

## Book Review

*Democracy and Prosperity: Reinventing Capitalism Through a Turbulent Century* by Iversen, Torben and David Soskice. Princeton: Princeton University Press, 2019. 360 pp.

At a time when issues of inequality, redistribution and populism are pinned on the inability of states to assume full control of globalizing forces and the failure of capitalism to provide equitable growth, this book by Torben Iversen and David Soskice, gives a fresh perspective to such debates. Written by two eminent political economists – whose previous works have mainly touched on various issues on capitalism and democracy in advanced capitalist democracies (ACDs) – *Democracy and Prosperity*, gives readers plenty to think about on the continued relevance of capitalism, on the compatibility of capitalism with democratic ideals and the ability of advanced democratic states to remain autonomous in the face of increased market presence and other forms of globalizing forces.

The book starts with the authors problematising the widely held pessimism about the future of capitalism and democracy in ACDs. Undoubtedly, the global financial crisis has put serious doubts on the ability of ACDs to cope with the challenges that come with globalisation and the continued application of neoliberal ideas. In setting the stage for their argument, the authors put forth the commonly held belief that ACDs now have little control over markets. Privatisation, liberalisation, deregulation and rising income inequality amid greater wealth are all indicators of the battle between states and markets, one in which markets seem to be the clear winner. Continuing such a line of argument, the authors quote Esping Anderson's (1985) work where he describes that "democratic politics is reduced to symbolic politics and that the real driver of economic outcome is capital." Such an argument also suggests that Multinational Enterprises (MNEs) and capital are footloose and ever prepared to move to states that are deemed "market-friendly."

Iversen and Soskice however argue that none of the above are true. They hold the belief that democracy, capitalism and the advanced nation-states are "mutually supportive" and will continue to be so despite the many challenges. Supporting their argument with facts, Iversen and Soskice argue

that there is little chance that democracy in advanced societies, is going to give way to new forms of authoritarianism or any sustained forms of populism.

In justifying their optimism, the authors provide compelling arguments. They argue that capitalism and democracy will continue to be relevant in ACDs because both have proven to be resilient and durable despite being subject to tumultuous changes in human history. Specifically, both capitalism and democracy have survived decolonisation, two world wars, numerous financial crises and episodes of technological innovation that have continuously disrupted existing societal arrangements. In fact, the failure of communism and the adoption of democratic and capitalistic ideals by former communist states serve only to prove the durability, resilience and attractiveness of democracy and capitalism. The authors' optimism is also based on the fact that capitalism and democracy have contributed immensely to rising living standards in ACDs. Despite the concern on rising inequality, the book argues that the median income group in ACDs have kept pace with overall growth. The authors are also convinced that there will continue to be interlocking interests between democracy and capitalism in ACDs because of the alignment of interests between decisive voters and advanced capitalism. By decisive voters the authors meant the growing middle class and aspirational families who have witnessed how capitalism has provided them with social mobility and increased their wealth. These voters, the authors argue, see democracy as a means to ensure continued wealth generation. As such governments in advanced democracies have little option other than promote policies that support advanced capitalism, failing which decisive voters can punish them.

Iversen and Soskice also take the view that states are very much in control of the markets, unlike the views of Piketty (2014), Rodrik (1997) and Esping-Anderson (1985) who see markets as winning over states in dictating policies. In making their argument the authors explain that capital is not as footloose as many would have thought. MNEs in ACDs are highly tied to the national system and this is due to the presence of an educated workforce with tacit knowledge that is not easily codifiable, the existence of skill clusters that promote co-specific and co-locational skills among workers and the quality of public and private institutions in ACDs. The authors explain that this combination of factors is present in ACDs because the state has played a central role in providing and maintaining conditions necessary

in promoting advanced capitalism. These conditions include the ability to impose on businesses the competitiveness of the product markets, to put in place an effective legal framework that sets the relationship between labour and business, to invest in public goods like education, training, research and development and to recalibrate existing arrangement of capitalism and democracy in the face of constant shocks. These conditions, the authors point out, are lacking in non-ACDs.

The above are just some of the arguments put forward, but what is fascinating about the book is the authors' attempt to explain – by using their ACD framework - contemporary issues like the middle-income trap, populism and rising income inequality. On the issue of the middle-income trap, the authors explain that many states are not able to make the transition to high-income economies because of the inability of the state to play a central role in imposing on businesses the competitive product market. States caught in the middle-income trap are also not able to manage labour and business interests and are often captured by interests' groups and crony capitalists that attempt to subvert competitiveness. One other reason for the state's failure to make the transition to high-income economies is due to its inability to adequately invest in public goods like education, training as well as research and development. The authors mention that only a few countries in the last 50 years have managed to graduate to high-income economies. Taiwan, Hong Kong, Singapore, Japan and Taiwan have all joined the ranks of ACDs because of a strong state presence in promoting fair competition, providing clear legal systems and investing in appropriate public goods. In fact, these countries are successfully mimicking the advanced economies by attracting and producing knowledge workers with tacit and co-specific skills and developing cluster-skill networks to tie MNEs to their respective national economy. The authors also cite Latin American countries as examples of countries who are finding it difficult to break from the middle-income trap due to underinvestment in public goods and the presence of a weak state. As for rising inequality, the authors attribute this to the presence of decisive voters. This rich, middle class and aspirational families have enjoyed the benefits of capitalism, democracy and growth and may not be supportive of redistributive policy. The authors see this as a flaw of democracy and not capitalism. Given such a case, as long as democratic governments continue to meet the aspiration of decisive voters there will continue to be inequality. As for rising populism, the authors see it as an aberration because populism is a

manifestation of the inability of certain constituents to embrace new forms of technology and innovation and the presence of a weak state that continues to be captured by business interests. The authors argue that there are those who cannot see themselves or their children benefitting from capitalism and these actors find populism appealing.

This book is extremely engaging for those searching for answers on issues of globalisation, inequality, populism and the continued relevance of democracy and capitalism. The arguments are well articulated and serve as a clear rebuttal to recent works by Piketty (2014) and Rodrik (1997) that describe the triumphalism of capital over the state. Though the contrarian arguments put forth are engaging there remain few concerns. One obvious concern is the authors' argument on the inevitability of inequality given the need for ACDs to pander to the demands of decisive voters. Though they have argued this is due to the flaws of different varieties of democracy, there should be more explanation on the varieties of democracy and how they contribute to differences in inequality. Also, the issue of inequality needs to be tied to populism. Given the momentum that both populism and inequality are now gathering in ACDs, there is every possibility that growing inequality and rising populism could potentially undermine both democracy and capitalism. Populism, as the authors suggest, could be an aberration in the continued march of capitalism and democracy, but it could also be a potential problem especially when it is gathering a critical mass as it is now. There is always the possibility that the left-behind crowd can muster enough support to undermine states' institutions that in the past have proven to support growth. The authors could also be overly optimistic about the rationality of top and middle-income earners. This is because there is the possibility that as income widens, top income earners might use the democratic system to fund middle class and aspirational families in promoting populist campaigns that promote class interest and subvert democratic ideals and advanced capitalism. The huge bailouts enjoyed by top businesses during the financial crisis of 2008 serve to show the potential of top income earners in dictating the operatives of democracy and capitalism in ACDs. Finally, it is still not an impossibility that technology can make skill clusters, tacit knowledge, co-locational and co-specific skills not bounded to national economies. The fast-changing technology we are witnessing can see cyberspace providing the alternative space that does not compromise MNEs' concerns on tacit skills and cluster networks.

Without a doubt, this thought-provoking book can trigger new research possibilities. It can provide a good starting point for scholars looking at the political economy of less advanced societies. For those attempting to understand the rise of the middle class and the growing inequality, this book can offer a few pointers. Certainly, *Democracy and Prosperity*, gives reasons to be optimistic on the prospect of capitalism and democracy in generating prosperity.

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