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Balancing the scales: labour incorporation and the politics of growth model transformation

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ABSTRACT
Led by the emerging growth models perspective, research in comparative political economy has recently reintroduced demand drivers of economic growth into the centre of political-economic analysis. While this marks a significant advancement, current scholarship has, so far, focused mainly on explaining the endurance of existing growth models rather than the process of change. To begin addressing this gap, we identify one route to growth model change: the inclusion of organised labour into growth coalitions. Our proposed framework expands the role of growth coalitions in growth models by incorporating insights from the established literature on institutional change. Building on these insights, we distinguish between broad and narrow coalitions based on their scope, composition, and inclusive nature. With this distinction in mind, we argue that when a previously narrow coalition is broadened by incorporating organised labour, it can 'balance the scales', i.e. shift the growth model from a purely export-led model into a more balanced one. This shift occurs as labour's influence on policy promotes wage growth and redistribution which, in turn, fuel wage-based consumption. We demonstrate our theoretical framework through a comparative analysis of the primary case study of Israel and two additional cases of Brazil and Ireland.

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1. Introduction

Since its publication, Lucio Baccaro and Jonas Pontusson's (2016) seminal paper on the Growth Model (GM) perspective has made a remarkable impact on scholarship in comparative political economy (CPE). Similar to the Regulation School (Boyer 2005), the GM perspective promotes an alternative to the rigid dualist categorisation of capitalist political economies into coordinated and liberal market economies associated with Hall and Soskice's (2001) classic varieties of capitalism (VoC) framework. In so doing, this framework offers a far more open-ended and dynamic approach that acknowledges multiple models of economic growth, each based on the relative importance of different sources of aggregate demand.

According to the GM perspective, since the 1990s, the Fordist wage-led growth model was replaced by various alternatives: export-led or debt-based consumption-led growth. Yet these models have not necessarily endured indefinitely. In recent decades, countries such as Israel, Ireland, and Brazil, have all shifted from export-led growth to a more balanced growth model simultaneously driven by both net exports and wage-based private consumption (Flug 2017, Bohle and Regan 2021, Morgan, Doering and Gomes 2021, Schedelik *et al*. 2021). These examples reveal a

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surprising trend toward the renewed importance of wage-based private consumption in economic growth, even if temporary. How can one account for these trends?

Current empirical research has mainly focused on identifying existing national GMs and explaining their *endurance* (Regan and Brazys 2018, Ban 2019, Ban and Adascalitei 2020, Ban and Bohle 2020, Baccaro and Pontusson 2021, Bohle and Regan 2021). However, shifts between GMs and what accounts for them have received far less attention and thus remain under-theorised. Even when changes are acknowledged, they are examined through a purely structural analysis, where agency and politics play only a marginal explanatory role (e.g. Baccaro and Benassi 2017, Haffert and Mertens 2021). Furthermore, in most cases, the relevance of wage-based consumption as the main driver of economic growth is questioned (Baccaro and Pontusson 2016), making the above-mentioned cases more challenging to explain.

To begin addressing these shortcomings, in this paper, we ask – what explains the structural transformation of a nation's growth model and what are the political mechanisms underpinning it? We answer this question by illustrating one route to growth model change, focusing primarily on the transition from export-led to a more balanced growth model. Our theoretical model builds on Baccaro & Pontusson's work (2016, 2019), particularly their emphasis on the crucial role of a 'dominant social bloc', or 'growth coalition' (Baccaro and Pontusson 2022, Baccaro, Blyth and Pontusson 2022).[1] We stress that instances of political or economic uncertainty open space for political actors to engage in 'coalitional engineering' (Häusermann 2010) that includes multi-level bargaining and various compensation policies (Haffert and Mertens 2021, p. 493). This process occurs in moments of crisis when elected politicians and state managers encounter difficulties to issue policies that effectively support the growth model, when the growth model itself becomes politically contested, or when there is a need to pre-empt or deflect popular discontent (Baccaro, Blyth and Pontusson 2022, pp. 44, 50–53). One way through which political elites respond to this instability, we argue, is by integrating formerly excluded groups, notably organised labour, into the growth coalition. This new position then works to enhance labour's power resources, resulting in various redistributive and social policies, that 'balance the scales' between growth drivers by boosting the contribution of aggregate domestic demand.

Empirically, we illustrate our claims by employing a comparative approach in our primary case study, Israel, and then using Brazil and Ireland as shadow cases to demonstrate that the Israeli-based observations are generalisable beyond this specific case. All three cases represent semi-peripheral economies that, relative to 'core' countries such as the US and the UK, are more constrained by international political-economic factors, particularly the current account constraint on growth (Baccaro, Blyth and Pontusson 2022, pp. 39–40).[2] In this regard, our case studies represent 'least-likely' cases that are relatively more constrained to transition to a balanced growth model that incorporates wage-led growth than developed economies from the 'core' (Flyvbjerg 2011). Therefore, if our theoretical model can produce GM change in these cases, it should be generalisable to core countries that are far less constrained.

The rest of the paper proceeds as follows. The next section shows how a purely structural account of growth coalitions cannot fully account for shifts between various GMs and incorporates insights from neighbouring literature to develop our theoretical model. Section three introduces our primary case study of Israel and presents an in-depth historical analysis of the coalitional politics responsible for transformations in its GM from purely export-led to a more balanced GM following the global financial crisis of 2008. In section four, we discuss two additional case studies – Brazil under the Workers' Party (PT) administration (2003–16) and Ireland under the centre-right liberal coalition of Fianna Fail (FF) and the Progressive Democrats (PD) (1999–2008) – to assess the application of our model beyond Israel. In the final section, we discuss our findings and theoretical contributions while emphasising scope conditions and directions for future research.

2. Labour incorporation as a path to growth model change

The scholarship on the growth model perspective (e.g. Baccaro and Pontusson 2016, 2019, 2021, 2022, Bohle and Regan 2021, Kohler and Stockhammer 2021) seeks to explain divergent trajectories among advanced capitalist countries since the early 1990s. Drawing on the Kaleckian tradition (Kalecki 1943), post-Keynesian scholarship (Stockhammer, Onaran and Ederer 2009), as well as the regulation approach (Boyer 2000, Boyer 2005, Vidal 2015), the framework underscores the roles of various demand drivers as the critical variable distinguishing national economies. The starting point of the GM perspective is the assumption of the almost-universal demise of the Fordist wage-led growth model. As Baccaro and Pontusson (2016) have argued, the demise of wage-led growth forced states to find alternative solutions for the faltering 'wage driver' to economic growth – a debt-led growth model, an export-led growth model, or a combination of the two. Other accounts have identified alternative models, such as foreign direct investment (FDI)-led growth (Regan and Brazys 2018, Bohle and Regan 2021, Naczyk 2021), the 'Silicon Valley model' (Rothstein 2022) or the Spanish construction-led model (Baccaro and Bulfone 2022). Central to most of these transitions was the liberalisation of national industrial relations institutions that increased employers' discretion at the expense of labour while undermining the feasibility of wage-based growth (Baccaro and Howell 2017).

Seeking the origins of these transformations, the natural place to start is Baccaro and Pontusson's (2016, 2019) emphasis, building on Gramsci (1971) and Amable (2003, 2009), on the importance of a 'dominant social bloc' or ?growth coalition' (Baccaro and Pontusson 2022, Baccaro, Blyth and Pontusson 2022) that underpins the national growth model. Growth coalitions are ruling coalitions composed of organised interests but also state managers and political actors who regularly participate in policy deliberations and promote policies that favour the specific interests of one or another of the contending members. Growth coalitions differ in their scope and inclusiveness. They can be either narrow, expressing a strong alignment around the similar interests of its core actors and the exclusion of opposing interests, or broad, representing a cross-class alliance that incorporates diverging (and often competing) interests (Baccaro and Pontusson 2019, p. 1).

Following Amable (2003), Baccaro and Pontusson (2019) stress that the demise of the Fordist, wage-led growth happened hand in hand with the exclusion of labour (as well as other domestic actors) from the growth coalition, eroding its ability to promote wage growth and reinforcing export competitiveness. This exclusion, or narrowing of the coalition, enables its core components to transform economic policies with fewer hurdles – often favouring labour market liberalisation and export-led growth (Baccaro and Howell 2017). Nonetheless, while a narrow growth coalition represents a more homogenous alignment that shares similar political-economic interests and goals, its exclusive nature often results in legitimacy problems (Gramsci 1971, Amable 2003, Amable 2017). The nature and scope of this legitimacy challenge also depend on global economic conditions. As stressed by Baccaro, Blyth and Pontusson (2022, pp. 44, 50–51) the financial crisis of 2007–08 represents the beginning of such a period of 'messy politics' where governing parties in many liberal democracies faced growing difficulties in mobilising electoral majorities.

Declining legitimation for the policies of the core members of the growth coalition – due to internal or external factors – poses risks to their dominant position, to the stability of the growth coalition and, as a result, to the endurance of the prevailing growth model (Baccaro, Blyth and Pontusson 2022, pp. 44, 50–53). Building on the work of Amable (2003, 2009, 2018), in such cases, we would expect to see a process of *broadening* whereby members from the coalition's core consciously look to maintain political and economic stability by including previously-excluded actors (also see: Baccaro and Pontusson 2019, Bohle and Regan 2021). In short, the coalitional dynamics and power relations between the actors and organised interests inside (as well as outside) the growth coalition are crucial for the growth model's consolidation and reproduction. Still, they may also result in its eventual transformation.

While these insights move us close to explaining growth model change, they raise questions about the underlying processes and mechanisms and the agents of change (for a similar critique see: Rothstein 2022). More precisely, analysing growth model change requires an account of the social and political dynamics that underlie processes of narrowing or broadening growth coalitions.

We bridge this gap by relying on insights from the emerging GM scholarship. This literature emphasises that the reduced legitimacy of the GM, in some cases triggered or exacerbated by deteriorating economic conditions, may lead the existing growth coalition to come apart, thus opening space for political entrepreneurs to assemble new coalitions in the electoral sphere. This, in turn, forces a reconfiguration of the producer coalition and the growth model (Baccaro, Blyth and Pontusson 2022, p. 52). Building on these theoretical insights, we claim that moments of political instability create an opportunity for the (re)incorporation of previously excluded organised interests. In most cases, such ⍰coalitional engineering' (Häusermann 2010) is carried out in the parliamentary arena by political (rather than economic) actors. In practice, political parties and governments are the ones who ⍰skilfully design reform proposals, compensation policies and multidimensional bargaining that bring diverse interests together' (Haffert and Mertens 2021, p. 493).

This observation has additional implications for GM change. Opportunities for coalitional engineering do not emerge solely based on macro-economic problems or external shocks that result from the dysfunctionality of the growth model (Baccaro and Pontusson 2022, pp. 217–18). They also stem from *political* dynamics in the parliamentary arena as political actors struggle to maintain their legitimacy in the eyes of the public. By convincing organised interests and producer groups to compromise as part of the formation of a new coalition, political actors can broaden the growth coalition and reinforce its legitimacy. Although this compromise depends on the voluntary cooperation of organised interests it also requires ongoing coordination, mediation, and compensation provided by political actors. This involvement is necessary to address issues that arise due to the misalignment of economic interests. Broad-growth coalitions are therefore inherently fragile. They rely on both the willingness of organised interests to compromise, as well as the ongoing sponsorship of political parties in the electoral arena.

In this article, we claim that despite organised labour's enduring, near-universal decline (Kristal 2010, Stockhammer 2017, Guschanski and Onaran 2020), it still plays an essential role in macroeconomic policymaking. From a growth-model perspective, the renewed relevance of labour and class conflict is likely to substantially impact macroeconomic outcomes through its potential effects on aggregate demand (Kalecki 1943). This Kaleckian outcome has increased the probability that unions can promote national-level influence in the labour market through coordinated collective bargaining, centralised social partnership, and political activism (Schmitter 1974, Shalev 1984, Traxler, Blaschke and Kittel 2001). Distribution of incomes and especially sectoral or national wage policies may not only align labour with a particular growth model, as demonstrated by Baccaro and Benassi (2017) but in some circumstances also promote a shift from one particular growth model to another.

As our theoretical model predicts (see Figure 1), a narrow growth coalition eventually creates social and political instability. This, in turn, creates opportunities for political actors to create broad coalitions by incorporating organised interests, including labour. Consequently, this process requires negotiations on the policies maintaining the coalition's new composition. Whether labour is (re)incorporated in the (broad) coalition in a marginal or more central position, this transformation results in its expanded role as a partner in the policymaking process. This, in turn, significantly enhances labour's power resources (Dörre 2011, Korpi 2018). Empowered by its new position, this change provides expanded opportunities for labour to impact policymaking processes through 'political exchange' (Pizzorno 1978) that can result in more labour-friendly outcomes.

One possible outcome of this coalitional engineering, which we develop in this article, is based on a classic class compromise between the interests of the incumbent core actors and those of the integrated, more peripheral ones. Based on the divergence of interests between organised employers and labour, most commonly in the sheltered service sectors, this path requires core actors to compromise on some of their interests to maintain cohesion within the broad growth coalition. According to our model, this political possibility, marked by labour's influential position in the growth coalition and mediated by political actors, promotes labour-friendly policies, including wage growth and redistribution. These outcomes then boost the importance of domestic demand and subsequently transform the national growth model from export-led to a more balanced one, based on both export and wage-led

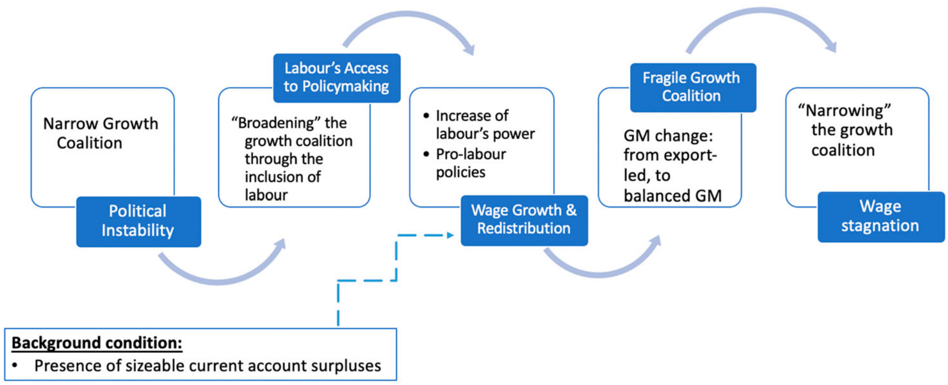

Figure 1. The mechanism of growth model change.

growth. It is important to stress that the outcome of such a broadening process depends on one key background condition: the presence of sizeable current account surpluses that, at least in the short term, are not threatened by the imminent wage increases. This is particularly the case in peripheral or semi-peripheral economies that are more limited by the current account constraint than "core' economies (Baccaro, Blyth and Pontusson 2022, pp. 39-40).

While this article demonstrates the potential return of wage-based growth due to a broad, labour-inclusive growth coalition (under conditions of current account surplus), our model also emphasises the fragile nature of such political alliances. This inherent fragility stems from the political and economic sacrifices required to maintain such broad coalitions with potentially conflicting interests. While these cross-class compromises were normative during the Fordist era, they have become much less sustainable in the current neo-liberal era due to the absence of multidimensional state support and the institutional infrastructure that characterised the Fordist period. The difficulty to sustain such compromises often results in 'narrowing', i.e. the re-exclusion of organised labour and a return to a narrower growth coalition – a trajectory we demonstrate in this paper through the empirical cases of Israel, Brazil, and Ireland.

3. Israel's shifting growth model

Our primary case study is an analysis of labour's role in the transformation of Israel's growth model following the global financial crisis of 2008. Starting in the 1980s, Israel responded to the universal decline of the Fordist, wage-led model by developing an export-led growth model which persisted for almost three decades. However, similarly to other developed economies, after the financial crisis, Israel experienced a continuous decline in the exports of goods and services as a share of GDP (Kohler and Stockhammer 2021). Nonetheless, it maintained a stable economic growth rate above or on par with the OCED average. This was made possible as the decline in (import-adjusted) exports was offset by an increase in (import-adjusted) private consumption as a share of GDP (see Figure 2).[3] In places like the UK and Sweden, the rise in private consumption was driven mainly by growing household indebtedness (Baccaro and Pontusson 2019). In Israel, however, private consumption in this period was fuelled not by increasing household debt, which remained relatively stable, but rather by robust growth in real wages (see Figure 3). This reality was highlighted by then governor of the Bank of Israel, Karnit Flug, who acknowledged that:

> Private consumption has driven economic growth […] covering for the slowdown in exports and investments […] The main factor driving private consumption was the *increase in income from work* […], whereas household debt-to-GDP and debt-to-disposable income ratios have risen only moderately. (Flug 2017)

This growth in the real wage is seen in all income groups. In fact, during this time, Israel was the only country within the OCED where wage growth was overrepresented in the lowest income decile

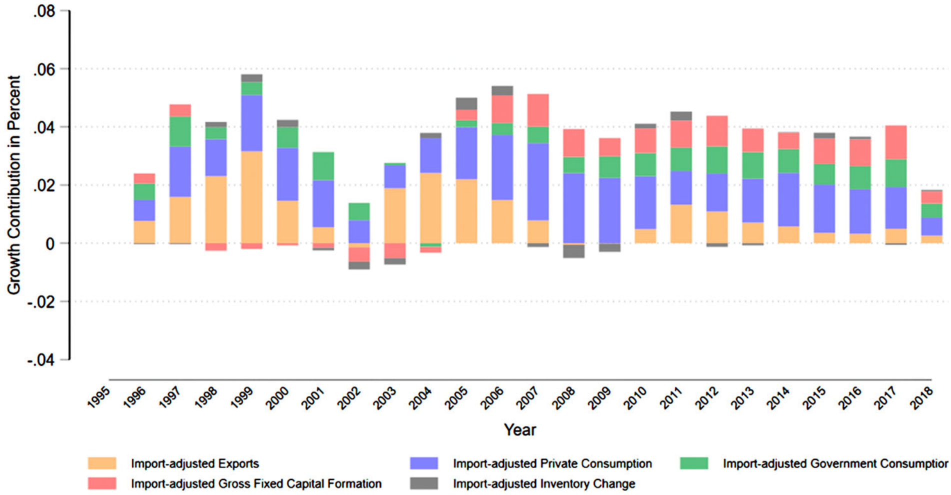

Figure 2. Growth contributions of import-adjusted GDP components – GDP deflator – moving average. Source: elaborations on the OECD harmonised input-output tables and the OECD trade in value added (TiVA) database.

(see Figure 4). Figure 5 provides more evidence for the overall wage growth exhibited in almost all sectors of the economy. This rapid growth in real wages in industries usually characterised by relatively low wages translated into a disproportionately more significant increase in consumption. As Israel's Ministry of Finance [MoF]'s chief economist division acknowledged:

> [T]he comparison of the growth rates between different income deciles shows that the volume of net monetary consumption of the lower five deciles expanded by an average of 5.2 percent per year, a rate significantly higher than the increase in consumption of the upper five deciles. (1.2 percent)[4]

We trace these changes to the inclusion of organised labour into the growth coalition. By reforming centralised social partnerships, labour's inclusion in the growth coalition paved the way for decade-long wage growth, especially for low-wage employees, and was responsible for shifting Israel's growth model.

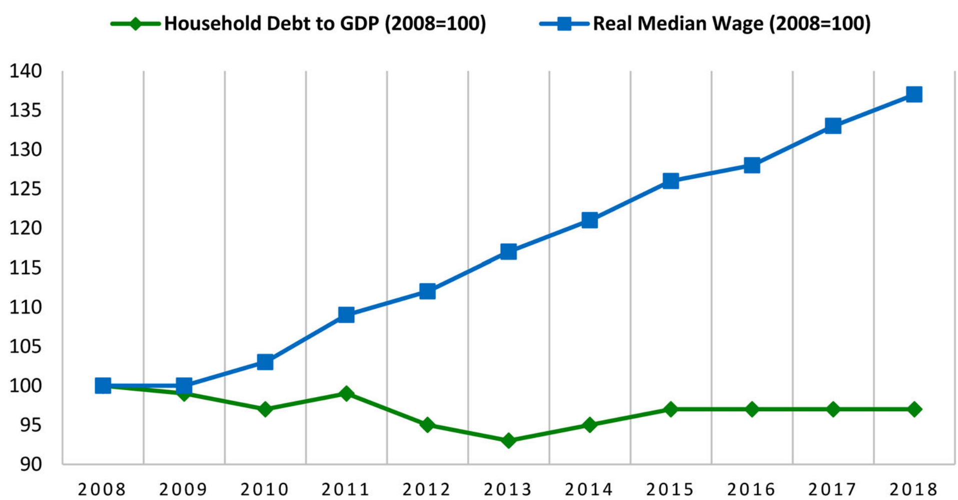

Figure 3. Israel's real median wage and household debt to GDP, 2008–18 (2008 = 100). Sources: Bank of Israel, Financial Stability Report (2019); and Israeli Social Security Institute, Wage and labour income (2019, p. 246). * Adjusted for inflation using the 2008 base.

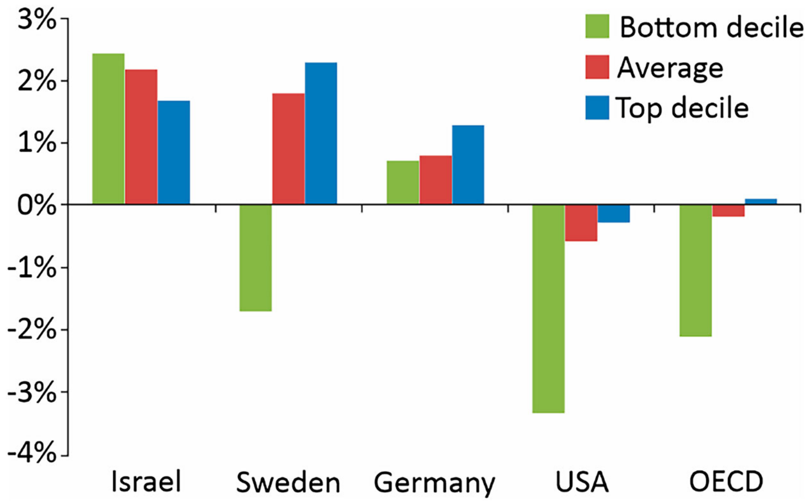

Figure 4. Increase in income from work by the average earning group, international comparison, 2007–14. Source: Weekly economic review published by the MoF's Chief Economist, February 2017, p. 10.

3.1. Industrial relations and macroeconomics in Israel – from wage-led to export-led growth

Originated in the pre-state period, Israel's labour movement was based on the dominance of a monopolist general trade union federation (the Histadrut), historically controlled by the Israeli Workers' Party (Mapai), which later became the Israeli Labour Party (Ha'Avoda). This party was in power sequentially from 1948 to 1977 (Grinberg 1993, Mandelkern and Rahat 2017), based on a broad growth coalition which pursued a coordinated wage structure, full-employment and import-substitution policies which supported a Fordist wage-led growth model (Grinberg 1991, Krampf 2018, Bondy 2020, Maggor 2021b).

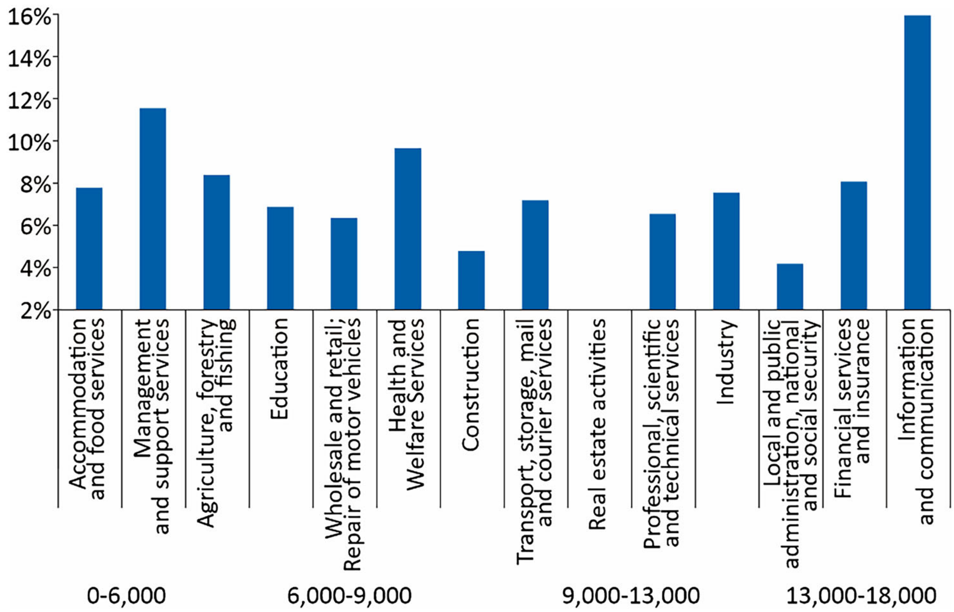

Figure 5. Wage growth by sector, 2013–6 (in NIS). Source: Weekly economic review published by the MoF's Chief Economist, February 2017, p. 11

Nonetheless, starting in the late 1970s, this structure and its influence on macroeconomic growth endured fundamental changes, leading to the liberalisation of the Israeli political economy (Shafir and Peled 2000, Maron and Shalev 2017, Mandelkern and Shalev 2021). During this process, the Histadrut's position in policymaking was gradually eroded in the face of the growing power of state actors that strived to enhance their autonomy (Shalev and Grinberg 1989, Mandelkern and Rahat 2017, Maron and Shalev 2017). This transformed Israel's growth coalition, from a relatively broad and inclusive cross-class alliance which included organised labour and employers in traditional sectors to a narrower one comprised of export-oriented industries (mainly in the high-tech and security industries) and the financial sector (Shafir and Peled 2000, Nitzan and Bichler 2002, Avigur-Eshel and Filc 2021, p. 9). With the changing nature of Israel's growth coalition, Israel's state managers could pursue new interests, namely the restructuring of the national economy into an export-led growth model (Shalev 1998, Maman and Rosenhek 2012, Krampf 2018, Maggor 2021a). On the other hand, members of Israel's traditional, 'corporatist' coalition were severely weakened by these new policies and the emerging export-led model. These included both organised employers located in traditional sectors of the economy and the Histadrut (Greenberg 2005).

Excluded from the growth coalition, organised Labour was ineffective in resisting the government-led restructuring that was accompanied by continuous austerity in public expenditure and welfare budgets, as well as rapid flexibilisation of labour regulation (Doron 2003). Without its traditional political power, the Histadrut also saw its institutional position eroded, leading to a severe decline in union density and coverage (Kristal and Cohen 2007). It also led to the continuous liberalisation of industrial relations, significantly retrenching workers' wages (Kristal 2013).

3.2. Organised labour's return to the growth coalition

The narrow growth coalition and the respective liberalisation trends it promoted seemed to proceed undisputed. Yet by the 2000s, the ability of governments to continue supporting economic policies favoured by the narrow coalition began to wane. This manifested, first, in a series of protest movements against the government's austerity policies, most famously in the summer of 2003. Despite initial concerns that this campaign 'would develop into a full-blown social protest' these demonstrations were largely contained (Ajzenstadt 2009, p. 73).

The real weakness of the narrow growth coalition, however, was exhibited in the political arena, as governments became unable to maintain a stable parliamentary coalition. This manifested in the mid-2000s under the centrist-liberal Kadima Party. It is commonly accepted that the main culprit in the collapse of the Kadima government was the corruption allegations against then-Prime Minister, Ehud Olmert. Yet signs of Kadima's inability to sustain a functioning coalition manifested before it was clear that the corruption charges will bring down the government, and continued into the short reign of Tzipi Livni, who failed to form a new government following Olmert's resignation. The source of this political weakness was directly related to disagreements over economic policy between Kadima and its junior-coalition partner, the Labour party. Dominated by the Histadrut, the strongest organised group in the labour party, and seeking to differentiate itself from Kadima, starting from 2007 the Labour party decided it must fight for greater redistribution and an increase in social spending that would favour its potential middle – and working-class electorate (Roitberg 2020:152-54). Doing so, however, required breaking the hard cap on public spending, based on the public expenditure rule (Ibid).[5] This became the party's central ultimatum for their support of the 2008 budget and later again as the main condition for joining a new Kadima government following Olmert's resignation.[6] With the Great Financial Crisis (GFC) looming, Labour also proposed to form a tripartite forum ('the roundtable') between the government, employers, and the Histadrut, which would provide organised labour with greater influence over economic policies.[7] Shraga Brosh, the president of the Employers' Associations Confederation, who also supported the idea, stressed that the threat of the GFC requires cross-class cooperation and a short-term suspension of the expenditure rule 'to create domestic demand'.[8]

Kadima, representing the interest of the upper-middle class and exporting elites, rejected both demands. Kadima's leader, Livni, remarked that 'we cannot support irresponsible economic policy that is related to the need to form a [political] coalition'[9], while her Finance Minister Roni Bar-On rejected the idea of a roundtable, stating that it would only 'tie the hands of the government.'[10] Kadima's refusal to accept labour's demands and consequent failure to consolidate the coalition paved the way for parliamentary elections in January 2009, which allowed the right-wing Likud party to form a sustainable parliamentary coalition. Striving for broader support and legitimation, Likud reached outside its traditional base to recruit the Labour party as a junior partner (Interview 2).

Still dominated by the Histadrut and the main supporter of its chairman, Barak, the party's negotiations with the Likud were effectively led by the Histadrut's chair, Ofer Eini (Interview 1 and 8). It was indeed Eini who set the socioeconomic terms of the eventual coalitional agreement (Interviews 3 and 8), As Eini's chief legal advisor explained:

> Ofer [Eini] controlled the Labour [party] … so he was appointed by Barak to lead the socioeconomic part of the negotiations … on the eve of negotiations, he called me and said – bring me a list … . All your biggest fantasies in labour relations – Netanyahu needs a coalition, and he will give me everything … (Interview 4)

Based on previous agreements between organised labour and employers, these coalitional negotiations paved the way for labour's return to the growth coalition. [11] Unlike Livni and Kadima, Netanyahu was able to deliver the compromises necessary for engineering a broad coalition, which resulted in an agreement to increase public spending beyond the framework of the expenditure rule in the 2009-10 budgets.[12] Furthermore, the final coalitional agreement also re-established 'the roundtable' in which government, employers, and the Histadrut, were to discuss 'all matters of social and economic concern'.[13] This clause thus resurrected Israel's corporatist structure, expressing a significant shift – from a narrow, labour-exclusive growth coalition to a broader one that included both labour and organised employers in traditional sectors, alongside the export-oriented high-tech and financial sectors.[14]

With the expenditure rule overcome and collaborations with labour reformed, the formal coalitional agreement was able to accommodate labour's demands. These included: governmental commitment to creating new jobs; additional budgets for vocational training programs and day-care centres; support of civil society organisations active in welfare provision; a relief fund for distressed businesses and workers; preference of local producers in public procurement; extension of unemployment benefits and an increase to public pensions; commitment to improving governmental enforcement of labour laws; application of unpaid leave as a means to prevent dismissals; and a governmental commitment to avoid unilateral legislation in all wage-related matters.[15]

This coalitional agreement was indeed not more of the same. It not only provided several short-term gains for labour and employers but integrated the Histadrut (partnered with private employers) into policymaking processes. This institutional arrangement aimed to incentivise the Histadrut (and the Labour party) to support the parliamentary alliance through its integration into the broadened growth coalition by setting the conditions for subsequent tripartite negotiations (Interview 7). In these negotiations, the Histadrut entered a classic corporatist political exchange (Pizzorno 1978, Crouch 1990) – conceding short-term wage demands of unionised public sector workers in return for long-term institutional victories, mainly addressing non-unionised private-sector workers. Because the composition of labour's core members was primarily based on the sheltered, mostly public service sectors, this political constellation created an opportunity for a compromise between the different members of the coalition. This compromise marked a dramatic shift away from the liberalisation of labour regulations that revived some of the labour movement's traditional power resources. This enabled multifaceted pro-labour policies, which translated into a series of gains, including significant wage increases, mainly for low-wage workers in sheltered services sectors, and a new safety net for greenfield organising, as detailed in Table 1 (Bondy 2020, Bondy and Preminger 2021, Bondy 2021b).

3.3. Maintaining a broad growth coalition

Labour's various gains notwithstanding, it is important to stress that the labour-inclusive coalition suffered from continuous contestation. While the Histadrut increased its power resources, it still occupied a peripheral position in the coalition's internal hierarchy. Furthermore, it experienced constant attacks from the Ministry of Finance (MoF), which viewed the roundtable as an obstacle that weakened the state's autonomy (Mandelkern 2021). The MoF was not the only agent pushing back against this broad coalition. Internal conflicts within the Labour party regarding its cooperation with the political right-wing resulted in the party's split in 2011 and the formation of a new party – Ha'Atzmaut, (The Independence), headed by the former party chairman Ehud Barak (Roitberg 2020, p. 79). The party's fracture and consequential exit from the parliamentary coalition threatened the Histadrut's political influence and ability to maintain peak-level cooperation. The Histadrut responded by strengthening its ties to other political parties, including Likud and later also the newly formed centre-right Kulanu party whose chairman, Moshe Kahlon, became minister of finance.

Supported by the ongoing alliance with organised employers and political parties, the Histadrut continued pursuing corporatist-like policymaking. Even with the exclusion of the labour party from the parliamentary coalition, the Likud-led government established in 2015 once again revived the roundtable.[16] Functioning as a consultative forum for the minister of finance, this forum was instrumental in the promotion of work-time reduction, solving the nursing insurance crisis and increasing investments in vocational training programs. This collaboration also ensured the Histadrut's support of the state budget through agreed postponements of public sector wage increases in return for progressive supplements.[17] At the same time, this alliance supported several Histadrut-led campaigns focused on precarious, low-wage workers and different campaigns to expand the welfare state (see Table 1).

While the Histadrut gained significant power from its integration into the growth coalition, the cross-class alliance also benefited organised employers, increasing their political leverage and influence. Organised employers also received various compensation in the form of increased R&D subsidies, improved funding for vocational education and training programs, hardship funds for traditional industries, subsidies for the agriculture sector and more significant influence in regulatory

Table 1. Labour's Achievements, 2008–19.

Year(s)	Achievement(s)	Form & partners
2009	Improvement of labour laws and organising rights, social transfers and reformation of tripartite negotiations and consultation	Coalitional agreement (including the Histadrut and the employers' associations)
2008–18	Greenfield organising campaigns (∼200,000 new union members, ∼2% increase in national union density)	Local level organising and agreements (e.g. cellular, internet, ICT, insurance, public transportation)
2010–11	National Minimum wage increase (13%)	Peak-level collective agreement (adopted into legislation)
2010–13	New sectoral agreements in low-wage sectors (retail, security, cleaning)	Sectoral collective agreement (extended)
2011–15	Public sector wage agreement – compensation of previous concessions and additional wage increases	Public-sector collective agreement
2010–16	Progressive minimum wages at sectoral and professional levels	Sectoral or professional collective agreements (extended)
2015–18	National minimum wage increase (25%)	Peak-level collective agreement (adopted into legislation)
2015	Insourcing of precarious workers	Public sector collective agreement
2017	Nominal wage increases in the public sector (3–10%)	Public-sector collective agreement
2017–18	Shortening workweek (2.5% decrease in hours)	Peak-level collective agreement (extended)
2018–19	Increased disability benefits; state obligation for construction workers' Health & Safety	Social struggles and peak level accords between state and Histadrut

Source: Authors' elaboration.

bodies (Interview 6). In the face of labour's increased power, these concessions allowed employers to continue supporting the coalition's redistributive policies.

In addition to direct government support, employers' initial tolerance of wage growth was also an outcome of the changing nature of Israel's export sectors. During this period, Israel increasingly specialised in knowledge-intensive services, such as computer software and R&D that are insensitive to price-based competition or fluctuations in currency value, and relax the current account constraint (Avigur-Eshel and Filc 2021, p. 11, for more on non-price competitiveness, see: Kohler and Stockhammer 2021, pp. 17–21). Indeed, according to the Economic Complexity Index (ECI), Israel has ranked in the top 20 (out of 127) of the world's most complex economies for the last two decades.[18] The dominance of price-insensitive firms only improved in this period as, starting in 2009, Israel's export composition dramatically shifted. As shown in Figure 6, while the share of manufactured goods declined from 70 per cent to 55 per cent of total exports, the export of services, fuelled mainly by the increase in high-tech services, rose to the highest rate ever recorded and as of 2018, accounts for 45 per cent of total exports.[19] These developments complemented the transformation in the Israeli GM – from an export-led model to a more balanced one, combining the export of high-end, price-insensitive technological and R&D services with wage-based consumption.

3.4. The decline of the broad growth coalition

The broad coalition that directed Israel's economic policies maintained relative political resilience and withstood internal and external challenges for over a decade. Its eventual demise towards the end of 2018 was due to growing dissatisfaction among organised employers, particularly those from the more traditional industrial sectors. Unlike price-insensitive employers in the high-tech and financial sectors, employers in traditional sectors were far more sensitive to rising wages and were therefore far more burdened by rising labour costs. The first signs of instability in the growth coalition occurred in 2015 when small and medium employers began voicing their growing concerns about rising wages and increasing international competition. Feeling their interests were being undermined, they revolted against organised employers' elected leadership, resulting in its eventual change.[20] Regaining office in 2015, Brosh, the incoming president of the Employers' Associations Confederation, adopted a more militant policy – amending the minimum wage agreement signed by his predecessor to reduce the automatic link to the average wage. This development notwithstanding, with continued governmental support, organised employers remained committed to their partnership with the Histadrut, leading to the important agreements around worktime reduction and additional wage increases in the public sector mentioned above.[21]

Eventually, however, the willingness of organised employers in traditional domestic sectors to accept continuous wage growth began to wane, and, as a result, so was their commitment to cross-class collaboration. Combined with growing instability in the electoral arena, including the weakening and the eventual demise of the Histadrut's central partner in government, Kulanu, the government found itself unable to provide the financial incentives necessary to maintain a cross-class partnership (Interview 8). As a result, employers' dissent led to a gradual break of the broad growth coalition. By 2019 Brosh openly criticised the Minister of Finance and declared that 'the costs for industry in Israel are unbearably high' and are responsible for 'the closure of 18,000 small and medium enterprises in the past decade.'[22]

Without their strong links in government, organised interests were excluded from their previous position in the decision-making process. This change ultimately manifested during the COVID-19 crisis, as organised labour and employers were absent from the policymaking circle (Bondy 2021a). While these developments are still in the making, our model would predict that the recent exclusion of organised interests effectively expresses a 'narrowing' process of the growth coalition and will likely lead to a subsequent change in Israel's economic policies and growth model.

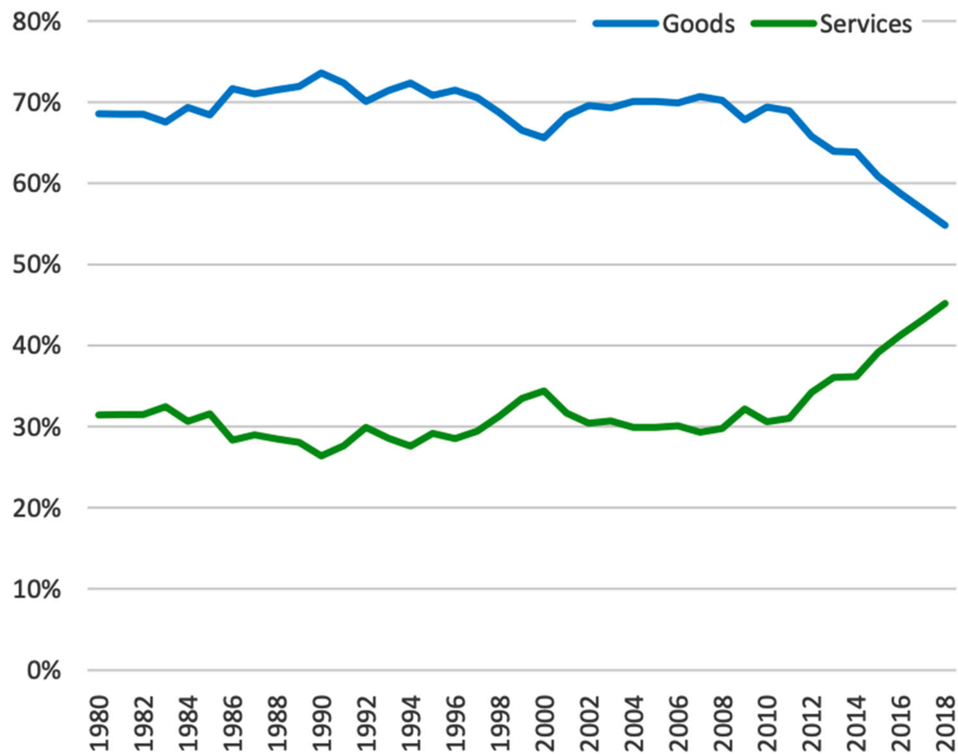

Figure 6. Trends in exports composition in Israel, 1980–2018 (Source: Israeli Export Institute, Developments and Trends in Israeli Exports, 2018, p. 5).

4. Generalising the model: the cases of Brazil and Ireland

Could similar growth model transformations occur in other contexts? Brief comparisons to Brazil under the Workers' Party (PT) administration (2003–16) and Ireland under the centre-right liberal government of Fianna Fail (FF) and the Progressive Democrats (PD) (1999–2008) provide further support for our theoretical model. In these periods, Brazil and Ireland shifted from an export-led to a more balanced growth model driven mainly by wage-based consumption (Regan 2012, p. 133, Bohle and Regan 2021, p. 96, Schedelik *et al*. 2021, p. 521). In both cases, as our model predicts, this outcome resulted from political instability that saw leading political actors engineer a broad growth coalition by incorporating organised labour. Finally, common to these cases is the fragile nature of the broad coalition underpinning these states' growth models. The governing coalition could not endure and eventually reverted to a narrower formation that discounted domestic demand and focused mainly on maintaining an export-led GM.

4.1. Brazil

The transformation of Brazil's growth model resulted from the PT's rise to power in the early 2000s under the leadership of Lula da Silva. After an almost decade-long attempt to implement a centrist Third Way progressive neoliberal-type regime that failed to produce inclusive economic growth, the coalition that favoured this approach lost electoral support. This created the conditions that led to the electoral victory of the PT which went on to construct a broad growth coalition (Morgan, Doering and Gomes 2021, p. 544). The core of the growth coalition was engineered by Lula and the PT and was comprised of large corporations in the construction, agribusiness, finance, and steel sectors. Employers in these sectors were supportive of broadening the growth coalition as they were to be the primary beneficiaries of the booming commodity markets abroad, a growing home market, as well as cheap state lending and local content requirements (Morgan, Doering and Gomes 2021, pp. 546–47)

Apart from the business sector, the PT's primary support lay in parts of the urban middle class and the unionised working class (Hunter 2007). Historically excluded from the country's growth coalition, unions played a central role in the PT's victory in the 2002 elections and consequently gained political prominence in the PT government. Brazil's labour federations participated in several tripartite, neo-corporatist industrial relations bodies such as the Council for Economic and Social Development or the newly established Labour Relations Council (da Silva and Veiga Vieira Mancio Bandeira 2021, p. 11).

Through such institutions, labour could advance constitutional amendments that further expanded workers' rights (Galvão 2014, p. 175), both under Lula's rule and even more so under the Rousseff administration (Ban 2013, p. 315). This enabled it to advance a policy agenda that benefited those at the lower end of the income distribution through the extension of labour market regulation. A case in point was the Labour-led reform of Brazil's minimum wage laws, which raised workers' incomes at the bottom quintile of the labour force by 38 percent, from 2003 to 2008 (Ban 2013, pp. 316–19, de Carvalho and Rugitsky 2015, pp. 3–4, Galvão 2014, p. 187, Morgan, Doering and Gomes 2021, p. 546). Together with the institutionalisation of Brazil's conditional cash transfers (Bolsa família), these policies resulted in a doubling of wage-based private consumption between 2003 and 2010, which balanced the Brazilian GM (May *et al*. 2020, p. 16, Schedelik *et al*. 2021, p. 521).

This shift primarily relied upon a boom in commodity exports, driven mainly by the growing Chinese demand for raw materials and agricultural products, which continued past the 2008 Global Financial crisis (Morgan, Doering and Gomes 2021, p. 546). This fortuitous development enabled Brazil to close its current account deficit and enjoy several years of trade surplus; temporarily relaxing the current account constraint that often binds peripheral or semi-peripheral countries from pursuing wage-led growth (de Carvalho and Rugitsky 2015).

Like in Israel, the ensuing collapse of Brazil's wage-driven growth model was also determined by the breakup of the broad growth coalition that supported the PT (Morgan, Doering and Gomes 2021, p. 547, Schedelik *et al*. 2021, p. 520). The earliest to leave were members of the urban middle class, burdened by high taxes and increasingly squeezed between a rising poor and resurgent working class on the one hand and a new super-rich at the top end. The most significant blow, however, came when government attempts to stimulate demand dried up, and the powerful business associations finally turned their backs on the PT. This process was exacerbated by a downturn in global demand for primary goods in the early 2010s, as the prices of commodities and the number of exports dramatically declined (Morgan, Doering and Gomes 2021, p. 547). Whereas Brazil's commodity boom made its consumption-led growth model feasible, the downturn in global demand and the growing current account deficit further limited the space for wage growth. By the 2018 election, political actors were reengineering the growth coalition by expelling organised labour and the poor. Bolsonaro's election in 2018 suggested the possible emergence of a new coalition with business and the middle class at its core, effectively abandoning consumption-led growth in favour of primary commodity exports (Morgan, Doering and Gomes 2021, pp. 547–49).

4.2. Ireland

In Ireland, Labour was integrated into the growth coalition with the re-election of a centre-right liberal coalition of FF and the PD in 1999. Elected on the back of social unrest resulting from the unequal distribution of the Irish FDI-led growth, allowing for a dramatic coalitional change. The FF-led government engineered the broad growth coalition and included both business and labour, increasingly dominated by public-sector unions (Regan 2012, pp. 139, 47). From an electoral perspective, FF was anchored within the rural and urban working class and had strong roots in the

Irish trade union movement. It was also closely associated with the small farming, agriculture, real estate, and construction sectors, as well as the business elite of the domestic industries such as utilities, energy, transport, and banking. While this coalition continued to support the traditional FDI-led export model formulated in the early 1980s, its various segments were closely aligned with the need to redistribute the fruits of this growth outside the export sectors (Bohle and Regan 2021, p. 95).

The primary economic strategy of the FF government was premised on a broad-based coalition that promoted the reinforcement of centralised concertation and wage-setting institutions. This strategy provided organised labour 'unprecedented access to the public policymaking machinery of the state' in ways that shaped the development of both the labour market and social policies (Regan 2012, pp. 128, 39). This led to the introduction of a national minimum wage, improving employment protections, and moving from an employment crisis to labour shortages, which significantly pushed wages upwards. Like in Israel, this was made possible by Ireland's price-insensitive high-tech exporters, which relaxed Ireland's current account constraint (Bohle and Regan 2021, p. 98, Regan 2012, p. 127).[23]

Additionally, the distributional bargain that sustained the underlying growth coalition resulted in increased social welfare expenditure – on old-age pensions, disability and jobseekers' benefits, and children's allowance – in every budget from 2004 to 2007. These pro-labour policies were coupled with concessions to (mainly domestic) employers in the form of a decrease in income taxes and social security contributions. These incentives reinforced their support of the growth coalition while also increasing overall disposable income and domestic demand, transforming the Irish growth model (Bohle and Regan 2021, pp. 95–6, Regan 2012, pp. 133, 38).

The political coalition constructed by the FF government began to crumble as early as 2004. This process can be traced to a growing divergence of interest between employers and trade unions on how to regulate the labour market after EU enlargement (Regan 2012, p. 179). Like Israel and Brazil, the Irish social partnership depended on a fragile political coalition that eventually lost legitimacy. This occurred in the aftermath of the global financial crisis as it became clear that Ireland's Business and Employers Confederation could not meet the pay increase commitments set in previous agreements and formally withdrew from the social partnership. Not only did employers lose interest in social partnership, but so did the Government (Teague and Donaghey 2015). Indeed, by 2011, the newly elected Prime Minister, Enda Kenny, made it clear that the 'open-door access to the social partners has been closed' (quoted in Regan 2012, pp. 177–78). From that point onwards, Ireland returned to relying on an export-led growth model, supported by a narrow partnership between state elites, MNCs, and highly skilled workers (Regan and Brazys 2018, Bohle and Regan 2021).

5. Discussion: labour incorporation as a path to growth model change

The growing influence of the GM perspective represents a refreshing advancement in the CPE literature. Nonetheless, this approach has so far overlooked the question of how political actors produce GM change, leaving us with a purely structural analysis, where agency and politics play only a marginal explanatory role (Baccaro and Benassi 2017, Haffert and Mertens 2021). We address this theoretical gap by analysing GM change in Israel, Brazil and Ireland. We focus on Labour's inclusion as a response to political instability. We show how political actors can broaden the growth coalition by incorporating previously excluded groups, especially organised labour. Labour's political support of the growth coalition is provided in return for more significant influence on policymaking, which translates into wage growth and redistribution. In all three case studies, this political dynamic fuelled consumer demand, thus shifting the GM from purely export-led to more balanced growth.

Our model provides three main theoretical contributions. The first lies in conceptualising the politics of growth coalitions as drivers of GM change. By underscoring the socio-political instability of narrow growth coalitions that often underlie export-led models, the article reveals the political foundations of GM change and one possible mechanism through which this change takes place.

Secondly, the article emphasises the central importance of political actors in engineering new growth coalitions through the inclusion of organised labour. This type of inclusive politics occurs when politicians seek to secure political stability by ‘engineering’ a new growth coalition and enhancing its legitimacy in society. Third, the article reveals the effects of these political changes on the GM, emphasising the essential roles of organised interests, first and foremost labour, in transforming the relative contribution of demand factors. While most accounts lament the demise of the wage-led growth model, we find its continued feasibility, although with a far more fragile and temporary nature (Baccaro and Pontusson 2016, Baccaro, Blyth and Pontusson 2022). In all three of our cases, the renewed ability of labour to promote broad-based wage growth and negotiate for more significant redistribution to ‘balance the scales’, enabling a transformation of the growth model to one that relies on both external and wage-based domestic demand.

Finally, our analysis provides several insights into the conditions necessary for labour incorporation as a mechanism for GM change and opens avenues for future research. First, we stress the international political-economic factors that characterise our three case studies. These represent semi-peripheral economies that are more limited by the current account constraint than ⍰core’ economies. In Israel and Ireland, labour incorporation and labour-friendly policies were enabled due to the price insensitivity of exports originating from the country’s highly advanced knowledge economy. This allowed both countries to run significant current account surpluses unaffected by wage growth. However, price-insensitive exports in and of themselves should not be viewed as a necessary condition, as it was absent in the Brazilian case. In contrast to Israel and Ireland, labour-friendly policies in Brazil were enabled due to the commodity boom, which, at least for a limited time, meant that external demand for raw materials and agricultural production remained high regardless of price increases through the wage channel. Therefore, the common scope condition is the presence of sizeable current account surpluses that, at least in the short term, are not threatened by wage increases. Considering what we know about ⍰core’ countries, the significance of the current account constraint to broadening the growth coalition is likely to be diminished (Baccaro, Blyth and Pontusson 2022, pp. 39–40). Yet, more research is required to fully establish the relevance of this scope condition beyond the semi-periphery.

Moving from international to domestic politics, two additional conditions for a labour-inclusive growth coalition emerge – the form of political exchange and the role of domestic employers. Labour incorporation and political exchange in Israel took place through revitalised corporatist channels. Yet, corporatism is only one of the various ways labour integration can be attained. As we saw, in Ireland, Labour inclusion was orchestrated through a voluntary form of centralised social dialogue. Central tripartite concertation played a minor role in policymaking in Brazil, as most labour-friendly policies were devised through legislation. Therefore, whereas tripartism can certainly be conducive to labour inclusion, it may take various forms. This opens the scope for future research to identify the diverse political conditions and channels through which labour re-incorporation can occur.

Finally, our analysis highlights the importance of organised domestic employers as a crucial veto actor. In all three of our cases, labour incorporation and wage growth required the consent of organised employers. As demonstrated, employers conceded to forming a labour-inclusive growth coalition because they were appeased through government policies. In Israel, employers leveraged the broad growth coalition to enhance their influence on government policy and received various economic subsidies. In Brazil, employers enjoyed not only favourable international conditions but also enjoyed cheap credit and preferential treatment. Irish employers benefited from tax cuts and cuts in social security contributions that lowered labour costs, as well as growing government loans. Providing these concessions also depends on collaboration between organised interest and their sponsors in government. However, once these concessions are no longer made available or when they are outweighed by increasing labour costs, organised employers rebelled and eventually withdrew from the broad growth coalition. Although employers represented key veto players in all three of our cases, it is possible to imagine scenarios where employers’ veto power is diminished. For example, in cases where they are disorganised and hence have limited channels to exert power –

either instrumental or structural – on the political system. Alternatively, they could be economically marginal, meaning the government has more space to upset their interests with few repercussions. Establishing the various channels through which growth coalitions can emerge in the face of employers' resistance requires additional research, which can significantly benefit the scholarship on the politics of growth coalitions.

Interviews

Interview 1, Yarom Ariav, General Director of the Ministry of Finance (2007–10). November 2020.

Interview 2, Ori Yogev, Chief advisor to Prime Minister Benjamin Netanyahu (2003–5, 2009–11). September 2020.

Interview 3, Ami Cohen, Chief economic advisor to the Chairman of the Histadrut (2005–10). May 2018.

Interview 4, Shay Teken, Chief legal advisor to the Chairman of the Histadrut (2006–12). September 2020.

Interview 5, Ram Belinkov, Commissioner for Budgets at the Ministry of Finance (2008–9). November 2020.

Interview 6, Shraga Brosh, President of the Industrialist Manufacturers Association of Israel and Head of the Israeli Employers' Associations' Confederation (2005–12 & 2015–8). April 2021.

Interview 7, Ilan Levin, Commissioner for Wage and Labour Relations at the Ministry of Finance (2008-12). November 2020.

Interview 8, Ori Ramati, Political Advisor to the Chairman of the Histadrut (2005–6) and the Chairman of the Labour Party (2006–7, 2019–21). August 2022.

Notes

1. In this paper we adopt Baccaro & Pontusson's recent formulation of ⍰growth coalitions' because, in contrast to ⍰dominate social blocs', this term does not conflate elite politics and mass politics (see ft. 27 in Baccaro, Blyth, and Pontusson 2022).
2. Wage-growth often leads to growing imports. When imports grow faster than exports, the country in question will tend to produce systematic current account deficits. Such deficits are not a big problem for ⍰core' countries because the rest of the world will be willing to lend to them at favorable rates and for long periods of time, but more peripheral countries do not have the same leeway. Sooner or later, they are forced to rein in expenditures and increase savings in order to address their current account problem.
3. We are grateful to Mischa Stratenwerth for providing us with these calculations. For an elaboration of the import-adjusted approach to the decomposition of GDP demand components, see: Baccaro and Neimanns 2022.
4. Weekly economic review published by the MoF's Chief Economist, February 2017, p. 10–12 see: https://www.gov.il/BlobFolder/dynamiccollectorresultitem/weekly_economic_review_19022017/he/weekly_economic_review_weekly_economic_review_19022017.pdf [accessed July 15th, 2022].
5. On this point, we are grateful to Omer Magal-Shamir who shared some key sources from his research on the expenditure rule.
6. 'Ehud Barak is flexible: the economic crisis comes first', *Haaretz*, October 5th, 2008; Zvi Lavi. 'The economic mistake: Livni's fall over a 0.8% budget increase? *Ynet*, March 31st, 2012.
7. Haim Bior. 'Barak met with Eini and Brosh; they called on the government to provide a safety net for public savings', *Haaretz*, October 6th, 2008.
8. Ibid.
9. 'Ehud Barak is flexible: the economic crisis comes first', *Haaretz*, October 5th, 2008.
10. Haim Bior. 'Barak met with Eini and Brosh; they called on the government to provide a safety net for public savings', *Haaretz*, October 6th, 2008.
11. Haim Bior. 'What is going on with Ofer Eini and Sharaga Broosh?', *The Marker*, July 20th, 2007.
12. Amnon Ated and Shaul Amsterdamski 'The government approved the state budget for the years 2009–10', *Calcalist*, May 13th, 2009.
13. Coalitional agreement between the Labour and Likud parties, 30.3.2009.
14. Important to note that while this was not the first time since the 1980s that the Labour party took part in a parliamentary coalition, its inclusion in the 2009 Likud-led government was different. In contrast to the past, this

time its incorporation was closely coordinated with the Histadrut leadership and therefore ensured the new government would prioritize the interests of organised labour.
15. Coalitional agreement between the Labour and Likud parties, 30.3.2009.
16. Moti Basok and Ora Koren, 'For the first time in seven years: the roundtable for encouraging growth chaired by Kahlon was conveyed', *The Marker*, May 25th, 2016.
17. Tali Cheruti Sover, 'Agreements between the Treasury and the Histadrut: the work week will be shortened', *The Marker*, January 10th, 2018.
18. The ECI index has been previously used as a measure of non-price competitiveness (Kohler and Stockhammer 2021, 19). It is based on disaggregated data on trade in products and captures two dimensions: the diversity of a country's exported products (the number of distinct products it exports) and their ubiquity (the total number of countries that export these products). It is therefore quality, not price that determines ECI scores. For more, see: https://oec.world/en/profile/country/isr, [accessed: July 31st, 2022].
19. Israeli Export Institute, Developments and Trends in Israeli Exports, 2018, p. 3.
20. David Refaeli, 'Industrialists against minimum wage agreement: "we could have gotten more".' *Calcalist*, December 22nd, 2014.
21. Orna Koren, 'Shraga Brosh aims to renegotiate the minimum wage agreement.' *The Marker*, January 8th, 2015. It's important to note that while the employers consented to a minor reduction of weekly work time, they received an increase in allowed work time in several sectors (e.g. industry, construction) (collective agreement no. 20177019).
22. Alexandra Lukash, 'Shraga Brosh: industry's cost of living is unbearably high' *Ynet*, August 6th, 2019.
23. In the relevant period, Ireland ranked in the top 15 (out of 127) of the world's most complex economies, see: https://oec.world/en/profile/country/irl, [accessed: July 31st, 2022].

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