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Corresponding Author:	Thomas Kalinowski Ewha Womans University Seoul, KOREA, REPUBLIC OF
First Author:	Robert Pauls, PhD
Order of Authors:	Robert Pauls, PhD
	Thomas Kalinowski, PhD
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National Growth Models and Global Capitalism – a Critique of Comparative Political Economy

Robert Pauls, PhD, Assistant Professor (first author)
Department of International Studies, Xi'an Jiaotong-Liverpool University
Phone: +86 (0)512-8188-4609, robert.pauls@xjtlu.edu.cn

Thomas Kalinowski, PhD, Professor (corresponding author)
Graduate School of International Studies, Ewha Womans University, 52 Ewhayeodae-gil, Seodaemun-gu, Seoul, 03760, Korea Tel: +82-2-3277-6636, Fax: +82-2-365-0942, tkalinowski@ewha.ac.kr

Abstract

This theoretical article offers a critical perspective on the stagnationist and methodologically nationalist foundations of the growth model approach in comparative political economy. Going back to Bhaduri and Marglin's foundational work, we examine its stagnationist roots focusing on the causal mechanisms that link national aggregate demand, profit, and investment that create a congruence between capitalist accumulation and national economic growth. We contrast these stagnationist assumptions with recent research on the transnational accumulation strategies of firms, which escape the stagnationist logic. Subsequently, we show how the growth model approach, more implicitly than explicitly, adopts many of the stagnationist assumptions of the Neo-Kaleckian model in its creation of a typology based on national aggregate demand components, thereby also subscribing to a methodological nationalism that inadequately captures contemporary global accumulation dynamics. Consequently, we argue that studies of comparative political economy need to put greater emphasis on the theorization of changing logics of capitalist accumulation.

Keywords: comparative political economy, capitalism, national growth models, globalization, stagnation

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1. Introduction

The growth model perspective has become an influential approach in comparative political economy (CPE) as it aims to address many of the deficits that the varieties of capitalism (VoC) approach and research informed by it have been criticized for in the aftermath of the global financial crisis of 2008/09. Many shortcomings of the VoC approach can be traced back to its methodological nationalism, that is, the almost exclusive focus on the nation state as the unit and level of analysis. VoC's national ideal types of capitalism rest on a self-equilibrating logic of institutional complementarity on the micro- respectively firm level, emphasizing conditions on the supply-side. This institutional logic explains the competitiveness of different varieties of capitalism based on endogenous, that is, nationally contained factors. These ontological foundations have left the literature blind to the transformative and unstable nature of capitalist accumulation, as well as to the relationship of the global and the national in capitalist accumulation (e.g., Bohle & Greskovits, 2010; Ebenau, 2012; Hay, 2019; Peck & Theodore, 2016; Pradella, 2014).

The promise of the turn to growth models in addressing these shortcomings lies in the consideration of macroeconomic dynamics and aggregate demand, as well as the underlying politics of social blocs and distributional conflicts. Theoretically, Baccaro and Pontusson's (2016) growth model approach is informed by Neo-Kaleckian growth models (i.e., Bhaduri & Marglin, 1990), whose adaptation for CPE provides the theoretical foundation to turn the analytical focus on national aggregate demand, usually measured as expenditure components of GDP.

Based on this, the literature has focused on the relationship of export-led growth models and consumption- or debt-led growth models to explain dynamics of growth and crisis. E.g., much of the research focuses on the relationship of growth models in Europe to explain how the unsustainable interdependence of growth models has contributed to the European sovereign debt crisis (e.g. Baccaro & Pontusson, 2016; Hall, 2017; Johnston & Regan, 2016, 2018; Regan, 2017; Stockhammer, 2016). A recent volume edited by Baccaro et al. (2022a) sets its focus on the issue of secular stagnation, that is, a long-term decline in growth.

A core argument arising from these analyses is that a decline in the wages-share in advanced capitalist economies has led some countries to adopt export-led growth models that in turn cannibalize on the demand created by consumption-led models. This leads, on the one hand, to an overall decline in aggregate demand and economic growth, as well as to unsustainable borrowing by deficit economies creating financial instability and crises. The policy implication is that a redistribution in favor of wages would increase demand and thus growth, while reducing export-dependence and unsustainable capital flows. We believe that these analyses provide an important part of the puzzle in explaining contemporary macroeconomic dynamics. However, with their focus on national aggregate demand and the interdependence of national economies, CPE growth models ontologically still subscribe to a form of methodological nationalism that does not sufficiently account for the contemporary transnational accumulation strategies of capital and their influence on national political economy and the global organization of capitalism.

The core theoretical issue, we argue, is that in adopting an aggregate demand focus from the Neo-Kaleckian literature, the growth model approach does not sufficiently account for the historicity of the theoretical reasoning that underlies the work of Bhaduri and Marglin (1990). Contemplating the crisis of wage-led growth in the 1970s, Bhaduri and Marglin construct a model of wage- and profit-led growth under assumptions that can broadly be defined as

stagnationist. That is, they assume that capitalist development has entered a specific historical phase where a systematic over-accumulation of capital leads to a decline of capitalist investment, which in turn informs the centrality of aggregate demand for the economic decision-making of agents of capitalist accumulation.

We believe, however, that in and through the globalization of production, parts of global capital have successfully developed strategies that, within historical limits, addresses the issue of overaccumulation by divorcing profitability and investment from national aggregate demand conditions. Most prominently this has been done by outsourcing and offshoring production to China and other "emerging economies". This global *extensive* logic of accumulation does not displace the stagnationist one but exists in parallel to it.

Against this background, this article argues that CPE needs to engage more deeply with the economic theories that inform its analytical approaches, with the aim of understanding their underlying assumptions and historical boundedness in time and space. Indeed, rather than asking how variations in institutional configurations modify adopted theoretical assumptions about accumulation and growth, accumulation processes themselves need to become an object of study and theorization.

In the following section, we review the recent literature on growth models in CPE. We find that, while Baccaro and Pontusson's typology has now become a core tenet of the literature, it is unable to capture growth models and the global accumulation dynamics associated with more peripheral economies. From this we infer the need to theorize the existence of variations in logics of accumulation. We subsequently revisit Bhaduri and Marglin's Neo-Kaleckian demand regimes to examine their theorization of accumulation, which assumes a specific, stagnationist phase of capitalist development. We then contrast this with more contemporary conceptualizations of global accumulation dynamics that present an alternative to the stagnationist logic that, in our opinion, is better suited to explain contemporary accumulation

under globalization. We subsequently discuss the empirical and theoretical-methodological implications for CPE growth models.

2. Growth Models and Comparative Political Economy

As discussed above, the growth model approach has become an important new approach in CPE, as it aims to address many of the deficits that the VoC approach and research informed by it have been criticized for in the wake of the global financial crisis 2008/09, by refocusing the debate on unstable macroeconomic dynamics and the demand-side. In the approach, the two ideal types of VoC are replaced by growth models identified by the "relative importance of different components of aggregate demand" (Baccaro & Pontusson, 2016, p. 175), explained in terms of distributional conflicts between social blocs, opening an analytical perspective on the transformational and unstable nature of growth and politics. While Baccaro and Pontusson recently have dropped the Gramscian concept of social blocs in favor of a maybe more conventional understanding of growth coalitions (Baccaro et al., 2022a), other authors continue to develop the concept, for example, by considering Poulantzian 'power blocs' (e.g. Güngen & Akçay, 2024). In addition, the approach considers the interdependence between, e.g., export- and consumption-led growth models, thereby elevating in importance the international level of analysis.

Baccaro and Pontusson's (2016) approach builds on post-Keynesian economics and, more specifically, Bhaduri and Marglin's (1990; 1991) neo-Kaleckian model that combines the possibility of profit- and wage-led growth with an aggregate demand-oriented framework. While Baccaro & Pontusson's contribution has elicited a broad response and discussion of growth models in CPE, analyses that explicitly share its neo-Kaleckian economic foundations are, as of yet, relatively few (for example, Baccaro & Benassi, 2017; Behringer et al., 2020; Gräbner et al., 2020). Relatedly, in a theoretical paper, Hope and Soskice (2016) raise the

question of whether the analysis of growth models necessarily requires such foundations, proposing an approach more in line with mainstream New Keynesian macroeconomics. They see their own approach as broadly compatible with Baccaro and Pontusson's in terms of the role of aggregate demand formation, while at the same time considering the supply side. However, we believe that the approaches appear commensurable only if a quite superficial reading is applied to the neo-Kaleckian approach. Mainstream approaches do not model structural conditions of aggregate demand formation in ways that post-Keynesian approaches do, for example, by considering income distribution. Indeed, several contributions from post-Keynesian economists to the CPE literature seek to introduce conceptual clarifications and theoretical rigor to its adaption of growth models, providing a counterpoint to Hope and Soskice by emphasizing the specificity of the post-Keynesian approach. For example, Hein et al. (2020), Stockhammer (2021), and more recently Stockhammer and Kohler (2022) criticize the CPE literature's imprecise use of economic concepts and theory that are supposed to inform the growth model approach.

Much of the CPE literature that invokes the term 'growth model' is more agnostic towards such economic foundations. For example, concurrently with Baccaro and Pontusson (2016), Johnston and Regan (2016) introduce a concept of growth models to demonstrate the unstable or unsustainable macroeconomic interdependence between economies in the Euro Area, while relying on economic assumptions that appear to be consistent with a more conventional macroeconomics.

Like Johnston and Regan (2016), much of the literature focuses on the analysis of growth models in the Eurozone and associated payments imbalances (overviews in Hall, 2017; Iversen et al., 2016; Nölke, 2016). This is also the case in Baccaro & Pontusson's seminal article, where the authors identify export-led models (Germany) and debt- and consumption-led models (UK, Italy), with Sweden as a balanced type. Johnston and Regan, with less explicit macroeconomic

foundations, similarly distinguish between export- and debt-led models in their analysis of growth regimes, albeit broadening the perspective by considering their integration through the European Economic and Monetary Union (EMU) (Johnston & Regan, 2016, 2018; Regan, 2017; Stockhammer, 2016).

Several recent studies connecting themselves to the growth model debate go beyond the established types of export- and debt-led growth models in their analyses of peripheral development in the EU. In articles on dependent market economies in Eastern Europe, Ban (2019) and Ban and Adascalitei (2022) emphasize the transnational aspects of capitalist development, identifying an investment-led growth model with a strong dependence on foreign finance. Similarly, research on Eastern European countries or Ireland by Bohle (2017), Bohle and Regan (2021), and Regan and Brazys (2017) introduces the concept of FDI-led growth models. While these articles invoke the growth model concept with reference to Baccaro and Pontusson or the broader debate, their peripheral growth models depending on transnational capital stand outside of the aggregate demand focus reflected in the GDP expenditure component typology of growth models developed by Baccarro and Pontusson.

Other research extends the growth model approach to emerging market economies. Schedelik et al. (2020) use growth models to illuminate the relationship of institutions, social blocs, and growth in EMEs. Analyzing aggregate demand components, Mertens et al (2022) emphasize the importance of investment-led models, for example, in China. This is more extensively elaborated in Morgan et al (2021) for the case of Brazil, which, not unlike the European FDI-led cases, demonstrates the dependency of the Brazilian economy on global accumulation dynamics through commodity exports, also discussed for a broader range of export-oriented EMEs in Schedelik et al. (2022).

To summarize the above debate, on the one hand, we have Baccaro and Pontusson (2016), who open the debate on growth models in CPE along a typology based on GDP expenditure

components. Based on a not always explicit theorization of accumulation rooted in Bhaduri & Marglin, Baccaro and Pontusson's typology suggests, at least implicitly, the following assumptions: 1) a country's growth model can be identified through observation of national aggregates 2) that net flows between countries determine their positions in the international political economy, and 3) that these aggregates and flows are indicative of socio- and political-economic processes unfolding within rather than across national boundaries. While this approach is equipped to take into account the *inter*dependence of national economies through *inter*national flows, it ontologically subscribes to a methodological nationalism in the sense that it "systematically take[s] for granted nationally bounded societies as the natural unit of analysis" (Wimmer & Schiller, 2003, p. 579). In contrast, at least some of the growth model research on emerging and peripheral economies tends to identify growth models that rely on transnational capital or on the integration with and dependency on global accumulation dynamics, prompting theoretical innovation away from a simple national demand-led growth framework (e.g. Stockhammer, 2023).

As Schwartz and Blyth (2022, p. 98) emphasize, growth models deal with national growth trajectories, posing the questions as to how this national analytic perspective can be reconciled with an IPE of global accumulation, and how it can be avoided defaulting on a methodological nationalism, where the unit of analysis is exclusively the nation state. This question of course overlaps with issues raised above, that is, the different ways in which research identifies growth models in core countries and EMEs, the latter focusing much more on transnational factors. In terms of choosing an appropriate unit of analysis for studying growth, why, indeed do growth models privilege the nation state instead of investigating regional models (e.g., the EU as in Kalinowski (2019)), or sub-national regions (e.g., for China, as in Tan and Conran (2022) or the City of London as in Fraccaroli et al (2023))?

From this review emerge two related theoretical issues for the growth model debate. On the

one hand, surrounding Baccaro & Pontusson's seminal article, we find a theoretical debate on how to conceptualize and typologize national growth models from a national aggregate demand perspective. On the other hand, we have research that develops types that emphasize the integration and dependence of peripheral growth models in transnational circuits of capital accumulation, and that transcend the focus on national aggregate demand. There is thus a theoretical incoherence in the way that the literature approaches growth models, that can potentially be productive for the discovery, analysis, and theorization of the relationship of global or transnational strategies of capital accumulation and national political economy, which has been identified as one of the blind spots of CPE (cf. Best et al., 2020; Green & Hay, 2014). To initially move into this direction, we believe that CPE research into growth models should put a stronger focus on theorizing the changing structural conditions and economic strategies of capitalist accumulation in globalized economies and how this in turn affects domestic politics, especially among classes, sectors, or owners of the factors of production.

Our following critique does not constitute a rejection of the comparative method or of national growth models as units of analysis. Rather, our issue is that the growth model approach uncritically adopts an economic theory that reflects a certain historical phase of capitalist accumulation and turns this into a universal and axiomatic assumption. This allows the growth model approach, on an ontological level, to take for granted analytically a congruence between GDP area, national (political) boundaries, the decision-making area of capitalists, and economic growth (cf. Avdjiev et al., 2016). This, in turn, assumes away problems in defining the boundaries of the unit of analysis that arise from the global strategies and practices of capital accumulation, avoiding the question of how CPE theoretically and methodologically should deal with resulting transformations in the relationship of the national and the global.

Section 3 will proceed to contrast different logics of accumulation, followed by a discussion of the implications of these different logics for analyzing growth models in section 4.

3. Logics of Accumulation

The previous review of the growth model approach has argued that it uncritically assumes a specific model of capitalist accumulation, instead of offering a critical theorization.

Against this background, a first step in addressing this issue lies in a more explicit engagement with Neo-Kaleckian theory, with the aim to clarify its stagnationist theory of accumulation and to examine its underlying assumptions and their historical context. We will argue that Bhaduri and Marglin's model assumes a stagnationist logic of accumulation that theorizes a specific historical phase of capitalist development, and thus may only imperfectly capture current global accumulation dynamics. Rooting itself on these assumptions explicitly or implicitly, the growth model approach risks defaulting to methodologically nationalist assumptions, creating blind spots that may prevent theorization or lead to problematic interpretations of contemporary transnational accumulation dynamics.

Subsequently, we will therefore contrast the stagnationist logic with recent research on global accumulation strategies. Here, we show how the integration of countries and populations into a globalizing capitalist economy has created a (maybe only temporary) alleviation of the problem of structural over-accumulation. Combined with the global strategies of firms, this has created an *extensive* logic of accumulation that undermines the link between aggregate demand conditions, firm profitability, and investment present in the stagnationist view.

The Stagnationist Logic of Advanced Capitalism in Neo-Kaleckian Growth Models

Post-Kaleckian growth models share a stagnationist view of capitalist accumulation present already in Marx and Hobson, and later elaborated in various ways by Keynes, Kalecki, Hansen, Steindl, and others (Backhouse & Boianovsky, 2016; Hein, 2016). Stagnationism assumes, in one form or another, that in the theoretical long run, the tendency of capitalism towards expanded reproduction (growth) will slow down or seize. Kalecki, in his Theory of Economic

Dynamics argues that "long-run development is not inherent in the capitalist economy" (Kalecki, 2010, p. 164) and that the pace of accumulation in the long-run depends on what he calls "development factors", that is, innovation and population growth, the latter as to the extent that it increases consumption demand. Kalecki assumes that the intensity of such factors tends to decline as capitalist development advances, creating the tendency towards stagnation, which is exacerbated by a shift in income distribution from wages to profits under conditions of monopolization (Kalecki, 2010, p. 161). Both factors combined lead to a decline in the pace of accumulation. The stagnationist view in Kalecki and others (cf. Keynes, 2007, p. 375) thus assumes a certain level of accumulated capital stock (and sometimes concentration) at which the tendency towards stagnation manifests itself. In other words, it assumes a historically relatively advanced and developed capitalist economy.

For both Kalecki and Steindl, it is because of these stagnationist tendencies that aggregate demand becomes central to sustaining extended reproduction. Given a developed capital stock, it is assumed that firms run production below full capacity utilization. An increase in aggregate demand will spur utilization and thus lower costs under marked-up prices, increasing the rate of profit and, subsequently, capitalists' investment (e.g., Kalecki, 2010, p. 156; Steindl, 1976, p. 122). An increase in aggregate demand can be achieved via an increase in the wages share (assuming that households have a higher propensity to consume out of wages than capitalists have to consume out of profits), by developing exports, or by government deficit spending.

In developing their own approach, Marglin and Bhaduri first observe that the solution of wage-led growth to the problem of stagnation in advanced capitalist economies proposed by the stagnationists had been undermined by a profit-squeeze crisis in the 1970s, as high employment created upward pressure on wages that exceeded productivity growth, with the resulting decline in profits leading to a decline in capital investment (Marglin & Bhaduri, 1991, p. 124). The subsequent neo-liberal turn led to the cancellation of the Keynesian class

compromise and emphasized supply-side policies that primarily treated wages as a cost.

Against this background, Marglin and Bhaduri (1991, p. 123) ask, how can the theoretical and analytical centrality of aggregate demand, which arose out of stagnationist analyses, be retained in the face of newly emerging contradictions between the factors governing profitability and investment on the micro-level and demand-formation on the macro-level? To this end, they differentiate two demand regimes, one "stagnationist", the other "exhilerationist".[1] In both regimes, the profit expectations of the capitalist class and, following from that, their disposition to invest, depend on the effects of changes in primary income distribution on aggregate demand. In line with stagnationist assumptions, in the stagnationist (wage-led) regime, investment will respond only weakly to an increase in the profit share, while an increase in the wage share will translate into rising aggregate demand, capacity utilization, markup over costs, and, finally, an increase in the profit rate, so that capitalist investment expenditure accelerates. However, contrary to the stagnationist view, in an exhilarationist (profit-led) regime, capitalists' profit expectations are such that they are immediately inclined to invest additional income from a rising profit-share. Rising investment will overcompensate for a relative decline in consumption in aggregate demand, again spurring capacity utilization and the profit rate, and investment in the next cycle.

In both regimes, the analytical centrality of aggregate demand is retained by relying on the original stagnationist causal mechanism, where an increase in aggregate demand will spur capacity utilization and profits (Bhaduri & Marglin, 1990, pp. 379-380). As in the stagnationist view, the underlying assumption thus is a developed economy with an abundance of capital stock and generalized overcapacity. Furthermore, the assumption is of a unified and homogenous capitalist class, a model capitalist, whose profits and investments uniformly

[1] In later Neo-Kaleckian and post-Keynesian work and in the CPE literature on growth models, the 'stagnationist' demand regime is usually just called a wage-led regime, and the 'exhilerationist' demand regime is called a profit-led regime.

respond to aggregate macroeconomic conditions, such as changes in demand and income shares.

As is common practice, Bhaduri and Marglin initially model both demand regimes on a closed economy, unbound by geographic space. The model is subsequently opened by considering trade, which is conceptualized in terms of aggregate net inflows and outflows, which in turn are driven by aggregated synthetic macroeconomic factors, that is, the domestic price level and the exchange rate. The model capitalist uniformly adjusts its investment to these macroeconomic changes according to how trade flows at the macro-level impact aggregate demand, capacity utilization and profit expectations.

The model of the open economy created thus is methodologically nationalist in the following sense: for the model capitalist, agency exists exclusively within the boundaries of a given economy, where they react to changes in aggregate demand conditions. In other words, the agency of capitalists fully aligns with the GDP boundary and the conventions of national accounting. Net exports are a boon to national aggregate demand and thus profits, with uniform effects across a national capitalist class. Imports, in turn, deduct from capitalist profits, as shown in more detail below. In turn, given that the model bestows on capitalists no strategic agency across the borders of their own economy, the international economy is understood exclusively in terms of macroeconomic net flows between national containers which are driven by differences between synthetic, aggregate national conditions. The international economy is thus an economy without capitalist agency. How trade and cross-border investment may give opportunity for cross-border strategic action to capitalists, and how this may modify their behavior from the modelled assumptions is not explicitly considered.

The logics of national accounting and of stagnationist economics here go hand in hand, as is the case with macroeconomics in general (cf. Avdjiev et al., 2016). This is no coincidence, given that macroeconomics and national accounting developed in parallel under shared *historical conditions* of capitalist development. This is also recognized by Marglin and Bhaduri

(1991, p. 125), who, in the late 1980s, regard both, their stagnationist and the exhilarationist demand regime, as well as the "centrality of aggregate demand" to reflect *historically contingent assumptions* about the workings of "modern" capitalism. In other words, the theory and model rest on assumptions derived from specific historical phases of capitalist development.

The historical boundaries of these assumptions can be illustrated by comparing the exhilarationist and stagnationist demand regimes of Bhaduri and Marglin with the historically and theoretically longer-term periodization of capitalist accumulation in regulation theory, for example, its distinction of extensive and intensive accumulation regimes (cf. Milberg, 2001). In regulation theory, following classical political economy, extensive accumulation describes a transformation based on the sheer expansion of the wage relation, that is, accumulation absorbs surplus labor into capitalist relations of production. Technological progress plays a minor role, and the composition of capital remains relatively constant. Overaccumulation thus does not manifest itself as a generalized problem, but as sectoral one (e.g., coordination between departments of production in a Marxian sense) and is regulated competitively, with investment adjusting by responding to deviations from the general rate of profit. At the same time, the availability of surplus labor keeps wages down, while persistent investment demand pre-empts the occurrence of systematic overaccumulation. This limits the role of aggregate demand per se, and consumption in it, as a regulating factor. This changes only with the advent of intensive accumulation, where accumulation goes hand in hand with concentration, which limits the effectiveness of competitive regulation. At the same time, generalized overaccumulation of capital stock and thus overproduction poses the question of aggregate demand in regulating accumulation, and of the role of wages and household consumption in the realization of profit (e.g., Aglietta, 1979; Boyer, 1990; Lipietz, 1988).

In terms of their historical and conceptual scope then, the Neo-Kaleckian demand regimes

à la Bhaduri and Marglin represent a narrower window into capitalist accumulation than do regulationist accumulation regimes. Both of Bhaduri and Marglin's demand regimes, the exhilarationist and the stagnationist one, despite their differences in name, are commonly based on a stagnationist logic, which already assumes general overcapacity, in turn lending plausibility to the causal mechanism connecting aggregate demand to capacity utilization and profitability. The underlying logic in both regimes is one already assuming an advanced economy with a developed capital stock leading to realization problems, hence, the centrality of aggregate demand, in both cases resembling of what regulationists would recognize as intensive accumulation.

The above has discussed how the assumptions underlying the stagnationist approach are historically contingent, and to illustrate, in the abstract and through the comparison with regulationist periodization, how profit and investment can be and historically have been regulated by other factors than those proposed by the stagnationist approach. As we discuss in the following, globalization indeed also supports such new logics of accumulation not captured by the stagnationist logic.

The Extensive Logic of Global Accumulation

It is nowadays a fairly obvious point to make that the agency of capitalist firms is, at least in principle, not contained by national boundaries. Indeed, the global economy over the past decades has increasingly come to be defined by transnational firm-led trade and production networks, which are integrated by equally transnational ownership structures and financial markets. The assumptions made about capitalist agency in Bhaduri and Marglin's model led them to abstract from transnational firm agency, which in turn allows for the assumption that national aggregate demand conditions are geographically congruent with capitalist profits and investment, and which in turn explains national growth performance. These abstractions yield

an international economy conceptualized as structural flows between nations that is difficult to reconcile with research on capitalist accumulation and globalization in recent decades. They also side-step important insights from various strands of post-Keynesian and Classical theories of trade: whereas in the Bhaduri and Marglin model, as in the growth model approach, trade is conceptualized as flows between nations, trade is indeed the métier of firms that globally seek to attain cost advantages over their competitors (Lavoie, 2014, pp. 507-509; Milberg & Winkler, 2013, pp. 59-62; Shaikh, 2016, pp. 508-522).

Against this background, while the stagnationist logic sees firm profitability and investment as depending on aggregate demand and capacity utilization, we will here discuss an alternative route to profitability enabled by globalization and offshoring, which we start to explore by looking at Bhaduri and Marglin's profit share equation. In line with post-Keynesian theories of the firm (e.g. Lavoie, 2014, pp. 156-160), Bhaduri & Marglin model the profit share (h) of national income as a function of firms' ability to set the markup price (p) over costs. Costs are composed of wages and imports, both of which are modified by the international price competitiveness of the domestic economy. In an open economy, the profit share equation of the economy is stated as

$$h = [p - (wb + kp'f v)]/p$$

where, simplified, wb is the money wage rate of direct and indirect labor, and $kp'f v$ are the cost of imported raw materials[2] modified by the exchange rate (Bhaduri & Marglin, 1990, p. 386). Now, *ceteris paribus*, this implies that both wages and imports of production inputs reduce markup and thus the profit share, as both are a direct cost deduction from profits. Furthermore, imports have an indirect negative effect on profits as they deduct from national

[2] The equation of imported inputs to production with raw materials may serve to show the historical unimportance and thus lack of consideration for the reality of transnational production networks and manufactured intermediate inputs.

aggregate demand (expenditure) and thus reduce capacity utilization. Macroeconomically, wage costs being constant, rising imports (a decline in the current account balance) will reduce profits.

However, the formula allows for an alternative movement not explicitly considered by Bhaduri & Marglin, namely the *substitution* of (cheaper) imports for wages, that is, where each increase in *kp'f v*, is accompanied by a relative decrease in *wb.* Simply speaking, corporations can increase markup by reducing costs as they substitute domestic wages with inputs from production and services offshored to lower-wage economies. To the extent that cheaper imports substitute for domestic wage costs, the value of the inner bracketed term will fall and markup and thus the profit share will rise. Contrary to the stagnationist assumption, the effects of this movement on accumulation and, by extension, GDP growth on any given country is ambiguous, as it depends on whether and how these profits are reinvested–in other words, profitability is raised without regard to aggregate demand in any particular geographic area, whereas the effects on aggregate demand of a rising profit share remains indetermined.

Seminal work investigating the effects of offshoring on accumulation dynamics has been produced by Milberg and Winkler (2013) who, using a post-Keynesian theory of the firm, show how firms, in the context of offshoring through global value chains, systematically increase markup by reducing wage and input costs, while keeping final prices constant and reducing their own need for investment.[3] Milberg (2009) illustrates this for US corporations outsourcing production to emerging economies in East- and Southeast Asia, predominantly China.

Milberg and Winkler (2013) propose to use manufacturing imports from low- and middle-income countries as a proxy measure for offshoring. Figure 1 shows value-added

[3] Recently again of importance with regard to seller's inflation Weber, I. M., & Wasner, E. (2023). Sellers' inflation, profits and conflict: why can large firms hike prices in an emergency? *Review of Keynesian Economics*, *11*(2), 183-213. https://doi.org/10.4337/roke.2023.02.05

manufacturing imports from low- and middle-income countries as a share of total manufacturing imports in some advanced economies. While the level varies greatly, the trend is uniform, with the share of imports from lower-cost countries more than doubling in all cases.

[Figure 1 near here]

Outsourcing to lower-wage countries comes with several changes to firm strategy and behavior. Firstly, as the literature on global value chains has shown, to extract value from outsourced activities, the governance of value chains often involves retention of higher valued-added activities by lead firms, and an uneven power relationship with suppliers that further enhances lead firms' price-setting power (Gereffi et al., 2005). This goes hand in hand with using control over technology and intellectual property rights to capture as large as possible a share of the value of outsourced production (Durand & Milberg, 2020; Orhangazi, 2019; Schwartz, 2022a, 2022b).

Secondly, with outsourcing, despite increasing profit shares (and rates), firms in core countries have reduced their fixed asset investment while increasingly turning to financial investment. This financialization of the firm presents a puzzle in so far, as, macroeconomically, future profits depend on current fixed asset investment (van Treeck, 2009). The disconnect between profits and investment observed in some advanced economies thus must appear as a macroeconomic puzzle if we look at it from within any one country's GDP boundaries. However, sustained profitability can at least in part be explained by the ability of corporations in core countries to control production abroad through FDI, or to simply source inputs from an expanding array of suppliers with various degrees of autonomy located in lower-wage countries. Against this background, what in the financialization view appears as a "disconnect" between

profitability and investment in core countries may better be understood as a shift in the geographical location of investment to emerging markets (Rabinovich, 2021).

The foundation of this transnational accumulation strategy is the integration of hundreds of millions of new wage workers into capitalism over the past three decades or so. Freeman (2007) estimates that with the collapse of the Soviet Union, as well as the integration of China, India, and others into the global capitalist economy, the number of wage laborers potentially available to capital has doubled in recent decades. With the liberalization of trade and capital flows, a growing share was subsequently integrated into capitalist relations of production. The sizeable increase of the labor force accompanying globalization has created a large supply of surplus labor and has substantially reduced the global capital/labor ratio (Freeman, 2007, p. 29), presenting a temporary solution for capital to the problem of overaccumulation and stagnation, reminiscent of earlier phases of extensive accumulation.

The growing global availability of surplus labor since the 1990s has thus altered the dynamics of accumulation by moving away from stagnationist conditions. In emerging economies like China, accumulation takes on a predominantly extensive character, where the successive build-up of industries and rapid urbanization integrate new wage labor into capitalist relations of production (Dunn, 2014; Pauls, 2022). This also impacts accumulation dynamics in the core countries. Outsourcing reduces the need for local investment or control of production facilities, addressing the problem of overaccumulation and stagnation at least for those factions of capital that manage to tap into the pools of new labor, as do the MNCs commanding global value chains. Here, the profit mechanism is based on a reduction in input prices, including by substituting domestic production and wages by offshoring. To the extent that this substitution sustains an increase in the profit share and rate, this shifts the factors determining profitability from the demand-side to the supply-side, weakening the effects of capacity utilization on profitability, and with it the stagnationist logic linking aggregate demand

and profits.

[Table 1 near here]

As can be seen in table 1, high income economies on average see a pronounced decline in fixed asset investment growth since the 1980s. At the same time, since the 1990s, and especially in the first decade of the 2000s, investment expenditure growth in low- and middle-income economies outpaces that of high-income economies, today comprising almost half of global capital accumulation.

Overall, what we would here call *extensive global accumulation* is characterized by circuits of accumulation that cross national boundaries, where a process of extensive accumulation in developing or emerging economies combines with outsourcing strategies of corporations in advanced economies. As a result, many of the assumptions underlying the stagnationist logic of accumulation are undermined. This has implications for units and levels of analysis and the interpretation of macroeconomic indicators and relationships in the CPE growth model literature.

4. Implications for Growth Models and CPE

In this section we will first discuss the lineages between Baccaro and Pontusson's growth models and the stagnationist Neo-Kaleckian demand regimes critically discussed above. We will then discuss how, depending on the extent to which different logics than the stagnationist logic of accumulation attain, this would affect interpretations of macroeconomic indicators commonly observed in the CPE growth model literature. We will then proceed to offer some reflection on more fundamental issues regarding units and levels of analysis, including conceptual issues regarding growth and accumulation, and finally implications for the politics

of growth models.

From Stagnationism to CPE Growth Models

By focusing on the demand-side of the economy, Baccaro and Pontusson's stated aim of adapting Neo-Kaleckian growth models for CPE is to bring macroeconomic dynamics and distributional struggles back into the analysis. As an analytical strategy, they situate the post-Fordist alternatives to Fordist wage-led growth models in a typological universe defined by the expenditure components of GDP (export-, consumption-, investment-, and state-led) (Baccaro & Pontusson, 2016, p. 176), a strategy that now predominantly defines the typological universe of growth models in CPE (Baccaro et al., 2022b, p. 12; Hassel & Palier, 2020). The advantage of this approach is that it allows for a straightforward and parsimonious classification of growth models along readily available national accounts data.

However, in making the switch from Bhaduri and Marglin's demand regimes to a typology based on GDP expenditure components, Baccaro and Pontusson side-step the core theoretical problem of growth and accumulation, that is, the question of what drives capitalist profit and investment. In Bhaduri & Marglin, demand regimes are based on a causal mechanism connecting changes in income distribution with aggregate demand formation, capacity utilization, and the resulting variations in the profit expectations of the capitalist class and, following from that, their disposition to invest (Bhaduri & Marglin, 1990, pp. 379-380).

While Baccaro and Pontusson introduce Bhaduri and Marglin's work as a foundation of their own approach, they are not clear as to how this then informs the switch from demand regimes determined on the income-side to their typology of GDP expenditure components. An explicit theorization of accumulation underlying this switch to the CPE-version of growth models is thus missing. Total production of goods and services can be expanded only by investment in means of production, and changes in GDP expenditure in the current period is a

function of investment in previous periods, with its relative shares are a question of distribution. Without an explicit theorization, classifying growth models by GDP expenditure components thus risks conflating causes and outcomes of accumulation and growth in the typology.

That being said, with its focus on GDP as a measure of aggregate demand formation, the growth models approach nevertheless adopts the methodological nationalist ontology underlying Neo-Kaleckian models via its turn to national account conventions. In Bhaduri & Marglin, such methodological nationalism finds its justification in an explicit theorization of capitalist accumulation in a specific historical phase, where, in the stagnationist logic, the assumption is that economic activity is principally organized and thus can be usefully conceptualized and measured in a homogenized aggregate over the political-geographic space of the nation state. In so far as CPE growth models mirror the Neo-Kaleckian model at least implicitly, and absent other explanations, a typology based on GDP thus assumes that a country's growth model can be identified through the observation of national aggregates and net flows between countries, as these measure accumulation processes that in turn are assumed to unfold within rather than across national boundaries. Contrary to Bhaduri & Marglin, however, the historical circumstances underlying the more implicit than explicit adaptation of the assumptions are not being reflected upon.

The stagnationist logic and methodological nationalism inherited by CPE growth models becomes clear, for example, when we look at how growth models focus on a country's net current account position. The way that trade's contribution to GDP growth is measured as a net value is an abstraction from the volume of trade flows and the actual organization of capitalist accumulation across national territories. I.e., external net balances and their contribution to growth are understood to be the synthetic result of several factors, such as nominal and real exchange rates, savings propensity, etc., in one country relative to other countries, thus ontologically privileging explanations of capitalist accumulation within the confines of

national aggregate economic conditions.

A typology based on GDP expenditure components, including the net current account position, however, is only unproblematic if we derive from the Neo-Kaleckian model the assumption that the GDP area and the area within which capitalist accumulation unfolds are identical and, where in turn, profit and the investment decisions of capitalists depend on national aggregate demand as measured in GDP. But such assumptions lie at odds with the transformations created by the transnational accumulation strategies of capital, as we have discussed them above (see also Avdjiev et al., 2016; Ergen et al., 2022). We will discuss next, how different logics of accumulation make the interpretation of growth models through macroeconomic indicators problematic.

The Implications of Global Extensive Accumulation for Reading Growth Models

Global extensive accumulation creates a logic of accumulation that is different from the one found in stagnationist models, as it assumes a transnational accumulation processes in which extensive accumulation in developing economies combines with outsourcing and rent-seeking strategies of capital in advanced economies that increase its profitability by reducing costs on the input-side, thus shifting the factors determining profitability from the demand-side to the supply-side and therefore weakening the stagnationist logic that links profitability and investment to aggregate demand and capacity utilization. There is no reason why either the stagnationist or extensive logics of accumulation should apply exclusively. On the contrary, we can conceive that firms' profitability or macroeconomic dynamics can be influenced by both mechanisms to varying extents, depending, for example, on the ways in which countries and their firms are positioned in global value chains. However, in centering typologies and analyses around GDP aggregate demand components and balance of payments flows, the CPE growth model literature risks to misread the relationship between macroeconomic indicators

and growth models.

Firstly, macroeconomically, to the extent that either the extensive or stagnationist logic attains, this has consequences for how we read the current account, interpret the impact of exchange rate movements, etc. For example, we may conceive of an ideal national economy, where other things being equal, an increasing share of firms opt to offshore production altogether, increasing their profitability, while leading to a decline in the current account balance, as final products manufactured abroad are at least partially reimported. We may also conceive of another ideal case, where firms opt to offshore an increasing share of the production of intermediate inputs to increase profitability, but where final assembly is retained onshore, and the offshored intermediates are exported as part of the final product, leading to an increase in the current account balance. E.g., Apple completely replaces in-house manufacturing with offshoring to lower-wage countries, whereas German car manufacturers import intermediates from their Central European suppliers and re-export them in their assembled products. In both cases, offshoring reduces costs and increases markup and profitability for these firms, however, with opposite effects on the current account of the economies they operate in. A typology of growth models emphasizing a country's current account position risks to obscure that similar accumulation strategies and profit mechanisms related to offshoring may lead to both current account surpluses and deficits.

Where firms increase profitability through offshoring, this also influences how exchange rates modify profitability and can weaken the benefits of an "undervaluation regime" (for Germany, see Baccaro & Höpner, 2022; Höpner, 2019). To the extent that a firm's value chain relies on the outsourcing and offshoring of the production of intermediate inputs abroad, an increase in that firm's country's exchange rate compared to the country to which production is offshored has a positive effect on profitability, as inputs become relatively cheaper. Likewise, on the macroeconomic level, to the extent that the profit share is a function of the substitution

of wages by imports, both, domestic demand and the external competitiveness of exports of a given country are co-determined by changes in the price-level of countries from which inputs are sourced. To the extent that imports do substitute for domestic wage costs, and depending on a country's position in supply chains, the extent to which the domestic price level alone determines a country's external price competitiveness is thus reduced (Ahmed et al., 2015; Bems & Johnson, 2015; Ergen et al., 2022, p. 56). To the extent that, for example, the profits of German car manufacturers depended on the offshored production of inputs, it would become problematic to characterize Germany as an "export-led growth model, which depends critically on keeping domestic costs down and hence on repressing domestic consumption" (Baccaro & Pontusson, 2016, p. 191). In an economy with a large export-oriented sector that relies heavily on the offshoring of the production of intermediate inputs for its profitability, that sector's interest in keeping domestic costs down wanes. Likewise, it becomes more problematic to assume that, for example, such a sector would have a clear preference for undervalued exchange rates as this would increase the price of inputs and reduce profitability.

Further complicating the picture is the relationship of domestic exchange rates with the US Dollar as the dominant currency in global trade financing (Bruno et al., 2018; Kim & Shin, 2023), which in turn again points to the problematique of national containers as units of analysis as the global financial system is not nationally contained. E.g., non-US corporations rely on US dollar funding for working capital that finances the operations of their global value chains. For them, a change in respective interest rates would lead to trade-offs between, on the one hand, relatively more expensive or cheaper USD funding with respective balance sheet impacts, and a relatively higher or lower LCY-USD exchange rate, potentially affecting sales. Again, here we cannot assume a one-directional alignment of economic interests with changes in exchange rates.

The above are some examples to illustrate, in principle, how outsourcing and transnational

accumulation can create dynamics that run counter the default macroeconomic assumptions of CPE growth models, undermining the utility of reading the current account position as immediately reflective of underlying accumulation dynamics.

Implications for Defining Units of Analysis

This brings us to the question of units of analysis. Both the stagnationist models and CPE growth models are fundamentally rooted in a methodological nationalism. The unit of analysis is the national economy, the level of analysis is located at macroeconomic aggregates. This is derived analytically in the stagnationist approach by first modelling a closed economy, to establish the "centrality of aggregate demand" (Marglin & Bhaduri, 1991, p. 125) for profitability and investment through the capacity utilization mechanism. In the model, the exclusively macroeconomic level of analysis is established by assuming homogenous agents that uniformly react to changes in macroeconomic conditions. Subsequently, the open economy is modelled by introducing net trade flows as a modifier to aggregate demand, driven by relative price changes at the macroeconomic level, rather than by the strategic agency of firms. The economy is analytically conceived to be open only at the level of macroeconomic flows, while capitalist agency remains contained within the boundaries of the national economy.

Combined, this allows for the assumption that the boundary of the national economy with its macroeconomic aggregates is identical with the decision-making area of economic agents at the micro-level, lending coherence to the national economy as the unit of analysis. By extension, national GDP growth is assumed to be reflective of the success or failure of capitalist accumulation, as the circuits of accumulation are assumed to overlap with the GDP boundary. As a system of units, where economic activity is organized within national containers, and aggregate price differentials causing flows between them, this makes for an *inter*-national view of the economy. These assumptions are, implicitly or by convention, shared by many CPE

growth model analyses that focus on different models of aggregate demand formation at the national-level and establish from that the interdependence of, e.g., export- and consumption-led growth models.

The case for the national economy as the default unit of analysis becomes weakened if we do not assume the firm as a uniform agent whose actions are bound by national containers, but instead assume that firms can pursue various profit strategies within and across the boundaries of national economies, as discussed regarding extensive transnational accumulation above. Given that aggregate demand cannot be assumed to uniformly determine either firm profitability or investment behavior over a certain territory, this also limits the case for uniformly classifying national growth models at the level of national aggregate demand components.

This, in our opinion, produces analytical and theoretical problems that go beyond the question of how to complement CPE growth models with an IPE to identify "exogenous sources of growth […] beyond the unit level" (Schwartz & Blyth, 2022, p. 98) or by redefining the geographical scope of the unit of analysis to encompass sub- or supranational units. We would argue not only, with Schwartz and Blyth that researchers need to weigh their choices in how they prioritize the unit versus the system level. Moreover, what constitutes a unit of analysis itself needs to be theorized in the context of changing theorizations of capitalist accumulation.

In a theoretical world where the accumulation strategies of capital are assumed to be congruent with national GDP boundaries, the political economy of GDP growth is largely contained within national growth models as the unit of analysis with the international economy as their system. Accumulation and a given geographical space are made congruent based on an assumed model of accumulation, yielding a coherent unit of analysis, but at the price of considering variations in accumulation processes and strategies.

However, with transnational accumulation dynamics transgressing boundaries at any geographical level, the question arises if the accumulation processes themselves, or circuits of accumulation should not constitute an independent unit of analysis, in addition to the political spaces which they transgress. As in a globalized economy a country's GDP growth cannot be assumed to be congruent with accumulation dynamics, analysis may need to focus instead on the intersections and interactions of global circuits of accumulation with the political economy of national growth models.

Implications for the Politics of Growth Models

This, finally, also has implications for the politics of growth models. The normative political implication that arises from a model linking aggregate demand and profits through capacity utilization is that there is space for a rational, self-interested compromise between capital and labor. E.g., if an economy is structurally wage-led, it should be in the interest of labor and capital to realize wage-led demand growth. Equally, in a structurally profit-led demand regime it would be in the interest of both classes to realize profit-led growth (Bhaduri & Marglin, 1990).

This equation changes if we consider the role of offshoring and the import-side of profitability. To the extent that the substitution of wages with cheaper inputs sustains an increase in the profit share, this weakens the relevance of aggregate demand in any one economy for the profitability of at least some firms. Consequently, the economic logic by which capital should rationally be invested in a Keynesian/social democratic compromise with labor is weakened. Indeed, much of current politics revolves around the apparent contradiction between the return to national economic and industrial policies and the persistence of capital strategies for global accumulation.

For the analysis of the political economy of growth models, this also means that factions of

capital need to be analyzed beyond the conventional division of, e.g., export-oriented and domestic-demand oriented sectors, as offshoring and strategic imports should lead to more ambiguous interests regarding the wage level, exchange rate, etc.

Since the Varieties of Capitalism approach, the research program of Comparative Political Economy has focused on investigating how institutions modify modelled assumptions received from economics. The growth model approach, while addressing many shortcomings of VoC, takes a similar turn, where it, more implicitly than explicitly, adopts a uniform model of accumulation from Neo-Kaleckian economics. The task of comparative and international political economists should instead be to theorize new and changing forms of accumulation as they unfold in their institutional and political-economic contexts.

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Annex: Figures and Tables

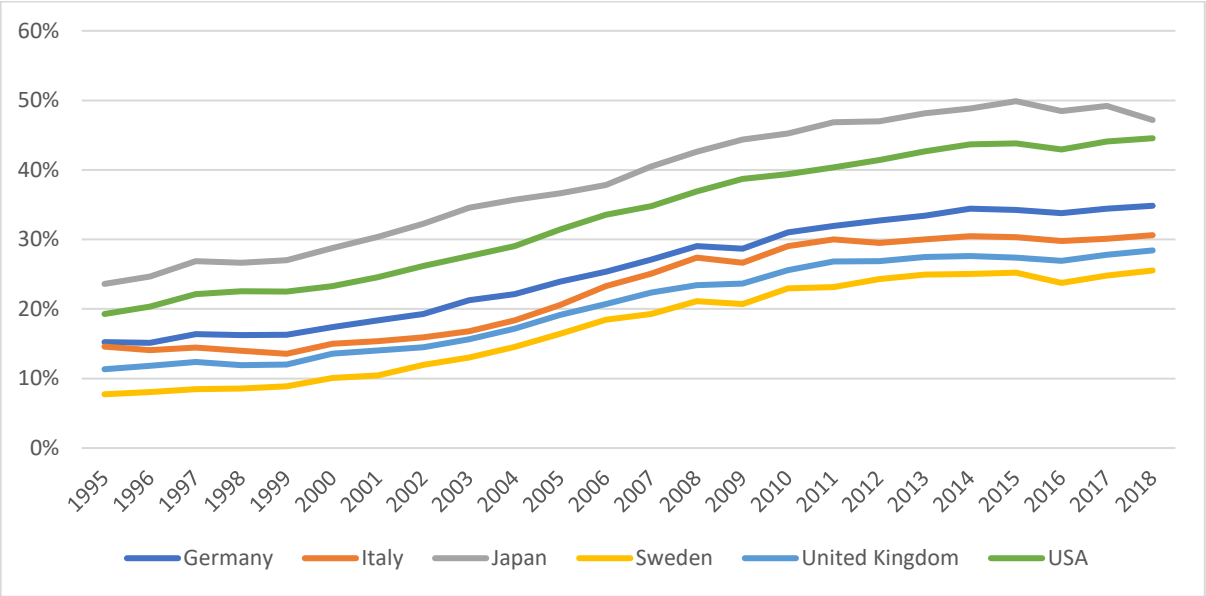

Figure 1 Valued-added manufacturing imports from low-and middle-income countries as a share of total manufacturing imports. Own calculation based on OECD TiVA origin of value added in gross imports series and income classifications according to the World Bank's 2005 benchmark.

		1973-1980	1981-1990	1991-2000	2001-2010	2011-2021
Annual growth (period average, %)	High-income countries	12.35	6.86	3.07	3.13	3.01
	Low- & middle-income countries	14.79	1.22	4.19	13.68	5.58
Global share of low- and middle-income countries (%)	Period average	24.56	19.68	16.32	27.48	44.69
	End of period	24.56	15.32	16.98	39.28	46.93

Table 1: Gross fixed capital formation (data in current US$). Source: World Bank Data