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978-1-107-04153-0 - Resilient Liberalism in Europe's Political Economy

Edited by Vivien A. Schmidt and Mark Thatcher

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Resilient Liberalism in Europe's Political Economy

Why have neo-liberal economic ideas been so resilient since the 1980s, despite major intellectual challenges, crippling financial and political crises, and failure to deliver on their promises? Why do they repeatedly return, not only to survive but to thrive? This groundbreaking book proposes five lines of analysis to explain the dynamics of both continuity and change in neo-liberal ideas: the flexibility of neo-liberalism's core principles; the gaps between neo-liberal rhetoric and reality; the strength of neo-liberal discourse in debates; the power of interests in the strategic use of ideas; and the force of institutions in the embedding of neo-liberal ideas. The book's highly distinguished group of authors shows how these possible explanations apply across the most important domains: fiscal policy; the role of the state; welfare and labour markets; regulation of competition and financial markets; management of the euro; and corporate governance – in the European Union and across European countries.

VIVIEN A. SCHMIDT is Jean Monnet Professor of European Integration and Professor of International Relations and Political Science at Boston University, and Founding Director of Boston University's Center for the Study of Europe.

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Preface

Although, when viewed from afar, Europe may appear to be a haven of Social Democracy, strongly opposed to economic liberalism, closer analysis reveals that the place of 'neo-liberal' economic ideas in policy debates has grown steadily since the 1980s. Such ideas which, most simply stated, centre on extending market competition while limiting the state, have had a profound influence on the institutions, policies, and practices of capitalism across different European countries as well as in the European Union (EU). Neo-liberal ideas have continued to dominate policy debates through Europe's economic and political booms and busts.

This resilience of neo-liberal ideas is surprising. Europe offered a relatively 'cold climate' for economic liberalism in the 1970s, with well-entrenched alternative ideas based on Social and Christian Democracy – to say nothing of strong Marxist traditions. Powerful theoretical critiques have been made of neo-liberal ideas while policies inspired by neo-liberalism – such as allowing greater competition in financial markets, reducing regulation, and cutting back state spending and deficits even in economic downturns – have met with failure. The present difficulties of neo-liberalism can be contrasted with the past successes of alternative models, notably social democratic models. However, the greatest surprise came in the 2000s, first with the absence of any major re-evaluation of neo-liberal ideas about governing the markets in the face of the 'dot-com' boom and bust and then, even more significantly, with the economic crisis beginning in 2008. After a brief neo-Keynesian moment at the very inception of the crisis, far from abandoning neo-liberal ideas, European policy makers responded with calls for their extension. They accepted or even embraced ideas of reducing public expenditure, delegating greater powers to supranational bodies, increasing liberalization, and imposing 'market discipline' through austerity. In the meantime, Europe struggles with high unemployment, low growth, mounting income

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inequality, and economic stagnation – or worse. Politically, Europe is suffering from increasing electoral volatility, a rising tide of discontent, the re-emergence of extreme programmes and parties, and even the replacement of democratically elected governments by technocratic governments charged with administering the bitter medicine of ‘structural reform’.

This book seeks to explain how and why neo-liberal ideas remain resilient. Hence, our concern is with the ideas themselves, as objects of investigation. We seek to elucidate what they are and why and how they have persisted, thereby theorizing about the processes of continuity as much as the dynamics of change. Indeed, what we find extraordinary is that neo-liberalism has not merely survived but also thrived. It has permeated our understanding of the ways in which the political economy could and should work. It has redefined the language and framed the concepts through which we think and talk about state and market. It has altered assumptions about the purposes of state action. Thus, the post-1945 era of ‘embedded liberalism’ and Social Democracy witnessed strong ideas about an active state governing the liberal economy by ‘managing’ markets, regulating business, fostering management–labour coordination, building welfare, and reducing inequalities. In contrast, the touchstones of neo-liberalism since the 1980s have been about limiting the state and ‘freeing up markets’, reducing regulation of business and finance to provide space for the ‘entrepreneurial spirit’, and increasing ‘flexibility’ in labour markets while reducing the ‘burden’ of welfare.

Our focus in this book is on the resilience of neo-liberal ideas in policy and political debates rather than the consequences of neo-liberal prescriptions, how neo-liberal ideas may be put into practice, or whether policy outcomes are, in fact, neo-liberal. These other issues would demand consideration of a whole range of variables beyond the purview of this study, although some chapters do study how and why institutions and policies may have sustained and renewed neo-liberal ideas. Finally, there are also many analyses of the political, economic, and policy changes since the 1980s in terms of questions of power, class, interests, and institutions and links among these changes and neo-liberalism. What remains to be explained is why responses came in the form of neo-liberal rather than any other ideas and especially why and how these ideas have endured and, indeed, become dominant over time.

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Thus, our central question is as follows: Why have neo-liberal economic ideas been so seemingly resilient in policy debates and political discourse despite powerful intellectual challenges, major economic crises, apparent failure, and political turmoil? By ‘resilience’, we mean the continuity of neo-liberalism over time, its dominance over competitors, and its survival against powerful challenges and rivals. To explain this resilience, we propose five lines of analysis: first, that neo-liberalism’s tremendous ideational diversity and adaptability have enabled it to resist challenges; second, that neo-liberal ideas have remained dominant in policy debates despite or even because of a lack of implementation; third, that neo-liberal ideas have been stronger in policy debates and political discourse than their competitors; fourth, that powerful interests have promoted neo-liberalism for their own purposes; and fifth, that neo-liberal ideas have become so institutionally embedded that they preclude alternatives. These analyses provide a starting point for considering whether neo-liberalism’s resilience is due to its continuous (re)invention, its constant (re)turn to past rhetoric, its (re)framing of ideas and discourse, its (re)conceptualization of interest, or its (re)shaping of institutional arrangements and (re)distribution of power.

To probe these lines of analysis, the book examines a full panoply of neo-liberal ideas – from general philosophical principles, ideologies, and paradigms to specific legal norms, regulatory models, policy programmes, and political discourse. It explores how, why, and by whom they came to be generated, disseminated, and maintained both within national political economies in Europe and in the EU across a wide range of domains.

The first chapter defines neo-liberalism, traces its intellectual roots, and theorizes about neo-liberal ideas as objects of explanation. It then introduces five lines of analysis that can explain its resilience, illustrated by examples from the contributors’ chapters in the remainder of the book. Contributors use whichever of the five lines of analysis they find appropriate to assess their own particular cases.

The chapters in Part I explore transversal issues. With regard to the recurring economic philosophies at the core of neo-liberalism, Andrew Gamble considers the ways in which the metaphor of the ‘household economy’ has been repeatedly applied to the finances of the state to justify ‘sound money’ and balanced budgets. Regarding the welfare state, Maurizio Ferrera explores how neo-liberalism has followed a

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‘parabola’, moving from being marginal to a central position in policy debates before absorbing ideas from other social philosophies to produce a new synthesis of ‘liberal neo-welfarism’. On neo-liberalism’s changing approaches to the role of the state, Vivien Schmidt and Cornelia Woll discuss how commitments to reduce state intervention in markets later metamorphosed into an increased state role to make markets more competitive, resulting not in a neo-liberal state but rather in ‘liberal neo-statism’.

The chapters in Part II examine neo-liberal ideas in several key policy domains. In the macroeconomic governance of the euro, Erik Jones finds that the neo-liberal ‘Brussels–Frankfurt consensus’ of ‘sound money’ – fragile from the very start, given that it was always more rhetoric than reality – has largely broken apart since 2012, although neo- (or *ordo*-) liberal ideas remain embedded in the institutional rules on financial stability. In the regulation of economic markets, Mark Thatcher analyses the rise of ‘supranational neo-liberalism’ with the development of the EU’s regulatory model focused on competition, which has been resilient due to a powerful and heterogeneous coalition and processes of self-reinforcement over time. In the regulation of financial markets, Daniel Mügge suggests that neo-liberal ideas are virtually the only ideas in play but that neo-liberals are themselves divided between *laissez-faire* resistance to regulatory rules and pro-market enhancement through strong rules – even through the current economic crisis. In the reform of the labour markets, Cathie Jo Martin shows that although neo-liberal ideas dominate, with the conceptualization of similar ‘active labour-market policies’ across European countries, their application differs substantially due to different national ideational and institutional configurations, as in the cases of the United Kingdom and Denmark. In corporate governance, Sigtur Vitols charts a similar predominance of neo-liberal ideas via the ‘shareholder model’, which judges corporate performance according to shareholder value alone but, in this case, despite an alternative model focused on stakeholder value.

The chapters in Part III provide more deeply contextualized analyses of neo-liberalism (in its many forms) through paired comparisons of countries. They examine countries usually categorized as part of similar ‘varieties of capitalism’. For the liberal market economies of the United Kingdom and Ireland, Colin Hay and Nicola Smith discuss how the neo-liberal ‘Anglo-growth model’ focused on financialization has

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persisted despite financial crises in both Ireland and the United Kingdom, although they followed somewhat different trajectories due to different conceptions of the role of the state. For the coordinated market economies of Germany and Sweden, Gerhard Schnyder and Gregory Jackson demonstrate that both countries adopted neo-liberal ideas for reform, marrying them with long-standing national principles of labour–management coordination and state action, albeit in different ways. For the state-influenced market economies of Italy and France, Elisabetta Gualmini and Vivien Schmidt detail significant albeit differing resistances to neo-liberalism: Italy's political elites often embraced the neo-liberal discourse but did little to put it into practice, whereas French elites generally resisted the discourse but attempted nonetheless to implement the ideas. In the final chapter of Part III, for the dependent market economies of Poland and Hungary, Mitchell Orenstein finds that although neo-liberal ideas were adopted everywhere in Central and Eastern Europe following the end of communism, countries followed significantly different trajectories: Poland accepted – or, indeed, welcomed – neo-liberal ideas, whereas Hungary – after initial acceptance – turned instead to far-right nationalist, statist, and protectionist ideas.

Part IV, the Conclusion, examines the actual resilience of neo-liberal ideas using the five lines of analysis with illustrations from the previous chapters. It sets out the processes for neo-liberalism's ideational resilience for each line of analysis. The first line of analysis suggests that the generality, diversity, and mutability of neo-liberal ideas tend to be ensured through processes of metamorphosis, absorption, and hybridization. The second line shows how the gap between neo-liberal rhetoric and the reality of lack of implementation can, paradoxically, reinforce neo-liberalism by facilitating the regular re-use of neo-liberal ideas, diverting attention from current problems, legitimating further neo-liberal initiatives, and altering the terms of the debate. The third line of analysis argues that neo-liberalism can prove stronger than its competitors due to its seeming coherence or 'common sense', its ability to frame the problems of the day, and its communicative power in debates and discussions. The fourth line underlines the ways in which neo-liberal ideas can be promoted by self-interested actors and coalitions of interests whose power is only further enhanced by their dominance. In the fifth and final line of analysis, neo-liberal ideas

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gain in force from being institutionally embedded because this creates incentives for their maintenance and development, further empowers neo-liberal interests, and constrains the institutionalization of alternative ideas.

The Conclusion ends by using the five lines of analysis to suggest possible pathways out of neo-liberalism's ideational dominance. It discusses whether neo-liberalism may break down as a result of internal conflicts and contradictions; unsustainable gaps between rhetoric and reality; the rise of stronger alternatives and of new, powerful interests pressing for new ideas; or, finally, institutional breakdown and the appearance of new institutions.

* * *

This book developed rapidly during 2011–2013, although it was preceded by two years' worth of discussions with potential co-editors and participants. The book has very much been a group project in other ways as well. The book's major focus on neo-liberal ideas was Mark's suggestion and taken up enthusiastically by Vivien since her own work has long emphasized the importance of ideas and discourse in political science. The contributors were also central to the development of key themes in the book, as we together debated how to analyse and explain neo-liberal resilience. Discussants at the two workshops for the book in Boston and in Paris – as well as on panels at scholarly meetings at APSA 2010 and the Council of European Studies conferences in 2011 and 2012 – also played vital roles in assisting those involved to clarify our thoughts and arguments.

The first workshop, held at Boston University's Center for the Study of Europe, benefited from a grant from Boston University's Humanities Foundation. The second workshop, held at Sciences Po, Paris, was supported by a grant from the European Science Foundation. We sincerely thank both foundations for their generous support, along with those at both institutions who made the workshops a success. At Boston University, Elizabeth Amrien, Administrator of the Center for the Study of Europe, and graduate assistant Lauren Peyton were tremendously efficient and helpful, as were Renaud Dehousse, Director of the Center for European Studies, with Linda Amrani and Samia Saadi, at Sciences Po, Paris.

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Mark Blyth, Olivier Butzbach, Martin Carstensen, Daniela Caruso, John Cioffi, Pepper Culpepper, Richard Deeg, Ana Maria Evans, Orfeo Fioretos, Jeffry Frieden, Peter Gourevitch, Patrick Le Galès, Alya Guseva, Peter Hall, Charlotte Halpern, Niamh Hardiman, Miriam Hartlapp, Tim Haughton, Silja Häusermann, Anton Hemerijck, Jonathan Hopkin, Chris Howell, Daniel Kinderman, Lise Kjølørød, Brigid Laffan, Jonah Levy, Susanne Lütz, Daniel Mügge, Bruno Palier, Pascal Petit, Alasdair Roberts, Martin Schröder, Loukas Tsoukalis, Yves Surel, Graham Wilson, Daniel Wincott, and Cornelia Woll. We also thank Cornel Ban, Mark Blyth, Dorethee Bohle, Amandine Crespy, and Fritz Scharpf for kindly reading and commenting on parts of the manuscript. Naturally, we remain responsible for the views expressed in the book.

Neo-liberal ideas are complex, but we found them fascinating and relevant for understanding current political debates. We treat them academically here, but we are conscious of the fact that they are also significant for our understanding of politics and the decisions that policy makers take.