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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 to argue that, under financialisation, the state has been pushed to adopt disciplinary and destabilising policies which target the working class, as a means of bolstering the 'confidence' of capitalists in the short term. Wage restraint and punitive active labour market policies are two examples of such measures. We argue that this process is not embedded in existing institutions, but actively disrupts or subverts them.

Keywords: wage share, wage-led growth, minimum wage, living wage, public investment, pre-distribution, redistribution, collective bargaining

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Introduction

Why have neoliberal labour market policies survived the 2008 financial crisis? It cannot be due to their effectiveness as policies. Post-Kaleckian 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. This paper examines the persistence and proliferation of two related disciplinary measures targeting the working class: wage restraint and punitive active labour market policies.

One explanation for continuity in policymaking 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. This literature downplays the disruptive effects of liberalizing policies on collective bargaining and welfare state institutions, despite empirical evidence of such disruption in the theoretically pregnant case of Germany (e.g. Doellgast and Greer 2006; Doellgast 2012; Holst 2014; Baccaro and Benassi 2014). Our contribution is to develop an alternative explanation for the continuity and proliferation of punitive labour policies that is built on a Marxist view of class in capitalist societies.

While comparative institutionalism deals with the exercise of class power through bargaining, lobbying, and corporatist intermediation, we argue that these observable phenomena are not the principal mechanisms through which policymakers respond to capital. We argue that policymakers are operating in a society *defined by a specific form of class relations* (Clarke, 1977) where *common sense* (Bruff 2011) dictates the need to maintain the conditions for extraction of surplus value and its profitable reinvestment. As Kalecki (1943) argues, this demands that they cultivate 'business confidence' as a matter of urgency by reinforcing workers' 'fear of the sack', even if this means unstable growth. We argue that one cause of the crisis – financialisation – has also intensified these pressures by increasing uncertainty and compressing time horizons. Policymakers have to win the 'confidence' of a diffuse and abstract 'collective capitalist' which fluctuates rapidly and unpredictably, and this means pursuing disciplinary labour market policies whatever their records on growth and economic stability. These pressures have disrupted and subverted, rather than been contained by, existing welfare and collective bargaining institutions.

In the following sections, we will discuss comparative institutionalist perspectives on policy and the Marxist alternative, focusing particularly on theorising the effects of financialisation on the Marxist reading of the state. Then, we discuss wage moderation policies in Europe. While the evidence in support of them is dubious, breaking out of mainstream policies would require defying the short-termist disciplinarianism demanded by financialisation. After this, we also discuss punitive ALMPs, where, once again, policies continue despite weak evidence of success. Both policy agendas, we argue, are exacerbating and will continue to exacerbate capitalist instability. We therefore hope to reassert a Marxist reading of class and the State as more constructive categories than comparative institutionalist frames in future analysis of European labour market policy.

Path dependency and policy learning

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. Our reading of Marxism also contrasts 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.

National ‘policy systems’ in institutionalist literature are highly complex (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. 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 exogenous shocks 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 dismantlement of or exit from 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 discrediting of Keynesian ideas following economic crisis, reflecting a shift in policy authority from groups such as trade unions to 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. In the next two sections, we argue for a more fundamental analysis of class as a determining influence on state policy. We will suggest that this better explains the forceful push towards wage restraint and ALMPs across Europe, which has disrupted or subverted the role of supposedly stabilising institutions.

Marxist state theory

Marxist theory rejects pluralism, emphasising the state's role in preserving and advancing capitalist class interests rather than balancing different ones. However, Marxists have expressed divergent views on the nature of the mechanisms inducing the state to act in this way. One debate which has defined the contours of later Marxist discussion is that between Miliband and Poulantzas (see Miliband, 1969, 1970, 1973; Poulantzas, 1969, 1976), often viewed as pitting an 'instrumentalist' view against a 'functionalist' one (Skocpol, 1980). In Miliband's (1969) account, the capitalist class and actors in the state apparatus tend to have shared experiences, prejudices and worldviews, and find themselves in close personal proximity. Hence anyone who enters the state apparatus, however radical before doing so, will tend to become reflexively more responsive to business voices than those of actors such as unions. And the 'capitalist class' is manifested in a very concrete network of individuals that have direct personal influence over the policy process.

Poulantzas (1969, 1976, 2000) vehemently criticised this account, instead viewing the state as a crystallisation of class relations in a much more impersonal and abstract sense. By internalising class conflict within itself as political conflict, the state can detach itself from the 'class fractions' to organise them in the interests of the long-term stability of the capitalist system as a whole. Since it defines the state's role by the purpose it fulfils, Poultanzas's theorisation has been critiqued for its functionalism (Clarke, 1977; Skocpol, 1980); something that it shares with influential comparative institutionalist strands such as Varieties of Capitalism (Bruff, 2011).

Miliband's account has much in common with other Gramscian currents which focus on the 'hegemonic constellations' of particular fractional concerns as they manoeuvre and clash in civil society (Plehwe et al, 2007). In turn, this is by no means incompatible with comparative-institutionalist arguments, with the caveat that Marxist perspectives assume that capitalist interests will tend to be more powerful. However, we shift the focus away from these empirical power struggles, to emphasise the importance of universal and systematic policy imperatives which stem from the very nature of capitalist society.

Marxist analysis should diverge sharply from pluralist and institutionalist perspectives, to stress the importance of 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.* In other words, any capitalist state must inevitably ensure that the extraction and profitable reinvestment of surplus value on the part of capitalists can be maintained, otherwise crisis will ensue. 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; success or failure is only apparent *post hoc* in the success of the economy or otherwise. In this sense its ability to perform a stabilising role is inevitably imperfect. While existing institutions may be important in explaining *how* capitalist extraction and reinvestment works in different societies, it is inevitable that if they start to obstruct, rather than enable, this process, they will be forced to retract or change.

Hence the most fundamental policy question from a Marxist perspective is not how to solve particular social problems, but how to operate in a way that is ‘adequate for a capitalist state’ (Offe, 1975). In Offe’s (1975) analysis, this makes the capitalist state not so much functionalist as dysfunctionalist. This imperative is a basic fact of capitalist society, but they are generally obscured under a potentially limitless superstructure of competing demands from different empirical actors. Hence, while, following Block (1977), we may plausibly view state actors as the long term-oriented ‘managers’ of capitalism as opposed to the profit-oriented self-interest of capitalists themselves, it is often extremely difficult for policy makers to discern how to fulfil this role.

We combine these Marxian questions with Kalecki’s (1943) insights into the themes of discipline and ‘business confidence’ in labour market policy. Like Offe, Kalecki (1943) shows how policy imperatives under capitalism can also be obscure and nebulous. But rather than simply leading to chaos, imperatives 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. Thus, the desire to inflict disciplinary force upon the working class emerges intuitively as a concrete imperative, even if it may well undermine capitalist stability in the long run.

> ‘[…] 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.’

The pursuit of business confidence through disciplinary labour market policies reflects the fundamental importance of class in capitalist society; not as an empirical interest coalition but as an underlying relationship and process which must be preserved at all costs. Disciplinary attacks on the working class are necessary in a society defined by capitalist class relations, but the consequences of them might well jeopardise the possibility of more stable ‘management’ of capitalism in the long run. Moreover, as we will argue in the following section, this contradiction is greatly magnified under conditions of ‘financialisation’- i.e. the increasing importance of financial markets in the global economy, and the growing interlinking of financial activity with the productive economy (Epstein, 2005; Lapavitsas, 2014).

Financialisation, the collective capitalist, and disciplinary policies

Carnoy and Castels (2001:6) have sought to explain the development of neoliberalism in Poulantzasian-functionalist terms. They argue that state policy played a key role in initiating neoliberal programmes in various countries, ‘not under the command of corporations, but certainly with corporate interests as a fundamental concern: this is the kind of policy that Poulantzas could have characterised as an expression of the relative autonomy of the state’. They go on, however, to depict this apparently functionalist act as precipitating a slide into dysfunction: ‘once the progress of globalisation was set in motion, it slipped largely out of the control of states’ (ibid, 6)… ‘The state becomes dependent on the collective capitalist represented by global financial markets’ (ibid, 16). The latter, then, is not a particular agency but the cumulative ‘authority’ of thousands of individual profit-seeking decisions, their collective judgements exercising disciplinary force over the state. The consequent unknowability and unpredictability of the ‘logic’ of financial markets has been well documented in scholarship well beyond Marxism (e.g. Vogl, 2013; see also Besedovsky, 2015).

We argue that financialisation has further weakened the 'managerial' capacities of the state. For Marx, there is something inherently obscure about financial capital; the 'most irrational form of capital' in which the 'misrepresentation of productive relations' reached its apotheosis (Marx, 1981:516). The rise of the financialised 'collective capitalist' implies a more unpredictable pattern to capitalist investment, based on the tracking of free-floating price signals by multitudinous swarms of buyers and sellers, rather than more concrete productive investment (Harvey, 2013). For Carnoy and Castells (2001), the 'information turbulence' of financialisation degrades the technocratic capabilities of the state. It implies a more diffuse and opaque formation of the capitalist class- a 'spectre', to use Vogl's (2013) words. We argue that this form of class power has greatly intensified the urge to impose disciplinary measures on the working class, forcing an ever-greater wedge between this short-term imperative and long-term stability.

Financialisation, as Sinclair (1994a, 1994b, 2000) has argued, enforces an acceleration of state decision making, as 'patient' investment relationships are marginalised in favour of immediate returns (Lazonick and O'Sullivan, 2000). Criteria for successful or unsuccessful policymaking is rendered less concrete, subject instead to the 'collective power of opinion' (Aglietta, 2000) of financial investors, rather than networks of power originating in the realm of production. Moreover, for Sinclair, the decline of patient bank-led investment creates gaps in the knowledge of potential investors. The proliferation of intermediary institutions such as credit ratings agencies is only a partial fix for this; they provide 'scores', which synthesise and impossibly vast range of highly subjective variables into a concrete figure. Hence, profound uncertainty is converted into fetishistic pseudo-certainty which can supposedly be used to quantify 'business confidence'.

This means that policymakers have to try to gain the favourable judgement of a diffuse collective 'actor' (i.e. 'the markets'), the cumulative decisions of which are inherently unpredictable, since their criteria are 'largely opaque to the outside world' (Sinclair, 1994a:454), and generally not discernible *a priori*. Aside from ratings agencies and the like, financial markets also discipline states directly through institutions and phenomena such as government bond markets. These emerge as concrete disciplinary mechanisms (Onaran and Boesch, 2014), but the criteria that wins or loses the favour of such mechanisms are extremely hazy.

Thus the inherently nebulous nature of capitalist governance is greatly exacerbated. Class remains the fundamental principle of capitalist governance, and this still results in a pre-occupation with business confidence. However, the 'confidence' of the financialised collective capitalist is manifested through very different channels than the highly personalised influence networks as described by Miliband (1969). States must seek the approval of a much more diffuse 'agency' which operates according to shorter time horizons, and which consequently heightens the contradiction between immediate-term disciplinary force and long term stability. Disciplinary techniques such as punitive ALMPs have been replicated in countries across Europe despite highly dubious empirical records and weak connections to actual 'business needs'. Wage restraint has also been enforced on a pan-European level despite its destabilising implications. In both cases, hitherto-stable institutional systems have been hollowed out or 'converted' (Baccaro and Howell, 2011) as a means of disciplining the working class and thus reassuring business confidence. In the process, once-widespread coordination mechanisms around wage policy and welfare institutions have, far from shaping and containing this process, been marginalised or subverted. These are the arguments we will illustrate in the following sections.

Wage moderation policies and growth

European wage policy has involved an intensifying emphasis on competitiveness, and 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 emerged as an immediate-term imperative in the face of demands to discipline European workforces and gain 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). 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 which has not been outweighed by comparatively modest increases in private investment and exports (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, 2015; 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. It has engendered an unstable symbiosis between debt-led consumption (e.g. in the UK and the European periphery) and export-led growth (e.g. in Germany, Austria and the Netherlands). The crisis and recession, however, has not challenged the European emphasis on wage restraint which 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.

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). However, it also acts powerfully on state policymakers, requiring that they gain the confidence of bond markets and financial investors, through reassuring them that any challenge to profit extraction from labour will be defeated. This, we suggest, means that wage restraint must continue regardless of its long term failings.

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 a class analysis recognises, is the way in which wage restraint has been a highly disruptive process in many cases, which has either undermined or subverted hitherto-stable coordination 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. Wage moderation in Europe 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 national capitalist systems, a financialised ‘collective capitalist’ which demands quicker investment returns and allocates investment based on highly nebulous criteria of ‘confidence’ is another matter. Such a model demands that disciplinary force be exerted on workers; their opportunities for ‘voice’ must be marginalised. We stress again the diffuse and opaque nature of class power in this context, which severely limits the tools available to any ‘Bonapartist’ authority trying to restore stability. We have seen that a whole range of mechanisms that serve as tools in this respect are off limits: international wage coordination, an end to ‘beggar thy neighbour’ competition, and bolstered demand via collective bargaining. They are not unavailable 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 impossible demand under conditions of financialisation. It requires a process of institutional rebuilding and, more fundamentally, concerted action in pursuit of a defined goal; a prospect fundamentally at odds with the compressed time horizons and opaque judgements of the financialised ‘collective capitalist’.

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). 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. 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 an instance of subordinating social policy to the needs of capital, since they aim to increasing the disciplinary threat of unemployment (Wiggan, 2015), putting downward pressure on wages (Nickell, 1997). 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. Moreover, there are 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).

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).

There is an element of deliberate 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 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 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 decommodification.

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 past institutional arrangements.

Discussion and conclusion

The preceding discussion has examined two policies, wage restraint and punitive active labour market policy, that have persisted and proliferated despite weak empirical results. These policies are not simply implemented on the diktat of concrete actors constituting the 'capitalist class', but rather are an attempt by the state to re-kindle 'business confidence' by exerting disciplinary measures on workers. In enacting them, states themselves are competing to win the favour of a diffuse 'collective capitalist' which operates according to compressed time horizons. We have argued that these are consequently highly short-termist policy agendas which will fail to resolve the problem of capitalist instability in the longer term. But they reflect underlying imperatives stemming from the class nature of all capitalist societies.

When comparing this period to the one following the Second World War, we are led to 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 has engendered a more diffuse class power in the form of the collective capitalist that impels states into short-termist disciplinary measures. Financialization and capital mobility crucially narrows the area of manoeuvre of the states to stabilize capitalism and to create new embedding institutions. Financialized and multinational capital does not want to give up its fall back options in return for a more stable economy. 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.

As Block (1977) has argued, the state has to seek to ensure stable capitalist accumulation, but it cannot know for certain what policies will lead to these conditions. It can receive signals and information and it can be influenced, but how this happens is contested. We have argued that under financialisation, the opacity and compressed time horizons of the collective capitalist have led

States all over Europe to pursue the highly nebulous aim of business confidence as an overarching policy goal. This disciplinary imperative may well prevent stability in the long term. 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. Both wage moderation and ALMPs are disciplinary measures which, in Offe’s (1975) terminology could be considered ‘positive selections’ (i.e. imperatives). Conversely, those policy tools such as demand management mechanisms, welfare institutions and collective bargaining systems are ‘negative selections’ (i.e. negative imperatives) insofar as they enhance the bargaining power of workers. Instead, they have been undermined and converted to the ends of furthering capitalist power over workers, however conspicuously this contradicts their original spirit (Baccaro and Howell, 2011).

We have demonstrated above that the institutional regulation of work is not simply the product of ideas or empirical interest coalitions, but absolute imperatives inherent in the class nature of capitalist society. For the 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. From a Marxist and Kaleckian perspective it is readily explainable. While fundamental Marxist operationalizations of class are commonly used in the literature on the labour process within organizations, much could be learned by extending them to comparative treatments of the political economy of work.

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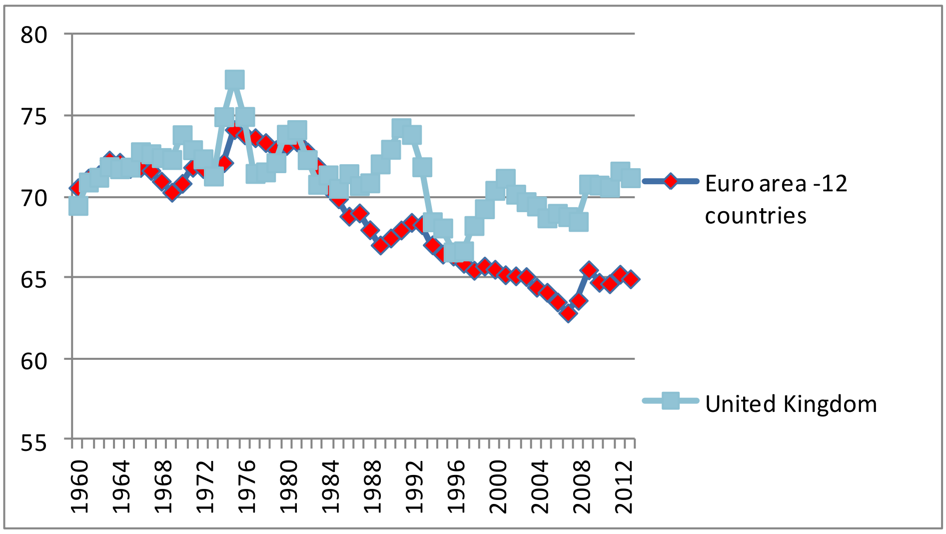
Figure 1: Wage shares in GDP, 1960-2013



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