Keeping Europe’s Workers in Line – Punitive active labor market policies and pan-European wage restraint

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In Europe, austerity hasn’t led to economic growth. But that’s not the point — the point is to discipline workers.

There is mounting evidence [1] that measures like restraining European workers’ wages are not effective ways of generating stable economic growth. Likewise, converting social-democratic welfare states into “workfare” systems has inflicted large quantities of human misery [2], but without any real success in countering unemployment [3].

In a recent paper [4], we argue that the financialized nature of current European political economy has pushed governments to pursue policies which are hostile to workers’ interests, even when these may disrupt stability and growth. By “financialization,” we mean the increased importance of financial markets in regulating global capital flows and the growing interlinking of financial activity with the productive economy.

We examine the durability of two policy trends: punitive active labor market policies (i.e. workfare) and pan-European wage restraint. We observe similarities between them: they have both been unconvincing as drivers of growth and employment, and neither appear to contribute to institutional stability. But despite these failings, both have been aggressively implemented by many European states.

We turn to Marxian theory to explain this puzzle. Under financialization, governments commit to policies of class discipline. By this, we mean measures which make it easier for employers to dictate terms to their workforce with reduced need to negotiate or compromise. These measures have destabilizing consequences, but imposing class discipline is usually seen as more important.

Various Marxist theorists have assigned the state a kind of “managerial” role in capitalist societies: its role is to intervene to ensure the stability of capital accumulation. (Of course, how this process works is a matter of wide debate within Marxism [5].) We argue that conditions of financialization present challenges to this managerial role of the state.

Financial capital flows have a faster, less-predictable, and more market-oriented circulation than that of productive capital. This insight is discussed by Marx in the third volume of *Capital* [6], and later elaborated by Marxist writers like Suzanne de Brunhoff [7] and David Harvey [8]. This means that, as economies become more financialized, the role of state managers becomes more difficult.

The state’s response to this is often to focus on bolstering short-term business confidence by intensifying class discipline over labor — even if this jeopardizes growth in the longer term.

One example of this is wage restraint policies, which have been strongly pushed by the European Commission over the last decade [9]. European governments have been urged to reduce wage growth as a means of enhancing competitiveness. This policy has had significant negative consequences: it has led to the driving down of consumption and amassing of private household debt, and increasing inequality (which itself is associated with weaker economic growth). It has not made European states more competitive, since it has been implemented as a coordinated effort across many countries, meaning little comparative advantage is gained.

What's more, this process has been highly disruptive of existing institutions that are supposed to stabilize national labor markets. Political scientists in the past have often vaunted the consensus-based collective bargaining institutions found in places like Germany or the Nordic countries. But there is a growing awareness that states through Europe have played an aggressively interventionist role [10] in subverting or dismantling these systems in recent years [11].

A second example is workfare schemes, which have proliferated across Europe despite a poor record of success. These kinds of schemes have a one-sided focus on placing jobless welfare recipients in work, irrespective of job quality, and with the threat of punitive sanctions for those who are judged not to be seeking work hard enough (or who are faulted in their jumping through administrative hoops). But workfare policies – setting aside their human consequences for welfare recipients – are expensive, burdened by massive bureaucracy, and have a very checkered record in terms of getting people into jobs.

Just like with wage restraint, these kinds of systems are not confined to liberal capitalist economies like the United Kingdom and the United States. And, once again, the implementation process has been destabilizing: consider the case of the Hartz IV reforms in Germany, where pressures to take low-wage, low-skilled jobs have undermined the capacity of the system to support skills development. Given its disruptive impetus, workfare depends on state power to override existing systems of provision. Without this centrally-driven destabilization, workfare struggles to take root [12].

We refer to these policies as examples of class discipline because they use state-driven force to transfer power in the workplace from labor to capital. Institutions enabling collective bargaining and wage progression have deteriorated, and so have welfare safety nets. This means that not only is workers' ability to negotiate for higher wages declining, but so is the level of pain they stand to suffer if they lose work. And it also means that European capitalist economies have become more and more unbalanced.

The upshot is that employers are able to impose their objectives on their workforces more easily with less danger of having to negotiate or compromise. This is also evidenced by various studies [13] which show how more financialized firms are inclined to shed staff more readily. The level of financialization within an economy correlates to weaker labor market regulation [14].

It is important to stress, however, that this argument is not intended as desiring a nostalgic return to "productive" capitalism. Financialization is not an aberration within capitalism but a recurrent tendency within it which can be more pronounced at different times. Rather, our argument is that we need to pay attention to the way changes in the form and nature of capital are associated with changes in the way states manage capitalist economies. In this sense, the failings of recent European labor market policy have to be explained in the context of quite specific dysfunctions driven by financialization.

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• Jacobin, 11.17.2018:
https://www.jacobinmag.com/2018/11/keeping-europes-workers-in-line

Adapted from Marxist Sociology.
https://marxistsociology.org/2018/11/the-state-and-financialization-explaining-recent-european-labor-market-policy/

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Footnotes

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