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Black Swans, Lame Ducks, and the mystery of IPE's missing macroeconomy

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ABSTRACT

Britain's BREXIT vote and Trump's victory in the US presidential elections sent shockwaves through the Western liberal establishment, including academia. Both events suggest yet another 'rethinking' of International Political Economy (IPE). Yet we have been here before. After the global financial crisis of 2008, 'Open Economy Politics' (OEP) was criticized for being unable to either anticipate or adequately explain the global financial crisis. Now that IPE has been caught short twice in a decade, any rethinking must go beyond critique and beyond OEP. To stop being surprised, we argue that IPE needs to shift its focus from micro-foundations back to macro-effects. IPE today strangely lacks an appreciation for the global macroeconomics that drives the outcomes it has such difficulty explaining, such as recurring financial bubbles, increasing levels of inequality, and the global rise of populism. Bringing the global macroeconomy back into the IPE, we argue, is a necessary corrective.

KEYWORDS

Brexit; IPE theory; Goodhart; Kalecki; Keynes; macroeconomics; neoliberalism; neo-nationalism; populism; Trump.

WHAT WE GOT WRONG THIS TIME AROUND, LAST TIME AROUND, AND WHY IT IS ALL CONNECTED

When the polls closed in the UK on the evening of 23 June 2016, foreign currency traders in Tokyo sent the Pound Sterling soaring to 1.50 against the US dollar as they anticipated a victory for the 'Remain' campaign in the national referendum on EU membership.¹ Similarly, on 8 November 2016, just over four months later, *The New York Times* put Hillary

Clinton's chances of winning the US presidency at 85 percent, right before the first results started to trickle in.² As we now know, things turned out quite differently, in both cases. The overwhelming majority of the Western academic, political, economic and financial establishment was blindsided as a popular wave of anti-establishment, anti-immigrant and anti-globalization sentiment disconfirmed commonly held expectations.³

Like the Bourbons of old, who learned nothing and forgot nothing, the narrow loss of right-wing populist Norbert Hofer in the Austrian presidential elections, or the defeat of Prime Minister Matteo Renzi's constitutional reforms in Italy just a month after Trump's victory, failed to register as important, let alone connected to prior events. At the time of writing, the spread between German *Bunds* and French *Trésors* has steadily widened as financial markets began to price in the real possibility that Marine Le Pen, leader of the extreme-right *Front National*, may actually win the French Presidential elections in May 2017. Contemporary International Political Economy (IPE) theory has pretty much nothing to say about these events. Sadly, this is nothing new, since it was no different a mere decade before.

Back in early 2007, both scholarly and elite conventional wisdom agreed on the following. The ongoing multilateral Doha round of the World Trade Organization (WTO) was going to take some time to negotiate, but it would be completed in the not too distant future.⁴ Unsustainable global macroeconomic imbalances were thought to increase the risk of a US dollar crash.⁵ The world economy was blessed by a 'Great Moderation' in volatility wrought by the technocratic competence of independent central bankers.⁶ The euro was going to be the new international reserve currency of choice and a beacon of monetary stability.⁷ Further economic and political integration was still the choice for Europe despite temporary setbacks around the adoption of a proposed constitutional treaty.⁸ The IMF looked like it would soon have to shut down its operations because there were no more financial crises lurking around the corner.⁹ The 'BRICs' were going to substantially increase their overall clout in global economic governance.¹⁰ And finally, international migration flows would only continue to intensify.¹¹ So what actually happened?

Since early 2007, we have had a global financial crisis triggered by the sudden end of the Great Moderation, a Eurozone debt crisis, and a stagnant European economy run by a disconnected elite that continues to pursue policies that make little economic sense (Blyth, 2015a; Matthijs, 2016b). The Doha round of the WTO has effectively died, while new multilateral trade agreements like the Trans-Pacific Partnership (TPP) and the Trans-Atlantic Trade and Investment Partnership (TTIP) have been either rejected or have been permanently put on ice. The IMF has seen its monetary firepower tripled since 2008 because financial crises, far from

abating, never seem to end. The BRICs failed to make their mark on global governance. Putting a halt to immigration has become popular throughout the developed world. With the advent of Brexit, the process of European integration has gone into reverse (Matthijs, 2016a, 2017). And with the election of Donald Trump, the US President openly calls into question American global leadership, sees NATO as obsolete, while officials in his administration openly disparage the EU as a ‘vehicle for Germany’, wishing more countries to leave a union they believe to be a ‘flawed concept’ (Blyth, 2016b).¹²

Getting all this wrong one time can be chalked up to a *Black Swan* event that no one could have foreseen and that therefore does not disconfirm theory. However, getting it wrong twice, in a mere decade, strongly suggests a *Lame Duck* problem where theory itself is the culprit. Given this litany of failure, rather than call for yet another fundamental ‘rethinking of IPE’, or give whatever school that is currently dominant yet another telling off, we would like to offer an alternative account of the IPE that becomes visible when we recognize the lame duck nature of most of our existing theories.

Specifically, shifting our view of theory from ‘Black Swan’ to ‘Lame Duck’ allows us to see the great crash of 2007/2008, and the current populist and ‘neo-nationalist’ revolt in the West, as part of the same historical process. Much of IPE theory has been blind to that linkage, because while theories of IPE definitely have a micro-level ‘economic approach to politics’, there is no macroeconomics of the IPE driving events that would allow such linkage.¹³ The result is that IPE treats cases as largely independent from one another, when in fact they are not, and it does so because it conceptualizes the international economy as little more than a ‘black box’ that generates relative price shifts.¹⁴ In contrast, we contend that the global macroeconomy is an evolutionary system driven by dynamics of inflation and deflation that directly influence and link events across time and space. Opening up the black box of the global macroeconomy in this way allows us not only to link the events of 2007/2008 and 2016/2017, but also to give IPE a set of *macro-foundations*, rather than *micro-foundations*, that it has been sorely lacking.

To make this case, we briefly survey the direction the field of IPE has taken since the 1990s, and the disappearance from view of the global macroeconomy therein. We then introduce the concept of ‘Macroeconomic Regimes’ (MRs), argue for a thoroughly macro-level perspective on how regimes operate and change over time, and then suggest that examining the origins of our current MR, and the prior regime from which it emerged, can explain both the current populist upswing and the prior financial bust within one single framework. We conclude by asking whether the current populist moment marks the beginning of

the end of the existing neoliberal era and the birth of a new, neo-nationalist world, and what that means for those of us who study the IPE.

MODERN IPE THEORY'S SHIFT TO THE MICRO

IPE was born in the wake of the collapse of the Bretton Woods regime of fixed exchange rates and the 'stagflationary' malaise of the 1970s. Scholars were, therefore, interested in the 'big questions' of complex interdependence, the role of multinational corporations in the world economy and the consequences of US hegemonic decline for the global system (Cohen, 2008). In short, given that the global macroeconomy was very much in flux, the field naturally sought to explain that flux. But as the global economy settled down, at least for the developed world, in the early 1990s, the two main schools of IPE originally identified by Jerry Cohen – the 'American' school and the 'British' school – began to follow rather different paths (Cohen, 2007).¹⁵

In the late 1990s, the American school gradually evolved into 'Open Economy Politics' (OEP), and in doing so, it moved away from the traditional 'big questions' toward more micro-approaches that successfully integrated key insights of both comparative political economy (CPE) and IPE (Lake, 2006). The OEP approach, according to Lake (2009), had as its unit of analysis individuals, sectors or factors of production. It then conceived of domestic political institutions as mechanisms that aggregated interests and coordinated various bargaining processes between competing societal groups.

But all this theorizing took place within a macroeconomy that was curiously stable from an historical point of view, and the theory itself reflected that bias. During the period from the mid-1990s to the mid-2000s, the period Ben Bernanke called 'the Great Moderation' – the heyday of OEP – the global economy seemed less a driver of events than mere background canvas. OEP, in particular, and IPE, in general, reflected that lack of global volatility with a lack of attention to the global macroeconomy.¹⁶ At least until the crisis of 2008 struck.

In the aftermath of the crisis of 2008, a special issue of *RIPE* took OEP to task for missing these momentous events. Editor Catherine Weaver (2009) lamented the disappearance of intellectual diversity within the field while Kathleen McNamara feared that the current 'intellectual monoculture' was at risk of 'leaving unsolved the big, important real world puzzles' (McNamara, 2009, p. 73).¹⁷ But the critique of the OEP approach most relevant to our purposes came two years later when Thomas Oatley (2011) openly called into question the field's 'reductionist gamble'. Oatley noted that OEP's 'methodological reductionism' studied the dynamics of domestic politics in isolation from broader international or macro processes, such as network externalities in international

monetary relations or positive feedback loops in international trade relations, which resulted in considerable omitted variable bias (Oatley, 2011, p. 334).¹⁸

We wish to follow Oatley's lead here, but have in mind a different, and broader, move back from the 'micro' to the 'macro' than the one that he put forward in 2011. The price of reductionism, we argue, is more than omitted variable bias. It is, as stated above, the reduction of the global macroeconomy to a black box that generates relative price shifts that we think is the real problem. And this is not a problem solely confined to OEP.

With few exceptions, IPE is curiously quiet on the content and consequences of the global macroeconomy when it is not directly looking at moments of crisis *per se*.¹⁹ Volatility is assumed to be permanently low, and the effects of the global economy are reduced to an exogenous force that produces relative price shifts that institutions intermediate and to which individuals respond.²⁰ There is no excessive leverage in globally interconnected banks. There is no role for systemically important non-bank financial institutions, let alone shadow banks or repo markets.²¹ There are no commodity super-cycles. There is no globalization of labor markets and internationalization of supply chains such that the independence of cases falls into doubt. There is no homology of institutions across cases that hides correlation. There are no central bankers acting as 'leaders' of last resort. There are no discredited elites and no crises of democratic legitimacy. Given that such things clearly exist in our actual world, how can we restore such a focus to the field of IPE? The answer, we argue, lies in focusing on the global macroeconomy through the concept of historically specific macroeconomic regimes.

FROM BLACK BOXES TO ECONOMIC REGIMES

By regime we *do not* mean the 'implicit or explicit principles, norms, rules and decision-making procedures around which actors' expectations converge' that constitute regimes of governance in International Relations Theory (Krasner, 1982, p. 186). Rather, we want to draw on an earlier tradition of primarily French political economy that has an echo in today's Varieties of Capitalism (VoC) literature, called the Regulation School.²² Whereas today's VoC literature helps us understand the likely institutional forms capitalism can take on a domestic level given the pressures of complex globalization – the LME and CME for example – this earlier French literature on 'regimes of accumulation' looked across different time periods, and across countries, to see how patterns of capitalist accumulation were similar, rather than different, across states (Boyer, 1990).

One insight of this earlier literature, at least in the English-speaking world, was the identification of a period of 'Fordism' (roughly 1950–

1975) where mass production techniques were conjoined with domestically oriented long-term capital and organized labor in a commonly shared *national* growth regime. This regime was seen to have given way in the late 1970s, due to a crisis of profitability, to a new 'Post-Fordist' or 'Flexible Specialization' regime, where these institutions were replaced by new forms of accumulation, through financial channels, for example, that were then rapidly evolving, and through globalized production chains (Boyer, 1990, 2005a, 2005b).

This literature fell out of favor in the 1990s as the turn to 'globalization' presumed the homogenization of state responses and – with the exception of the VoC literature and some neo-Polanyian approaches²³ – the homogenization of states' institutional choices.²⁴ Thomas Friedman's famous 'golden straightjacket' of possible state economic policies under globalization not only captured the mood of the times, it also captured why IPE followed suit.²⁵ Rather than focus on how variations in macro-variables drive a multiplicity of outcomes through variegated institutions, IPE reduced a dynamic set of global processes to a 'one size pressures all' set of constraints to which actors must respond with a limited repertoire of policy choices.²⁶

In terms of what we find of value today, the original Regulation School literature made a distinction between the *accumulation regime* (how value is generated) and the *mode of regulation* (how value is distributed and governed) (Boyer, 2005b). While we take inspiration from this school, we do not in this piece import its theoretical apparatus. Rather, for us, a macro-economic regime is defined by the main target variable for a country's macroeconomic policy, and how once that target has been chosen, it necessarily shapes states' institutional choices.

It may seem extremely reductionist to make such a move, but it is empirically as well as theoretically valid. States all around the world made their commitment to full employment as the overarching goal of policy not only public, but in some cases quasi-constitutional. For example, the postwar Swedish economic model, which relied on wage compression and active labor market policies to boost productivity, was specifically designed to produce full employment. As its architect economist Rudolph Meidner put it, the objective of policy was 'full employment, economic growth, [a] fair division of national income, and social security'.²⁷ In the United States, the Truman administration tried to constitutionalize the commitment to full employment in the 1945 Full Employment Bill.²⁸ In the UK, the 1945 Labour Party manifesto was entirely focused on full employment as the fulcrum of policy.²⁹

With full employment as the target variable – as it was during the period of 1945–1975 following the Great Depression and World War II – certain actors (organized labor) were empowered, while other actors (big business and owners of mobile capital) found their power

constrained (Helleiner, 1994). Policy targets not only create winners and losers, they also privilege certain institutions over others, by necessity. For example, if one of the preconditions for creating full employment is limiting the ability of capital to exit so that it can be taxed and redistributed, then limiting the movement of capital and a *dependent* central bank become common and logical institutional choices (Blyth, 2002).

Now imagine a very different regime, i.e. the neoliberal regime that held broad sway between 1980 and 2008. Here the target variable was price stability. Once again, certain actors were empowered or disempowered by that target, and certain institutions were privileged over others. Workers and debtors have gradually seen their powers and returns curtailed as inflation has fallen and the ability to bargain for a greater share of value has collapsed as trade unions' wings were clipped while the owners of capital, and creditors, have prospered. Similarly, on an institutional level, to ensure price stability an *independent* central bank and a flexible labor market, both institutions designed to mitigate inflationary pressures have been widely spread. In contrast, incomes policies and corporatist-type institutions were gradually weeded out. Given this, we can talk about the shift from an MR of full employment to an MR of price stability occurring over the past 70 or so years.

HAVE WE NOT BEEN HERE BEFORE?

Seen one way, this is the rather obvious shift from national Keynesian demand management systems to the neoliberal order of global supply-side economics that has been analyzed to death by IPE scholars, and by everyone else, not least by the authors of this article themselves.³⁰ So what is the value added of going here again? We argue that most explanations of this shift, ours included, have taken as given some kind of exogenous shock – be it the quadrupling of oil prices, changes in technology, the re-emergence of financial capital or the rise of neoliberal ideas in a climate of uncertainty – that necessitated the shift from one regime to another.

Such an assumption comes with a rather high cost, however. If shocks are truly exogenous and random, then IPE can never anticipate, let alone predict, them. So how can a focus on regimes defined around policy targets 'endogenize' change such that we cannot only explain the crisis of stagflation during the 1970s, the global financial crisis of 2008, and the current populist anti-elite revolt, but also make broad and determinate predictions about what comes after? The next section attempts to build such a theory. Rather than channel the methodological trio of KKV (King, Keohane, and Verba, 1994), so popular in the dead-calm 1990s, we would like to bring the KKG back in. That is – John Maynard Keynes, Michał Kalecki and Charles Goodhart – to help us explain how global

macro-regimes change endogenously, and why the outcomes explicable within this framework are the outcomes our mainstay theories tend to see as ‘Black Swans’.³¹

BRINGING THE GLOBAL MACROECONOMY BACK IN

We define MRs as ‘economic policy targets embedded within dedicated institutional complexes that are both generative of, and contingent upon, the production of those targets’. But a simpler way may be to think of MRs as the ‘hardware’ of capitalism (institutions) upon which different ‘software’ packages (policy targets and the economic ideas that underpin them) can be run. That is, if institutions are designed to produce specific policy targets, common targets should produce common institutions across cases, which is indeed what we find at a macro-level. For example, if we go back to the early 1970s, the high point of the Keynesian/Fordist era, then right across the OECD a specific configuration of institutions was quite commonly found. It is also one that can be easily contrasted with the regime that we find ourselves in today, which exhibits a similar homology. Table 1 represents these essential features.

The important theoretical point yielded by this juxtaposition is this. The shift from Regime I to Regime II cannot simply be a function of an exogenous shock since a random shock cannot dictate homology on subsequent institutional form. And yet, that homology is exactly what we see across cases. To take an historical example to clarify this point, after World War I, countries everywhere persisted with deflationary adjustment to get back on the gold standard despite that being precisely the wrong thing to do from an economic growth point of view. That shock –

Table 1. The macroeconomic regimes of the 1970s and today compared.

Macro-Regime I: Institutional configuration	Macro-Regime II: Institutional configuration
Policy target: <i>Full employment</i> (or low unemployment)	Policy target: <i>Price stability</i> (or low inflation)
Policy outcomes: Positive inflation	Policy outcomes: Secular disinflation
Labor’s share of GDP at historic highs	Capital’s share of GDP at historic highs
Corporate profits low or stagnant	Wages low or stagnant
Inequality low	Inequality high
Markets mostly national	Markets globalized
Trade unions strong	Trade unions weak
Finance weak and immobile	Finance strong and highly mobile
Central banks weak and politicized	Central banks strong and independent
Legislatures strong	Legislatures weak

Source: Authors (adapted from Blyth (2016a, p. 220) and Matthijs (2016b, pp. 405–408)).

persistent deflation – was not determinate to subsequent form. Rather, it generated a variety of different institutional forms, from fascism to communism to social democracy (Berman, 1998, 2009; Blyth, 2007).

One way to explain that variation in outcome, of course, is to appeal to the differential absorption of economic ideas (Ban, 2016; Berman, 1998; Blyth, 2002; Matthijs, 2011). However, in this case, we wish to go another route and focus instead upon the institutional pathologies that are endogenous to each regime and work to gradually undermine the regime over time through its normal operations. This self-undermining in turn leads to the construction of a new set of institutions, based around a new policy target, which in turn creates new pathologies that undermine that subsequent regime. We contend that viewing the IPE this way – as constituted by distinct macroeconomic regimes that change endogenously – allows us to see how the events of the 1970s built up institutional tensions that became manifest in the crisis of 2008, and how the attempt to keep that regime in place has led to the mass populist revolt of the current moment.

BUILDING A FRAGILE FULL EMPLOYMENT REGIME

Going back to viewing institutions as the hardware and economic ideas and policy targets as the software for running a capitalist regime, in the postwar era corporatist institutions and domestically focused financial markets were the hardware while various Keynesian-type ideas and a policy target of full employment were the software powering the system. While both IPE and CPE scholars would typically point to critical differences in the units of analysis – for example, US versus German corporatism,³² or British ‘stop-go’ economic management versus Swedish active labor market policy,³³ etc. – from an MR perspective such differences are differences in means, not ends. Each of these states, by different institutional means, sought to produce full employment as a sustained policy outcome, and in doing so they would shape their domestic institutions accordingly. This is why by the 1960s one could talk of ‘the mixed economy’ and the ‘full employment universal welfare state’ being of a common type, despite national variations among them (Shonfield, 1965). It turned out, however, that there was a bug in the software, to continue the metaphor, designed to make these institutions produce full employment, a bug that was discovered in a famous short paper by the Polish economist Michał Kalecki (1943, pp. 322–331).

Kalecki, as is well known, pointed to a flaw in Keynes’ desire to sustain full employment after the war as a way to stabilize capitalism. He argued that a policy of sustained full employment over the long run would consistently push up the median wage. Skilled workers at the top of the distribution would thus be able to capture an extra rent due to labor markets being permanently tight (Blyth, 2015a). While this would lead to

desirable outcomes from the point of view of both labor and the state – including wage compression, a leftward shift in the income distribution, and a higher tax intake to finance public transfers – it would also lead to three rather undesirable outcomes from the point of view of business (Kalecki, 1943, pp. 324–325).³⁴

First, at the firm level, management's 'right to manage' would be undermined because sustained full employment means that labor can move from job to job with relatively few costs, pushing up wages further in the process. As such, labor discipline will decline, along with productivity, while labor's ability to strike will be augmented. Second, at the industry level, the only way that firms can hold on to skilled workers given such pressures will be to pay them even more in wages. But the only way that firms can do that is to raise prices ahead of productivity. Doing so has two effects. It ignites a wage-price spiral of cost-push inflation as firms seek to externalize the costs of their wage increases onto others. And this in turn ignites more strikes and labor unrest as workers realize that the wage increase they just secured is eaten away by that inflation. Third, at a macro-level, as inflation accelerates, it acts as a tax on the returns to investment, which retards future investment and dampens long-term investment expectations. Losing control on the shop floor, losing profits due to inflation and losing their social position as their investment function in the capitalist system is being eroded (to paraphrase Keynes), private investment falls and unemployment rises, even as inflation continues to rise.

The result, Kalecki predicted, would be a world where:

a powerful block is likely to be formed between big business and the rentier interests, and they would probably find more than one economist to declare that the situation was manifestly unsound. The pressure of all these forces, and in particular of big business, would most probably induce the Government to return to the orthodox policy of cutting down the budget deficit. (Kalecki, 1943, p. 330)

While Kalecki did not quite predict the shift to inflation targeting via independent central banks and the globalization of labor markets, his account is still an astonishingly accurate measure of the flaws in the software of post-war capitalism and why it would endogenously undermine itself.

His account also explains why the post-1970s regime was based around price stability rather than full employment, and why domestic institutions were re-engineered to facilitate that goal. After all, if inflation was too high and profits were too low, and we did indeed find a plethora of supportive economists in the 1970s and 1980s that deemed the situation 'manifestly unsound', then the shift to a regime with opposing characteristics would be the modal expectation.³⁵

We should reiterate two things at this juncture that are important for theory building, however. First, in this account, the undermining of the macroeconomic regime is a wholly endogenous process. There is no exogenous shock. The inflationary crisis was a crisis of these commonly shared institutions and a commonly embraced policy target. The twin oil shocks of 1973–1974 and 1979 may be thought of as augmenting these dynamics, but they did not cause or determine them.

Second, as it stands, this explanation is not portable. The regime that replaced the full employment regime, the neoliberal order we continue to live with today, as seen in the right column of [Table 1](#), now seems to be undermining itself. But a simple appeal to the same causal factors as in the 1970s to explain this will not suffice. After all, deflation rather than inflation is now the problem. So how then can we take the endogenous focus of Kalecki and extend it into the current moment? To do that, we must first return to, and then go beyond, the Lucas critique.

EXPLAINING ENDOGENOUS REGIME CHANGE: INSTITUTIONAL COMPLEXITY, TIGHT COUPLING AND ENTRAINMENT

A concept that has spilled out of economics into the real world is the ‘Lucas critique’, named after the University of Chicago economist Robert Lucas. The basic point of the critique is that observed macro-statistical relationships are not policy invariant (Lucas, 1976). In plain English, if a government is committed to meeting a policy target – for example, full employment – then once agents learn to expect policies designed to hit those targets, they can take actions to offset the effects of those variables, thereby rendering the policy unattainable.³⁶ Putting Kalecki’s explanation for the end of Regime I in Lucas’ terms, over time both business and labor came to expect the policies that sustained the full employment policy target. But once the returns to attaining that target became asymmetric, both organized business and labor unions took actions that nullified the effects of these institutions on the target itself, thus undermining the regime overall.

It would be nice to use the Lucas critique to explain how regimes change, but the problem with the Lucas critique is twofold. First, it relies upon agents having rational expectations in an environment of full information. Second, it makes us focus on agents and their strategies, rather than the institutional context in which those strategies are executed. We want to avoid both steps, and to do so we want to revisit and harness a similar critique that appeared a year prior to Lucas’ 1976 critique, when a Bank of England economist named Charles Goodhart wrote that, ‘any observed statistical regularity will tend to collapse once pressure is placed upon it for control purposes’.³⁷ In other words, once an economic

measure becomes an actual policy target, it quickly ceases to be an effective target. This later became known as ‘Goodhart’s Law’.

In this version of events, we suggest, the problem lies at the level of the system, not at the level of the agents, and occurs regardless of the state of their expectations. To put Kalecki’s account in Goodhart’s terms, the policy of following the target endogenously undermines itself at the level of the system, not at the level of the agent. If we go back to our earlier definition of macroeconomic regimes as ‘economic policy targets embedded within dedicated institutional complexes that are both generative of, and contingent upon, the production of those targets’, we can unpack this claim.

Rather than agents ‘gaming the system’, as they update their knowledge à la Lucas, we can conceptualize the institutions that produce the policy target as becoming increasingly ‘tightly-coupled’ and more and more ‘entrained’ – that is, unintentionally synchronized – over time.³⁸ As a consequence, while macroeconomic regimes produce targets by loosely coupling institutions to each other so that they push in the same policy direction, over time they become too tightly coupled and push too much in one direction (Bookstaber, 2007; Guillen, 2015; Perrow, 1984).

For example, during the full employment era, welfare state institutions served as macroeconomic stabilizers as much as they functioned as labor market support mechanisms. But toward the end of that regime, welfare state institutions came to be seen as a part of the problem faced by the regime itself since they were believed to amplify inflationary pressures. Rather than working as a counter-cyclical buffer, they worked as a procyclical amplifier. Similarly, during Regime I central banks accommodated fiscal policy to make sure the employment target was hit. But over time, as inflation became a problem, central banks began to take actions that undermined, rather than reinforced, the policy target.

In sum, as institutions became more tightly coupled to one another, with feedback loops from one set of institutions impacting others in unexpected ways, any ‘normal’ policy intervention began to demand further second-order correcting interventions to steer the system, that then in turn created further feedback loops and increased the demand for more interventions (Taleb, 2010). In doing so, the system became simultaneously more entrained and more fragile.

In tightly coupled and highly entrained systems, minor disturbances spill out across institutions, and undermine their functioning over time. Agents in this world are reactive instead of active. Rather than actors rationally anticipating policy and ‘gaming’ the target variable, à la Lucas, we see a world where agents’ strategies are more properly effects rather than causes. Interventions within systems with high degrees of institutional coupling and entrainment produce increasingly unstable outcomes. Institutional dysfunction at the macro-level thereby drives events

at the micro-level. For example, any attempt to control inflation via incomes policies in a highly entrained system necessarily affects product markets as well as labor markets. The reactions to incomes policy – hoarding, shortages, bottlenecks or rationing – in turn spill over into other parts of the system. In such an environment, hitting the policy target becomes more and more problematic the more tightly coupled the system becomes. And the more agents try to compensate for these institutional failings, the more fragile the system becomes as their actions merely accelerate already existing perturbations. In essence, by acting to suppress macro-volatility, such interventions end up producing it (Taleb and Blyth, 2011).

The political reaction to these system-level problems is, therefore, to reconfigure the system on opposite principles. The problem generated by the previous MR, inflation, became the policy target of the next MR. Disinflation, a return to orthodox policies, the liberalization and integration of markets, the end of ‘financial repression’ – what we soon came to know as neoliberalism – *necessarily* became the means to the new end, that is, price stability. This was not just because powerful actors wanted it that way or because the ideas of the day demanded it. They did and they did. But it primarily came about through endogenous institutional exhaustion.³⁹

But what if that subsequent system, once it was constructed around this opposite policy target, also suffered from Goodhart’s pathology and began to undermine itself endogenously? What would that world look like? We argue it would look an awful lot like where we are today. If the 1970s were a *debtors’ paradise* where inflation ate away the cost of debt repayment and increased the returns to labor (as in the left column of Table 1) even as it destabilized the regime as a whole, a quick glance at the right column of the same table suggests that we have built a regime that is for all intents and purposes its polar opposite. Today, we live in a *creditors’ paradise* where the real value of debt is maintained due to ultra-low inflation and most of the new spoils from additional economic growth go almost exclusively to capital (Piketty, 2013). How then did we get here? The short version is that just as the institutions of the Keynesian Regime I undermined themselves by producing inflation, so the institutions of the neoliberal Regime II have done the same by consistently pursuing a target of price stability in an environment of wage stagnation and rising debt levels driven by the MR itself (Streeck, 2014).

BUILDING A FRAGILE LOW-INFLATION REGIME

The US federal funds rate peaked at 20 percent in March 1980 after Paul Volcker’s Federal Reserve’s determined response to root out the economy’s inflationary spiral. At the time of writing, it sits at 0.75 percent. The yield on 10-year US Treasury Bills, the bedrock asset of global

liquidity, tells a similar story: it fell from 15.82 percent in 1981 to just over 2.40 percent today. Similar declines can be mapped across all of the OECD countries and across all the major financial market indices.⁴⁰ Over the period from 1980 to today, a great deal has happened to drive these indices so low. For our purposes, however, four main institutional changes have occurred that collectively first constituted, and would subsequently undermine, in the manner described above, the core institutional pillars of Regime II.

The first was the deregulation of finance and the consequent rise of capital mobility. While a significant amount of scholarly attention has been paid to the consequences of international capital mobility, and globalization more broadly, less attention has been paid to the consequences of deregulating banks in the context of very high real interest rates.⁴¹ Banks instantly became very profitable, but as financial markets integrated and inflation was wrung out of the system, the spread between the risk-free asset (the US 10-year Treasury Bond) and the effective real interest rate steadily declined. Money thus became much cheaper and more plentiful, which caused banks to chase riskier returns to maintain profitability, and crucially, to increase their leverage to keep making money on that declining spread (Blyth, 2015a). Financial assets to GDP skyrocketed across the system while the ability of states to bail those systems was undermined (Blyth, 2015a). Turbocharging this was the demand for safe assets by savers in emerging economies, which produced a shadow banking system larger than the formal banking system (Helgadottir, 2016). As such, the stage was set for the crisis of 2008 once liquidity in this hyper-levered system evaporated.⁴²

The second institutional change is the supply chain revolution and its effects on labor. As British journalist and broadcaster Paul Mason (2015) recently remarked – following the insights of Russian economist Nikolai Kondratieff – capitalism may have 80-year cycles of innovation, rollout, absorption and redundancy regarding technological change. However, what makes this period different is that labor can no longer bargain for its share of the overall product (Mason, 2015). In all prior eras, and especially during Regime I, labor and capital were both locally organized and locally vulnerable. When capitalism hit a downturn, capital's first-best strategy was to squeeze labor to preserve profits. However, given this mutual vulnerability, capital could only squeeze labor so far before strikes and social disruption took their toll, or the state stepped in. Capital in all prior regimes, therefore, faced an institutional limit to how much they could squeeze labor, and had to instead innovate its way back to profitability, hence the crucial role of technological long cycles as identified by Kondratieff in sustaining capitalism.

But as Mason points out, this time it is different (Mason, 2015, p. 78). In Regime II, labor stayed local but capital went global via financial

liberalization and the supply chain revolution, with the result that the ability of labor to bargain with capital at home collapsed (Mason, 2015, pp. 87–94). This is not just the case with American manufacturing moving to Asia. It is also the case within Europe, as high-cost countries in the West battle with low-cost countries in the East for investment and jobs, and within the United States itself as capital moves to ‘right to work’ states, further expanding profits at the expense of wages.

The third major institutional change was the rise of independent central banks and the shift to monetary policy dominance (Johnson, 2016; McNamara, 2002). As the literature advocating for this shift in policy and authority clearly stated, inflation is a time-inconsistency problem endogenous to democracy (Posen, 1995, 1998). As such, fiscal policy in a Lucas-type world cannot work, so the stress needs to be on autonomous monetary policy; specifically, the fight against inflation must take priority. But the problem is that sustaining a fight against a historically unprecedented inflation for many years after it has long since abated is the creation of another massive volatility constraint that entrains the system still further (Taleb and Blyth, 2011). In sum, collapsing yields, mounting leverage, weak labor and the spread of independent central banks all combined to push further down on prices and rates while creating a volatility suppressant in the form of supporting asset prices through continual interest rate cuts (the ‘Greenspan put’), whenever the economy hit a bump in the road, which further increased the already tight coupling in the system.

The fourth critical change has been, and continues to be, the effect of ageing populations across the world. The whole world is getting older, and old people in the OECD own 80 percent of all financial assets and they do not spend enough (Tracey and Fels, 2016). In the rich countries, such over-saving lowers consumption and pushes rates still further down. In the developing world, especially in Asia, when such over-saving cannot find a domestic outlet, it must be exported abroad, which pushes global interest rates further down (Bernanke, 2005). Old people also tend to live on fixed pension incomes, are twice as much likely to vote as young people, and are extremely inflation averse, all of which pushes down rates and keeps the real value of debt high for the creditors (Vlandas, 2016).

The combined effect of these four sets of institutional changes that became, once again, increasingly coupled and entrained over time, was to produce a world just before the crisis of 2008 where wages had been stagnant, if not declining, for large parts of the developed world’s labor force for two decades, while the returns to the old and the financial sector skyrocketed. For the rest of the population so affected, the only way to sustain consumption when real wages were stagnant and occupational security was evaporating, was to borrow more, which they did with abandon. In 1996, UK and US household debt as a percentage of disposable income stood at 100 percent and 96 percent, respectively.

By 2006, the same metric stood at 168 percent and 143 percent, respectively. By 2015, after the crisis, it still stands at 150 percent and 112 percent, respectively, and is once again on the rise.⁴³ Similar trends can be mapped across the rest of the OECD.⁴⁴

Furthermore, the policy response to the 2008 financial crisis has only exacerbated these trends. Policies such as Quantitative Easing (QE) and bailouts for too-big-to-fail systemic banks boosted returns to asset holders while pro-cyclical austerity policies boosted unemployment and suppressed wages still further, skewing outcomes once again.⁴⁵ Perhaps most important, since the crisis of 2008 the world's major central banks have pumped around \$13 trillion dollars into the global economy and yet there is low inflation everywhere, with the recent pick up in Europe being wholly attributable to the effects of currency depreciation and higher energy prices.⁴⁶ Unsurprisingly, European sovereign bonds worth billions of euros now have negative yields and, nudged from the US Federal Reserve apart, interest rates are still at historic lows despite all these increasingly ineffective interventions. In sum, we have created a Regime II in which deflation, or at least sustained low inflation coupled with low wage growth, is the 'new normal' and where interventions to steady the ship after the crisis of 2008 have produced further coupling, more distortions and further fragility. This has serious political consequences, which links the financial crisis of 2008 – when leverage collapsed and the banks were bailed out – to the current rise of global populism.

FROM THE FINANCIAL CRISIS TO THE RISE OF POPULISM IN A LOW-INFLATION WORLD

Unlike periods of sustained inflation, which constitutes a tax on creditors, deflations create a 'second-best' problem for everyone, regardless of the assets they hold. For example, should investors invest today, or wait until prices fall further? Should labor accept a lower wage today, knowing that prices will fall tomorrow, or hold out for more (if they can)? In the aggregate, everyone's first best action in a low-inflation/low-wage world leads to the second-best outcomes in terms of lower investment and growth as well as lower consumption. But crucially for understanding the dynamics of Regime II post-2008, deflation increases the value of debt but undermines the ability of debtors to pay it back, and all in an environment of wage stagnation and already record levels of debt.

The politics of this asymmetry produces the anti-creditor pro-debtor political coalitions that have been systematically eating away at mainstream center-left and center-right party vote shares since the crisis. Seen in this way, *Syriza* in Greece, the *Front National* in France, *Sinn Féin* in Ireland, *UKIP* in the UK, the *PVV* in the Netherlands, the *SNP* in Scotland, the *AfD* in Germany, *FPÖ* in Austria, *Fidesz* in Hungary, *PiS* in Poland,

Podemos in Spain, the *Five Star Movement* in Italy, the (*True*) *Finns Party* in Finland, the *Swedish Democrats* in Sweden, and even the primary success of Bernie Sanders and the election of Donald Trump in the United States are then more similar than different (Blyth, 2015b). They are all, regardless of left or right political stances, and notwithstanding their very different approaches to immigration, at base anti-creditor, anti-market, national-populist reactions. Put simply, large numbers of wage earners now have too much debt in an environment where wages cannot rise fast enough to reduce those debts. And while asset holders got bailed out, wage earners got austerity cuts (Blyth, 2015a; Matthijs, 2016b).

Ten years out from the crisis, what we see today is a political reaction to the reversal of power between creditors and debtors that was produced by the tightly coupled institutions that lay at the heart of Regime II. In a replay of the end of Regime I, the anti-inflationary regime of the past 30 years undermined itself endogenously as yields compressed, leverage exploded, policy band aids such as QE were applied, and creditors continued to demand repayment of debts at all costs. Germany versus Greece in the Eurozone is just one version of how this plays out.⁴⁷ Millennials versus Boomers (who hold most of the assets) in the Anglo-Saxon world is another, as is the 'American Heartland' versus the 'Coastal Elites' in the United States. But it is the global macroeconomy that is driving all this. The debtors cannot pay. But politically, it empowers them, since they still have the right to vote.

The traditional parties of the center-left and the center-right – the builders of this neoliberal anti-inflationary order – get their vote share eaten away by populists since they are correctly identified by debtors as the political backers of those demanding repayment in an already unequal system, and all from those with the least assets.⁴⁸ This produces anti-creditor, pro-debtor coalitions-in-waiting that are ripe for the picking by insurgents and opportunists of both the left and the right, which is exactly what has happened, as laid out in Table 2. Every macroeconomic regime inevitably creates winners and losers. In Regime I, it was labor who won as wages rose, until the Regime's very success undermined itself. In Regime II it was capital who won, and who continues to win, even as the institutions that make sure that $R > G$ (i.e. that the return to capital, R , outpaces the overall rate of growth in income, G) in Piketty's (2013) terms, become more entrained, more fragile and more contested.

CONCLUSIONS AND REFLECTIONS

In closing, we try to summarize in Table 3 our effort to reincorporate the global macroeconomy into the mainstream of IPE. Our main point is that macroeconomic regimes inevitably move over time from 'loose coupling' – interactions with buffers where shocks are relatively hard to

Table 2. The political consequences of Regime II post-2008.

Losers	Winners
<p>Creditors/owners of capital: Bailouts politically toxic. Real value of debt goes up but ability to collect goes down.</p> <p>Center left and center right parties: Overall vote share collapsing with attendant ‘crisis of democratic legitimacy’ De-legitimization of neoliberal policies (e.g. ‘centrist’ social democratic, liberal, and Christian democratic parties across Europe, establishment Democrats and Republicans in the United States)</p>	<p>Debtors/workers (owners of labor): Revolt against double squeeze of austerity. No longer able and willing to pay, but will vote.</p> <p>Populist and nationalist parties and movements of both the left and the right: Anti-austerity, anti-elite/creditor, [anti-immigrant*], and anti-globalization coalitions. Common narrative: ‘taking back control’ (e.g. Brexit, Farage, Le Pen, Wilders, Corbyn, AfD, Orbán, Kaczyński, Trump, Sanders, M5S, Syriza, Podemos, Scottish SNP, etc.)</p>

Source: Authors (adapted from Blyth (2015a, Table 3, p. 219)).

*Anti-immigration platforms are not a common characteristic of left-wing populist parties and movements. Corbyn, Sanders, Podemos, Syriza, and the SNP all share broadly pro-immigration platforms, in contrast with right-wing populists. This is the distinguishing feature of left-populism.

transmit – to ‘tight coupling’ – interactions without buffers where it is easier for shocks to be transmitted. At the same time, the evolution from Regime I to Regime II has also been characterized from a regime with both low complexity and low entrainment (when markets were mainly national and asynchronous) to a regime with both higher complexity and higher entrainment (when markets became mostly globalized and highly correlated). Our principal observation is that both regimes, starting out from very different policy targets, had basically built in the institutional fragilities endogenously as they would gradually morph from ‘loosely’ to ‘tightly’ coupled regime complexes (Table 3).

To be clear, this is an exercise in theory building where our analytical framework, which tries to endogenize both periods of relative stability (loosely coupled MRs) and political turmoil (tightly coupled MRs), is only one way to rethink the macro-influences of IPE. We do not wish to suggest this is a ‘winner takes all’ explanation, nor does it mean we disavow any earlier work that stressed other variables. Rather, we see this explanation as complimentary rather than competing.⁴⁹

We do want to stress, however, that we think IPE misses a lot by not recognizing how the macro-regime directly influences the micro-foundations of the economy and the outcomes we observe. Clearly, workers and capital owners, as well as creditors and debtors, thought very differently of their political and economic interests during the periods of the *trente*

Table 3. Institutional complexity, coupling, and entrainment.

	Loose Coupling (Periods of Relative Stability)	Tight Coupling (Periods of Political Turmoil)
Low complexity/low entrainment e.g. economies and markets mainly 'national'	Linear interactions with buffers Hard to transmit shocks Example: Regime I prior to crisis of 1970s (<i>'les trente glorieuses'</i>)	Linear interactions without buffers Easier to transmit shocks but no necessary multiplication of impulse Example: 1970s inflation and end of Regime I
High complexity/high entrainment e.g. economies and markets mainly 'global'	Nonlinear interactions with buffers Unexpected outcomes, lower volatility, but with unobservable risk building and hidden correlation Example: Regime II prior to crash of 2007– 2008 (the 'neoliberal era')	Nonlinear interactions, no buffers Strong convexities, serial correlation across systems, impulse multiplied Example: The GFC of 2008 and 2016 Rise of Populism

Source: Authors (adapted from Guillen (2015) and Perrow (1984)).

glorieuses and during the neoliberal era. Thinking systemically allows us to see how their interests, and their ideas about their interests, were directly determined by the pathologies of the reigning macroeconomic regime. This is something a research program like OEP may do well to keep in mind as it thinks through how the various factors of production in the economy define their interests, before those get mediated by domestic institutions and shaped by international bargaining.

Others have already started to show the way. In IPE, the 'New Interdependence Approach' (NIA), for example, has emphasized a new set of causal structural relations in IPE based on 'rule overlap' and 'asymmetric power' between different national jurisdictions, which can lead to both clashes and opportunities (Farrell and Newman 2016). The NIA is also a systemic theory insofar as it stresses how such factors have consequences for how agents perceive and pursue their interests. But we wish to go further and stress how in building new theory, we should be much more aware of how the macroeconomic regime we happen to live in disproportionately shapes how we see the state of the IPE. For example, modern theories of European integration are a product of a period (and a macroeconomic regime) where central bank independence as well as free flows of labor and capital were taken for granted. They lose some of their explanatory power once the MR that constituted those institutions and flows is put under severe stress.

Finally, and empirically, if this theory does 'explain more with less', in that it allows us to understand 2008 and the current populist moment within one frame, does it follow that we are currently in transition from the neoliberal MR II to a neo-nationalist MR III? It is obviously too early to tell, but to simply dismiss the advent of Brexit and the ascent of Trump as a mere blip in an evolving MR II would be dangerous. The Trump administration has made it clear that they do not want to be constrained by the international institutions its postwar predecessors built and are no longer willing to provide the global public goods that saved the international system after 2008 (Drezner, 2014). For better or worse, US foreign economic policy over the next four years will be guided by the principle of 'America First'. On the one hand, Trump's administration seems keen on keeping the *laissez-faire* part of neoliberalism, as they pursue a traditional small government and pro-business agenda by getting rid of Obamacare, a rollback of Dodd-Frank, and a series of planned tax cuts and deregulating measures. On the other hand, Trump's White House seems determined to curtail the *laissez-passer* part of neoliberalism, by putting a halt to liberal immigration policies and renegotiating a whole series of trade deals 'in the US interest'. Whether that is an actual change of MR or a change within the existing MR remains to be seen. The analysis presented here strongly suggests that a change of macroeconomic regime is taking place.

At the time of writing, the Conservative government of Theresa May in the United Kingdom is getting ready to trigger Article 50 of the EU's Lisbon Treaty, which will start formal divorce negotiations between the UK and the rest of the EU (Matthijs, 2017). Either the EU-27 make the process relatively smooth and risk that other members follow in the UK's footsteps, which could lead to the unraveling of the process of EU integration. Or they drive a relatively hard bargain with the UK that could trigger another financial crisis that has the potential of bringing back the euro crisis, as the single currency still lacks the panoply of institutions to successfully absorb a future shock (Matthijs and Blyth, 2015). Above all, and also at the time of writing, the elections in France await us.

Very few people predicted either the advent of Brexit or the rise of Trump. If they had looked at the fragilities that were built into MR II they may have seen the moment coming. But despite the supposed 'resilience' of neoliberal ideas (Schmidt and Thatcher, 2013; Mirowski, 2013), it is now no longer unthinkable that the neoliberal macroeconomic regime has run its course and that a new, neo-nationalist one will take its place. Karl Polanyi predicted as much around the same time as Michał Kalecki did (Polanyi, 1944). But the one thing we do know for sure is this: just like the previous regime, the next regime will have its own vulnerabilities built into it from the very beginning.

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DISCLOSURE STATEMENT

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NOTES

1. See *The Guardian*, "Pound slumps to 31-year low following Brexit vote," June 24, 2016. Online available at: <https://www.theguardian.com/business/2016/jun/23/british-pound-given-boost-by-projected-remain-win-in-eu-referendum>.
2. See *The New York Times*' Josh Katz, "Who Will Be President?" *The Upshot*, November 8, 2016. Online available at: https://www.nytimes.com/interactive/2016/upshot/presidential-polls-forecast.html?_r=0. See also *New York Times* Live Presidential Forecast at: <http://www.nytimes.com/elections/forecast/president>.

3. There is an ongoing debate in academia, as well as in the mainstream quality press, whether the main drivers of both the Brexit referendum and the victory of Donald Trump were either 'socioeconomic' or 'cultural-identity' based. See, for example, Inglehart and Norris (2016). This piece suggests primacy for the former perspective.
4. The GATT/WTO's multilateral trade rounds had taken progressively longer to conclude: the Kennedy Round had taken almost four years to complete (1964–1967), the Tokyo Round more than six years (1973–1979), and the Uruguay Round more than eight years (1986–1994). Therefore, most international trade experts expected the Doha Round to take maybe up to 10 years to be successfully concluded, given the increased complexity of the negotiations. Launched in the autumn of 2001, the talks were originally scheduled to conclude in 2005. But the 'Doha Development Agenda' gained new momentum after the annual meeting of the World Economic Forum in Davos in January 2007. Pascal Lamy, the Director-General of the WTO, felt confident to declare a few days later that 'the political conditions are now more favorable for the conclusion of the Round than they have been for a long time'. See online at https://www.wto.org/english/news_e/news07_e/gc_dg_stat_7feb07_e.htm.
5. For an overview, see, for example, Eichengreen (2006), Kirshner (2008), Helleiner (2008) and Helleiner and Kirshner (2009).
6. For the original thesis of the 'Great Moderation', see Bernanke (2004).
7. See, for example, the chapters by David Calleo, and especially by Marcello de Cecco, in Helleiner and Kirshner (2009). For a more skeptical view of the euro's future, see Matthijs and Blyth (2015).
8. See Moravcsik (1998) and Dinan (2010); for a critique, see Parsons and Matthijs (2015).
9. Total IMF credit outstanding for all members reached an all-time low of SDR 9.8 billion by December 31, 2007. Source: IMF (2017), online available at <https://www.imf.org/external/np/fin/tad/extcred1.aspx>.
10. See Nadkarni and Noonan (2012). For the BRICs' relationship to the Washington Consensus, see Blyth and Ban (2013).
11. See OECD (2007), *International Migration Outlook* (Paris). Online available at: <http://www.oecd.org/els/mig/internationalmigrationoutlook2007.htm>.
12. President Trump later seemed to backtrack, calling the EU 'wonderful' and saying that he was 'totally in favor of it'. See Reuters, 24 February 2017. Online available at: <http://www.reuters.com/article/us-usa-trump-eu-idUSKBN1631PM>.
13. See Caporaso and Levine (1992), Chapter 6, for an overview. See also Cohen (2008). Note that Marxist IPE theorists, out of the mainstream, especially in the United States, are not so blind to global macro-events and have a definite theory of the global macroeconomy. See, for example, Cox (1986). Their focus also tends to be a 'systemic' one where internal contradictions drive collapses. We differ insofar as we are neither historical materialists nor class theorists per se.
14. Compare Frieden (1991) and Frieden and Rogowski (1996), with Mackenzie (2005).
15. For purposes of space, we concentrate on OEP-type approaches, but intend our critique to be broader in scope than a single school. Also, we do acknowledge how 'macro' approaches were always at the forefront in the IPE literature on the Global South – unlike the Global North – probably due to the existence of systemic debt crisis. See, for example, Wallerstein (2004) and Hardie (2011).

16. Of course, there were exceptions. For an overview of them, see Helleiner (2011).
17. McNamara (2009, p. 81) feared that: 'If the real world of IPE is overtaken by future challenges in the world economy, it is not clear that a top flight, highly productive American IPE academy that has rewarded a single narrow orthodoxy will be prepared to respond'. See also Keohane (2009).
18. Oatley's sentiments were echoed by a recent review of the state of the IPE of money for RIPE by Jerry Cohen (2016). Cohen (2016, p. 1) stated that 'research has become increasingly insular and introspective, largely detached from what goes on in the real world'. Cohen partly blamed what he called the 'steep decline of interest in broader systemic issues'.
19. Again, see Helleiner (2011) for exceptions. See also Drezner (2014), Kirshner (2014) and Helleiner (2014) for 'systemic' IPE accounts of the GFC of 2007/2008 and subsequent 'Great Recession'.
20. We note later in this article that the 'New Interdependence Approach' is different, as it does take into account interdependence, cross-national layering and the shifting system-level boundaries of political contestation. See Farrell and Newman (2014, 2015, 2016, Forthcoming), as well as Moschella (2016).
21. A notable recent exception here is the work by Gabor and Ban (2015) on repo markets, as well as the 2016 special issue on shadow banking in *RIPE*. See Ban, Seabrooke and Freitas (2016), Gabor (2016) and Helgadóttir (2016).
22. For an overview of the 'regulation school,' see Boyer (1990). See also Jessop and Sum (2006), especially part I. The original approach to the 'varieties of capitalism' school can be found in Hall and Soskice (2001).
23. For a neo-Polanyian approach to capitalist 'diversity', as opposed to homogenizing responses to globalization à la Thomas Friedman, see Bohle and Greskovits (2012).
24. Keohane and Milner (eds.) (1996).
25. Friedman (2000), pp. 101–11.
26. See, for example, Keohane and Milner (eds.) (1996).
27. Meidner (1980), p. 349.
28. Blyth (2002), pp. 79–84.
29. Labour Party (UK) (1945).
30. See Blyth (2002) and Matthijs (2011).
31. Our contribution parallels the recent work by Baccaro and Pontusson (2016) in their rethinking of comparative political economy (CPE). They too build on Keynes' insights, and especially on Kalecki's, focusing upon the macro-economic effects of different 'Growth Models' and their derivation. Where we differ is that we emphasize not what such models produce, but how they change over time endogenously and systemically. See Baccaro and Pontusson (2016). For a critique of their 'growth models' approach, see Hope and Soskice (2016).
32. For example, Thelen (2004).
33. See Hall (1986), Esping-Andersen (1990).
34. See also Baccaro and Pontusson (2016), pp. 181–84.
35. See Blyth (2002), Matthijs (2011) and Widmaier (2016), among many others.
36. According to the *New Palgrave Dictionary of Economics*, the Lucas critique 'criticizes using estimated statistical relationships from past data to forecast the effects of adopting a new policy, because the estimated regression coefficients are not invariant but will change along with agents' decision rules in response to a new policy. A classic example of this fallacy was the erroneous

- inference that a regression of inflation on unemployment (the Phillips curve) represented a structural trade-off for policy to exploit'. See Ljungqvist (2008).
37. As quoted in Goodhart (1981), p. 116. The original paper appeared in 1975 under the *Papers in Monetary Economics* Series of the Reserve Bank of Australia.
 38. On tight coupling, see Perrow (1984), Guillen (2015), Bookstaber (2007) and Taleb (2014). 'Entrainment' is a general property of nonlinear systems where second-order interactions among units create unintended synchronization. The classic example is pendulum clocks on a wall where the vibrations from the pendulums cause them to synch together regardless of their starting points. It is best explained visually, as in this YouTube video: <https://www.youtube.com/watch?v=hRWzhQbgBew>.
 39. This account has some similarities to the endogenous institutional change literature associated with Thelen and Mahoney (eds.) (2009) in terms of objectives, but differs fundamentally in terms of its explanatory apparatus. Rather than view 'change agents', 'layering', 'drift' and other such factors as explanations of change, this account sees such factors as descriptions of change. Ban (2016) applies 'editing' and 'grafting' to ideas rather than institutions. His key point is that neoliberal ideas won out and then managed to survive multiple shocks because there was more capital behind those ideas, as well as institutional access, and later on, professional status.
 40. Bloomberg (2017)
 41. For exceptions, see Krippner (2012) and Verdier (2009). See also Fuller (2016).
 42. See also Gabor and Ban (2015), Gabor (2016), Ban, Seabrooke and Freitas (2016), and Helgadottir (2016).
 43. OECD (2017), Household Debt. Online available at: <https://data.oecd.org/hha/household-debt.htm>
 44. On households, the process of 'financialization,' and policy responses in Britain, France and Germany, see Fuller (2016). See also Baccaro and Pontusson (2016), p. 193.
 45. See Blyth (2015a), Matthijs (2016b) and Standard and Poor (2016).
 46. See Deutsche Welle, "Eurozone Inflation Exceeds ECB Target," March 3rd 2017, available at: <http://www.dw.com/en/eurozone-inflation-exceeds-ecb-target/a-37778774>. For a supportive argument regarding the disconnect between money and inflation, see Hung and Thompson (2016).
 47. See Matthijs and McNamara (2015).
 48. On democracy without solidarity and political dysfunction in hard times, see Jones and Matthijs (2017).
 49. For example, Widmaier (2016) offers a complimentary ideational explanation that in many ways acts as the constructivist micro-foundations for this macro-institutional framework.

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