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The state and class discipline: European labour market policy after the financial crisis

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Abstract: This paper looks at two related labour market policies that have persisted and even proliferated across Europe both before and after the financial crisis: wage restraint, and punitive workfare programmes. It asks why these policies, despite their weak empirical records, have been so durable. Moving beyond comparative-institutionalist explanations which emphasise institutional stickiness, it draws on Marxist and Kaleckian ideas around the concept of 'class discipline'. It argues that under financialisation, the need for states to implement policies that discipline the working class is intensified, even if these policies do little to enable (and may even counteract) future stability. Wage restraint and punitive active labour market policies are two examples of such measures. Moreover, this disciplinary impetus has subverted and marginalised regulatory labour market institutions, rather than being embedded within them.

Keywords: financialisation, policy systems, wage restraint, active labour market policies, workfare, Marxism

Introduction

Why have neoliberal labour market measures survived the 2008 financial crisis? It cannot be due to their effectiveness as policies. Heterodox economic literature has challenged the policy of wage restraint, finding that declining wage shares have led to a chronic deficiency of aggregate demand, slow growth, high debt and instability in Europe (Stockhammer and Onaran, 2012). Marxist scholarship has designated the current juncture a 'dysfunctional accumulation regime' (Vidal, 2013) which cannot produce stable growth in the long term. Such critiques are echoed by mainstream economists such as Stiglitz (2012) and Piketty (2014) and by social movements and parties in countries such as Greece and Spain. But those seeking to challenge them- such as Greece's former finance minister Yanis Varoufakis (cited in Ovenden, 2015: 163-164)- have apparently been taken by surprise by the rigidity with which European policy elites have stuck to these measures in the face of both academic argument and popular mobilisation.

This paper examines the persistence and proliferation of two specific measures which are key pillars of the pan-European austerity agenda: wage restraint and punitive active labour market policies (ALMPs). These policies, we argue, have three salient points in common. Firstly, they both exercise a disciplinary effect over workers. Secondly, they have both persisted and proliferated throughout Europe despite dubious empirical records. And finally, in proliferating, they have tended to undermine and transfigure existing labour market institutions which have historically mediated the labour-capital relationship.

One explanation for the 'stickiness' of labour market policies comes from comparative institutionalism, the dominant theory in comparative employment relations (Hauptmeier and Vidal 2014). The policy paradigms (Hall, 1993), path dependency (Pierson, 2000) and policy regimes (Campbell and Pedersen, 2014) approaches all suggest that policymakers will not necessarily respond objectively and adaptively to emerging problems, owing to the historical weight of distinct national institutional systems. However, we argue that this literature underestimates the disruptive effects of liberalizing policies on collective bargaining and welfare state institutions, despite empirical evidence of such disruption in Germany (e.g. Doellgast and Greer 2006; Doellgast 2012; Holst 2014; Baccaro and Benassi 2014), which according to comparative institutionalists should have been difficult to reform (e.g. Hall and Soskice 2001). By contrast, we present a view influenced by Marxist and Kaleckian writing, with a particular emphasis on examining how these traditions have interpreted the role of 'financialisation' in European political economy. We are more sceptical of the causal role of institutions in recent labour market policy.

In particular, we focus on the idea of 'class discipline', by which we mean efforts by the state to actively render labour more dependent upon, and less able to challenge, the interests of individual capitalists. For Kalecki (1943), this kind of discipline was an important feature of policymaking in capitalist economies; workers needed to feel the 'fear of the sack' in order to maintain the 'confidence' of business leaders to invest, even if the policies that increase this fear (such as undermining job security) may be destabilising in the long run. We will argue that financialisation intensifies the importance of class discipline in labour market policy, since it leads capital to become more intolerant of institutional frameworks and 'social compacts' (see also Daguerre, 2014; Aglietta, 2000:420) and thus more disruptive of policy systems. Consequently, the tension between short-term disciplinary policies and long-term stabilising ones is heightened under financialisation, and the position of national regulatory institutions is challenged to an extent that is not admitted in comparative institutionalism.

In the following section, we compare comparative institutionalist perspectives on labour market policy with Marx-influenced alternatives. After this, we discuss the role of financialisation, arguing that its consequences tend to conflict with the comparative institutionalist view of institutions, chiming more closely with the concept of class discipline. Then, we discuss wage moderation policies in Europe. While the evidence in support of wage moderation is weak, we suggest that breaking out of mainstream policies would require defying the disciplinarian impetus engendered by financialisation; something policy makers have not been prepared to do. After this, we also discuss punitive ALMPs, where, once again, disciplinary policies continue despite weak empirical records. Both policy agendas, we argue, reflect the prioritisation of class discipline over institutional coherence.

Comparative institutionalist and Marxist views on labour market policy

Comparative institutionalist thought contrasts the transnational diffusion of particular policies and ideas (such as neoliberalism) with the apparent path dependency of national systems (Fourcade-Garrinchas and Babb, 2002; Hall and Soskice, 2001; Pierson, 2000). Exogenous pressures may render national policies outdated, but the latter have their own logic and trajectory due to the inherent staying power of institutions. In contrast, our reading of Marxism also juxtaposes the universalising logic of capitalism with the 'relative autonomy' of the state, but places greater emphasis on the disciplinary power that capitalist class interests exert over policymakers at the expense of institutional factors. In this section we will unpick this difference in more detail.

National 'policy systems' in institutionalist literature are highly complex and multi-causal (Kay, 2005), denoting myriad interconnected variables ranging from formal institutions, informal contact networks, the relative authority of competing interest groups, and even the accumulated mass of past decisions. Institutionalists often emphasise the 'institutional complementarity' of these systems (Hall and Soskice, 2001), with the 'increasing returns' (Pierson, 2000) of existing combinations making policy directions difficult to change once set in motion. In this way, the multiple factors that influence institutional systems tend to combine to produce inertia in policymaking. Hence, the institutionalist characterisation of the policy process generally portrays it as inherently conservative, following entrenched patterns which are only rarely disturbed (Peters et al, 2005) by external pressures such as economic crises.

While conflict between business and labour is centralised in much institutionalist research (Thelen, 1999), the assumption is that pressures for change lead more often to incremental alterations than to the dismantlement of existing institutions (Crouch and Farrell, 2004). The prospect of 'lock-in' is therefore raised, where certain policies persist despite apparently failing in their objectives (Hassink, 2005; Sydow et al, 2009). Crises de-legitimise existing policy regimes and catalyse the search for new ones (Campbell and Pedersen, 2014), but this is not a Darwinian process of replacing the outdated with the better-suited. Instead, it is a sociological one dependent on embedded power relations and the authority accruing to different actors (Hall, 1993). For example Hall (2014) has recently argued that cumbersome institutional logics across the Eurozone prevented the kind of 'swift action' that could 'restore investor confidence' such as boosting demand in Germany. Policy is thus slow and awkward, prodded into change by exogenous shocks.

Neoliberalism in this account is therefore a policy paradigm associated with the exogenous shock of crisis; in this case the discrediting of Keynesian ideas in the 1970s. It reflects a shift in policy authority away from groups such as trade unions and toward business actors (Mudge, 2008) and the growing 'persuasive power of the market' (Peters et al, 2005: 1296). Despite its transnational scope, comparative institutionalism holds that its impact will be strongly mediated by national policy systems, with the latter shaping the 'nature and meaning' of the neoliberal agenda in diverse ways (Fourcade-Gourinchas and Babb, 2002). Hence neoliberalism constitutes a shifting power balance within a fundamentally pluralist system. Class is relevant only insofar as different actors (e.g. 'business' and unions) may form stronger coalitions or accrue more authority in advancing their own agendas.

By contrast, class plays a much more fundamental role in Marxist analyses of policy making. A recurrent theme of Marx's thought in relation to political and legal institutions is the notion of 'adequate forms'; while rejecting a simple mono-causalism, Marx believes that institutions ultimately need to adapt to assume forms that are conducive to capital's continued extraction and reinvestment of surplus value. Consequently, Marxism rejects the pluralism implied in comparative institutionalist accounts, emphasising that, ultimately, capitalist interests are decisive and other interest groups or institutions that get in their way tend to be marginalised over time. But this is a highly general argument, which has been filled out in a wide range of ways by later Marxists. For Miliband (1969), for instance, this influence is exercised through highly personal networks of contacts and shared worldviews that render policy and business elites of a common mind. For Gough (1975), much depends on the position of labour in the political class struggle; where it is stronger, the state may have more autonomy to make decisions about social expenditure that diverge from direct capitalist class interests. Post-Gramscian currents have directed more attention to the 'hegemonic constellations' of differing 'class fractions' as they manoeuvre in civil society (Plehwe et al, 2007).

Hence there remains much scope for complex, contingent and multi-causal explanations for policy making within Marxist thought. There is, however, a subtle but critical difference in the way institutions are perceived. They remain in perpetual tension with the imperatives of capital accumulation and will inevitably come under severe pressure if they come to disrupt the ability of capital to draw profits. Thus, Marxist analysis diverges sharply from pluralist and institutionalist perspectives, in stressing what Clarke (1977) refers to as 'capital relations as a principle of the unity of the social formation'. Policy systems exist, not necessarily under the duress of specific class actors, but within a society defined by a specific form of class relations. Institutional systems, in the Marxist view, must therefore ultimately render themselves 'adequate' to these class relations.

One problem with this view is that it still leaves much undecided. A Gramscian perspective which emphasises struggles for hegemony may shed real empirical insight onto the ways in which power is divided and maintained under given circumstances, but it does not explain the nature of the imperatives acting on any hegemonic actor. How, in practice, do states decide what forms are adequate, and how do they act on these decisions? The idea of a coherent hegemonic constellation is not sufficiently helpful here. In Offe's (1975) analysis, the indeterminacy states face in responding to these questions renders the policymaking process inherently dysfunctional. The imperatives of capital accumulation are generally obscured under a potentially limitless superstructure of competing demands from different empirical actors. While 'class fractions' may be able to pass off their own interests as synonymous with this general imperative, ultimately states are always to some degree having to guess about how best to sustain these conditions. In this sense, Marxism leaves open questions about the empirical reality of policy making which may be highly sensitive to context.

The context that concerns us here is current European political economy. Our argument is that we can most constructively flesh out Marxist theorisations of policy making in these circumstances through the idea of 'class discipline'. In this respect we are particularly influenced by Kalecki. Like Offe, Kalecki

(1943) shows how policy imperatives under capitalism can also be obscure and nebulous. But rather than simply leading to indeterminacy, Kalecki observed how these nebulous imperatives can become crystallised in highly abstract concepts like 'business confidence'. Such concepts become a way of converting profound uncertainty into a specific objective, however flawed, which can at least be acted upon, and thus may become a significant and urgent concern of policymakers under certain circumstances. There is something primal about this idea of discipline- a 'class instinct':

> '[…] The maintenance of full employment would cause social and political changes which would give a new impetus to the opposition of the business leaders. Indeed, under a regime of permanent full employment, the 'sack' would cease to play its role as a 'disciplinary' measure. The social position of the boss would be undermined, and the self-assurance and class-consciousness of the working class would grow. ... It is true that profits would be higher under a regime of full employment than they are on the average under laissez-faire... But 'discipline in the factories' and 'political stability' are more appreciated than profits by business leaders. Their class instinct tells them that lasting full employment is unsound from their point of view, and that unemployment is an integral part of the 'normal' capitalist system.'

When we talk about class discipline below, we therefore refer to efforts by the state to increase the extent to which labour is vulnerable to the agency of individual capitalists and business leaders, and diminish the extent to which it is capable of challenging that agency. Our argument here is that the circumstances of financialisation- an important trend of European political economy since the 1970s- have increased the importance of class discipline in current European policymaking, to the detriment of institutional factors. As we will argue in the next section, financialisation has tended to render capital more intolerant of regulatory institutions, and has put pressure on states to retrench the role of institutions that benefit labour.

Financialisation, policy and class discipline

Broadly, 'financialisation' refers to the increasing importance of financial markets in the global economy, and the growing interlinking of financial activity with the productive economy (Epstein, 2005). While there is debate over the extent to which financialization represents a genuine shift to a substantively different form of capitalism, it is clear that it has had numerous empirical implications which, we will argue, have caused alterations in the way many European governments make policy. For Lapavitsas (2013), it denotes the increasing participation in financial investments on the part of productive capital, the shift of banks towards commercial investment activity, and the incorporation of households in the financial system through the expansion of retail financial services. It also implies the growing influence of new actors such as institutional investors (Aglietta, 2000), who may be more concerned with future share value than with productive capital investment. Such actors may even agitate within corporate governance structures in pursuit of these ends; institutions like hedge funds being at the vanguard of these methods (Fichtner, 2013). Financialisation thus also implies a growing concern with 'shareholder value', in turn making capitalists more likely to pursue 'downsize and distribute' strategies rather than 'retain and reinvest' ones (Lazonick and O'Sullivan, 2000).

Where these empirical trends become more important in a national economy, they are likely to have an effect on the way that economy is regulated. Financialisation tends to be negatively correlated with the reach of regulatory labour market institutions (Darcillon, 2015). Financialisation may render capital less willing to respect its side of the 'bargains' it may have made with labour (Thompson, 2003).

As Vidal (2013: 459) argues, financialisation has led to wages being put 'back at the centre of competition' as firms across the economy more actively seek shareholder value; by contrast the institutional class compromises found in post-War capitalism were 'made possible because competition and finance were subordinated to work and employment relations'.

These claims are highly relevant to our discussion of policy systems and their adequacy to the demands of capitalist accumulation. For Marx (1981), describing it in the abstract, the role of finance could sharply alter class relations. The circulation of interest-bearing capital, in the Marxist reading, is more abstract and opaque than that of productive capital. It is more dependent on 'psychological' and speculative contingencies, and more responsive to the short-term fluctuations of prices (see De Brunhoff, 2015, and Harvey, 2013, for an analysis of this element of Marx's thought). It thus appeared, from the perspective of the workplace, to be somewhat 'lawless and arbitrary' (Marx, 1981: 478). The result of this was that it could defuse class antagonisms within the workplace, prompting managers and workers alike to look upwards towards a class of more freely-moving speculators; the conflict between wages and profit within the firm thus being obscured by the conflict between interest-bearing and productive capital (ibid, 501-502).

In this sense, in the Marxist view, there is something inherently 'disembedded' about finance that sits at odds with the very purpose of labour market institutions as a pluralist method of regulating class conflict. For one thing, as noted above, it could obscure the employer-employee conflicts within productive firms that such institutions have been established to contain. For another, financialisation implies an *acceleration* of political-economic processes, as capital comes to move more rapidly in pursuit of anticipated changes in prices (Sinclair, 1994a, 1994b, 2000). The latter point, in Aglietta's (2000:420) view, means that financialisation in principle is highly resistant to very concept of the 'long-term management' of capitalist economies. In other words, an increasing orientation towards a shareholder value model renders capital flows more unpredictable, which in turn jeopardises the prospect for stable regulatory institutions to emerge. From this we can infer that financialisation may be reason why a new stabilising regulatory model has so far failed to emerge in the era of post-Fordist dysfunction (Vidal, 2013). Indeed, as Boyer (2015) has noted, the policy priorities repeatedly presented as immediate-term imperatives since the 2008 crisis have often directly contradicted the objective of re-establishing stable growth.

What do these arguments mean for policy systems? In our view, they require us to revisit the idea of class discipline as an influence on policy. It is clear that financialisation implies class discipline, in a number of senses. For one thing, it can shift the locus of conflict 'upwards', away from the workplace, and instead pushing labour and managers alike into a subservient position vis-à-vis financial investors. When financialisation works on a global scale, states themselves may feel disciplinary pressures, either directly through bond markets (Onaran and Boesch, 2014), or through more abstract pressures to gain and maintain 'business confidence', as mediated through an extensive network of intermediary institutions such as credit ratings agencies (Sinclair, 1994b). Moreover, as we have stressed here, financialisation tends to render capital less tolerant of regulatory institutions, and more able to escape them. This may apply at firm level where 'downsize and distribute' strategies become increasingly prevalent (Froud et al, 2000; Lazonick and O'Sullivan, 2000), or at national-institutional level. The latter is a process we see underway in Europe, where hitherto-stable institutional systems appear to be being hollowed out or 'converted' (Baccaro and Howell, 2011), into forms that impede the agency of labour and enhance that of capitalists.

In the following sections, we look at two policies; wage restraint, and punitive ALMPs. We argue that these are both examples of class discipline, with three things in common. Firstly, they reduce the power of labour in relation to capital. Secondly, they pursue this concern as a short term objective while carrying little prospect of stabilising capital accumulation in the long run (indeed, they may be entirely counterproductive from this perspective). And thirdly, while there is great variation in the empirical forms taken by these policies, they have typically been pushed through in a manner that marginalises or weakens existing labour market institutions. In this respect, we suggest that comparative institutionalism underestimates the extent to which institutions can be sidelined by other motives and imperatives in current European policymaking, and conflict with the *status quo* of policy systems.

Wage moderation policies and growth

European wage policy has involved an intensifying emphasis on competitiveness, alongside the marginalisation of once-widespread institutions for coordinating wage policy. Wage restraint has been a key policy tool in European governance and has been strongly pushed by the European Commission (2012, 2013). While the common sense of policymakers dictates wage restraint as a key ingredient of economic competitiveness, it has a weak record in promoting stability, resulting in 'beggar thy neighbour' policy agendas and the accumulation of debt dependency. However, it has also been widely perceived by policymakers as an essential means of disciplining European workforces and gaining the confidence of financial investors and bond markets.

Long before the crisis, Europe had experienced decades of increasing inequality and a diminishing share of national income accruing to labour (see figure one). Note that the fall in the UK seems to be more moderate than in the Eurozone; but this is only because the very high top managerial wages, specific to the UK and the US (and to some extent Ireland, Canada and Australia), are reported in the national accounts as part of labour compensation. In the UK a drastic rise in the remuneration of top managers has occurred since the 1980s (Atkinson *et al.*, 2011). After the US, the top 1% income share is highest in the UK with 13% as of 2011 (Onaran, 2014). Prior to the crisis, the top 1% income share had almost reached its historical peak levels previously seen before World War I and the Great Depression in the UK. Managerial wages did not experience the same surge in continental Europe. If we could calculate the wage share excluding these top managerial wages, the fall in the UK would probably look more like that in the Eurozone.[1]

However, while a new super rich class emerged over this period, a stable growth model did not. Even before 2008, no EU country had achieved high rates of employment. Moreover, declining wage share was associated with weaker and more volatile economic growth (see table one). Post-Kaleckians (e.g. Bhaduri and Marglin, 1990) view wage stagnation as a cause of instability, given the function of wages as a source of demand as well as a cost. Declining wage share can therefore lead to decreasing consumption demand[2] which has not been outweighed by comparatively modest increases in private

[1] Guschanski and Onaran (2016) use World Top Income Database to calculate the share of the wages of the 99% of the wage earners in GDP; however there is no data available for the UK to calculate this detail.

[2] This effect is due to a higher marginal propensity to consume out of wage income relative to profit income. A fall in the wage share leads to lower consumption demand all other things being constant. However as we discuss below the rise in household debt has more than offset this negative effect in the UK and European periphery, as we discuss below.

investment and exports[3] (Onaran and Galanis, 2014). Moreover, the 'race to the bottom' in wage share as a route to 'competitiveness' has been self-defeating, as labour costs have fallen in many countries simultaneously.

The EU countries provides substantial evidence for the post-Kaleckian argument (Hein and Vogel, 2008; Naastepad and Storm, 2006/7; Onaran and Obst, 2016; Stockhammer et al, 2009). These studies show that falling European wage share has only moderate benefits for trade balances and investment, but substantially negative effects on consumption, and an overall negative effect on aggregate demand. In the past, these negative effects of inequality on growth was partially circumvented by two contrasting growth models (Goda, Onaran, Stockhammer, 2014): i) in countries like the UK, Ireland, Spain, Greece, or Portugal households increased their debt to maintain consumption levels in the absence of decent wage increases; ii) in countries such as Germany, Austria, and the Netherlands an excessive reliance on exports was required to maintain growth in the absence of domestic demand based on a healthy wage growth. For example, in Germany the share of consumption in GDP declined from 60% in 1993 to 55% in 2007 in the eve of the Great recession.[4] Housing bubbles, financial deregulation, and capital inflows from the latter group to the former group financed the increasing debt in the former group. The latter group were exporting to the former group, and in return lending the foreign currency surpluses to the former group. The trade surplus of the export-led countries financed the debt of the debt-led countries. The export-led countries tried to export their way out of the problem of low domestic demand due to the fall in the wage shares. However, they needed a deficit country and debt accumulation elsewhere to buy their exports. Both the export-led and debt-led models are mirror images of each other, and they are equally fragile as they can only be maintained by rising debt levels. The crisis of 2007-9, and the subsequent Great Recession have proven the fragility and unsustainability of both models.

While comparative institutionalists have identified crises as the spur for adaptation in policy systems, the current crisis and recession has not challenged the European emphasis on wage restraint; indeed, it has only intensified in recent years (European Commission, 2012, 2013). This single-mindedness among European elites is remarkable, especially given growing recognition of the economic problems caused by inequality even in such environs as the World Economic Forum (Onaran, 2014) and within the research departments of mainstream institutions like the IMF and OECD (Berg et al, 2012; Cingano, 2014). These problems are not at all new even to mainstream economic theory which highlights dangers such as the negative effects of credit market imbalances on human capital accumulation (Galor and Zeira, 1993); the 'risks' of public support for redistributive policies (Persson and Tabellini, 1994) and social instability as a deterrent to investment (Alesina and Perotti, 1996). But this awareness has not prevented the IMF from enforcing wage restraint as key demands in cases such as Greece, and neither have they, nor the financial crisis, altered the European Commission's policy stance.

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[3] The wage share is the share of total labour compensation ((wage and social security contributions, adjusted for the labour income of the self-employed) as a ratio to GDP. This is equivalent to labour compensation per employee/output per employed, i.e. compensation per employee/labour productivity. This is equivalent to real unit labour costs, which is equal to nominal labour costs/price index. Exports and imports depend on relative export price/import price and relative domestic price/import price. Both of these relative prices are closely related to nominal unit labour costs of each country, which in return very closely follows real unit labour costs, ie the wage share. Further econometric estimations as evidence are provided in Onaran and Galanis, 2014; Onaran and Obst, 2016; Stockhammer et al, 2009.

[4] Own calculations based on AMECO data http://ec.europa.eu/economy_finance/ameco/

In heterodox and Marxist literature, declining wage share has to be seen as a shift in the balance of power between labour and capital (ILO, 2011; Jayadev, 2007; Kristal, 2010; Onaran, 2009; Rodriguez and Jayadev, 2010; Stockhammer, 2013). In other words, it reflects a shifting balance of class forces, which has been catalysed in particular by financialisation. Financialisation's demand for 'shareholder value' exerts direct pressure on wages at firm level (Lazonick and O'Sullivan, 2000; Rossman, 2009). Another prominent outcome of the financialization process has been the rise in the managerial income at the top 1% of the income distribution in countries like the UK and to some extent Ireland, as discussed above. Financialization also acts powerfully on state policymakers, requiring that they gain the confidence of bond markets and financial investors, through reassuring them that any act to moderate or mediate the impact of the decline in the labour share in the form of social spending or redistributive tax policies will be defeated (Onaran and Boesch, 2014). In this sense, financialisation exerts a disciplinary pressure on national institutions, which can over-ride concerns about the destabilising results of wage restraint. As a result the fall in social public spending and increasing tax burden on labour along with a decreasing tax burden on labour further aggravates inequality.

The comparative-institutionalist explanation for the stickiness of wage restraint policies refers to institutional inertia, particularly in hegemonic EU states like Germany (e.g. Hall, 2014). What this obscures, and what our argument emphasises, is the way in which wage restraint has been a highly disruptive process in many cases, which has either undermined or subverted hitherto-stable institutional mechanisms across Europe. In fact, in most European countries, regardless of differences in policy systems, we have seen expanding state unilateralism undermining labour's capacity to win concessions via collective bargaining (Lethbridge et al, 2014). Where collective bargaining institutions have not been exited or dismantled, they have been subverted or 'converted' to facilitate a rebalancing of power in capital's favour (Baccaro and Howell, 2011). In paradigmatic 'coordinated' economies, the push for competitiveness has led to the forceful disorganisation of coordination mechanisms (Doellgast and Greer, 2007; Holst, 2014). This is not to mention the wholesale institutional destruction wrought on those countries subjected to special measures by the Troika. While it is clear that the ways in which this process has been negotiated varies greatly and is highly dependent on the nature of social forces in a given country, it is true across Europe that wage moderation has been repeatedly imposed through radically rolling back collective bargaining arrangements and worker rights.

While comparative-institutionalism may well be correct that institutions can embed and stabilise capitalist accumulation in some circumstances, financialisation greatly complicates this process by rendering capital more 'impatient' and harder to embed in institutional compacts. This model exerts a disciplinary effect on states and workers, which have rendered various policy tools off-limits. Efforts at international wage coordination and an end to 'beggar thy neighbour' competition, and bolstering demand via collective bargaining have been discarded. However, this is not because of institutional inertia; rather, they have been actively pushed aside. This is because such tools require the embedding of capital in stable institutions on a long-term basis, which we argue is an increasingly unobtainable demand under conditions of financialisation.

Punitive active labour market policies

ALMPs are state-made mechanisms to assist or force jobless people into work. Welfare states previously served, to varying degrees, to decommodify labour by reducing the dependence of citizens on the market (Esping-Andersen 1990). ALMPs recommodify labour (Greer 2015) through payments (e.g. to top up the wages of low-wage workers), services (e.g. training courses, make-work schemes, counselling, and job-placement arrangements), and other administrative requirements (e.g. submitting to an assessment, signing a job-seekers agreement, or accepting job offers). Advocates of 'flexicurity' support them because they may include investments in skills, generous payments to job seekers, and detailed interventions by social workers to tackle social exclusion. However, the ALMPs we are discussing are punitive, commonly classified as 'workfarist' with a one-sided focus on placing clients in jobs quickly and sanctioning the non-compliant (e.g. Peck 2002). Missing appointments, refusing a job offer or participation in a scheme can be grounds for temporarily stopping benefits, a potentially devastating punishment for low-income people. For policymakers they 'offset the negative impact of generous unemployment benefits on employment incentives' (Venn, 2012).

While the flexicurity agenda has stalled across Europe (Hayes 2012), punitive ALMPs have spread since the 1980s (Moreira and Lodemel, 2014; Scherschel et al, 2012). Contextual factors relating to national political agency are highly relevant here, since the methods pursued in different countries have been relatively context-dependent. In Britain they took shape gradually, as part of a 'stricter benefits regime' in the 1980s, via the 'New Deal' of 1997, where participation in training or make-work schemes became mandatory. These requirements have extended beyond the core clientele of young people and long-term unemployed; being applied to lone parents and certain disabled people as of 2009, and backed up by sanctions which increased fourfold under the Conservative-led government of 2010. In Germany, the process was more sudden, via a package of reforms implemented in 2002-5, primarily the Hartz laws. These created a new means-tested benefit imposing work requirements and sanctions on diverse clientele including long-term unemployed job seekers and groups previously classified as 'inactive'. They increased the range of jobs claimants can 'reasonably' be expected to take, while legalising various forms of precarious employment. But despite these variations, it is evident that, to varying degrees, all European countries have watered down welfare entitlements, increased work requirements, and enforced these changes at the street level.

Punitive ALMPs are disciplinary since they aim to increasing the threat of unemployment (Wiggan, 2015), putting downward pressure on wages (Nickell, 1997) thus rendering workers more insecure. However, following four decades of experimentation, even sympathetic observers note that evidence on the effects of ALMPs is mixed. In the vast quantitative literature evaluating particular schemes, meta-analyses find generally positive effects on employment, although these depend on the kind of client and kind of scheme; weak if any effects on income; and no overall conclusion on the overall costs and benefits of these programmes (Card et al, 2010). Blank (2003) notes numerous difficulties in gauging the effects of ALMPs on labour supply. Another influential German advocate, Schmid (2008), concedes that the evidence for positive effects is meagre and their contribution to limiting unemployment 'modest'.

One problem is that clients typically come from groups against which employers discriminate, and ALMPs themselves do not rectify this issue (Holzer and Stoll, 2001). Punitive ALMPs may indeed exacerbate discrimination by stigmatising their recipients as a member of a group targeted for intervention, what Castel (2003) calls the 'handicapology' of the welfare state. We also need to pay attention to contestation between social forces within states, particularly given the problems with using a politically charged and highly bureaucratic tool to intervene in the private economy. In the UK, employers using mandatory job placements have been targeted by activists and have pulled out to avoid reputational damage (Greer 2015), UK employers report excessive paperwork (Ingold and Stuart, 2014), and employers participating in local workforce policy are not mainly from the sectors hiring jobless welfare claimants (McGurk and Meredith, 2015). While UK employers are less engaged than their counterparts elsewhere (Martin, 2004), the problem is a general one observed across Europe (Larsen and Vesan, 2012). In addition, these policies diffuse between states and countries far more quickly than a proper evaluation of results would allow (Peck, 2002), and with little regard for differences in context (Dwyer and Ellison, 2009). They therefore challenge the comparative institutionalist emphasis on distinct policy systems with a powerful internal logic.

There are further administrative barriers to 'activating' disadvantaged clients even where employers are engaged. Make-work or employer placements may engender 'displacement' or 'substitution' effects in which employers use schemes to avoid hiring workers with regular employment contracts, even in Germany where schemes must be certified as 'additional' and for the 'public good' (Koch et al, 2011). Job placement schemes governed by numerical targets or payment by results may also be plagued by 'dead-weight' and 'creaming and parking' effects in which they serve and place in jobs mainly the job ready (Rees et al, 2014). ALMPs – and not only punitive ones – have generated dilemmas that policymakers have not solved in four decades of experimentation.

While these interventions may not increase the number of disadvantaged job seekers hired by employers, they could still increase the pressure on job-ready individuals to enter the labour market and leave the benefits system. There is some evidence that job seekers are willing to accept a lower income- i.e. below the level of benefits payments- in order to exit the benefits system and its requirements (Doerre et al, 2013), and that sanctioning reduces post-unemployment income (Van de Klaauw and Van Ours, 2013). Following the Hartz reforms there was a decline in voluntary quits, reflecting fear of entering the new and highly stigmatized stratum of means-tested benefits claimants (Knuth, 2011). Whatever their administrative malfunctions, ALMPs may therefore still exert discipline on welfare claimants, job seekers, and job holders (Greer, 2015).

We should also stress the political reasoning behind these shifts. Importantly, there is an element of deliberate institutional disruption built into punitive active labor market policies. This may be most obvious in Britain, where politicians have over the years repeatedly touted the radical character of the reforms they proposing, whether it is Blair's New Deals starting in 1997 that required that young claimants to participate in activation schemes, the extension of these requirements to single mothers and disabled people after 2008, or their extension to claimants of in-work benefits under the Universal Credit being rolled out in 2015. But it is also disruptive elsewhere. In Varieties of Capitalism literature the welfare state is an instrument that helps to resolve employers' collective action problem of skill provision; in coordinated market economies such as Germany they want to avoid disrupting the status-securing unemployment insurance system because it allows them to shed labour without destroying skills. Punitive active labour market policies disrupt this principle, most notably by requiring claimants to take jobs even if they are lower-wage and lower-skill than in the past. Among the goals of the Hartz reforms, for example, were to weaken the status securing function of the welfare state for so-called labour market insiders while creating a low-wage economy to increase labor market participation (Hassel and Schiller 2010); the consequence was a rapid increase of nonstandard work (Brinkmann et al 2006).

If participation in ALMP schemes is not attractive to particular employers or employer groups, and if they are not congruent with existing national systems, why do punitive ALMPs persist? In part, they may have been sustained by political feedback mechanisms, in that imposing new requirements on the unemployed reinforces negative views in society of welfare claimants as well as the view that the welfare state is too generous (Soss & Schram, 2007). By dividing the population into hard-working families and parasitic welfare scroungers, policy discourse serves to undermine working class solidarity (Scherschel et al, 2012). Punitive ALMPs may also be a by-product of austerity, in that public investment in training or detailed schemes to combat social exclusion are more expensive than schemes aimed at quick job outcomes for the job ready, and sanctions reduce benefits payments. Most significantly for our purposes, however, they contain a clear intention to institutionalize low-wage and precarious work and to impose the disciplines of work on prospective workers; the 'common sense' of financialized capitalism thus cuts against labour decommodfication.

Punitive ALMPs are intended to discipline the unemployed, with an aim of promoting a flexible low-cost labour supply. They serve a short-term purpose of conveying the subordination of social policy to the needs of employers, despite their actual disconnect with the human resource strategies of low-wage employers. They are not merely the products of distinct policy systems but have spread into jurisdictions often classified as very different, including both Germany and the UK, with a clear emphasis on disruption of existing institutional arrangements. In this sense they, like wage restraint, fit our depiction of class discipline, more closely than they fit the comparative institutionalist depiction of institutional coherence.

Discussion and conclusion

The preceding discussion has examined two policies, wage restraint and punitive active labour market policy. Both of these, we argued, can be viewed as methods of class discipline. They render workers more insecure and malleable to the agency of capitalists and business leaders. They pursue this objective regardless of apparent empirical failures. And, they have engendered significant retrenchment of supposedly stable institutional systems. These policies are not simply implemented on the diktat of concrete actors constituting the 'capitalist class'. Rather, they are policies which fit the imperatives of financialisation, which tend towards 'acceleration' and the search for shareholder value, alongside a more intransigent approach to institutions and 'class compacts'. We have argued that these are consequently short-sighted policy agendas which will fail to resolve the problem of capitalist instability and institutional coherence in the longer term.

When comparing this period to the one following the Second World War, we ask why the kind of demand management and economic coordination policies implemented then are now discarded as options. In answering this question, we have argued that financialisation greatly deepens the contradiction between short and long term, and engendering a more diffuse form of class power that impels states into short-termist disciplinary measures. Financialization and capital mobility crucially narrow the area of manoeuvre of the states to stabilize capitalism and to create new embedding institutions. Furthermore, financial markets have a disciplining power over the states in pushing particular class interests through state policies and they have a punitive power when states attempt to reverse these policies.

Our argument take a slightly different approach compared to neo-Gramscian debates around hegemony. Our interest lies not so much in explaining the kinds of actors that seek and maintain dominance in a given context. Rather, we have concerned ourselves with the disciplinary imperatives that act on capitalist governments under conditions of financialisation irrespective of how that government is constituted empirically by competing class fractions. As we have argued, we see this as a better way of explaining the class discipline-oriented policies that have predominated across Europe, particularly their destabilising effects and disruptive relationship with labour market institutions.

Nonetheless, our argument does make a contribution to these Gramscian debates since it highlights the flaws in any hegemonic project. We have shown that policies which appear as imperatives from governments' perspectives can, in the medium or long term, simply cause greater destabilisation: the disciplinary urge intensified by financialisation over-rides coherent hegemonic constellations.

We do not intend to minimise the agency of actors in the political process. As we have seen, in both cases this agency is important, since the implementation and contestation of class discipline-oriented policies are highly context dependent. Rather than sweeping aside agentic analyses of the policy process, we suggest that they must be understood *within* the context of these wider structural factors. While these structural factors do not give the whole picture, they are important in explaining the direction of change if not the methods. As such, we recommend that future research in this field seeks to use our insights as a means of contextualising any discussion of the policy-making process. Future researchers could use archival or ethnographic methods to pinpoint uncertainty faced by policymakers in particular policy fields and examine the particular pressures in the political economy – such as financialization – that intensify these pressures. Our account could serve as a corrective to accounts that underplay such structural pressures, such as those emphasising path dependency.

In the Marxist view of policy making, the state is obliged to seek to ensure continued capitalist accumulation and expansion, but it is rarely clear to policy makers how to accomplish this. Our discussion of class discipline contributes to Marxist theories of policy making by showing how the conditions of financialisation can amplify particular imperatives that come to influence states and disrupt existing institutions. We have contributed to institutional theory more generally by showing how financialisation can downgrade the importance of existing institutions in explaining key pillars of current European labour market policy. For comparative institutionalist literature, the pattern of policymaking after the crisis is a puzzle because it is not consistent with a general account of path dependence: punitive policies aimed at the working class spread, while others that served to protect the working class declined. The solution to this puzzle, we argue, lies in the disciplinary impetus of class relations under financialisation.

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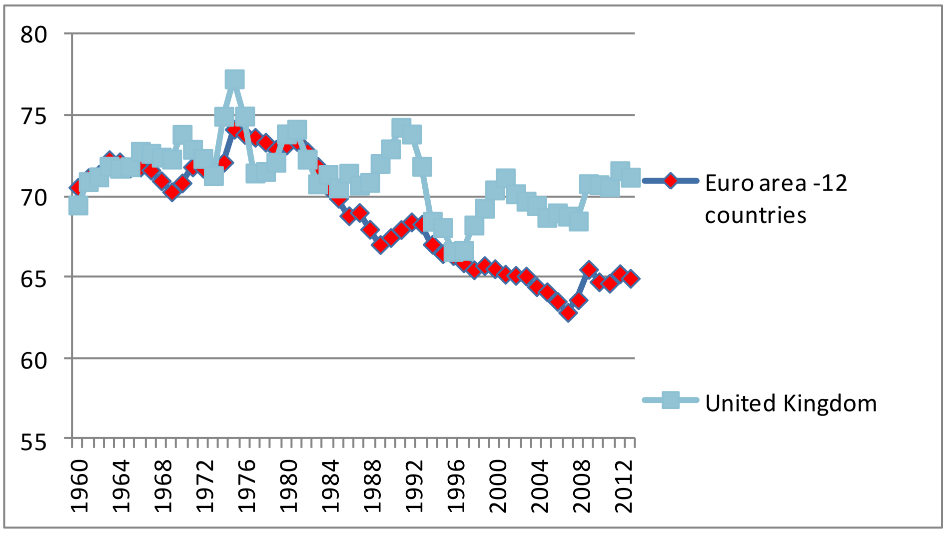
Figure 1: Wage shares in GDP, 1960-2013



Note: Adjusted, ratio to GDP at factor cost (source: AMECO).

Table 1: Average growth of real GDP

	1961-69	1970-79	1980-89	1990-99	2000-2007	2008-2013
United Kingdom	2.90	2.42	2.48	2.18	3.17	-0.28
Euro area (12 countries)	5.29	3.78	2.27	2.12	2.16	-0.28

Source: AMECO