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# Private debt and the Anglo-liberal growth model

## Introduction

Explaining the financial crisis of 2008 brought the key themes of comparative political economy to the world at large. ‘Global imbalances’ between export-oriented and domestic-demand-driven economies featured in popular explanations and reflected differences across countries long-articulated in the comparative study of advanced economies. Highly financialized, consumption-oriented, highly indebted economies such as the United States and United Kingdom contrasted with export-oriented countries— including other advanced economies such as Germany. Popular and scholarly accounts shared a narrative of the ‘liberal model’<sup>1</sup> in the boom: these countries relied on domestic consumption to fuel economic growth, and on household debt to fuel consumption. In this, they contrasted with coordinated economies whose export-oriented strategy provided the goods to be bought, and the capital borrowed to buy it.<sup>2</sup> The political necessity of this (ex post, unsustainable) dynamic in the liberal countries was that debt expansion was the only way to maintain the living standards of the politically important middle classes in the context of increasing inequality.

This characterization, and in particular the pathologies ascribed to the liberal model, permeated the political as well as the academic sphere. For example, in his 2011 budget speech, U.K. Chancellor George Osborne described the pre-crisis situation in Britain in precisely these terms: “We gambled on a debt-fuelled [sic] model of growth that failed” (U.K. House of Commons 2011). No doubt this account is thus familiar to the reader. This article shows that it is not, in fact, true. Using comparative cross-national data from the Organization for Economic Cooperation and Development (OECD) and comparative Manifesto Project Database (CMP) the analyses show that there is no evidence of distinctive liberal economy levels or increases in household indebtedness in the boom years from 1995

to 2007. Neither is there any evidence that politicians maintained support for the liberal strategy by claiming credit for the expansion of borrowing, when considered in comparative perspective relative to other countries.

There are differences between the liberal and coordinated models, however, which may have driven the inaccurate perception. In particular, the growth of the financial sector has been much higher in liberal than coordinated economies. This suggests a perhaps more cynical explanation of the ongoing survival of the liberal growth model that is rooted more in the interests of producers than in its ability to deliver economic growth to voters. As such, some of the economic conventional wisdom survives empirical scrutiny: there are differences between liberal and coordinated regimes in terms of financialization, even if not in terms of household debt. However, the political mechanism by which these regimes are sustained needs reconceptualization in light of the empirical evidence. In addition, the role of irresponsible household borrowing in driving the crisis has been overstated.

## **The Liberal Growth Model**

The financial crisis led to increased attention on the macroeconomic strategies of advanced industrial economies, and particularly the perceived pathologies of Anglo-American policy choices in this regard (Rajan 2010; Hay 2011; Gamble 2009). However, much of the new-found attention echoed existing accounts in emphasizing the distinction between the ‘liberal’ economies of the English-speaking OECD, and the coordinated, export-oriented strategies of northern Europe in general, and Germany in particular.

As will already be clear from the language of comparing liberal with coordinated regimes, the role of private debt is seen largely through the lens of varieties of capitalism (VoC)– and its descendants (Hall and Soskice 2001). The VoC literature is voluminous, broad and well-known, thus what follows here is only a brief discussion of the most relevant aspects regarding

household debt.

## **Economics**

The liberal growth model is a particular response to the question of how to deliver economic growth in the context of postindustrial capitalism.

Two complementary (as they always are) mechanisms point towards the ‘demand side’ expansion of household borrowing in liberal economies. First, liberal economies rely on domestic demand to drive economic growth (while CMEs rely on export-driven growth) (Iversen and Soskice 2010). Second, the types of innovation, but more importantly the distribution of skills and the (lack of) institutions for co-ordination in wage bargaining mean that economic growth in liberal economies is much less equally distributed than in coordinated economies (Rueda and Pontusson 2000; Iversen and Stephens 2008). The unequal distribution of the benefits of growth mean that average incomes have been relatively stagnant under the liberal growth model; in light of the reliance of the model on domestic consumption, this is problematic for growth. Expanding borrowing facilitates ongoing increases in aggregate demand. This dynamic is further reinforced by weak welfare state provision in liberal economies (Soskice 2007), and the resulting stabilization regime of ‘privatized Keynesianism’ (Crouch 2009).

The second element of the liberal – coordinated difference in debt appears on the supply side. Arms-length financial contracting was highlighted as a critical element of the liberal model in the original VoC formulation (Hall and Soskice 2001, p. 7; Casper 2001; Vitols 2001). The observation that the financial sectors of the U.K. and United States have grown more quickly than other countries has been explicitly linked back to differing varieties of capitalism (Kalinowski 2013). The large, powerful financial institutions of the liberal countries, competing in a low-interest rate environment, were driven to seek high returns through increasingly risky loans. While many such risky strategies involved lending within the finan-

cial sector (Thompson 2013), the underlying risks distributed through the financial sector originated with extended loans to consumers in general, and mortgage-holders in particular (Rajan 2010).

So, at least, goes the argument. Crudely put, in the liberal model growth relies on consumer demand; but average wages stagnate. Thus consumer demand relies on household borrowing, facilitated by the same rules of corporate governance that give the LMEs a comparative advantage in high-risk innovation. This narrative has been reinforced by single country studies highlighting the dynamics of growth and debt (Hay 2011), as well as vivid accounts of increasingly problematic borrowing in liberal countries (Warren and Tyagi 2003; Frank 2001).

## **Political support**

The second element of the argument is that not only economic growth, but also political success, depends on the provision of improving living standards to the general population. Thus the expansion of household debt is politically, as well as economically necessary.

The clearest articulation of the ‘mass politics’ argument for household debts underpinning the liberal growth model comes from Lucy Barnes and Anne Wren (2012). The underlying assumption is that to maintain political support, governments in advanced industrial democracies must secure the support– or at least the acquiescence– of their populations by delivering economic goods. The two key goods provided by the liberal growth model to the lower- and middle- sections of the income distribution are employment opportunities, and credit expansion: wage levels for the majority do not keep pace with growth at the top end (Barnes and Wren 2012, p.309).

This same logic can be seen in accounts of the financial crisis that link the origins of the crisis, in sub-prime mortgage lending in the United States, to deliberate policy choices about the expansion of credit in the face of increasing income inequality (Rajan 2010; McCarty

2012, p.204). Krippner (2011) and Streeck (2011), although they stress the reactive rather than principled nature of the policy choices that expanded household access to credit, also emphasize the reliance of liberal governments on access to credit as a palliative for increasingly unequal primary distributions of income in the context of economic liberalization.

The theoretical logic implied by all these treatments follows from two core assumptions. One, that in contrast to export-oriented strategies, the fruits of liberal economic growth accrue primarily to a very narrow segment of the population. Two, that political processes in democratic systems cannot allow for the persistent neglect of the broad segment that is excluded from liberal growth. Combined with the corollary observations (a) that financial market development in the liberal economies is more advanced than in other countries, and (b) that household debt in liberal regimes has increased rapidly in recent years, a simple political story emerges: liberal regimes maintain support from the masses (necessary from assumption two) by expanding credit, especially to lower income households (by observation (b)), which offsets the negative distributional impact of liberal growth (assumption one) and distinguishes liberal economies from coordinated regimes (observation (a) and assumption one).

### **... Contrasted to Export-Oriented Growth**

In contrast, coordinated, export-oriented models of economic growth place less emphasis on external equity financing for business investment, relying more on retained earnings and longer-term banking capital. The relative underdevelopment of financial intermediaries and the institutional portfolio investors dominant in LME equity markets means less pressure to seek high returns by extending increasingly risky loans, including those oriented towards household borrowing. Equally, in virtue of co-ordination with employees within firms and more importantly between capital and labor in corporatist industrial relations, as well as more egalitarian distributions of skills, coordinated capitalism delivers more egalitarian eco-

conomic benefits (Rueda and Pontusson 2000; Iversen and Stephens 2008). Thus both on the supply side and the demand side, the critical drivers of expanding household debt are not present in the coordinated economies.

Thus as well as the particular politics of household debt associated with the liberal model, there is also a presumption of difference between liberal regimes and their coordinated counterparts. The notion of household-debt finance both differentiating the liberal model from its coordinated-economy foil, and providing the mechanism whereby ordinary voters' support for economic policy decisions is secured in liberal countries, have become accepted wisdom without even quite simple exposure to empirical scrutiny.

## **The Liberal Model in the Empirical Data**

In this section these theories are confronted with the data. First, the particularity of the liberal model, as contrasted to export-oriented growth strategies, implies that there should be systematic differences in household indebtedness across country types. Liberal regimes should have higher levels of household debt than their export-oriented counterparts. These differences should be increasing over time: that is, annual increases in debt should be higher in liberal regimes than others (and in particular, than in coordinated regimes). Second, based on the 'mass politics' argument, the distinction between growth models should be reflected in politics. This should translate into distinct sets of election promises in liberal as compared to coordinated economies. Is there any evidence of these patterns in the empirical record?

The empirical approach used here is a simple one, following the simplicity of the empirical hypotheses. The contrasts between liberal and coordinated regimes, and their evolution over time, are shown in a series of graphs.<sup>3</sup> Importantly, the conventional narrative is not an obviously causal story: there is no particular argument that we expect liberal regimes to

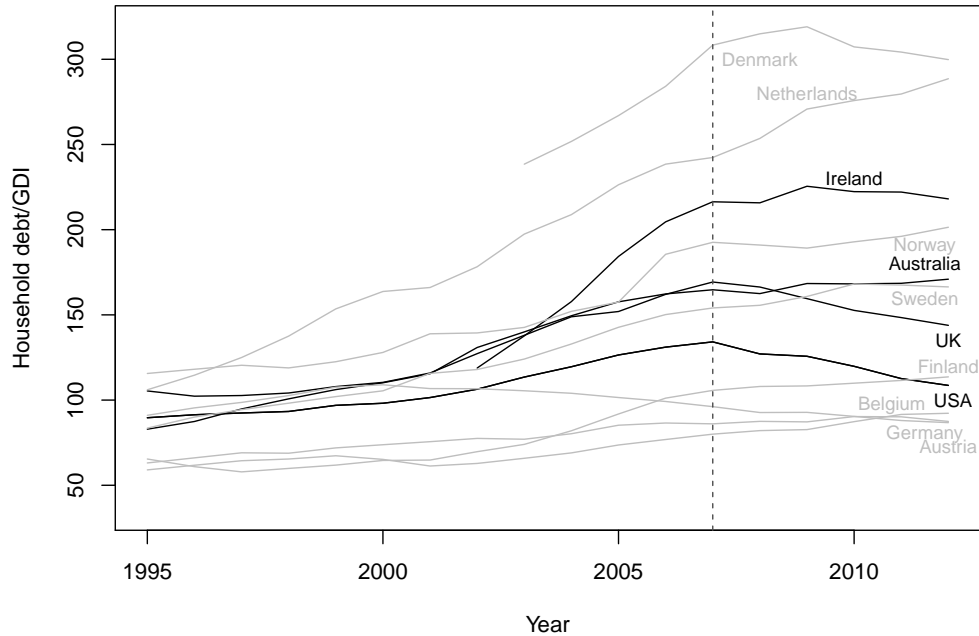


Figure 1: Household debt in liberal and export-oriented regimes since 1995. The dashed vertical line indicates the onset of the financial crisis. Liberal regimes are in black, and export-oriented regimes in grey.

have higher household debt only because they are liberal regimes. Rather, the argument is one about equilibrium relationships and thus lends itself directly to the simple investigation of correlations.

### Levels and evolution of household debt: a Liberal pathology?

The first set of empirical questions concern differences in the economies of liberal and export-oriented regimes. Specifically, is household debt any higher under the liberal growth model? Figure 1 addresses this question using data from the OECD between 1995 and the present (OECD 2014b).

The figure shows that while there has been a general increase in the level of household indebtedness over the past twenty years, it is far from clear that this is a phenomenon associated with liberal regimes. As far as household debt is concerned, it does not seem



that the liberal versus coordinated distinction captures any systematic variation. While the countries with the lowest levels of household debt are export-oriented, so too are the two countries with the highest levels, Denmark and the Netherlands. In terms of increases, too, the rise of indebtedness in Denmark almost exactly parallels that in Ireland— the poster child for liberal borrowing profligacy.

These same findings are reinforced by the statistical analyses. Comparing liberal with coordinated economies, and accounting for the common trend towards greater debt over time, there is no statistically significant difference between liberal and coordinated countries. Compared to all OECD countries, liberal countries do exhibit a discernibly higher level of debt, but the effect is much reduced when we control for whether the country is among the advanced industrial ‘usual suspects’<sup>4</sup> Equally, the liberal debt ‘advantage’ is halved again in size when the comparison is restricted to liberal versus coordinated economies (excluding France, Greece, Italy, Japan, Luxembourg, Portugal, Spain, and Switzerland as well as the non-AICs). In particular, France, Italy and Greece have lower levels of household indebtedness than both the export-oriented and liberal groups, while Spain and Portugal do not look distinctly different from the ‘high middle’ countries: Ireland, Norway or Australia, for example. The relevant comparison in terms of the liberal growth model, however, is between the ‘Anglo-liberal’ countries and their export-oriented counterparts: here there is no statistical difference in the levels of household indebtedness.

Perhaps, the argument might go, the comparison of levels of debt misses divergent dynamics under the two growth regimes? That is, it is less the level of household debt that should concern us, but its trajectory over time: as liberal economies continue to inflate demand by increasing borrowing. Construed this way, the important feature of fig. 1 is the slope of the lines, not their level. These are somewhat harder to read from the chart, but again there is no statistically discernible difference between the two types of country. In liberal regimes, each year adds an average of five percentage points of GDI to household

debt; but in coordinated regimes that figure is six and a half percentage points. There is no evidence of an interaction between liberal regime and the effect of the passage of time, and in this case the null result holds whether comparing liberal economies to all the OECD countries for which data are available, whether or not we control for membership in the advanced industrial group, or whether we simply compare liberal to coordinated regimes.

Thus we see no evidence in the empirical record of any systematic difference in household debt dynamics between liberal and coordinated economies. However, the figure indicates indirectly how the conventional wisdom may have emerged. Contrasts of individual countries—the United States and Germany, for example—, or a focus on within-liberal country trends (such as the massive rise in household indebtedness in Ireland) in the run-up to the crisis may have suggested patterns which have then been inappropriately generalized to the level of growth models.

Government debt. A defender of the debt distinction between the liberal and export-oriented models might protest our focus on household debt here. If the mechanism for debt-driven consumption demand is indirect, it could be that liberal governments assume extra debt according to these dynamics (rather than the households themselves). Thus public debt positions should be expected to differ and diverge across growth models. Figure 2 indicates that this objection, again, does not stand up to scrutiny— at least as far as the pre-crisis data are concerned. In fact, here the liberal countries are rather lower in their debt to GDP ratios; and with the exception of the United States, they also show consistent downward trends in indebtedness over the period in question— the period of rising inequality which in principle should have spurred debt-driven demand policies. To avoid repetition, discussion of the statistical results associated with the government debt to GDP ratio is omitted here; the interested reader is referred to table 3 in the appendix.

The focus on government debt does allow us to investigate— in this instance— one potential problem with using debt data to assess the claims of the growth model literature, namely

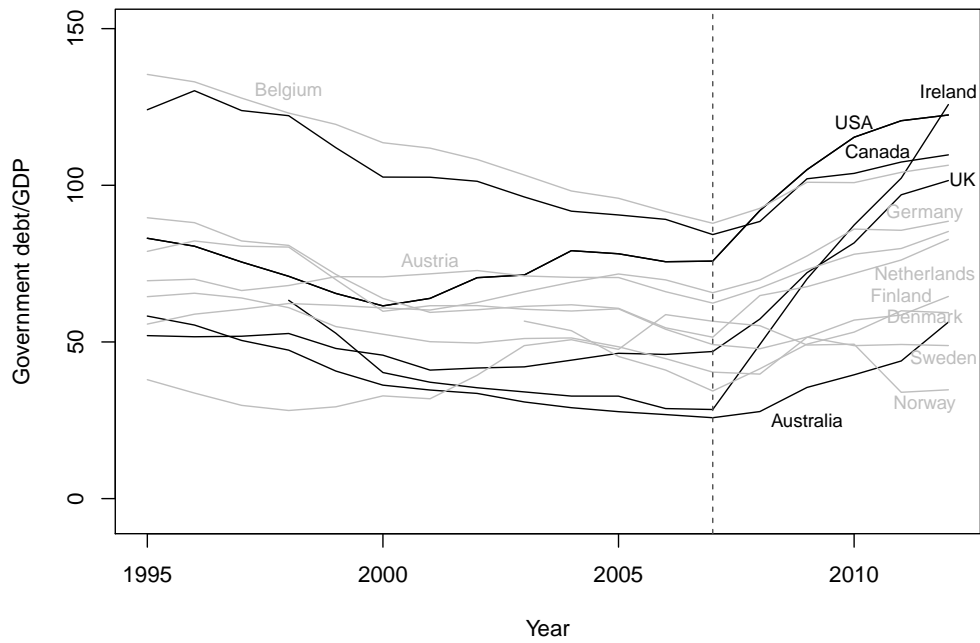


Figure 2: Government debt in liberal and export-oriented regimes since 1995. The dashed vertical line indicates the onset of the financial crisis. Liberal regimes are in black, and export-oriented regimes in grey.

that the data used here are not strictly ‘structural’ debt levels. It is not entirely clear that the structural rather than total debt levels are appropriate for the analysis (if the nature of the liberal growth regime is in fact one based on privatized Keynesian demand smoothing (Crouch 2009)). However, if debt-as-consumption smoothing is a general but cyclical trend, while the liberal growth model entails a secular and structural increase in debt, then the aggregate debt figures will mislead to the extent that the business cycles of the countries in question diverge. To my knowledge, there are no estimates available of cyclically adjusted debt figures for households. However, in the case of government indebtedness— which plays the same role in the theoretical account at issue here— the failure of the liberal indebtedness argument holds when we use cyclically adjusted deficits (rather than unadjusted debt) as our measure. Table 4 indicates that liberal regimes on the whole had larger (cyclically adjusted) surpluses (or smaller deficits) in the period 1995 to 2008, when compared to the full OECD sample; there was no difference in levels between liberal and coordinated regimes. There is some evidence that deficits increased more quickly in liberal regimes— particularly compared to export-oriented countries. Overall, then, it does not seem that cyclical adjustments can fully save the theory at hand. This is particularly important since it is not entirely clear whether the argument itself is about structural or total indebtedness.

Note in passing (the Appendix contains detailed tables) that looking at the total indebtedness of the private sector, or the economy as a whole, does not yield substantively different results. The one exception to this is that liberal economies do have higher levels (but not discernibly higher increases) in total debt: this disparity is driven by the higher levels of financial corporation debt (which is not included in the measure of private debt) in liberal economies.

## **The Politics of Growth Models in Liberal versus coordinated Countries**

The second part of the argument made about the liberal growth model in the run up to the financial crisis is that household debt, secured against rising asset prices, was “the social policy corollary of the new growth model” (Hay 2011, p.7). The argument, as outlined above, is that politicians in liberal regimes encouraged households to take on debt to maintain both demand and public support as the state withdrew from direct provision. Again, however, these arguments are typically based only on considering developments in policy within one liberal regime (usually the United States or Britain). The argument has an implicit comparison group, however, in other growth models in general, and export-oriented regimes in particular. We should expect politics under these regimes to look different— that is, not to emphasize demand, but to remain focused on the key public policy elements of the coordinated growth model: technical training, regulation and corporatist industrial relations. This section examines the extent to which this is true. That is, are there differences in the growth models that political parties have ‘sold’ their general populations?

To examine this question, data from the comparative Manifesto Project Database (CMP) (Volkens et al. 2013) are most useful. These widely used data are based on coding parties election manifestos according to whether they mention particular issues. These data are particularly suited to study growth models since the coding scheme was explicitly designed to measure salience rather than position. That is, one potential criticism of the analysis of any of the ‘politics’ of growth regimes is that as equilibrium concepts, and as national-level regimes, they are not likely to be subject to much political contestation from any (mainstream) political position. By this argument, liberal and coordinated countries should pursue quite different policies, but there will be little policy conflict over policies surrounding the growth models within any given regime. However, given that the CMP considers salience

of particular issues within manifestos, it does not presuppose any particular conflict between parties. If a (governing) party has enacted any policies in accordance with the growth model, and seeks to claim credit for them, they will mention this in their manifesto: this credit-claiming mechanism will be present even for valence issues where there is little conflict. The CMPs focus on the emphasis given to each policy area was developed precisely to capture such issues of salience (Budge et al. 2001; Klingemann et al. 2006).

In the context of the two claims about the distinct growth models, then, we should expect in particular that liberal-country politicians claim credit for their demand-side interventions—their role in maintaining both the purchasing power of consumers and in the part played by these policies in securing economic growth. By contrast, the importance of demand management and free-market policy in coordinated regimes should be lower, as these are not the policies that ensure (middle class) income growth and thus popular support, in this context. Conversely, policies associated with export-led growth should receive greater emphasis in countries where these are the ‘model’ for growth which voters are expected to reward.

Figures 3 and 4 show the average number of mentions (per manifesto) of each growth regime, in liberal and coordinated countries since 1945. The liberal growth model itself (fig. 3) is initially more salient an issue in the coordinated countries. Since the mid-1970s, though, there is no difference in the salience of the liberal model across regime types, with the liberal countries increasing, and coordinated countries decreasing, to converge.

Nor is there any more evidence that the policies associated with coordinated, export-oriented growth differ in their salience across regime types. The confidence intervals surrounding the estimates of the averages over time are overlapping in all periods, and again, when they are closest to being distinct, the direction of the difference is the opposite of what the theory would predict: declining mentions of coordinated growth policies in the 1980s occurs in the coordinated countries rather than the liberal.

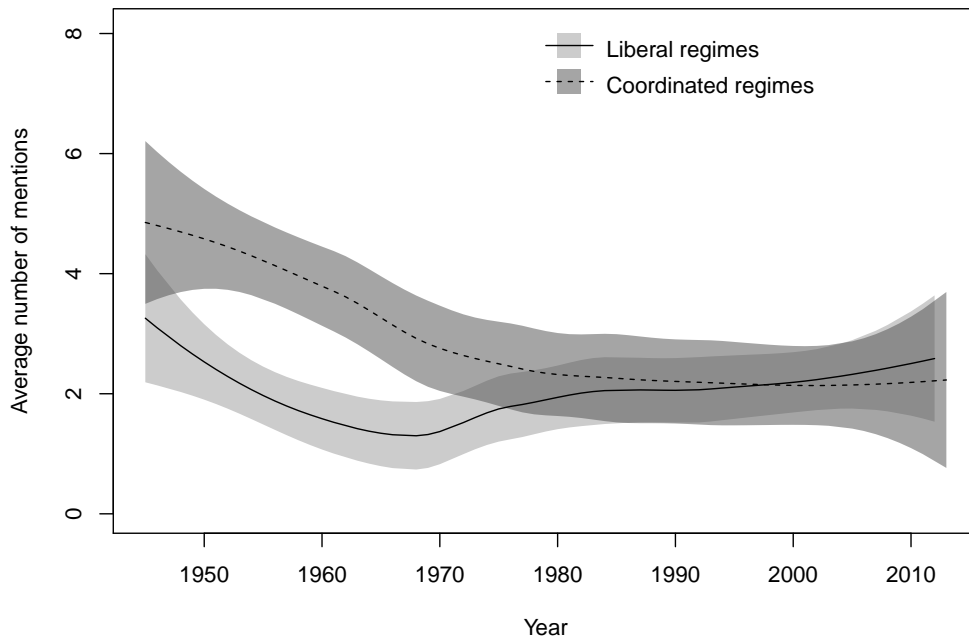


Figure 3: Salience of liberal model economic policies in election manifestos, 1945-2012. Grey polygons indicate 95% confidence intervals around fitted lines.

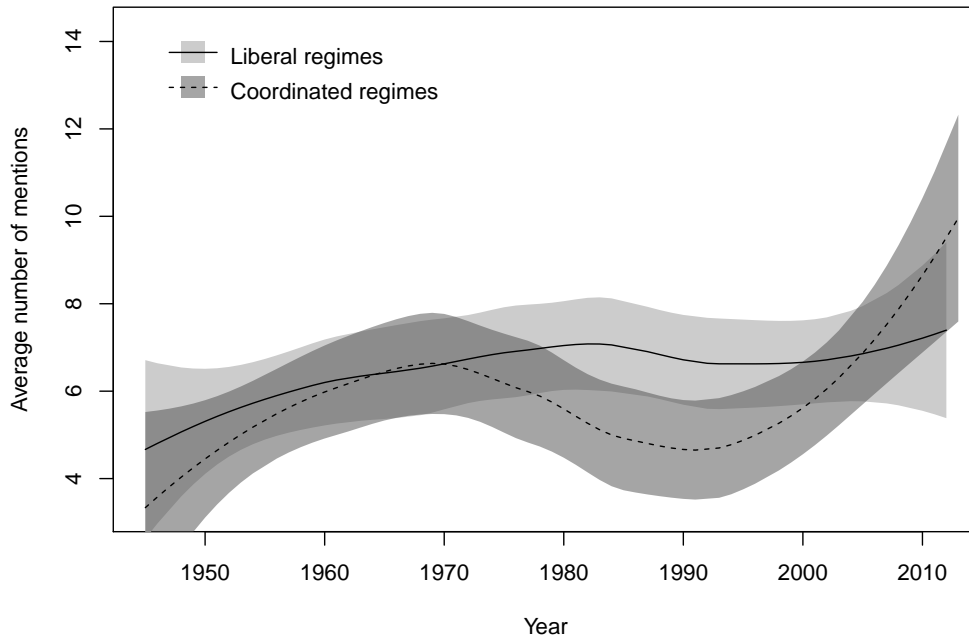


Figure 4: Salience of coordinated model economic policies in election manifestos, 1945-2012. Grey polygons indicate 95% confidence intervals around fitted lines.

The primary drawback of relying on the CMP data is that its categories were not developed with the contrast between liberal and coordinated economic growth strategies in mind. As such, measures of each policy regime's salience are constructed from underlying economic issues which are relevant to, but not exhaustive of each paradigm. The details of the measures' construction are given in the appendix. A second limitation of the original data (used here) is the absence of quantitative estimates of uncertainty in the coding (Benoit, Laver, and Mikhaylov 2009). However, for my purposes the addition of uncertainty around each (party salience) estimate will serve to increase variation in each country, and thus in each regime: it will have the effect of increasing the uncertainty around the regime estimates, and further reinforcing the finding of no difference.

### **Discussion: Macro-models and elite politics**

In the years leading up to the crisis, then, there is little evidence of the specific mechanisms of consumer debt working as a palliative to keep voters happy with an Anglo-liberal economic growth model that otherwise offered little advantage to average citizens— at least, not such a model that differentiated liberal economies from their other advanced industrial peers, or from coordinated market economies more narrowly construed. Nor can we discern systematic differences in the policy pronouncements made by political parties in the two types of country, on issues most closely linked to the purported differences in growth models. Should this be taken to imply that the the distinction between these two types of political economy is invalid?

This section lays out the case against throwing the economic model baby out with the mass politics bathwater. First, there are important differences between the organization and the trajectory of the liberal and coordinated economies, they just do not concern (household) debt in the way that has been argued. In particular, the growing importance of the



financial sector to liberal market economies is supported in the same kind of analysis that has undermined claims made about debt-financed growth, above. This raises an important question about the political side of these growth models: if liberal regimes do not generate voter support through debt-financed consumption, (how) do they do so?

Alternatively, the necessary political support for (liberal or coordinated) growth models may lie not with voters; but rather on the supply side, with producers' interests. The weight of financial sector interests in political decisions in the liberal market economies could well explain the political stability of a growth model which provides few benefits to the median voter.

## **Evidence of distinct advanced industrial growth models**

Liberal economic regimes are different from their coordinated counterparts in some ways which point to different strategies for growth. In particular, the importance of the financial sector to economic output is both higher in the liberal economies, and more obviously increasing both in the lead-up to the financial crisis and subsequently. These characteristics are illustrated in fig. 5, where the four liberal economies for which OECD (2014b) provide data have four of the five highest financial sector shares in GDP. Data from the United States are not available in this form but estimates of the financial sector in U.S. GDP indicate that it would reinforce this pattern: starting at levels around six percent in 1995 and increasing to over eight per cent by 2009 (Greenwood and Scharfstein 2012).

A more precise analysis (see Appendix) indicates that averaged across the full time-period, finance accounted for almost three percentage points more in GDP in liberal countries than in coordinated; in 1995 this difference was small, but the liberal advantage grew at a rate of 0.14 points each year; by 2010 the predicted gap was over four percentage points. Thus though the account of liberal models' reliance on household debt does not stand up to empirical scrutiny, the distinction does capture something important about growth regimes.

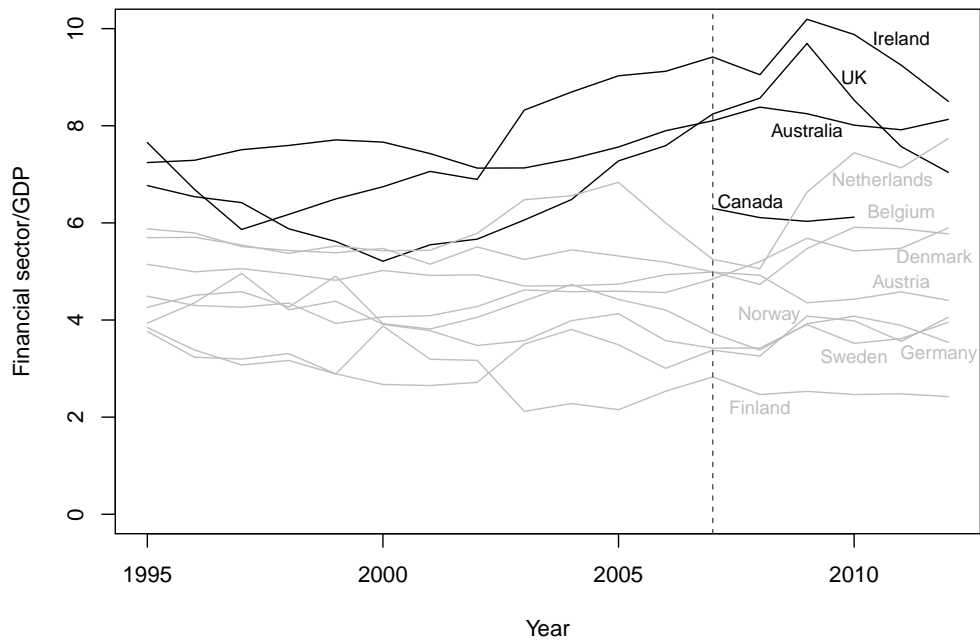


Figure 5: The share of the financial sector in the economy in liberal and export-oriented regimes since 1995. The dashed vertical line indicates the onset of the financial crisis. Liberal regimes are in black, and export-oriented regimes in grey.

How can these two claims be reconciled? That is, what is the financial sector doing to grow, if not lending to households and non-financial corporations? This is not so difficult to see. First, the international nature of lending and borrowing means that national differences in the scale of the financial industry need not correlate with strong national differences in debt levels. Financial corporations based in liberal economies (particularly in London and New York) have global reach: the debts may be held anywhere (Kalinowski 2013). Equally, though, financial corporations facilitate the debts of one another. The high-debt stereotype of liberal economies is more accurate when financial corporation debt is included (see table 9): financial corporation debt is higher in liberal regimes, and increased more strongly there between 1995 and 2007.

This points to a different political dynamic than that outlined by the common narrative. If there are economic actors in the liberal regimes whose support is maintained by the acceptance of (arguably, in light of the financial crisis) excessively high levels of debt, this support is not found among ‘average’ households, but rather among financial sector corporations.

## **Elites versus masses: policy and political support**

In this context, the absence of different growth model references from party manifestos aimed at the general public is not surprising. The financial sector beneficiaries of these policies have much more direct means of communication with policy-makers, and the public as a whole does not benefit directly from the growth policies specific to the liberal model. There are two interpretations of this logic. First, the public are unaware of the specifics of economic policy and financial sector dominance in the liberal model, but are able to hold governments to account if their own interests are not served, for example by simply considering their own economic situation, or economic outcomes more generally (Duch and Stevenson 2006).

On this interpretation, one might argue that the scale of financialization in itself creates a reliance of the broader economy on the continuation of policies favoring financial interests,

and creates an interest in the broader population in the ability of the financial sector to borrow. Equally, instead of claiming credit for the policies required to facilitate the growth of finance, liberal regime politicians might rely only on successful economic growth to court voter support (Iversen and Soskice 2012). While there is certainly some merit to these claims, they should not be overstated. Although the share of finance in liberal countries' economic activity has increased, fig. 5 makes it clear that even at its highest, it accounts for only ten per cent of output. In the United States, which the OECD data do not include, estimates of the size of the financial sector in this period are similar— around eight per cent of output (Greenwood and Scharfstein 2012) . More importantly for the argument about broad-based support, its share of employment is even lower— its peak in the U.K. was less than five per cent of the employed population (OECD 2014a). More indirect benefits of the growth of finance— for example, the benefits across the economy of the economic growth associated with its rise— are also difficult to reconcile with the stagnating real incomes for the lower half of the income distribution in precisely these liberal countries over this period.

The second interpretation of the lack of evidence of the mass political support nexus of the liberal growth model is less sanguine. Perhaps, rather than an alternative mechanism whereby voters hold politicians to account for the impact of their policy decisions on economic outcomes for the general public, there is no such mechanism. Support for the liberal growth model from the financial sector and those closely associated with it could provide the motivation for liberal policies, with neither need nor possibility for broader democratic responsiveness. Although it is beyond the scope of this paper to investigate this possibility fully, this reading is at least consistent with recent studies documenting the responsiveness of policy to the preferences of only the highest income voters (Gilens 2005; Bartels 2008; Hacker and Pierson 2005). The credibility of this argument is reinforced by the fact that it is difficult for voters to get (and thus use) information even about aggregate economic performance. That which is available tends to focus on short-term measures (Healy and

Lenz 2014), and voters respond to ‘pre-benchmarked’ reports in the media (Kayser and Peress 2012), generating further potential for elite influence. To the extent that policy-makers avoid accountability to voters, too, they are freer to pursue the interests of particular constituents: in the United States there is good evidence that receiving campaign contributions from financial organizations predicted legislator support for the 2008 bank bailout (Green and Hudak 2009), as well as wider claims of government ‘capture’ (Johnson 2009). In the U.K. and Ireland, too, the available evidence points to the increasing influence of the financial sector in their importance to political party finances (Barnes and Wren 2012). Finally, many of the policies that abet or hinder financialization are of low salience, with ‘quiet politics’ allowing wide latitude for the pursuit of (financial) business interests (Culpepper 2011).

## Conclusion

This article has argued that the conventional wisdom about household debt in liberal market economies differentiating two models of advanced capitalist growth; and providing the means by which increasingly inegalitarian economic growth can be reconciled with democracy has largely run ahead of the empirical evidence. This is not to say that liberal and coordinated economies are not distinct. Rather, it is to counsel caution against the application of specific theories about inter-firm relationships, and public action in particular policy spheres, to macroscopic generalizations at the level of mass politics and popular support for these economic policies. One obvious difference between coordinated and liberal economies concerns the role of finance.

This article makes an important contribution to the literature in comparative political economy in undermining two widely accepted ideas about advanced industrial country politics. It provides important empirical evidence that weighs against dominant accounts of advanced industrial political economy. In some ways, this may seem like a lot to hang on

a set of null results. However, in considering evidence directly pertinent to the theories in question, with clear and obvious empirical hypotheses, we can reject the simplest versions of accounts of the crisis that blame politicians pandering to profligate households. The notion that the null results on household debt and political strategies are meaningful results is supported by the substantive conclusions on financial sector debt and financialization.

While there is no evidence that household debt ‘drove’ the liberal model in the pre-crisis boom, liberal and coordinated models do vary in their financialization. That is, liberal and coordinated economies are different; it is only with regard to household (and private) debt that the claims of the two ‘varieties’ that the distinctions have been overstated. Financial corporation debt is the one kind of borrowing which does distinguish the liberal model. Nevertheless this constitutes an important correction: on the one hand in terms of the ‘morality play’ of the financial crisis (Fourcade et al. 2013); and on the other, in terms of correctly identifying the sources of instability that might lead to repeated financial crises. The take-home message here is that the blame laid at the feet of liberal-economy consumers and mortgage holders has been over-stated.

The findings here also raise a number of important questions for future research. First, the absence of evidence that liberal regime politicians even attempt to justify their policy choices to voters echoes concerns about democratic responsiveness. Differences in financialization are consistent with the absence of large differences in political discourse, and with the absence of household debt keeping the masses happy, if popular preferences over economic policy have little impact on political and policy outcomes. This pessimistic conclusion requires better (positive, rather than null) results on what does drive economic policy and political survival in the liberal regimes to be accepted, however.

It also implies that the conceptualization of coordinated, consensus democracies as oriented towards producer interests, and majoritarian, liberal democracies more consumer-facing may be misguided. It may be that it is always producer interests that matter, but

who the dominant producers are varies. Cross-national comparative research into the influence of producers on political behavior in liberal regimes in this context is a necessary complement to the wide-ranging literature on corporatist interest representation.

## Notes

<sup>1</sup>The liberal archetype is typically taken to be the United States; in both theoretical and empirical contexts I consider the U.S., U.K., Canada, Ireland and Australia as liberal regimes. New Zealand could equally be included in theory but I have no Kiwi data. The coordinated regimes are typified by the German archetype; I also categorize Austria, Belgium, Denmark, Finland, the Netherlands, Norway, and Sweden as coordinated regimes.

<sup>2</sup>I use the terms ‘coordinated’ and ‘export-oriented’ interchangeably throughout this article.

<sup>3</sup>Slightly more formal statistical analyses are provided in an appendix for the interested reader, and the numerical differences discussed in the text come from these models. Even these models are simple ones, however. This is primarily because the arguments made as to the differences across growth models lend themselves to simple empirical questions, as above.

<sup>4</sup>Those countries included in the sample but not among the AICs are Czech Republic, Estonia, Hungary, Korea, Poland, Slovak Republic, Slovenia. All of the former Soviet economies have much lower household debt levels (on the order of 15 to 30 % of GDI, compared to the liberal and coordinated norm of over 50% of GDI).

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# Private debt and the Anglo-liberal growth model :

## Appendix

### A A. Full regression tables (analyses cited in text)

Recall that we do not seek evidence of an obviously causal story: there is no particular argument that we expect liberal regimes to have higher household debt only because they are liberal regimes. Rather, the argument is one about equilibrium relationships and thus lends itself directly to the simple investigation of correlations. As such, a simple least squares modelling is closer to the theoretical claim than more sophisticated causal modelling approaches: the differences between countries are seen to be a ‘package deal’. This is most obvious if we start to consider what kind of variables we might want to ‘control’ for in a more sophisticated analysis. For example, we might want think that the size of the financial sector matters for the level of household debt: that easier access to credit facilitates borrowing. While clearly true, this ‘control variable’ is a consequence— or at least, a part— of the nature of the regime. The meaning of a difference in borrowing between liberal and coordinated regimes, net of the influence of the size of the financial sector, is thus very unclear.

Thus I estimate models which include a linear time trend, as well as a dummy for advanced-industrial country (AIC) status when including more countries than just the liberal and coordinated regimes (which are all AICs).

In this context, it is worth highlighting that the models I present are the most ‘forgiving’ to the theory: by omitting country-level effects and not adjusting the standard errors to account for the time-series cross-sectional nature of the data, I maximize the (theoretically expected) variation across the countries of interest, and the amount of information we assume is given by each country-year observation. Clustering the standard errors by country tends to increase the standard errors of the estimates given here, but not alter the sub-

stantive conclusions. Given that the main finding of interest here is the ‘null’ finding of no relationship, I discuss the results from tests less likely to produce this outcome, that is, the ‘raw’ associations.

## **Household debt**

Analogous to Figure 1 in the main article, table 1 asks the question ‘do liberal market economies have higher levels of household debt?’. Where the figure allowed for patterns in each country to be seen easily, the regression analysis which categorizes the U.K., U.S, Canada, Australia and Ireland as ‘liberal’ allows us to consider whether those countries seen to share a growth model have higher, or more quickly increasing household indebtedness.

Table 1 indicates that, compared to all OECD countries for which data are available, the liberal economies are indeed more highly indebted: there is a positive and highly statistically significant effect of the liberal designation, of about 40 percentage points of GDP. However, most of this is accounted for by the greater heterogeneity in the OECD than the simple difference between liberal and coordinated regimes. Once we account for advanced industrial country(AIC) status, (excluding the Czech Republic, Estonia, Hungary, Korea, Poland, the Slovak Republic and Slovenia from the comparison) the difference drops by more than half. Furthermore, the low-debt countries driving this contrast are not the coordinated group, but the southern European and East Asian OECD countries. When we compare the liberal regime to its purported opposite, as in Model 3, there is no discernible difference between the two groups.

Table 2 considers whether the growth of household debt was faster in the liberal countries. Model A4 estimates the linear trend for the growth of household debt within liberal countries, and Model A5 that within the coordinated regimes. We can see even in these simple analyses that the time effects are very similar: each extra year adds over five percentage points of GDP to household debt in the liberal countries, and six and a half in the coordinated. We

Table 1: Do liberal market economies have higher levels of household debt?

Model	A1	A2	A3
Liberal	39.91*** (8.14)	16.25* (6.46)	8.60 (7.69)
Year	5.42*** (0.79)	5.46*** (0.60)	6.73*** (0.95)
Sample	<i>Full</i>	<i>Full</i>	<i>L&amp;C</i>
AIC dummy		Y	
<i>N</i>	293	293	141
<i>R</i> <sup>2</sup>	0.20	0.53	0.27
adj. <i>R</i> <sup>2</sup>	0.19	0.52	0.26
Resid. sd	50.25	38.55	42.54

Standard errors in parentheses

† significant at  $p < .10$ ; \* $p < .05$ ;

\*\* $p < .01$ ; \*\*\* $p < .001$

can see by inspection of the standard errors here that these are unlikely to be differentiable from one another. Model A8 provides exactly this comparison, with a little more structure, by interacting the year of observation with the liberal regime type while limiting the sample to liberal and coordinated countries. If there is more rapid growth in the liberal regimes, this should be reflected in a positive coefficient on the interaction. This also allows us to include the level effects of the regime type. We can see from Model A8 in the table that while the overall trend is towards higher levels of indebtedness, there is no evidence that the liberal countries are moving faster: the estimate of a 0.53 point premium in the liberal countries is not just small relative to its standard error, but substantively close to zero.

Models A6 and A7 indicate that – in contrast to the differences in debt *levels* – the liberal countries are even indistinguishable from the broader sample of all OECD countries. This holds whether or not we include a dummy variable control for AIC status. Here the point estimates do indicate a slightly quicker rate of increase, but even with the larger sample’s higher power, it is statistically indistinguishable from zero. That is, although they have

Table 2: Has household debt grown (more) in liberal countries?

Model	A4	A5	A6	A7	A8
Year	5.39*** (0.65)	6.56*** (1.36)	5.11*** (0.86)	4.93*** (1.18)	6.56*** (1.16)
Liberal regime			-3916.71 (4367.52)	-3624.50 (3467.28)	-1045.52 (4123.09)
Liberal $\times$ year			1.98 (2.18)	1.82 (1.73)	0.53 (2.06)
Sample	<i>L</i>	<i>C</i>	<i>Full</i>	<i>Full</i>	<i>L&amp;C</i>
AIC dummy				<i>Y</i>	
<i>N</i>	65	96	293	293	141
$R^2$	0.52	0.20	0.20	0.53	0.27
adj. $R^2$	0.51	0.19	0.19	0.52	0.26
Resid. sd	26.59	50.22	50.27	38.59	42.68

Model including the AIC dummy and the liberal-year interaction also include AIC  $\times$  year.

† significant at  $p < .10$ ; \* $p < .05$ ; \*\* $p < .01$ ; \*\*\* $p < .001$

different levels of debt overall, the liberal countries show no faster increases in debt than other countries.



## Government debt and cyclically adjusted deficits

As discussed in the main text, tables 3 and 4 investigate whether governments in liberal countries take on debt directly, on behalf of households, in order to maintain political support as per the theory. Models A9 to A14 echo the specifications in tables 1 and 2, excluding the split-sample estimations of the time trend. They reveal similar null results in terms of the liberal-coordinated comparison of levels: Model A11 shows that there is no discernible difference between the two, while Model A10 indicates that liberal governments have lower levels of debt compared to the full AIC group. In terms of the expansion of debt, too, there is no indication that the liberal models debt had a different slope over time (as indicated by the liberal - year interaction) in any of the comparisons.

Table 3: Government debt in liberal versus other countries

Model	A9	A10	A11	A12	A13	A14
Year	-1.10*	-0.81 <sup>†</sup>	-1.81***	-0.83	0.20	-1.48*
	(0.49)	(0.44)	(0.51)	(0.54)	(0.87)	(0.65)
Liberal regime	-5.32	-16.93***	-4.80	3052.52	3130.70	1754.19
	(4.74)	(4.41)	(3.92)	(2579.74)	(2390.59)	(2124.98)
Liberal × year				-1.53	-1.57	-0.88
				(1.29)	(1.19)	(1.06)
Sample	<i>Full</i>	<i>Full</i>	<i>L&amp;C</i>	<i>Full</i>	<i>Full</i>	<i>L&amp;C</i>
AIC dummy		<i>Y</i>			<i>Y</i>	
<i>N</i>	335	335	158	335	335	158
<i>R</i> <sup>2</sup>	0.02	0.22	0.08	0.02	0.23	0.09
adj. <i>R</i> <sup>2</sup>	0.01	0.21	0.07	0.01	0.22	0.07
Resid. sd	33.67	30.03	24.08	33.64	29.95	24.10

Models including the AIC dummy and the liberal-year interaction also include AIC × year.

<sup>†</sup> significant at  $p < .10$ ; \* $p < .05$ ; \*\* $p < .01$ ; \*\*\* $p < .001$

One additional advantage of considering government debt is that, at least in this case, we can draw on data that are adjusted for the economic cycle. If debt in general, and government debt in particular, is thought of as playing a counter-cyclical stabilisation role,

this clearly does not make sense. But the more general argument about growth models is less one about stabilization and more one of systemic structural borrowing to cover gaps in the creation of income for middle class consumption. Thus, it might be thought that eliminating cyclical variation would be the better measure of the growth model's debt bias.

Table 4: Cyclically adjusted government deficits in liberal versus other countries

Model:	A15	A16	A17	A18	A19	A20	A21
Year	-0.51*** (0.08)	-0.03 (0.05)	-0.02 (0.05)	-0.00 (0.05)	0.01 (0.06)	-0.02 (0.12)	0.14† (0.07)
Liberal		1.07* (0.44)	0.89* (0.45)	-0.50 (0.38)	422.67† (253.30)	471.04† (261.05)	675.39** (215.19)
Lib. × yr.					-0.21† (0.13)	-0.23† (0.13)	-0.34** (0.11)
Sample	<i>L</i>	<i>Full</i>	<i>Full</i>	<i>L&amp;C</i>	<i>Full</i>	<i>Full</i>	<i>L&amp;C</i>
AIC dum.			<i>Y</i>			<i>Y</i>	
<i>N</i>	85	307	307	144	307	307	144
<i>R</i> <sup>2</sup>	0.33	0.02	0.03	0.01	0.03	0.04	0.08
adj. <i>R</i> <sup>2</sup>	0.33	0.01	0.02	-0.00	0.02	0.02	0.06
Resid. sd	3.59	3.03	3.03	2.26	3.02	3.02	2.20

Models including the AIC dummy and the liberal-year interaction also include AIC × year.

Standard errors in parentheses

† significant at  $p < .10$ ; \* $p < .05$ ; \*\* $p < .01$ ; \*\*\* $p < .001$

Table 4 provides no such solace for the narrative of distinctive Anglo-liberal pathology. Model A15 indicates that structural debt in the period declined overall; and again (as with household debt) while the liberal countries have higher levels of debt than the non-liberal OECD (Model A16), this difference diminishes in the contrast with AIC peers (Model A17), and disappears completely in the comparison between liberal and coordinated countries (Model A18). Including the regime-time interaction (in Models A19 to A21) indicates that the expansion of structural debts was actually slower than average in the liberal countries (although from a higher starting point).

## B. Robustness: private sector and total debt levels

For completeness, I present here analogous analyses for the non-financial private sector (households and non-financial corporations) and for total debt levels in the economy. Thus tables 5 and 6 again replicate the models in levels and with the liberal-year interaction to capture different trajectories through time. Again, private sector debt overall is slightly higher in the liberal countries than the whole OECD, but no different from the coordinated or other advanced industrial countries. There is no significant liberal-time interaction suggesting quicker expansion of private sector debt.

Table 5: Private sector (households and non-financial corporations) debt in liberal versus other countries

	B1	B2	B3	B4	B5	B6
Year	4.70*** (0.72)	5.20*** (0.61)	5.22*** (0.67)	4.40*** (0.80)	4.83*** (1.20)	4.68*** (0.85)
Liberal	15.09* (7.06)	-5.03 (6.20)	-6.79 (5.20)	-3425.37 (3807.52)	-2071.48 (3344.03)	-2877.66 (2787.69)
Lib. × yr.				1.72 (1.90)	1.03 (1.67)	1.43 (1.39)
Sample	<i>Full</i>	<i>Full</i>	<i>L&amp;C</i>	<i>Full</i>	<i>Full</i>	<i>L&amp;C</i>
AIC dummy		<i>Y</i>			<i>Y</i>	
<i>N</i>	332	332	155	332	332	155
<i>R</i> <sup>2</sup>	0.12	0.38	0.29	0.13	0.38	0.29
adj. <i>R</i> <sup>2</sup>	0.12	0.37	0.28	0.12	0.37	0.28
Resid. sd	49.20	41.46	31.41	49.21	41.55	31.40

Models including the AIC dummy and the liberal-year interaction also include AIC × year.

Standard errors in parentheses

† significant at  $p < .10$ ; \* $p < .05$ ; \*\* $p < .01$ ; \*\*\* $p < .001$

Models B7 to B12, for total debt levels, tell a slightly different story. That is, here there is a statistically significant difference between liberal and coordinated countries in terms of their levels of indebtedness (Model B9). However, this is the only difference that reaches conventional levels of significance. Further, as we saw in the final section of the article, the

driver behind this difference is financial sector indebtedness– which is examined in more detail below.

Table 6: Total debt in liberal versus other countries

	B7	B8	B9	B10	B11	B12
Year	25.56***	28.26***	20.71***	24.84***	10.94	15.80**
	(6.40)	(6.07)	(3.91)	(7.06)	(11.91)	(4.91)
Liberal	112.57†	4.08	60.59*	−8118.49	14080.18	−26256.91
	(62.50)	(61.56)	(30.12)	(33729.59)	(33078.08)	(16070.89)
Lib. × yr.				4.11	−7.03	13.15
				(16.85)	(16.53)	(8.03)
Sample	<i>Full</i>	<i>Full</i>	<i>L&amp;C</i>	<i>Full</i>	<i>Full</i>	<i>L&amp;C</i>
AIC dummy		<i>Y</i>			<i>Y</i>	
<i>N</i>	332	332	155	332	332	155
<i>R</i> <sup>2</sup>	0.05	0.16	0.18	0.05	0.16	0.19
adj. <i>R</i> <sup>2</sup>	0.05	0.15	0.17	0.05	0.15	0.17
Resid. sd	435.33	411.69	182.03	435.96	411.04	181.03

Models including the AIC dummy and the liberal-year interaction also include AIC × year.

Standard errors in parentheses

† significant at  $p < .10$ ; \* $p < .05$ ; \*\* $p < .01$ ; \*\*\* $p < .001$

### C. Construction of manifesto growth regime measures

As outlined in the theory section in the main text, there are a large number of policies associated with the liberal regime, and others more closely linked to export-oriented growth models. Not all of these dimensions translate to the coding categories in the Volkens et al. (2013) (CMP). However, a number of policy areas that are measured in the manifesto data do directly tap key elements of each growth model, and it is these that I use to construct the measures analyzed in the article. Specifically, mentions of technical investment and training, regulation, and corporatism are used to measure the salience of ‘coordinated’ policies for economic growth. On the liberal side, the aspect of the growth model that is measured in the CMP is that of demand management: specifically, mentions of demand side economic policies, to the benefit of consumers. However, along with this demand-side approach is the liberal commitment to free market provision, thus these two categories are combined to yield the liberal growth model measure. Thus the measures are as follows:

$$\text{coordinated} = \text{Technology} + \text{Regulation} + \text{Corporatism}$$

$$\text{Liberal} = \text{Keynesian Demand Management} + \text{Free Market Economy}.$$

The constituent categories are summarized in table 7.

Table 7: Construction of growth model measures from CMP manifesto data

Model	CMP name (category)	Description
Liberal	Keynesian Demand Management (per 409)	Favourable mentions of demand side oriented economic policies (assistance to consumers rather than businesses). Particularly includes increase private demand through increasing public demand; increasing social expenditures. May also include stabilization in the face of depression; government stimulus plans in the face of economic crises.
Liberal	Free Market Economy (per 401)	Favourable mentions of the free market and free market capitalism as an economic model. May include favourable references to: laissez-faire economy; superiority of individual enterprise over state and control systems; private property rights; personal enterprise and initiative; need for unhampered individual enterprises.
coordinated	Technology (per 411)	Importance of modernization of industry and updated methods of transport and communication. May include: importance of science and technological developments in industry; need for training and research within the economy (this does not imply education in general); calls for public spending on infrastructure such as roads and bridges; support for public spending on technological infrastructure (e.g.: broadband internet, etc.).
coordinated	Regulation (per 403)	Support for policies designed to create a fair and open economic market. May include: calls for increased consumer protection; increasing economic competition by preventing monopolies and other actions disrupting the functioning of the market; defence of small businesses against disruptive powers of big businesses; social market economy.
coordinated	Corporatism (per 405)	Favourable mentions of cooperation of government, employers, and trade unions simultaneously. The collaboration of employers and employee organizations in overall economic planning supervised by the state.

## D. The growth of the financial sector

Finally, there is one area of comparison between the liberal and coordinated economies where significant differences (in both statistical and substantive terms) arise. Specifically, liberal models have larger financial sectors, and these grew more rapidly in the pre-crisis boom.

Table 8: The growth of the financial sector in liberal versus other countries

	D1	D2	D3	D4	D5	D6	D7
Year	0.12*** (0.03)	0.05 (0.05)	0.05 (0.05)	0.02 (0.02)	0.04 (0.06)	0.04 (0.09)	-0.02 (0.03)
Liberal regime		1.86** (0.60)	1.16 <sup>†</sup> (0.60)	2.76*** (0.19)	-153.78 (316.87)	-153.03 (316.60)	-277.05** (96.91)
Liberal × year					0.08 (0.16)	0.08 (0.16)	0.14** (0.05)
Sample	<i>L</i>	<i>Full</i>	<i>Full</i>	<i>L&amp;C</i>	<i>Full</i>	<i>Full</i>	<i>L&amp;C</i>
AIC dummy			<i>Y</i>			<i>Y</i>	
<i>N</i>	58	341	341	144	341	341	144
<i>R</i> <sup>2</sup>	0.26	0.03	0.09	0.60	0.03	0.09	0.63
adj. <i>R</i> <sup>2</sup>	0.25	0.02	0.08	0.60	0.02	0.08	0.62
Resid. sd	1.03	3.57	3.46	1.01	3.58	3.47	0.99

Models including the AIC dummy and the liberal-year interaction also include AIC × year.

Standard errors in parentheses

<sup>†</sup> significant at  $p < .10$ ; \* $p < .05$ ; \*\* $p < .01$ ; \*\*\* $p < .001$

Models D2 and D3 indicate that liberal countries have financial sectors that are nearly two points larger than the non-liberal OECD; but also that these levels are nearly three points higher than the coordinated regimes. This gives a numerical estimate of the differences visible in fig. 5 whose substantive size is evident from the contrast with overall financial sector sizes: nowhere is this higher than 10 per cent, so a three percentage point difference is a large one. Similarly, model D7 indicates that in the liberal models, the size of the financial sector increased by about 0.14 points in GDP each year, in coordinated models there was no such growth—indeed the point estimate on the time trend in these countries is negative!

Table 9: Financial corporation debt in liberal versus other economies

	D8	D9	D10	D11	D12	D13
Year	22.03*** (6.13)	23.91*** (5.98)	17.53*** (3.61)	21.29** (6.77)	5.69 (11.73)	12.78** (4.54)
Liberal	102.78† (59.90)	27.28 (60.66)	74.07** (27.85)	-8309.00 (32324.09)	12570.27 (32580.05)	-25367.03† (14849.25)
Liberal × year				4.20 (16.15)	-6.27 (16.28)	12.71† (7.42)
Sample	<i>Full</i>	<i>Full</i>	<i>L&amp;C</i>	<i>Full</i>	<i>Full</i>	<i>L&amp;C</i>
AIC dummy		<i>Y</i>			<i>Y</i>	
<i>N</i>	332	332	155	332	332	155
<i>R</i> <sup>2</sup>	0.05	0.10	0.17	0.05	0.11	0.19
adj. <i>R</i> <sup>2</sup>	0.04	0.09	0.16	0.04	0.10	0.17
Resid. sd	417.20	405.72	168.33	417.79	404.85	167.27

Models including the AIC dummy and the liberal-year interaction also include AIC × year.

Standard errors in parentheses

† significant at  $p < .10$ ; \* $p < .05$ ; \*\* $p < .01$ ; \*\*\* $p < .001$

Finally, table 9 points to the real beneficiaries of any liberal government policies conducive to high indebtedness. Compared to the coordinated countries (model D10), the debt of financial corporations in the liberal countries is significantly higher, by almost 75 percent of GDP. Equally, although with a little less statistical certainty, the growth of financial corporation debt is estimated to be twice the rate in coordinated countries. Model D13 indicates that in the coordinated (residual) category, each additional year adds 12 points to the level of financial corporation debt; in the liberal countries we must add another 12 points to that baseline.

Note even here though that while this is a distinctive difference between liberal and coordinated countries, financial sector indebtedness may not be unique to liberal market economies. The absence of significant differences between liberal and other countries when the AIC dummy variables are included indicates that whatever political processes promote the indebtedness of financial sector corporations, they may be of broader applicability than



the Anglo-liberal world. Within the liberal countries, however, the size of the sector is more pronounced, exacerbating any effects that financial sector preferences may have in the broader polity.