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ARE HARD TIMES THE MOTHER OF INVENTION?

Efficiency & Legitimacy of Crisis-born European Modes of Governance

ROUNDTABLE 2 BACKGROUND NOTE 1

The Slow-burning crisis in EU economic governance and the Global Debates on Macro-economic policies: Embedding or Disembedding Tendencies in EU Economic Governance

BY Dr. Maja Savevska
Université Libre de Bruxelles

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RESEARCH SUMMARY

Recent years have witnessed an increase in the accounts that resort to Polanyi when explaining the socio-economic restructuring of the European Union. Contrary to the critical political economy literature (Apeldoorn, Drahakoupil and Horn, 2008; Overbeek and van Apeldoorn, 2012; Höpner and Schäfer, 2010) that identifies a never-ending marketisation in the EU project that they deem to be disembedded, some scholars (Caporaso and Tarrow, 2009) proclaim the return of Polanyi to Brussels. Given that the concept of disembeddedness has gained traction within the scholarship, which often presents it as an all-or-nothing phenomenon, I find the need for conceptual clarification pertinent. My research tries to weigh into this debate by proposing a new take on the practice of conceptualizing dis/embeddedness as an all-or-nothing phenomena. By going back to Polanyi's work and the ever-growing Polanyian scholarship, I recuperate a critical reading of Polanyi that goes beyond his always embedded thesis by redefining dis/embeddedness as tendencies. Operationalizing the concepts as tendencies helps us avoid functionalist swing-like representations. Until now scholars has understood Polanyi's concepts in pendular terms i.e. social change is a function of shifts between two super-states (embedded vs. disembedded). Polanyi on the other hand talked about the simultaneous emergence of the disembedding and the embedding tendencies which presuppose each other. Thus, it is not useful to think about the EU as being either embedded or disembedded. Postulating the matter in terms of tendencies also avoids the conceptual contradiction present in Polanyi's theory; namely, his portrayal of nineteenth century England as disembedded and his thesis about the always embedded market economy (Block, 2014).

By examining the policy output from the new post-crisis economic governance through the lens of dis/embedding tendencies, this research argues that the EU is characterized by extension of both the liberalizing disembedding tendency and the re-embedding tendency, which aims to deal with the socio-environmental dislocations created by the market-making processes. Unlike the voices who asserted that the swinging of the pendulum from disembeddedness to embeddedness is upon us (Gill, 2009), this research claims that the crisis has not heralded an end to the market society. Polanyi's (1944) double movement is predicated on contingent forces rather than automatic oscillations, thus one should avoid imputing transformative potential to the crisis when no countermovement has coalesced (Dale, 2010). Notwithstanding the short return to direct state intervention in the name of saving the banks, the institutional separation of the market from societal regulation has remained intact. If anything the crisis has further entrenched the politics of austerity (Blyth, 2013; Gamble, 2009; Krugman, 2012; Palley, 2013), which, in turn, heightens the disembedding tendency.

Parallel to the intensified disembedding tendency, the re-embedding tendency is experiencing heightened revival. However, we have a fundamental reconfiguration of the social protection principle which underpins the re-embedding tendency. Namely, we have marketization of the re-embedding tendency itself. Unlike the post-war welfare model which provided social provisions in the form of direct transfers and services, nowadays we are witnessing a turn towards social protection as an investment (Vandenbroucke et al., 2011). If welfare protection previously entailed passive support through redistribution, the new policies evident in the new Social Investment Pact (COM/2013/83) ensure inclusion through active labor market policies. Social inclusion, which refers to the ability to participate in the market, is reduced to labor market inclusion, and as such it can be achieved by equipping people with the right skills, i.e. increasing their employability. Rather than focusing on eradicating growing inequality, the new paradigm shifts the focus onto social inclusion by creating equal opportunities. The new social provisions require the constitution of subjectivities in the image of the market by aiming to increase the productive potential of the labor force rather than securing other human needs. The market is projected as the most natural and efficient way of delivering social wellbeing for the workforce. Social policy is merely there to aid the construction of the entrepreneurial disposition of the new neoliberal subjects.

We have a paradoxical situation wherein the socio-environmental measures, despite their protective invocation, are predicated on deepened commodification. Rather than trying to correct the dislocations by decreasing the dependency on the market, the new protection furthers the commodification of non-economic relations. By the commodification of socio-environmental protection, the market rationality is posited as the organizing principle in fields traditionally insulated from the vicissitudes of the marker. Thus, rather than conflating embeddedness with social protection, we should adopt a critical interpretation of Polanyi (1977) that puts emphasis on the limit of the progressive interpretation of the socio-environmental protection when it occurs in the context of continued commodification.

Thus, by using Polanyi's (1977) sustentative understanding of the economy, this research tries to problematise the extension of the market form in previously unaffected domains because in doing so it turns the central issue of provisioning, into one of scarce-resource.

In the aftermath of the Great Recession, we can identify a continuation to the commitment to a type of social Europe centred on the new social paradigm predicated on the idea that social policy represents an investment with market returns. According to the historical institutionalism literature on critical junctures, a paradigm shift, i.e. third-order change, occurs when we have change in the underlying goals that guide policies (Schmidt, 2008). And this is exactly what is happening with social policy since Lisbon and continues with even greater fervour under the new European Semester, whereby the very essence of social policy is redefined to serve economic growth purpose, rather than solely providing social protection from the market forces. What has changed since Lisbon, is the existence of a more effective macro-economic surveillance system that is capable of putting into action the desired structural reforms, a surveillance mechanism that exceeds even the IMF's macro-economic monitoring prerogatives (Moschella, 2015).

If we look at the 2020 Strategy, which is implemented and promoted via the European Semester, we see a turn towards an active welfare state regime centred on active labour market policies, flexible labour laws, active aging, up-skilling of the labour force and commitment to lifelong learning. Social investment is justified by the fact that the knowledge-based economy with its growth and jobs imperative requires investment in a skilled workforce (COM/2010/2020). The objective of the new policy is to enable to workforce to adjust to the needs of the globalised economy. The modernisation of the European social models entails the expansion of the logic of the market, whereby the social policies are considered to be input in good economic governance. Contrary to the conventional social protection measures, the new social investment policy is concerned with increasing human capital by up-skilling the workforce, providing incentives to work, and promoting longer working lives, thereby enabling capital to exploit the marginal productivity of older workers.

This research problematizes the fact that what is proposed as a solution - more market-based instruments - under the new socio-environmental paradigm originates from the epistemological position that generates the problem of fiscal constraints in the first place. By turning the prevention of exclusion into an input in the production process and by justifying social protection in monetary terms, the social protection is itself being commodified, i.e. pursued for its economic returns. Polanyi's (1944) concept of fictitious commodities proves pertinent here. He identified land, labor and money as fictitious commodities because their production is not organized for sale. Land is another word for nature, labor is just one aspect of human nature, and money is not a commodity, or means of exchange, but rather purchasing power whose existence depends on central banking. Any attempt to create a free market for these fictitious commodities tends to produce dislocations (Polanyi, 1944: 187). In a similar way, by turning social protection into a fictitious commodity, we run the risk of reducing protection to its monetary utility. By focusing on the economic benefits of social provisions, we lose sight of the much broader objective of guaranteeing people's livelihoods (Polanyi, 1977).

The disembeddedness of the euro from a Delorsean version of social Europe is visible not only in the actual efforts of disseminating a new social paradigm predicated on marketisation, but also in the measures not implemented in the aftermath of the financial crisis. The non-action of the political authorities speaks great volumes about the rootedness of the idea of the self-regulating market, even more than the policies that actively institute the idea itself. The lack of public sector investment during the biggest economic slump in recent decades is indicative of the 'politics of inaction'. The 'politics of inaction' sheds perfect light on the shallowness of the social cohesion discourse of the EU. At the policy level we witness a paradox whereby the EU has singled out the labor market as the best guarantor of social inclusion, all the while, at best it is refraining itself from measures to create jobs and at worst it is pursuing austerity policies that damage the wellbeing of the workforce. The road to embedded European economy is not via deflationary macro-economic policy which has failed to bring many Eurozone countries to their pre-crisis output levels, even countries like Finland and not just the so called PIIGS periphery. The fabricated idea of skill shortages distracts us from talking about alternative ways of fixing the dire social calamity that the EU is facing. The up-skilling myth, the cornerstone of the social investment package, ignores any direct damage inflicted upon the labor market thanks to the structural problems of the Economic and Monetary Union (EMU), which places price stability, and not full employment as its primary objective. The problem with social policy is not only that it is increasingly marketised, but also that it is constrained by the existing economic and monetary arrangements, which even the proponents of the Social Investment Pact, such as Vandenbroucke et al., (2011), agree is counterproductive.

PREVELANT RESEARCH QUESTIONS

Based on ongoing research (Braun 2016), this section will concentrate on the ECB's emergence as the most outspoken advocate of securitization in the policy landscape of the euro area. Indeed, besides UK interests, ECB's embracing of securitization might be regarded as a key causal factor, without which Capital Markets Union – and thus the push for a more market-based financial system in Europe – may never have seen the light of day.

After the failure of Lehman Brothers, the ECB received large volumes of asset-backed securities (ABSs) as collateral in its refinancing operations with banks. Since then, the ECB has done more than any industry lobby group or political actor to revive the securitization market. Crucially, the ECB has acted as chief cheerleader of securitization not due to regulatory capture, but in order to improve the conditions for the implementation and transmission of its monetary policy stance. With regard to implementation, the ECB faced a problem of risk management, as it found itself unable to value the ABSs it had taken onto its balance sheet due to a lack of data on the underlying loans.

Although some scholars argue that in the world of economics we are in a state of epistemic ambivalence, which in turn, calls for greater flexibility of the rules (Best, 2005), the post-crisis reforms purport to resolve that ambiguity by subjecting member states' economies to scrutiny never seen before. The reforms aim to enforce and make derogation from the revised Stability and Growth Pact's rules less likely. To that end, a routinized system of surveillance, data collection and dissemination was established under the European Semester. Contrary to the evidence that sometimes ambiguities can be constructive, the post-crisis reforms tightened the policy maneuverability of member states by promoting a 'one size fits all' strategy deemed fit for all the members irrespective of their institutional diversities (Schmidt, 2015). The reforms, which inaugurated a single monolithic prescription for stabilizing the domestic economies, have bestowed the EU with a neo-viceroy authority over member states' budgetary and macro-economic policies.

Notwithstanding the fact that the need for convergence and reduction of imbalances among member states necessitated a more centralized, extensive and intrusive surveillance mechanism, there are some normative concerns that need to be addressed. Thus, scholars like Dawson (2015) and Schmidt (2015) have emphasized the need for a new mechanism of political and legal accountability that can restore legitimacy in the governance system. The new European Semester (ES) policy cycle with its 'ruling by numbers' method has inaugurated a turn towards greater intervention into member states' domestic fiscal, labor, industrial and social policies. The post-crisis reforms have increased the surveillance capacity of the Commission, (Crespy and Menz, 2015) and few other working groups, and how they do so is consequential for the distribution of power in the union. And just like in the case of the IMF's incremental expansion of its prerogatives, a question imposes itself whether this new expansion in the Commission's mission might be the 'result, not of organizational success,' but of persistent failure to stabilize the economies of member states' (Barnett and Finnemore, 2004:45).

Politics exists not only in the choice to have more restrictive budgetary and macro-economic rules, but also in the acts of interpreting the data. The seemingly neutral reporting through the evaluative scoreboard of numerous qualitative and quantitative indicators is a knowledge production par excellence. Although the new ES represents a beefed-up version of the Open Method of Coordination (OMC), which was more peer-review driven contrary to the ES which is driven by the Commission, it performs a similar epistemic function as the OMC in that it aims to shape the normative basis of what constitutes a legitimate macro-economic policy. Through the exercise of surveillance which is an example of technology of power, the Commission is able to normalize certain practices as appropriate, while delegitimizing others. Through the ES surveillance member states are self-disciplined to conform to the normality paradigm of fiscal contraction which is projected as the best welfare-maximizing policy.

POLICY ASSESSMENT

In the Future of the Euro, Matthijs and Blyth (2015) claim that current problems in the Eurozone stems from the lack of its embeddedness in three forgotten unions: a) financial union which entails more than mere banking union, b) fiscal union which entails not only supranational economic governance but also issuance of common debt instruments, and c) political union with sufficient democratic legitimacy.

The debates on the Embedded Currency Area theory led by McNamara (2015) have brought fresh perspective on the euro crisis and my research builds on these efforts, but claims that it is not enough to embed the EMU in a scaled up financial, fiscal and political union. For the euro problems to disappear we need to embed the single market and the euro currency in social Europe where the market rationality would not crowd-out any other social considerations. The mere scaling up of prerogatives at the supranational level would not in itself resolve the social malaise that needs to be addressed by pro-growth policy solutions that are capable of correcting the output legitimacy of the new EU macro-economic governance framework. Rather than ask ourselves if we need more or less Europe, we need to ask what type of Europe we want.

The examination of the latest in-depth reviews (18 country reports in 2016) and the country specific recommendations suggests that we have a continuation of the type of pro-market liberal conception of social Europe inaugurated with the Lisbon Agenda that represents a fundamental departure from Delors' original idea of embedding the single market in social regulation. Although the impetus given to social policy reforms has never been bigger than in the post-crisis period, the content of the policies promoted is centered on a market-driven transformation. By studying the social policy output from the new European Semester cycle, Crespy and Menz (2015) have identified the entrepreneurial role played by the Commission in furthering pro-market liberalization agenda, rather than re-regulation of social policy. The existing recognition of the importance of social policy is admirable and we should applaud the efforts to address important social concerns, such as structural and youth unemployment, exclusion, homelessness, in-work poverty etc. Yet, we need to subject to greater scrutiny what is promoted as the logical and inevitable solution to the crisis by using frames of no alternatives (McNamara, 2015). Scholars should direct greater efforts at unearthing the problems inherent in the policy prescriptions that purport to solve the many social crises in the union. We need to problematize the structural reforms focused on modernization of the welfare state that consists of fiscally sustainable activation policies and commitment to the flexicurity model, which already has resulted in increase of the flexible contracts and in-work poverty even in countries whose economies have performed well such as Germany (SWD/2016/75).

POLICY SUGGESTIONS

The EU needs to embed the new post-crisis governance method in a truly Jacques Delorsean Social Europe capable of generating output legitimacy. To that end, we need to deconstruct the economizing market rationality inscribed in the new governance framework and adopt instead a Polanyian (1977) substantive understanding of the economy, whose purpose goes well beyond finding the most cost-effective way of allocating insufficient resources. This would require dismantling of the asymmetric burden sharing between the creditor and the debtor countries and reversal of the politics of competitive austerity that is hurting not only the EU member states, but also emerging markets.

Policy makers need to rethink the current socio-environmental paradigm based on market solutions whose epistemological parameters rule out any other political judgments from the decision-making process, except efficiency and budgetary sustainability. Instead of precluding and countering the socio-environmental dislocations created by the market itself, the new pro-market paradigm furthers the marketisation of previously unaffected social and environmental domains. Under the new paradigm, the embedding tendency is marked by the same marketisation dynamic that is typical for the disembedding tendency, which from a Polanyian (1944) perspective represents a fundamental shift that redefines the relationship between market and social regulation.

We need to replace the pro-market socio-environmental paradigm with a paradigm of 'stable expansionism', to use Schmidt's (2015) term. We need to go beyond the rhetoric of 'growth friendly fiscal consolidation' promoted in the latest Annual Growth Survey (COM/2015/690). The re-launching of public investment (Juncker Investment Plan) needs to see policy-makers walk the walk, rather than talk the talk. We need to take seriously ETUC's calls for introducing a quantitative investment target to the order of 2% of the EU's GDP or bigger.

CONTACT

At the Institute for European Studies of the Université Libre de Bruxelles ; 39, av. F.D. Roosevelt B-1050 Brussels - Belgium

M. Johan Robberecht (ENLIGHTEN “Impact and Dissemination” Work Package Lead) : jorobber@ulb.ac.be // T: +32(0)2 650 33 85

& **Ms. Alexia Samuel** (ENLIGHTEN “Impact and Dissemination” Officer): alexia.samuel@ulb.ac.be // T: +32 (0)2 650 49 69

At the Center for the Study of Europe of Boston University ; Bay State Rd, Boston, MA 02215 - United States of America

Ms. Elisabeth Amrien (Manager of the Center for the Study of Europe): edamrien@bu.edu // T: +001 (0) 617-358-0919