

Issues in Regulation Theory

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EDITORIAL

In this re-examination of the bases of a political Europe, Bruno Théret argues not only that the liberal monetarist approach is not the only one possible but that the US-style federalism to which this economic model supposedly corresponds should not be taken as the European Union's sole source of inspiration. Canada, for example, offers a real alternative model. But at present, the social democrats do not have a clear doctrine on the economic bases of an alternative Europe. Indeed, their positions on the nature of the institutional structures involved are confused, and sometimes contradictory, notably with regard to currency and forms of European federalism.

THEORETICAL NOTE

Which economic bases for a democratic political Europe?

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In 'Politics as a vocation' (1919), Max Weber has given us a piece of advice which is only too pertinent today: to think as a 'scholar' and not as a 'politician'. Indeed, while today's political leaders assert that there is no economic alternative outside the neoliberal-monetarist path and place European integration within it, reasoning as a 'scholar' leads to the opposite conclusion, namely that societies always have multiple options to choose from. The proof of this is found in the observable variety of capitalisms, states and political and social systems, which shows that the past has left us different options which have carried over to the present institutions and that it is reasonable to think that the present will do the same for the future.

Economics thus cannot dictate a unilateral vision of the dynamics of European integration, which must be reconsidered in terms of its diverse options. For this reason, we shall take as our starting point another 'scholar's' idea, which is that the economics of modern societies only makes sense in function of:

- a discursive representation of those elements of economic reality (i.e., the whole of the relations between individuals and things at a given moment in time) which should be selected as a schema for the creation of *value*;
- a monetary representation of the society which defines the hierarchy of recognised and authorised functions of currency in the economy and the society;
- a legal system (property law, labour law, social law, constitutional law, etc.) which delimits and links together what is public and what is private.

In fact, these three bases of the economy – discursive, monetary and legal – reflect three areas developed by European integration.

1- Economic reference models: neoliberalism vs social democracy

The economy cannot be envisioned without taking into account the social representations of what creates value. The symbolic representation of economic reality also assumes an accounting form which serves to evaluate production and its inputs and outputs. Behind the appearances of scientific precision, this form in fact expresses socio-political choices. Accounting indicators and the

definition of the national product which they impose presume the prior resolution of several questions: Does the GDP represent the social well-being which life in a democratic society should permit? Should only monetised market production be included in it or, on the contrary, should the product of non-market activities, such as domestic work, also be added? Is it the growth of the GDP in its present sense which should be maximised, or that of another indicator developing other activities in different ways (positively or negatively) and which might, if democratically examined, be considered more consistent with the common good?¹

In function of the answers to these questions, different economic options will emerge, leading in turn to divergent evaluations of the efficiency of public policies. Thus, a measurement of the GDP which includes the product of domestic labour would lead to a more favourable assessment of the impact of a reduction in waged working time on production, given the increase in non-market production (presently assimilated to 'unproductive' consumption) which it is likely to generate.

An initial option for Europe is therefore of a cognitive nature. It would consist, for example, of an overhaul of the accounting systems of the member states and the EU in order to bring them into compliance with the objectives of sustainable development. Compared to the present liberal-technocratic administration regime, illustrated in France by the monopoly of the national statistics institute (INSEE) on the national accounts, such an approach would offer a democratic option whose legitimacy would be based on a political debate; the state's chartered accountants would recognise the element of subjectivity and arbitrariness in their concepts and assessments and agree to submit them to a public debate over what the people of Europe consider as creating 'value' in the economy. Certain aspects of this debate have already

¹ On this point, see Gadrey and Jany-Catrice (2005) and Petit (2005).

emerged.² Obviously, given the heterogeneity stemming from Europe's history and the lack of a shared 'European social model', there would probably not be a convergence of opinions on the values to be taken into account (cf. Ebbinghaus 1999). But it is reasonable to think that the varied options emerging would basically reflect the systems of political oppositions which underlie the economic reference models.

Here, the debate is in fact structured by an opposition between neo-liberals and social democrats on the issue of the self-regulating nature of the market. For the neo-liberals, this is a postulate which allows them to affirm that the market has the authority to organise the whole of social life through depoliticised economic exchanges, and that economics, the science of the market, should replace political economy, the science of government. The latter, on the other hand, is still in favour with the social democrats.

Corresponding to these opposing visions are contrasting options with regard to the relationship between economic inequalities and growth. *Laissez faire* 'free-market' economic liberalism presumes that social inequalities are just and rational because they are the fundamental source of economic growth. For the neo-liberals, in an egalitarian system, the incentives for unlimited gain through work and savings lie at the origin of an economic dynamism which makes the poor better off, in absolute terms, than they would be in an egalitarian system where redistributions reduce economic incentives and the share of the pie is thus considerably reduced. Certain neo-liberals recognise, however, that in practice this model does not always function well because of the viscosity of social life, which hinders the working of incentives. For this reason, they advocate government interventions on an ad-hoc basis so as to ensure social harmony through a minimum of redistribution to the poor, who cannot believe that their situation has been improved by neo-liberal politics and policies.

The social-democratic vision is just the opposite. Inequalities are seen as unfavourable to growth because production does not create its own demand but rather follows a particular logic which repeatedly leads to either overproduction or shortages. In order to guarantee dynamic, regular growth, production outlets must be constructed politically so that they correspond to supply, and this implies various redistributions where politics must play a permanent role. Thus, the redistribution of income and the reduction of inequalities engendered by the private accumulation of capital are essential for ensuring sustained growth.

Empirical studies on inequalities, redistribution and their relationships with economic growth generally confirm the social-democratic conception. International comparisons show that sharp inequalities tend to be associated with low growth rates. France's so-called "Thirty Glorious Years" (of the post-World War II boom) were also a period where an extremely high growth rate, comparatively speaking, went along with a sharp rise in government spending and considerable income redistribution. With certain historical configurations and kinds of institutions, however, there may be an inverse relationship, which is consistent with neo-liberal theory. In short, there is no universal law. Everything depends on the institutional system, and notably the monetary regime and the legal and political system, which frame individual behaviours

and structure the incentives for production and consumption (cf. Pontusson 2005).

This situation explains the fact that liberal doctrine may have partisans who are not motivated solely by their personal interest but also sincerely convinced of the virtues of their beliefs. Such is the case in the United States, where the increasingly limited extent of redistribution over the last two decades has gone hand in hand with a revival of growth. This example only backs up the liberal model, however, if we overlook the role of a monetary regime which has nothing liberal about it, as attested by the 'Keynesian' role of the Federal Reserve Bank in maintaining full employment. Thus, the social-democratic option is not in any way invalidated by this kind of neo-liberal 'efficiency' within the exceptional institutional, cultural and political context of the United States. This is amply demonstrated by the anaemic growth prevailing in the European Union, which has gone hand in hand with an increase in social inequalities in most of its member states.

2- Conceptions of money: monetarism vs. Keynesianism

In the area of monetary policy, the fundamental opposition between monetarists and Keynesians does not exactly coincide with that between neo-liberals and social democrats. Indeed, just as a certain Keynesianism can satisfy pragmatic neo-liberals, as we have just seen in the case of the United States, monetarism is not solely the prerogative of liberals and can extend to social democracy, as demonstrated by the competitive disinflation policies adopted notably in France as of 1983.

In the monetarist vision of things, money is a veil, a thin layer of oil lubricating the gears of the market economy: it was invented and produced following a rational calculation aimed at reducing the transaction costs inherent in barter. As such, it is not a precondition for the 'real' market economy because it is not a source of value, unless it becomes merchandise, as is the case when it is transformed into capital.

Even when it is considered as merchandise, money nonetheless remains specific to the extent that it serves as a standard of measurement and an intermediary for all the other exchanges. For the social democrats, who accept this strictly private conception of money but for whom, as we have seen, market supply does not automatically adjust itself to demand, this specific nature justifies regulating the production of money by a central body in order to avoid inflation or deflation. For the liberals, on the other hand, the money market normally suffices for this task.

The Keynesian vision, meanwhile, refuses the fable of barter. It considers money as a social institution preceding market exchange and conditioning the latter's emergence. Within this conception, modern societies result not only from the development of capitalism but also from that of the state, which has invented money in its contemporary form. This logic explains the legal basis of its main feature which is that of being a unit of account (UA). From this standpoint, money is not only an economic instrument of private exchanges but also the medium through which the state develops its own economy based on the centralisation of monetary resources (through taxation) and the redistribution of these same resources (through government spending). It may also be an instrument for asserting a society's self-determination (its sovereignty) because, as a unit of account, it unifies the society by making it a community of payments (Théret 1999). And in the Keynesian vision, money is defined not by its function as an intermediary for exchange but as a means of paying debts, both public and private, brought about by transactions which are not exclusively limited to the market. This approach thus leaves a place for various kinds of public

² In the case of France, see the research of the organization Pénombre, <http://penombre.assoc.free.fr/public/divers/apropos.html>

and private currencies, with the latter not necessarily of market origin, as in the case of those born in 'local exchange systems', which emerge more from gift and counter-gifts than from the market (Servet 1999).

In this case, money is no longer intrinsically merchandise, even if it can be merchandised, but a token whose value is based on trust and is guaranteed by law and/or ethics. As a result, the regulation of monetary emission cannot be strictly subject to the requisites of the market and should take place outside of it; such emission depends on political sovereignty, which permits a territorial delimitation of the social whole where the unit of account prevails.

In the context of the European economic and monetary union (EMU), the following questions arise: Should monetary regulation be adapted to the form of political sovereignty within the area of the currency's legal circulation? In particular, doesn't the fact of having an identical monetary regime in a unified territorial state and a federal political system with split responsibilities between territorial orders of government of different scales pose a threat to the coherence and thus to the stability of both monetary and political institutional arrangements? Shouldn't the principle of the unique currency, based on the centralised, hierarchical figure of the nation-state, be called into question by virtue of the fact that multiple political powers can lay claim to a share of the authority over a single territory? In sum, the Keynesian option raises the question of a regime of monetary plurality for public and private currencies alike.

Here too, the alternative answers to this question may not coincide with the choices in the area of a global economic model of reference. This is amply demonstrated by the fact that English liberals have called for such a regime by rejecting the single currency (and by extension, refusing the euro) and declaring themselves partisans of a common currency coexisting with national currencies. Conversely, the social democrats in certain countries are partisans of the single currency, because of both their conversion to monetarism and their centralist biases concerning the form of the state.

The activation of the Keynesian frame of reference is crucial, however, if we are to leave the regressive liberal-monetarist path presently followed by the EU. This path is detrimental to any advance towards a democratic political Europe. Indeed, by privileging a centralised single currency administered at European level by an independent central bank which limits itself to keeping an eye on the money markets, such a path is illegitimate in terms of political sovereignty and democracy. It places currency in a sovereign position which has no basis in the prevailing representations of popular sovereignty. And it makes the weakest bear the weight of the adjustments required by the strict monetary stability which the free circulation of financial capital over EU territory imposes.

By contrast, the Keynesian option of a plurality of the monetary institution's social roles would lead us first of all to envisage a more active political management of the euro on the American model, where the Federal Reserve's objective is not only monetary stability but also full employment. But a coherent Keynesianism would go even further, taking into account the qualitative change in sovereignty represented by the multinational and territorially differentiated nature of the European Union. It thus calls for a careful reconsideration of the British option from the standpoint of a 'monetary federalism'. Such an option would entail going from a single currency, such as the present euro, to one which would be a common unit of account and means of payment for exchanges between member states and those outside the EU. This common currency would give way to national and local currencies circulating on more limited territorial scales and issued in

function of local needs through a principle of monetary subsidiarity. Obviously, such an option is only viable if there is a central political regulation of local emissions which would maintain the exchange rates between common currency and territorial currencies at near parity. This kind of regulation implies a development of the EU's fiscal and budgetary prerogatives to give it considerable power for redistribution between member states (cf. Pivetti 1998). The question of fiscal federalism would thus be reintroduced, along with that of the kind of constitution the EU should adopt.

3- Federal forms of the political constitution: the US and Canadian options

It is necessary to consider whether the union of states which Europe is in the process of constructing will remain a confederation, as it basically is today, or take a form which is more clearly federal. The neo-liberal path orients this process towards what has been termed 'market-preserving federalism', a federalism made in USA conceived as the ideal form for limiting the state's ability to intervene in the economy and hinder the free working of the markets (cf. Qian and Weingast 1997). Indeed, in such a system, the many veto points created by the territorial division of powers between the federal state and federated states, as well as the functional division of power within the federal government through the system of checks and balances, hinder the political decision-making process. This US-style federalism has two major features:

1. The political constitution is intra-governmental, which means that the federated entities are represented in the federal government through a specific chamber of the legislature, the Senate; this is how they participate in the federal decision-making process and exercise their veto. This system underlies the structural hegemony of a 'conservative coalition' between Southern Republicans and Democrats, which limits any political innovation at federal level (cf. Pierson 1995).

2. The economic constitution does not provide for tax redistribution between the federated states, whose tax capacities are quite uneven. It also prohibits any federal government loans to the states, which explains on the one hand a sharp tax competition between them to attract capital and, on the other, their dependency on the financial markets when they want to fund public policies more actively. Political innovation is thus also limited at local level by a 'hard budget constraint' (McKinnon 1997).

In the eyes of its defenders, the model thus closes the circle in a virtuous way: the political constitution protects the market and the market in turn preserves this constitution. It nonetheless incorporates a tendency towards centralism because of its intra-governmental nature and federal prerogatives in the preservation of the national market.

The neo-liberals promote this kind of federalism to the status of a form which should be imposed everywhere by virtue of its economic efficiency. But the study of existing federations shows that it is only one form of federalism among others (Théret 2005 and 2006). On the basis of the Canadian case, for example, we can offer the counter-example of a federalism which is the perfect antithesis in constitutional terms, namely an intergovernmental federalism using federal equalisation transfers to reduce inequalities in tax capacities between federated entities (Théret 2002a).

In this intergovernmental form of federalism, the federated entities do not as such have representatives who participate in decision-making at federal level as members of a second house of Parliament. The regulation of the resulting political competition between the two levels of government necessitates intergovernmental relations of a

diplomatic nature. This federalism also implies competition between federated entities, which can lead to tax war, but this is regulated by tax equalisation. Such institutional arrangements attest to a high level of permanent political conflict, but in a democratic system, such a conflictual situation favours political innovation, notably on social issues: each level of government in fact competes with the other for the monopoly of the feelings of shared identity which give them legitimacy.

Thus, the main risk in a 'Canadian-style' federalism is not, as in 'US-style' federalism, a drift towards the unitary state but, on the contrary, a breaking up of the federation. The latter situation is the product of the conflicting territorial identities internalised by individual citizens, who are asked to identify simultaneously with the federal state and their province (which of the two best represents the nation?). This risk can be reduced, however, if the federal state is modelled to do so. This entails, first of all, tax transfer programmes aimed at ensuring equal access to public services and social benefits across the federation, even if it is still possible for the provinces to produce and distribute them. In this case, the federal state activates the solidarity between federated entities which underlies its legitimacy. But protecting the federation also means stimulating across the common market social identities which are based on the division of labour and not the territorial division of the body politic. This requires developing a federation-wide universal social protection as a basis for a social citizenship which can effectively compete with territorial identity.

Such an intergovernmental federalism with fiscal and social equalisation is a logical option for the European Union, given the many similarities between its present institutions and those of the Canadian federation: intergovernmentalism, legalism, multilingualism, right of withdrawal (cf. enhanced co-operations), co-operative federalism (cf. open method of co-ordination). Canada's federalist experience should thus be taken into account when thinking about the ways of getting Europe out of an impasse situation (cf. Théret 2002b). It offers a social-democratic option because it is consistent with an economic frame of reference where the market is not held to be the sole means of obtaining an optimal allocation of resources and where a political redistribution of wealth aimed at reducing inequalities created by the free working of the markets is developed with concern for maintaining the territorial bond and social peace. It implies a compensation of inequalities in wealth between member states through redistribution. By contrast, in the present situation, where the doctrine of fair return prevails, the EU appears less social democratic than the US in this respect (Galbraith, Conceição and Ferreira 1999).

Conclusion

The social-democratic and Keynesian traditions can provide the bases of a federal option for Europe which is not liberal-monetarist. So why has such an option not yet been exploited? Why is social democracy at a standstill and why does it have so much difficulty setting itself apart from the liberals in terms of economic and monetary policies? Probably because it is hesitating, on the one hand, between growth at any price seen as the panacea and more carefully thought-out development and, on the other, between monetarism and Keynesianism. But we cannot forget the role played in this state of affairs by many social democrats' ignorance of the complex reality of federations. By taking at face value the standard and neo-institutionalist theories of federalism which present US federalism as universal, they confuse federalism and neoliberalism and thus adopt positions which are overcautious, if not hostile, with regard to the construction of a democratic political Europe on a necessarily federalist

basis.

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