Zealand is globally the highest performer and highest amongst cluster 3 countries).

Anti-Cohesive Capitalism Preferences Charts

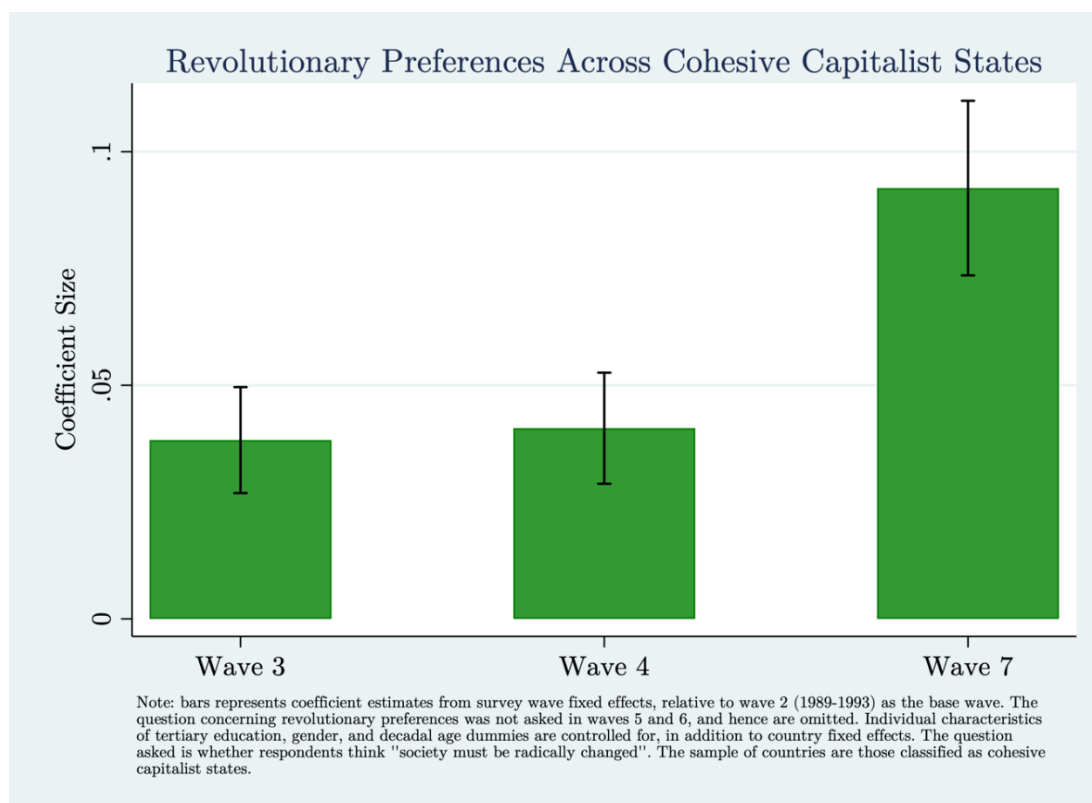


Figure A3 – Revolutionary Preferences

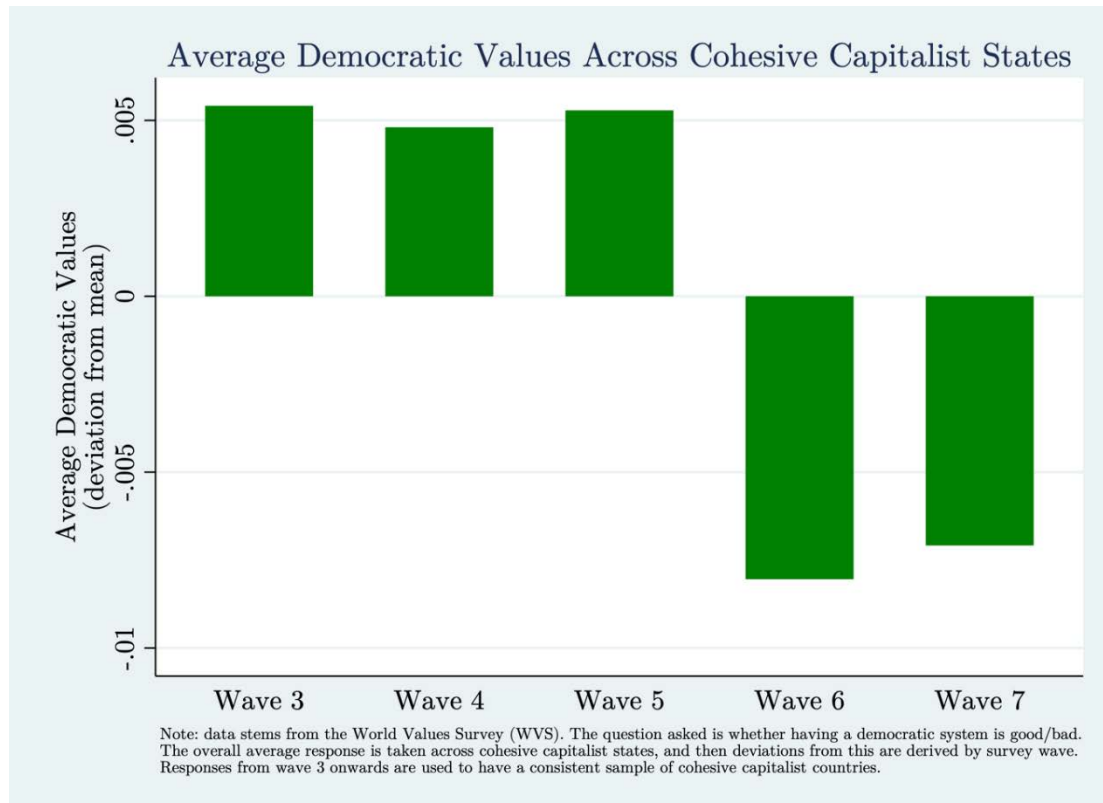


Figure A4 – Democratic Values

Intergenerational Values Charts

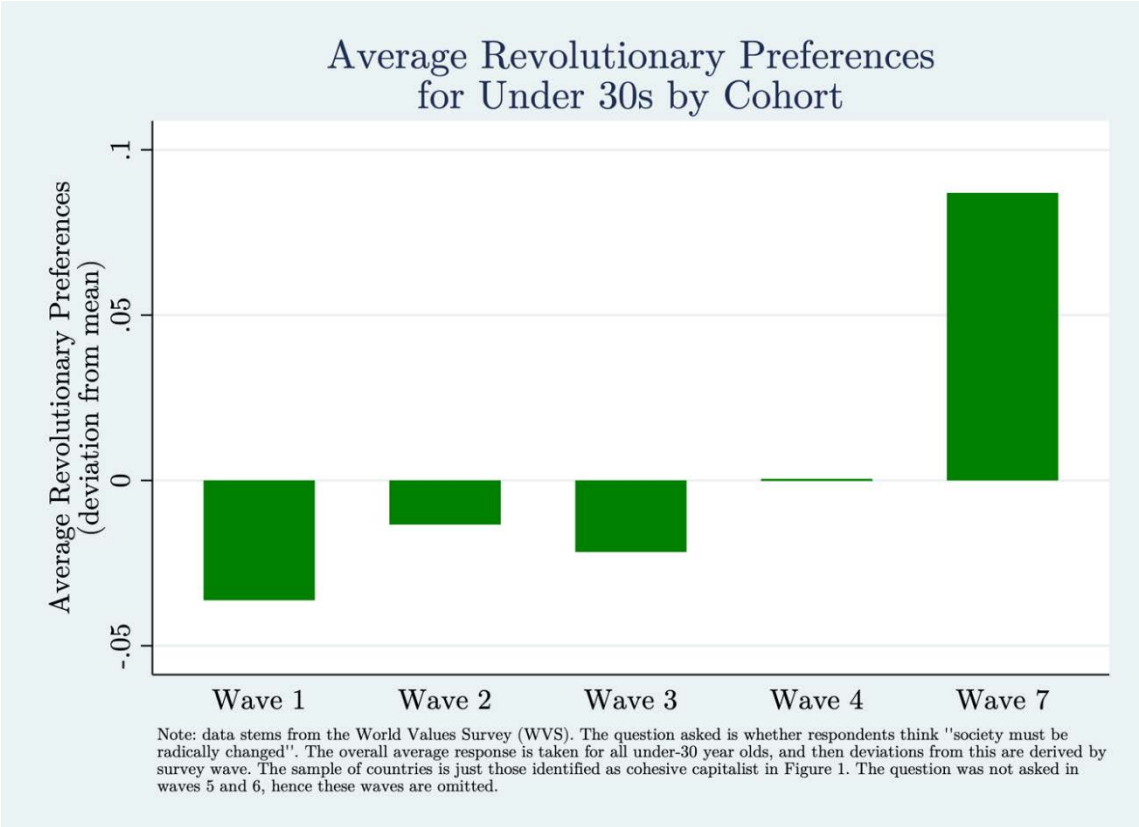


Figure A5 – Revolutionary Preferences for Under 30s by Cohort

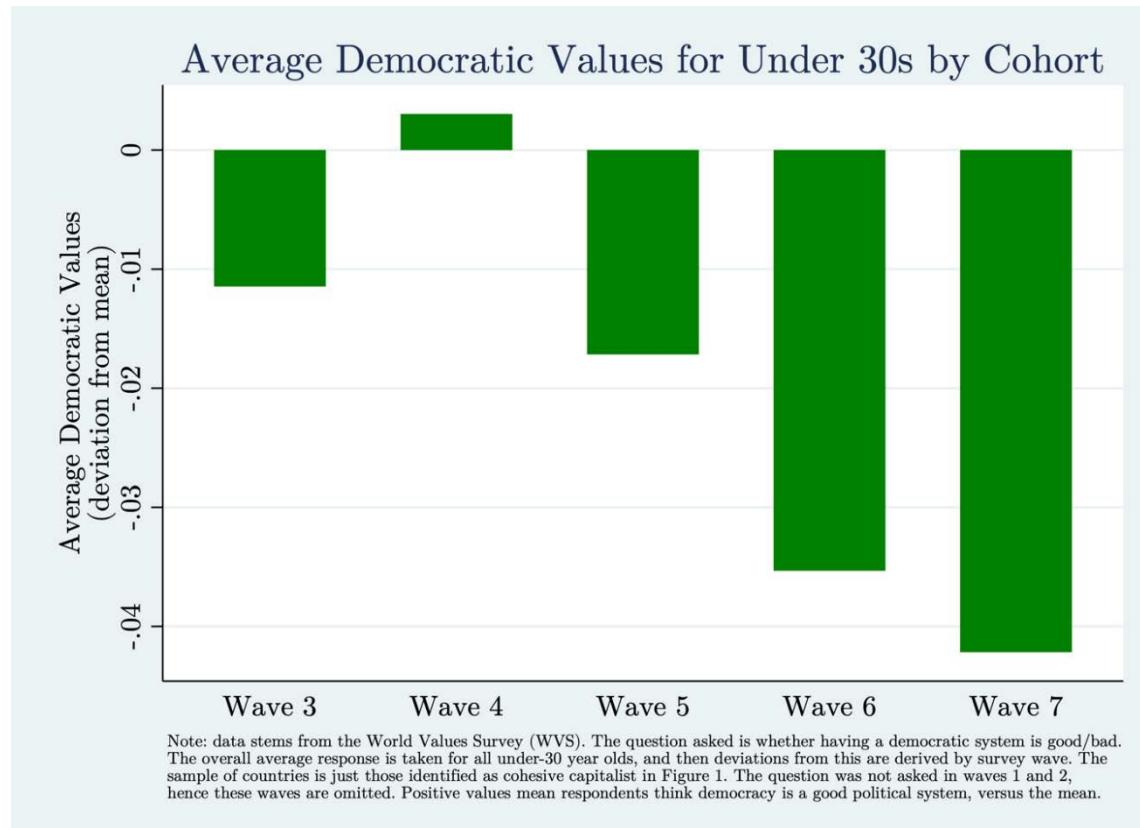


Figure A6 – Democratic Values for Under 30s by Cohort

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