

The Global Financial Crisis and the Problem of Unemployment: A Regulationist Approach

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Abstract

The global financial crisis which developed in 2008 arguably had the potential to undermine the stability of the entire financial system of modern capitalist economies. Although there have been economic and financial crises at both regional and international levels before, this crisis was somewhat different in its breadth and depth. It was also unique due to the sheer level of the cost of governments' responses to it.

It was clear during the crisis that mainstream economic opinion was unable to accurately predict how far the crisis would spread. Therefore, a post-crisis analysis might prove more fruitful when using heterodox approaches to political economy. The writings of Marx, and Marxist analysts, have been propelled into greater prominence since the crisis broke out and offer some convincing analyses of the modern capitalist system and the broader causes and consequences of crises of this system, including the global financial crisis. Based on Gramscian theories of hegemony, the regulation approach has been developed as a toolkit to help understand how the capitalist system is able to evolve counter-cyclical responses. These responses enable capitalism to withstand repeated systemic shocks and continue to persist and expand despite the very real human pain which these shocks can create.

Here, the regulation approach is used as a method of analysis and offers unique insights into how the crisis developed as part of a broader financialist regime of accumulation, which saw financialism and shareholder-driven market

behaviour come to dominate the capitalist system globally. The regulation approach shows how social policies, in particular those relating to unemployment, co-evolve with regimes of accumulation in order to provide foils to counter-hegemonic projects developing during times of economic crisis. This will be demonstrated to be a valid proposition, with the New Zealand government's unemployment-related policies (before and after the crisis) used as a case study to test the approach's validity.

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*It seems a strange and interesting fact that the works which have exerted
the greatest and most permanent influence are those of which it is most
difficult to give a final and conclusive interpretation.*

James Creed Meredith

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Introduction

Beginning in 2008, the world experienced the most widespread and damaging economic crisis since the Great Depression of the 1930s. The global financial crisis followed a significant boom period which occurred in the majority of developed countries, and peaked in the Northern Hemisphere summer of 2007. During the boom, there was rapid and extraordinary growth in property and commodity prices, which dovetailed with an explosion of growth in the financial sector. The crisis that followed was widespread and felt across the globe with few, if any, economies spared from its impacts. Government advisors were generally of the opinion that without state intervention, the entire financial system would collapse. Questions began to be asked as to what role the state should and does play in causing, and responding to, economic and financial crises.

Governments around the world (with varying urgency) implemented short-term responses to the economic crisis, from increasing infrastructure spending, to injecting capital into large financial institutions considered 'too large to fail', to guaranteeing bank deposits. Much of the theory behind these actions can broadly be described as Keynesian and was modelled on responses to the Great Depression. As business confidence and consumer spending shrunk, the spectre of widespread and mass unemployment loomed. The crisis was so deep and severe that it caused many, both within and outside of state apparatus, to search for explanations and ask whether the causes of the problems were in fact systemic. This led to some asking if the answers were to be found outside of what could be considered mainstream political economy. For example, the then

French Minister of Finance, Christine Lagarde considered that the crisis led to 'the breaking down of a doctrine',¹ the head of the International Monetary Fund considered that in September 2008, 'we were very close... to a total collapse of the world economy' (cited in Roper, 2011:20), and the then French President Nicolas Sarkozy stated '*le laissez-faire, c'est finis*' (Callinicos, 2010²).

This thesis seeks to explore various heterodox theories relating to political economy in order to better understand the causes of, and governments' responses to, the global financial crisis, in particular in relation to the problem of unemployment. One obvious alternative to prevailing political economic thought is that developed by Karl Marx (1818-1883) and subsequent Marxist writers. According to broadly Marxist state theory, the state does not act as a completely neutral agent within capitalist societies. The state is not autonomous of the economic system, in that it is generally dependent on the capitalist system to provide it with the means to continue in perpetuity. Policies implemented are likely to reflect the state's dual functions under capitalism: to provide stable conditions for the accumulation of capital and to maintain social stability whilst eliciting the consent of the people to the process of accumulation and the broader capitalist system.

One Marxist who tried to grapple with the problem of the ongoing survival of the capitalist system, which by its nature leads to great inequalities and instability,

¹ BBC documentary series, *The Love of Money*, first broadcast 17-24 September 2009, BBC Two, United Kingdom. See <http://www.bbc.co.uk/programmes/boomqmjs>

² Cited in English, but see also BBC documentary series, *The Love of Money*, first broadcast 17-24 September 2009, BBC Two, United Kingdom. See <http://www.bbc.co.uk/programmes/boomqmjs>

was Antonio Gramsci (1891-1937). Gramsci considered that classical Marxist thought did not provide adequate account of how the capitalist system was able to develop, and continue to develop. He sought to explain (amongst other things) why the proletariat uprising had not occurred, and why, in fact, the vast majority of the population appeared to accept a system based on alienation and inequality without question. In answer to this, he developed his theory of hegemony. Gramsci's hegemonic theory was based around the capitalist state having two main levers at its disposal in its role of supporting the capitalist economy: coercion and consent. He considered that the capitalist system is able to continue to persist as it takes on a form of accepted wisdom in that it becomes part of the collective cultural 'common sense'. Gramsci's writings, however, did not receive a great deal of academic attention for a large part of the twentieth century. The concepts which Gramsci developed have undergone something of a renaissance over the last 40 years, when his ideas were rediscovered and were able to shed light on contemporary economic and political developments.

In the 1970s, a school of thought was developed by a group of French economists who also sought to explain how the capitalist system continued to survive, in spite of it being predicated on the inherently unstable foundations of competition. Capitalism, by definition, creates winners and, importantly, losers. In order for such an economic system to continue, and indeed expand, it must be supported by economic and extra-economic mechanisms. The school used broad Marxist concepts, combined with Gramscian theories of hegemony, and applied them to

specific periods in capitalist development, such as American Fordism.³ Their ideas became known as the regulation approach. The approach has since been further developed and used as a toolkit with which to analyse specific crises and changes in the capitalist system. The theory's effectiveness and usefulness lie in the way it is able to credibly explain and understand the economic system as a very real social construction, rather than simply as a set of abstract laws (as in orthodox economic analyses). Does the regulation approach tell us anything about the causes of the global financial crisis and does it provide tools for the analysis of state actions in response to the crisis? In order to answer this question, it will be necessary to develop a case study using real examples of state reactions to the crisis. Here, the New Zealand state's response to the global financial crisis from 2008 onwards will be examined, specifically in relation to social policy, and namely the problem of unemployment. Roper considers the national and global recession to be of the 'utmost significance' when examining the policy programmes implemented by the New Zealand Government from 2008 (2011:20).

Following the November 2008 general election in New Zealand, a new government was formed, led by the National Party with support (in the form of confidence and supply agreements) from the Māori Party, ACT and United Future. The Government's initial focus was on providing a planned response to

³ American Fordism was the label given to the capitalist production methods which developed in the second quarter of the twentieth century. It was so-named after the American car manufacturer Henry Ford, who perfected the factory assembly-line method of production. His ideas led to mass production of consumables becoming the dominant production system for the majority of the century. This shift in manufacturing led to changes in employment relations and labour laws, and social and economic policies. Fordism as a system of mass production and mass consumption grew out of the United States and spread across most of the developed world.

the economic crisis, whilst maintaining tight controls on public spending.⁴ This extended into its social policies relating to unemployment, with what it called an ‘unrelenting focus on work’, and implementing a number of changes with the concept of “work first” as the underlying driver. This approach saw an increased emphasis being placed on mechanisms on the supply-side of the labour market such as ‘activating’ the unemployed to move into work through financial sanctions, coupled with the tightening of benefit eligibility.⁵

These policies, as well as other programmes and policies implemented during National’s 2008-2011 term, will be shown to demonstrate that economic and extra-economic levers are pulled by states in response to crises as counter-cyclical measures. These measures are undertaken in order to ensure that accumulation is able to continue and act as a foil to a counter-hegemonic project developing. The New Zealand government’s social policy responses to the economic crisis have been predicated on the necessity for a continuation of conditions required for increased capital accumulation, and more specifically, for the ongoing development of the global financialist regime of accumulation and neoliberal mode of political regulation. The work of regulationist writers, in particular those belonging to a sub-branch dubbed the Amsterdam school, provides a useful set of tools with which to examine the causes of, and government responses to, the global financial crisis. The Amsterdam school is particularly helpful in relation to

⁴ Key, John. Speech: Budget 2009 – The Road to Recovery, 29 May 2009. Available at <http://www.beehive.govt.nz/speech/speech+budget+2009+%e2%80%93+road+recovery> (accessed 26 April 2010)

⁵ Key, John. *Speech from the Throne*, 9 December 2008. Available at <http://www.beehive.govt.nz/speech/speech+throne+o> (accessed 26 April 2010). Bennett, Paula. *Future Focus Bill First Reading speech*, 30 March 2010. Available at <http://www.beehive.govt.nz/speech/paula+bennett+future+focus+first+reading+speech+30+march+2010> (accessed 26 April 2010)

unemployment-related welfare policies. Utilising such theories will shed light on the dynamics and motivations of governments introducing a new array of policies in an attempt to deal with the problem of unemployment in the post global financial crisis era.

Chapter One: Developing a theoretical lens for the analysis of state action

State actions do not occur in a vacuum. When governments choose to act towards or interact with society as a whole, they do so within the existing structures of that society. This will include the economic structure as well as prevailing paradigms within the populace, civil society and the state itself. In order to better understand the actions of the state, it is necessary to understand the prevailing conditions in which the state is acting.

Analysing state action requires one to use a theoretical framework within which the state's acts can be assessed, and there are numerous such frameworks available for use. These frameworks, or different theories of the state, have been developed over time and there are generally competing theories within each overarching framework (as will be shown). Patrick Moloney explains that 'theories of the state connect with larger systems of thought (ideologies) that both explain and evaluate social and political life. They embody distinct value systems and different practical commitments to the world' (1997:317). In order to better analyse state actions in relation to a specific period or event (such as the global financial crisis), or even regarding a particular issue (such as unemployment), a comprehensive framework will be required which has been tested over time but still remains relevant in the twenty-first century global political economy.

Do Marxist theories of the state fit these criteria? Although Marxist theories are still considered unorthodox, the failure of the Soviet-style Communist states in

the late twentieth century has perhaps allowed Marxism some space to be considered more objectively, without the tarnish of the brutal authoritarian regimes established under its guise. Many consider Marx to be just as relevant today as he was when he was alive. Writing in reference to the *Communist Manifesto*, the English political scientist Gareth Stedman Jones considers that:

At the start of a new millennium and against a background of endless chatter about globalization and deregulation, [the *Manifesto*] looks as powerful and contemporary a picture of our own world as it might have appeared to those reading it in 1848 (2002:5).

It will be shown, however, that understanding Marxist and Marxian state theories is no mean feat. There are many competing theories within the framework itself, and some of Marx and Engels's own explanations leave something to be desired. To be able to use Marxist and Marxian state theories effectively and convincingly, they need to be unpacked and compared with other competing state theories in order to test their validity. And although Marx's own works still resonate strongly with the modern world, it will be shown that newer frameworks based on the Marxist tradition have developed which provide even better lenses for the analysis of capitalist state actions.

With this approach in mind, this chapter seeks to explore some of the main theories used when explaining how states operate within, through, and against society. In order to better understand Marxist theories and the sub-branches of Marxian thought, after an examination of the dominant theories of pluralism, corporatism, and elitism, a more in-depth analysis of Marxist state theory will be provided, covering the development of the (several) Marxian theories of the state. This will include classical Marxism, through to 'evolutionary' strategic-relational

theory, Gramscian hegemonic theory and finally the regulation approach. It is argued that Marxian state theories, Gramscian hegemonic theories, and ultimately the regulation approach, provide more convincing and compelling arguments than those which might be considered more mainstream.

Pluralism

Pluralism (and latterly neopluralism) has been the predominant theory of the state and society since it was developed in the United States in the 1950s and 1960s. Some authors see the theory as having developed from the social contract theories of Hobbes and, in particular, Locke (Heywood, 2002). Hobbes' and Locke's theories were based on the premise (here grossly abbreviated) that humans exist individually in a 'state of nature', and that in order to live better individually, they come together collectively to form a society, which is ruled according to a social contract – we surrender our individual sovereignty to that of an authority in order to provide us with protection from other individuals. However, the individuals in society can revoke this surrender at any time and this provides the incentive for the ruler (whether that be an elected representative, a monarch or a dictator) to act according to the interests of the society at large. The important point to note is that pluralism is based on the actions and wants of individuals and groups of individuals. This is also the theoretical underpinning for liberal and neo-liberal thought which is also grounded on the theories of Locke – so, pluralism and liberalism are natural bedfellows and have together become the dominant intellectual political paradigms of modern Western societies.

This emphasis on the importance of the individual and competing interests between individuals is what underlies pluralist theory. The name comes from the idea that within a society, there are a plural number of actors (whether these are individuals or groups of individuals) all with interests that vary and can compete for dominance. When it comes to the actions of the state, pluralism holds that these competing individuals or interest groups all have equal potential to influence the power of the state to further the interests of that individual or group. The groups jockey to hold sway over the state and state apparatus. This leads to state behaviour being dynamic and variable: ‘Ultimately...the state is only a weather vane that is blown in whatever direction the public at large dictates’ (Heywood, 2002:90). The pluralist state exists within pluralist societies – that is, modern liberal democracies. Observing the seemingly constant shifting of state action in reaction to the pressure exerted on it by competing societal groups, pluralism assumes that the state is a neutral actor: ‘The state is not biased in favour of any particular interest or group, and it does not have an interest of its own that is separate from those of society’ (Heywood, 2002: 90). Or, put another way: ‘like wax impressed by a signet ring, the state was seen as a passive and malleable entity whose form reflected, at any given moment, the traces left on it by its most recent and decisive encounters with external societal forces’ (Moloney, 1997:319).

Pluralist theory has a tendency to equate and conflate the state with government. Pluralism defines the state as the government, in that the government becomes the ultimate source of state power, derived from the plural interests of the citizenry.

One of the most obvious criticisms of pluralist state theory is that it is based on the flawed assumption that all societal groups have equal access to, and ability to exert influence on, state/government actors and apparatuses. As stated by the neo-pluralist Richard Mulgan, 'not only are there differences in influence between different sectors, depending on their resources, but also within each sector those with greater resources tend to be more effective than those with less' (1993:137). Examples can be found in New Zealand of the different influence of competing interest groups. Political sociologist Brian Roper (1993) describes how business interests have had a disproportionate influence on state policy formation in the latter half of the twentieth century, and Shaun Goldfinch and Roper (1993) have examined more particularly the influence of the Business Roundtable on government decision-making. Even using a pluralist approach to analysing the role of the state in New Zealand, Mulgan admits that 'the political playing field is permanently tilted in favour of business interests' (1993:139).

Another criticism of the classical pluralist approach is that government actors and institutions do not, in reality, maintain a neutral standpoint. According to the public choice school of thought, those acting within government (in the executive, legislative and judicial branches) pursue their own interests and agendas, and this pursuit of individual interests is reflected in public policy decisions and political actions (Bertram, 1993:47-48).

In response to this criticism, the pluralist approach has evolved somewhat into neo-pluralism, which provides a more convincing theory of the role of the government and the state. As stated by Heywood:

Neopluralists... have acknowledged that business enjoys a 'privileged position' in relation to government that other groups clearly cannot rival... Moreover, neopluralists have accepted that the state can and does forge its own sectional interests. In this way, a state elite, composed of senior civil servants, judges, police chiefs, military leaders and so on, may be seen to pursue either the bureaucratic interests of their sector of the state or the interests of client groups (2002:90).

Even with the admission that corporate bodies hold a 'special' place within modern liberal democracies, pluralism and neo-pluralism lack the tools to be able to explain the behaviour of governments within an overall societal structure. They assume that individuals are able to pursue their own interests in the first and last instance; that the confines of the system within which individuals operate are entered into willingly and that individuals are able to change their positions within society at will. Moloney considers that 'compared with other theories, pluralism is a relatively unsophisticated model whose simplicity derives from its literal and sympathetic reading of liberal democratic practices. Methodologically, it begins and ends with individuals and the preferences they pursue' (1997:325). Pluralism considers the state as being flexible and reactive to the pressures exerted on it by individuals and groups of individuals. This ignores the constraints placed on the state and the individual by the economic structure, societal relations and prevailing ideologies that exist within modern capitalist societies. Bastiaan van Apeldoorn discusses the tendency of pluralism to be actor-centric at the cost of examining any underlying social structures and in so doing, leaving little room for conceptualising how the state and the social structures came to be, and indeed how they might change in the future (2004b).

Corporatism

Corporatism developed as a theory of government in response to the problems associated with pluralist thought, in particular the concept that all groups have free and equal access to the decision-making, resource-allocation and policy development processes. The corporatist theory focuses on social relationships and relational interests and conceives that these relationships develop into interest groups or corporations which have an 'integral' role in public administration (Cawson, 1986). Not only are these corporatist groups consulted with by a particular government but they actually play an active role in the development of public policy. These authors emphasise negotiation, bargaining, mutual interaction and co-ordination (Cawson, 1986; Grant, 1985; Rothstein, 1987; Traxler, 2004). As a theory, corporatism has been used primarily to describe the development of wage and labour regulation in social democratic countries since the end of the Second World War.

Corporatism shares some common elements with classical Marxist thought, in particular through recognising the unequal influence wielded by different interest groups on political decisions; an emphasis on the importance of political economy, particularly in advanced capitalist societies; and a focus on the divisions of capital and labour that relate to political economic development. This last fact has meant that much corporatist writing has placed an inordinate amount of energy to examining the role of trade unions in wage and labour public policy developments. In fact, some corporatist authors assume that, by definition, corporatism is the specific study of trade union influence on the

political economy of modern developed states. As Wyn Grant observes, there is actually no agreement between academics as to what corporatism and neo-corporatism actually are and what the theories encompass (1985:2). An example of this is the fairly fundamental disagreement as to the role of class in advanced capitalist societies (Cawson, 1986:8-9; cf. Rothstein, 1987:306).

Although corporatist theory can provide a useful lens for analysing some specific areas of government action and policy development (for example, labour and trade regulation), it fails to provide a necessary overarching framework for the analysis of the state. This is because corporatism examines negotiations that occur between government, capital and labour – rather than providing an overall conception of system which gives rise to such negotiations. As is the case with pluralism, the state and government as concepts are interchangeable under corporatism (which some corporatist writers are well aware of) (Grant, 1985).

Elitism

Elitist theory was developed in the early twentieth century and sought to explain how ostensibly democratic societies were in fact anything but, as modern democracies in reality tend to be dominated by a small group of political elites and actual, meaningful participation in the democratic process is simply a pipe-dream for the majority of the populace. The leading thinkers in relation to early elitist theory were Gaetano Mosca, Vilfredo Pareto, Robert Michels, Max Weber and Joseph Schumpeter (Best and Higley, 2009). The people or groups which comprise the political elite vary 'among societies and within them over time' (Best

and Higley, 2009). However, it has commonly been accepted that the political elite form a stratum with shared goals and norms.

Best and Higley observe that an elite political class has been of declining importance in many modern democracies over the last twenty years. They point to the rising power of individuals and how individual political leaders tend to dominate the modern political landscape – that is, personality politics. They compare this to the equivalent rise in the importance of the chief executive in the private business sector (2009).

Elitism can tend to minimise other important influences on state and government action, including private business interests, lobby groups and the mass media. Although perhaps a useful tool when examining specific governments and how they are formed, it fails to provide an explanation of the role of the economic structure of a given society. More importantly, it ignores the political economy of modern capitalist states.

Elitism may well be alive and well in modern advanced capitalist states, but the theory in and of itself cannot explain the fundamental characteristics of the capitalist state in general, and how the actions of elites within particular states are guided explicitly and tacitly through powerful forces present in the capitalist systems within which they exercise their power.

Marxism

The German philosopher Karl Marx (1818-1883) was, and still remains, one of the leading socialist thinkers. He expounded a sophisticated critique of modern capitalism. Although Marx and his colleague Friedrich Engels developed their theories in the late 19th Century, the concepts have managed to maintain a certain level of support and have been further developed since that time. At a very general level, Marxism provides an all-encompassing approach to the analysis of society, politics and economics based on a humanist and materialist interpretation of historical events and processes of change. Marxian interpretative tools have endured for over a century, when other theories have diminished in importance. There have been periods where the popularity of Marxist theory have waxed and waned (perhaps linked to capitalist economic cycles), and although Marxist theory could never be described as coming anything close to mainstream in the West, there are many aspects of Marxian critical analysis of modern capitalist society which remain compelling and enduring.

The search for an overarching 'Marxist state theory' (in relation to the modern capitalist state) which can be used as a lens through which to analyse state action is one which is difficult, frustrating and in some ways, fruitless. The theory of the state provided by Karl Marx in his own writings is wholly unsatisfactory (Aglietta, 1979:26), with the task of the full analysis of the state in capitalist societies - as both a theoretical construct and as a practical, functioning thing - being left to those that would follow. Reviewing all the various Marxist interpretations of the state in capitalist societies becomes something like a battle with the hydra.

Concepts of Marxian state theory include structuralism, instrumentalism, Gramscian hegemonic theory, semiotic Marxism, relative autonomistic theory, regulation theory and on the list goes. For all their differences, however, these various theories are still all 'Marxist'. Bob Jessop offers the following broad definition:

A Marxist theory of the capitalist state will be considered adequate to the extent that (a) it is founded on the specific qualities of capitalism as a mode of production, (b) it attributes a central role to class struggle in the process of capital accumulation, (c) it establishes the relations between the political and economic features of society without reducing one to the other or treating them as totally independent and autonomous, (d) it allows for historical and national differences in the forms and functions of the state in capitalist societies, and (e) it allows for the influence of non-capitalist classes and non-class forces in determining the nature of the state and the exercise of state power (1990:24-25).

This definition includes more factors than those which could be attributed to Marx's own theory of the state in capitalist societies, particularly point (e), and point (c) was a bone of contention between Marxist writers for the best part of the twentieth century.

Marxist state theories can be extremely difficult to unpick when undertaking a review of them as 'whilst Marxists may well rely implicitly upon certain conceptions and understandings of the state, they are notoriously bad at consigning these to the page' (Hay, 2005:60). Many of the theories are bound up in conceptual formulae that are reliant on the reader's understanding of other Marxist concepts, including the theory of value and the tendency of the rate of

profit to fall.⁶ It can be difficult to separate a theory of the state in all of this from the wider Marxian matrix of theories:

[Marx's] work on the state comprises a fragmented and unsystematic series of philosophical reflections, contemporary history, journalism, and incidental remarks. It is not surprising, therefore, that Marx rarely focuses directly on the complex relations among the state apparatus, state power, capital accumulation and its social preconditions' (Jessop, 1990:25).

Although generalisations can be made along the lines that 'Marx viewed the capitalist state as an essential mechanism of the capitalist mode of production' (Dixon, 2006:351), it is difficult to reduce the writings of Marx (and Engels) on the state in capitalist society to a coherent structural framework for analysis. As Louis Althusser put it 'we have to be frank about it... there does not *really* exist any 'Marxist theory of the State' (in Hoffman, 1984:2) (see also Sweezy, 1946).

Marx's early writings

In the *German Ideology*, Marx and Engels came closest to formulating a systematic theory of the state, as being a *class state*. They asserted that the state 'is nothing more than the form of organizations which the bourgeoisie necessarily adopt for both internal and external purposes, for the mutual guarantee of their property and interest' (cited in Hay, 2006:67), a conception echoed in the Marx and Engels's *Communist Manifesto* (2002:221). This is what Jessop coins as the 'parasitic' state in that it plays no 'essential role in economic production or

⁶ For an easily digestible and readily understandable explanation of the most important concepts developed by Marx see Jonathan Wolff's *Why Read Marx Today?* (Wolff, 2002).

reproduction and ‘the state becomes the private property of officials’ (Jessop, 1990:26). The bourgeoisie has taken control of the state and moulded it to further the bourgeoisie’s interests.

Slightly more sophisticated than this is the idea that the state is an instrument employed by the ruling class to assist in its continued domination of society: the state is an independent entity which can be manipulated by ‘any class or social force’ (Jessop, 1990:27).⁷ Further developing this interpretation, Engels considered that the state may be a ‘factor of cohesion’ in society. The state must act as an agent to ensure that clashes between the classes are minimised in order to maintain the ‘continued domination of the ruling class’ (Jessop, 1990:27). As the history of society is ‘a history of class struggles’ the state is a necessary entity to allow the process of accumulation to occur – without the state the class struggles would prevent accumulation. As Jonathan Wolff puts it ‘the economic power of the ruling class must be protected and consolidated, and the political and legal superstructure adjusts itself to bring this about’ (2002:58). The leading proponent of this theory was the Greek writer Nicos Poulantzas.

Marx's later writings

As pointed out by Colin Hay, some of Marx and Engels’s later writings would seem to indicate that they considered the state to be far more structural: the state

⁷ Marx himself, however, would likely temper this with the argument that the ‘working class cannot simply lay hold of ready-made state machinery, and wield it for its own purposes’ (Marx and Engels, 2002:194). The very nature of capitalist society prevents the *working class* from ever managing to manipulate the state machinery.

is a part of the political superstructure which develops out of the economic base. This interpretation has been described as an ‘epiphenomenological’ approach. According to this interpretation the forces of production are the key driver in capitalist societies, and the state is simply a surface reflection of the underlying economic conditions. And so, ‘the impact of the state’ is reduced to ‘a simple temporal deformation of economic development...and of economic class struggle... Thus [economic development] is always determinant in the last instance’ (Jessop, 1990:26-27).

In *The Civil War in France*,⁸ utilising his materialist conception of history, Marx described how:

The centralized state power, with its ubiquitous organs of the standing army, police, bureaucracy, clergy, and judicature – organs wrought after the plan of a systematic and hierarchic division of labour – originates from the days of absolute monarchy, serving nascent bourgeois society as a mighty weapon in its struggle against feudalism (1977:539).

A great deal of intellectual debate took place around the mid-twentieth century as to which interpretation of the state was most convincing: structuralist or instrumentalist. The structuralist interpretation is perhaps the most relevant for understanding modern political economy, and Marx clearly stated that society is made up of an economic base, which is overlaid with the social and political superstructure. The relations of productions are created from the underlying forces of production. However, later analyses have shown that both the structuralist and instrumentalist approaches are too reductionist. Richard Miller

⁸ The *Civil War in France* was a statement drafted by Marx for the General Council of the International Workingmen’s Association in response to the overthrow of the Napoleon regime and establishment of the Paris Commune in France. The statement was not published, however, until after the Commune ended in 1871.

develops a 'mode of production' interpretation which emphasises the place people hold within an economic structure, their networks and the 'nature of the productive forces to which they have access' as the fundamental cause of stability in change and society (1984:223). In Marx's own works, he tended to describe the economic base as being a prior entity to the superstructure, however Miller sees this priority ordering as misleading:

The logical order of explanation... might be taken for the chronological order, leading to an overly rigid separation of the political from the economic... In fact, this order in time does not correspond to many of Marx's patterns of explanation. Sometimes, the new economically dominant class must, but its very nature, arise from political processes consolidating its social power. His explanation of the origins in conquest of the feudal ruling class are a case in point (1984:230).

The issue of economic determinism is also examined by Thomas Sowell. He cites the words of Engels that many writers 'sometimes lay more stress on the economic side than it is due' (1985:48). Sowell argues that what Marx and Engels were attempting to do was to use historical examples to demonstrate that *change* occurs within societies due mainly to the economic base – rather than the state itself having its root cause in the economic base. Sowell emphasises that there is not 'one-way causation from economic foundation to political superstructure' (1985:48). Hoffman points out that such a determinist interpretation limits states to being essentially negative entities, and it offers no explanation of the support which modern capitalist states generally enjoy (Hoffman, 1984:3).

Applying these arguments to theories of the state, these writers have demonstrated that the development of the state in modern capitalist societies is far more complex than it simply being an epiphenomenon reflecting the economic

base. One of the main flaws in economic determinist reasoning is that the economic structure, if it is always determinant in the first and last instances, somehow exists as a cause without a cause, which is a logically flawed proposition (Jessop, 1990:81).

It also ignores the fact that people *are* able to change the economic foundations of society (even if only in a very fragmented, incremental way). States are also able to make decisions and take actions which are not necessarily in the automatic interests of individual capitalists and even capital accumulation in general, and they often do make such decisions (Sweezy, 1946:248). The theory that the relationship between the base and the superstructure (that is, the economic foundations of capitalism and the modern capitalist state) is based on reciprocal development was developed most fully by English sociologist, Bob Jessop.

Jessop convincingly argues that the state, economy and society have evolved together and are inextricably linked:

Once one allows for the complex interpenetration of social and political life, the circular flow of persons, power and resources, the contradictory matrix of functional interdependence and operational independence, the activities of intermediaries and gate-keepers, and other complicating factors, the attempt to demarcate state and society in black-and-white terms is sure to fail (1990:303).

This approach argues that the base and the superstructure develop mutually in a form of co-evolution. The simultaneous development of each has an impact upon the development of the other.

As the base and superstructure develop together, the state becomes a site in which the changes in the two are played out:

The core of the state apparatus comprises a distinct ensemble of institutions and organizations whose socially accepted function is to define and enforce collectively binding decisions on the members of a society in the name of their common interest or general will (Jessop, 1990:341).

Although this sounds something like a pluralist conception of the state, Jessop goes on to argue that ‘the state is a strategically selective terrain which can never be neutral among all social forces and political projects; but any bias will always be tendential and can be undermined or reinforced by appropriate strategies’ (1990:353). Within the specifically capitalist system ‘state power is capitalist to the extent that it creates, maintains or restores the conditions required for capital accumulation in a given situation’ (Jessop, 1990:354).

So what is really remarkable about Jessop’s contribution is that he is able to take the many strands of Marxist state theory and bring them together into something of a cohesive assessment of not only what the capitalist state is, but how it has developed and functions. However, in doing so, he has almost destroyed the very notion of a Marxist theory of the state – there is no one conception of the state, as ‘there can be no general or fully determinate theory of the capitalist state, only theoretically-informed accounts of capitalist states in their institutional, historical and strategic specificity’ (Hay, 2006:77). Instead, the state has developed as the site of strategic struggles involving the social relations of production which have co-evolved with the forces of production. In capitalist society, the state acts to reinforce the accumulation of capital and it is able to do so through a number of means. Exactly what these means are and how the state employs them have been

extensively examined through two theoretical approaches: one from the early twentieth century and one to have developed subsequently. The first is Gramsci's theory of hegemony and the latter is the regulation approach. It is to these two theoretical approaches which we now turn.

Gramsci and the theory of hegemony

In order to find a remedy to the gap in classical Marxist theory (which fails to account in any convincing way for the ongoing support which modern capitalist democracies generally enjoy and for its, thus far, enduring nature) many Marxist writers have looked to the works of Antonio Gramsci (1891-1937).

Gramsci was a leader of the Italian Communist Party and a member of the Italian Parliament. In 1926, Gramsci was arrested and imprisoned as Benito Mussolini eliminated democracy and established a dictatorship. In 1928, after a show trial, Gramsci (along with 22 others) was sentenced to imprisonment for organising an armed insurrection. The public prosecutor declared at the time that “we must stop this brain from functioning” for twenty years. Between sentencing and his death in 1937 (in a prison clinic, six days after he was technically released), Gramsci was able to develop his theories and wrote extensively on them – filling notebooks and writing letters to friends and family. After his death, 33 notebooks of his writings were smuggled out of Italy to Russia by his sister-in-law (Hoare and Smith, 1971).

Gramsci wrote on several themes, including on the state and civil society where he developed his theory of hegemony, and on the rise of Americanism and Fordism. Gramsci's theory of hegemony provides the basis for a comprehensive assessment of the capitalist state which addresses the problems of consent and democracy in modern capitalist societies. Although Gramsci developed his theories in the early twentieth century, his views were largely overlooked by most Marxist writers until around the 1970s when Western Marxist thought found itself in crisis and searching for answers about the enduring success of modern capitalist democracies (Hoffman, 1984:6).

Hoffman describes how Marx and Engels were able to see that the capitalist state was able to claim legitimacy as being an expression of the interests of the bourgeois class as if those interests were the interests of society *as a whole*. Gramsci took this one step further and developed a theory of how it came to be that capital accumulation is seen as a desirable end, and the capitalist state an acceptable part of the system which creates means to achieve that desirable end. In order to maintain legitimacy without the constant need to resort to physical coercion, the capitalist state requires the populace to consent to its continued existence:

The maximum of legislative capacity can be inferred when a perfect formulation of directives is matched by a perfect arrangement of the organisms of execution and verification, and by a perfect preparation of the “spontaneous” consent of the masses who must “live” these directives, modifying their own habits, their own will, their own convictions to conform with those directives and with the objectives which they propose to achieve (Gramsci, 1971:266).

Hoffman describes the Gramscian concepts of coercion and consent thus:

‘Mixed up’ with this coercion is consent, a sense of community, a belief in brotherhood, a universal citizenship... It is a coercion which is concentrated in the hands of the state, generalized in its scope and presented ideologically as a force for the ‘common good’. It is public and official, organized and ‘legitimate’ i.e. it claims to act in the interests of society as a whole. This in a word, is what makes coercion ‘political’ (1984:32).

The Gramscian ‘common sense’ to which Hoffman refers is not the common sense used in popular parlance, meaning pragmatic knowledge and understanding of practical activities. Rather, it is a sense of understanding that is held in ‘common’ in that it is a shared belief that is so pervasive as to be something of a societal worldview (Hoare and Smith, 1971:322).

Gramsci considered that the actors who drive and sustain hegemony are those he called “intellectuals”, a term he used to describe a wide societal group (that is, rather than a narrow group of professional academics). He considered that the superstructure was made up of two “levels”, and that these two levels operate in tandem respectively to coerce, and gain the consent of, other societal groups:

One that can be called “civil society”, that is the ensemble of organisms commonly called “private”, and that of “political society” or “the State”. These two levels correspond on the one hand to the function of “hegemony” which the dominant group exercises throughout society and on the other hand to that of “direct domination” or command exercised through the State and “juridical” government... The intellectuals are the dominant group's “deputies” exercising the subaltern functions of social hegemony and political government. They comprise:

1. The spontaneous consent given by the great masses of the population to the general direction imposed on social life by the dominant fundamental group; this consent is “historically” caused by the prestige (and consequent confidence) which the dominant group enjoys because of its position and function in the world of production.
2. The apparatus of state coercive power which “legally” enforces discipline on those groups who do not “consent” either actively or passively. This apparatus is, however, constituted for the whole of society in anticipation of moments of crisis of

command and direction when spontaneous consent has failed (Gramsci, 1971:12).

Carl Boggs describes how the glue which holds the base and superstructure together 'particularly during times of stress or crisis' is what Gramsci called ideological hegemony:

By hegemony Gramsci meant the permeation through civil society – including a whole range of structures and activities like trade unions, schools, the churches, and the family – of an entire system of values, attitudes, beliefs, morality, etc. that is in one way or another supportive of the established order and the class interests that dominate it. Hegemony in this sense might be defined as an 'organizing principle', or world-view (or combination of such world-views), that is diffused by agencies of ideological control and socialization into every area of daily life. To the extent that this prevailing consciousness is internalized by the broad masses, it becomes part of 'common sense' (Boggs, 1976:39).

It is this ideological hegemony through common sense which accounts for the ongoing support for the continued accumulation of capital, as it means that the hegemonic ideal becomes a norm, a conception of what is 'good' so that deviation from this is seen as 'bad'.

Jessop discusses how ideological hegemony can actually be incorporated within the classical Marxist theory of class struggle:

For hegemony to exist, then, it is necessary for the dominant bloc to secure the support of dominated classes (such as the peasantry, the urban petty bourgeoisie and sections of the working class), of social categories (such as the military, officials and intellectuals), and of significant social forces (such as ethnic minorities, religious movements, and similar groups capable of intervening with pertinent effects on the class struggle between capital and wage labour). Such support does not stem from simple 'false consciousness', but is rooted in the incorporation of certain interests and aspirations of the 'people' into the dominant ideology. For the ability of the power bloc to maintain its hegemony depends on its success in articulating 'popular-democratic' struggles into an ideology that sustains the power of the dominant classes and

fractions, rather than working to reinforce the revolutionary movement (1990:42).

And so, specifically relating to modern capitalist societies, we find that ‘most people take capitalism for granted, just as they take the solar system for granted’ (Sweezy, 1946:21. See also Watkins, 2011). According to Sweezy, without self-reflected critical analysis, most end up living in a mirage:

Those who regard capitalist forms as natural and eternal – and, generally speaking, this includes most of those who live under capitalist forms – accept the appearance as a true representation of social relations. On this foundation there has been erected the whole vast superstructure of ethical and legal principles which serve at once to justify the existing order and to regulate men's conduct towards it. It is only by means of a critical analysis of commodity production, an analysis that goes beneath the superficial forms to the underlying relations of man to man, that we can see clearly the historically relative character of capitalist justice and capitalist legality, just as it is only by such an analysis that we can see the historical character of capitalism itself (1946:39).

Following in Gramsci's footprints, the key theories of Gramsci's conception of hegemony have since been woven into the regulation approach, and some sub-branches of the approach in particular.

The Regulation Approach

The Regulation approach was developed by radical economists in France in the 1970s, including Michel Aglietta, Robert Boyer and Alain Lipietz. They considered that orthodox economic thought was based on normative, abstract laws that were, in fact, divorced from reality. Orthodox economic theory considers all economic activity in a comparative manner to the ideal, perfect actions of the abstract market and individuals acting within it, rather than what

happens in actuality. And even considered in its most “perfect” form, a purely competitive capitalist system is something of an anachronism. If perfection is reached by the market attaining harmonic equilibrium, then by definition this can never be. There will always be disequilibrium as capitalism by its very nature creates winners and losers – if it didn't, it wouldn't be capitalism! Therefore, measuring economic performance and activity against an unattainable goal is ultimately pointless and academic (in the worst sense of the word).

It should be noted that the term regulation does not refer to regulation in the form of government-enacted rules and legislation. The term is based on the French word *régulation* which relates to how, say, a subject or object may be regulated by external forces acting upon it. In the sense used by the regulationists, it examines how the economy is regulated by 'a range of economic and extra-economic mechanisms in seeking to explain the 'regularities' of economic behaviour' and not just the state through legislative means (which in French would more correctly termed be *réglementation*) (Jessop and Sum:2006).

The regulation approach does not overlook the other strands of Marxist state theory, but instead seeks to explain how specific capitalist economies and states operate, and accounts for the differences that occur between nations and economies within the overall capitalist system. One of the fathers of regulationist thought, the French economist Michel Aglietta, has provided an overview of what the approach encompasses:

Regulation theory is concerned with heterogeneous economic processes in which necessity and contingency, the constraint of the past and the creation of the new are intertwined. It deals with processes that emerge, are reproduced, then wither away under the

effects of the unequal development inherent in capitalism... A mode of regulation is a set of mediations which ensure that the distortions created by the accumulation of capital are kept within limits which are compatible with social cohesion within each nation. This compatibility is always observable in specific contexts at specific historical moments (1998:44).

In many ways, the foundations for the regulation approach may be found in Gramsci's *Prison Notebooks*. In the section *Americanism and Fordism*, Gramsci sought to analyse the Fordist mode of production and growth and its place within the hegemonic project (Gramsci, 1971:279-318). In so doing he developed 'a persuasive analysis of trends in social and economic development' (Hoare and Smith, 1971:277). Gramsci's ability to link the social and the economic is fundamental to the regulation approach. Later, it will be shown that such a framework can be used a sophisticated analysis of the coevolution of social policies and regimes of accumulation, particularly in relation to economic crises.

However, returning now to a description of the regulation approach (bearing in mind its Gramscian roots), regulation theorists asked:

How capitalism could survive even though the capital relation itself inevitably generated antagonisms and crises which made continuing accumulation improbable. The answer was found in regulatory mechanisms, i.e. institutional forms, societal norms and patterns of strategic conduct which successfully regulated these conflicts until the inevitable build-up of tensions and disparities among the various regulatory forms reached crisis point. When this occurred there would be an experimental period from which a new accumulation regime and a corresponding mode of regulation might – or might not – emerge (Jessop, 1990:307-308).

Aglietta found that the dialectical materialism developed by Marx provided answers that the dominant economic paradigm could not:

The study of capitalist regulation, therefore, cannot be the investigation of abstract economic laws. It is the study of the

transformation of social relations as it creates new forms that are both economic and non-economic, that are organized in structures and themselves reproduce a determinant structure, the mode of production (Aglietta, 1979:16).

Regulationists have been described as having four goals: (1) describe the institutions and practices of capitalism; (2) explain the various crisis tendencies of modern capitalism and/or likely sources of crisis resolution; (3) analyse different stages of capitalism and compare accumulation regimes and modes of regulation in a given period of capitalist development; and (4) examine the social embedding and social regularization of economic institutions and conduct (Jessop and Sum, 2006:14-15).

Since its beginnings 30 years ago, the regulation approach has been developed by a number of individuals and groups, each taking on a different emphasis in its analyses and flavour in its interpretations.

The work of the English sociologist, Bob Jessop (who has already been cited above), provides an invaluable description and interpretation of the large body of work that comprises the regulation approach. Although he does not describe himself as a regulationist, per se (he uses the label 'Marxist state theorist') (Jessop and Sum, 2006:236), he draws heavily from the regulationist corpus in developing his theories relating to a strategic-relational analysis of the modern capitalist state. He also utilises strands of Gramscian hegemonic theory, which makes his work particularly relevant for the present purpose. In many ways, Jessop is able to provide more comprehensive analyses of the regulation approach to aide one's understanding it, beyond what even the regulationists

themselves are able to do. Therefore, Jessop's work will be drawn from significantly in this thesis.

Jessop and Sum have identified seven different regulation "schools" (Jessop and Sum, 2006). For the broad analyses in this research relating to the global financial crisis, the tools of analysis developed by the dominant Parisian school (that which was first conceived by Aglietta and Boyer) will be used predominantly. The Parisian school focuses on a succession of technological paradigms, accumulation regimes and modes of regulation and their crisis tendencies. Later, in Chapter Three, the framework developed by the so-called Amsterdam school will also be used to examine hegemonic elements of the transnationalised neo-liberal global economy and social policy programmes. The Amsterdam school is interested in the capacity of specific fractions of capital to develop 'concepts of control' that secure relatively stable accumulation and political, intellectual and moral hegemony as well as the wider international division of labour. The school also places a significant emphasis on historical materialism in its analyses.

Two of the key concepts which were developed by the early Parisian regulationists were those of the 'regime of accumulation' and the 'mode of regulation'. The regime of accumulation is defined as 'a particular combination of production and consumption which can be reproduced over time' (Jessop, 1988:150). The regime of accumulation exists at a macro-economic level and comprises five forms: the state apparatus, money as an institution, international relations, forms of competition and wage labour relations (Jessop and Sum, 2006). Whichever of

these five forms is dominant will define a particular historical era. Atlantic Fordism is the regime of accumulation which has attracted the most analysis from the regulationists. Others include Japanese capitalism and classical English liberalism.

The mode of regulation exists at a meso-level and includes both economic and extra-economic factors. It is a 'complex' of norms and institutions which seek to secure capitalist reproduction – 'a set of rules for the social game that are produced by the five institutional forms' mentioned above (Isogai et al, 2000:33). It has also been described as a set of 'mediations' which ensure that the class struggle is institutionalised and bounded within certain acceptable limits. It creates the social cohesion necessary to allow capitalist accumulation to continue. This theory very much includes features related to Gramsci's concept of hegemony. The regime of accumulation and the mode of regulation are considered to always implicitly be the outcome of past struggles and 'are always penetrated with present struggles' (Jessop, 1990:309). Put in a simplified (Gramscian) way, Jessop considers that specific forms of capitalism = an accumulation regime + a mode of social regulation (Jessop, 2002:5).

As mentioned above, there are inherent contradictions and conflicts within capitalism which ultimately lead it towards crisis. The regime of accumulation and the mode of regulation are the strategic principles which contain and limit these contradictions and conflicts. But, as history has shown, the contradictions and conflicts cannot be subdued forever. Evolutionary, or sudden, changes in systems, or even human behaviour, mean that crises do occur. The regulationists

analyse crises through the identification of changes in the mode of regulation and the accumulation regime.

The regulation approach and the state

Regulationists do not consider the state on its own to be the fundamental driver of political economics and capitalist accumulation. Instead, the state becomes both the subject and object of regulation. It exists as a complex social relation (Jessop, 1990:260). The national state is key in securing the conditions for economic activities and stabilising modes of growth. The state has a major role in guaranteeing provision of certain basic economic and extra-economic preconditions for the profitable operation of capital; it has an equally important role in securing economic and extra-economic conditions for reproducing labour-power as a fictitious commodity and it has a key role in articulating the global flows of capital and national labour markets and dealing with the resulting contradictions.

Aglietta considered that the state was necessary as a mode of 'social cohesion' as the capitalist relations of production tend to fracture society into different competing groups (1979:26). Marxian historical materialism explains that this must be so. That is, the wage relation becomes the dominant relation within society 'to the detriment of all other relations of production' and destroys any and all 'communal conduct' of the working class (1979:32). In order to ensure that society does not disintegrate completely, the state acts as a new unifying order – it penetrates civil society and 'profoundly' restructures it (1979:32).

New Zealand's David Neilson, who has used the regulation approach regularly to explore the development of state policies, explains that 'the mode of political regulation refers to the norms, principles, and institutions through which the demands and values of citizens construct and constrain the project of the central state' and that the different mode of regulation and regime of accumulation predominant at any one time will determine how constrained the state is in its actions – that is, its degree of relative autonomy (1998:50).

The Amsterdam project, in describing transnational historical materialism, places particular importance on the different class fractions that exist within capitalism and how these impact upon the characteristics and actions of a particular state. The fractions occur across and within the more commonly understood Marxist class divisions. Different specific instances of capitalism will mean that class fractions behave, interact and wield power differently. Kees van der Pijl considers that the state 'supports the existence of ruling classes in their particularity, while capital, as the globally dominant principle of the exploitation of labour, lends coherence to class rule in general' (1989:10). Other Dutch regulationists have identified that the state is a necessary tool to enable a ruling class at both the national and transnational levels (Overbeek, 2000; van Apeldoorn, 2004a). The Amsterdam school of regulation will be examined in more detail in Chapter Three.

Aglietta also takes this theory of the necessity of the state beyond national borders to consider the capitalist system as a whole (and incorporates hegemonic theory in doing so):

We can now catch a glimpse of the full meaning of imperialism: a hegemony difficult to exhibit through which one state manages to influence a series of other states to adopt a set of rules that are favourable to the stability of a vast space of multilateral commodity relations guaranteeing the circulation of capital. It is not the multinational forms that give rise to imperialism. Their existence would be impossible without a system of states maintaining stable relations of unequal influence (1979:32).

Different authors have used the regulation approach to analyse state action to greater and lesser extents. The next chapter uses the regulation approach at a macro-level to understand the causes of the 2008 global financial crisis. The chapters following will also use the regulationist toolkit to empirically examine social policy programmes and in particular such programmes in New Zealand in response to the global financial crisis and unemployment and ultimately how this relates to a market-driven financialist accumulation regime.

Chapter Two: Finance-led capitalism as a regime of accumulation and the global financial crisis

The global financial crisis threatened to completely permanently disrupt the financial system of modern capitalist economies (Eichengreen, 2009:435; Crotty, 2009:564; Clarke, 2010). The effects of the crisis spread like a contagion across the globe. The financial and economic turmoil which it caused was so deep and so severe that few, if any, countries were spared from the effects. Although there have been economic and financial crises at both regional and international levels before, this crisis was somewhat different, in its breadth and depth, and the cost of governments' responses to it (Clarke, 2010). The then Assistant Secretary of the US Treasury, Phillip Swagel, has stated that the events which took place in 2008 were 'something which the textbooks never considered'.⁹ Of course, the textbooks to which Mr Swagel refers are, by definition, mainstream. The events may well have been considered possible by texts not so mainstream.

If orthodoxy was unable to conceive of the depth and scale of the economic crisis, even as it unfolded, using what might be considered unorthodox economic and political theories might prove more fruitful when undertaking an analysis of the causes of, and state responses to, the crisis. This is particularly so when the causes of the crisis could potentially be attributed to the neoliberal philosophical foundations of the modern economic and financial systems. The writings of Marx, and Marxist analysts, have been propelled into greater prominence since

⁹ BBC documentary series, *The Love of Money*, first broadcast 17-24 September 2009, BBC Two, United Kingdom. See <http://www.bbc.co.uk/programmes/boomqmjs>

the crisis broke out and offer some convincing analyses of the modern capitalist system and the broader causes and consequences of crises of this system, including the global financial crisis (Pitelis, 2010:4). As a further development on Marxism, the regulation approach is a toolkit which can help explain how the capitalist system is able to evolve counter-cyclical responses to withstand repeated systemic shocks and can continue to expand despite the very real human pain which these shocks can create. This chapter examines the structure and causes of the global financial crisis. The regulation approach is used as a method of analysis and offers unique insights into how the crisis developed as part of the broader regime of accumulation, which saw financialism and shareholder-driven market behaviour come to dominate the capitalist system globally.

An accumulation regime for the twenty-first century

One of the key concepts developed by the early Parisian regulationists was that of the 'regime of accumulation', which is a particular combination of production and consumption which can be reproduced over time 'despite conflictual tendencies' (Jessop, 1990:308). The regime of accumulation occurs at a macro-economic level. In his seminal work, *A Theory of Capitalist Regulation: The US Experience*, the French economist Michel Aglietta described how important it is to define the dominant regime of accumulation when analysing the capitalist system:

Accumulation reproduces the relations of production by constantly transforming their operation. In order to achieve a precise analysis of the forms of regulation under capitalism, it is necessary first to define an intermediate concept, less abstract than the principle of accumulation so far introduced. This is the concept of the *regime of accumulation* (1979:68).

Using Marxist economic principles, Aglietta explains that 'a regime of accumulation is a form of social transformation that increases relative surplus-value under the stable constraints of the most general norms that define absolute surplus-value' (1979:68). To re-emphasise, the regime of accumulation is a macro-level pattern of production and consumption which recurs over time.

It is argued here that the accumulation regime which became predominant in Western neoliberal countries at the end of the twentieth century was a capitalism dominated by market-driven (and therefore shareholder-driven) financialism, and this financialism in the main led to the global financial crisis which occurred at the close of the first decade of the twenty-first century.

The finance-driven growth regime was observed and described in some detail by the regulationists Michel Aglietta in 1998 and Robert Boyer in 2000, and their theories relating to this were developed by them and other writers in the years since. Market finance came to power as the driving force of capitalism in the 1970s, largely in response to a marked 'deceleration' in productivity in the real economy which occurred in the US and elsewhere from mid-1960s (Boyer, 2004:44; Aglietta, 1998:75-76). Commencing during the Reagan administration of the 1980s, the US economy and its financial institutions were increasingly deregulated, with the objective of increasing flexibility in labour and capital markets thereby driving competition, and ultimately economic growth. Then in the 1990s, a "new economy" emerged which was based on the rapid development of information technology and an internet bubble led by a proliferation of

'dotcom' enterprises. Boyer describes how these changes initially came together in the United States to assist in the development of the finance-led growth regime:

Several changes contributed to a strong growth in financial assets [during the 1990s] including the long path followed by financial innovation; the deregulation trend that broke down barriers between traditional banks and investment banks and the reform of the US retirement system...They were initiatives which spread from the United States to the rest of the world and which turned New York into the world's main centre of international financial intermediation... financialization developed more quickly than either foreign direct investment or exports (2004:49).

This financialisation further developed over the next three decades. Aglietta and Rebérioux identify that the rise in finance-led capitalism was driven by two movements: the growth in liquidity in capital markets (and with it an increase in the breakdown and transfer of risks) and an upsurge in the level of investment funds. These drivers, along with the concomitant explosion in information technology allowed market-led financialism to cement its pre-eminent position by enabling finance to 'impose its logic with greater efficiency' and helped to create the market for increasingly complex financial instruments (Aglietta and Rebérioux, 2005:20). The globalisation of financial markets and these financial instruments was 'mediated' through international currency conversions and enabled by simultaneous international deregulation (Aglietta, 1998:69 and 79).¹⁰

Coupled with the changes that were developing broadly in the financial sector, another change was occurring at the corporate level. The regulation approach holds that the dominant form of corporate structure is important as a method of

¹⁰ In his 2010 work, *Bonfire of Illusions*, Alex Callinicos considers the growth of 'financialization' and Marxist interpretations thereof. Callinicos defines 'financialization' as 'the greater autonomy of the financial sector, the proliferation of financial institutions and instruments, and the integration of a broad range of economic actors in financial markets' (Callinicos, 2010:34).

regulation. For example, the corporate structure which was predominant under Fordism was the hierarchical corporate structure. This structure ceased to have such an important role towards the end of the twentieth century, and the role of the shareholder in corporate structures became the primary one. According to Aglietta and Rebérioux 'the balance of power of the corporate hierarchy of the Fordist era was destroyed, while the figure of the shareholder was elevated to the pinnacle of the firm by the doctrine of shareholder sovereignty and the demands of profitability' (2005:252). This analysis does not presume that specific shareholders or even groups of shareholders hold direct control over corporate behaviour. Rather, it was more the demands of the shareholder *class* that became the critical driver in corporate governance decision-making – the need to ensure shareholder value was always maintained or increased. Large multinational corporations, including financial entities such as banks and insurance firms, came under greater and greater pressure to ensure that shareholders had rapid and large returns on their investments. Aglietta refers to the 'prodigious' rise in the number of institutional investors, when compared with the decline in savings held in traditional banking instruments. The old forms of 'managerial control' have been replaced by firms being compelled to raise performance 'evaluated by the financial markets' (1998:69). Aglietta goes on to describe institutional investors as being the most important 'mediators' in the new accumulation regime (1998:79). This led to increasingly risky behaviours within the corporations. The specific facets of these risky behaviours and the financial instruments which enabled, and were enabled by, these behaviours will be described later in the chapter.

The global financial crisis – a crisis of transnational spillovers

Turning away for the moment from the overarching regime of accumulation which had developed from the end of the twentieth century it is necessary, by way of background information, to describe some of the key events of the global financial crisis as they unfolded over 2007 and 2008. The crisis spread like a contagion across the developed world, with developments causing spillovers across borders. Below is a truncated timeline of the crisis which demonstrates the transnationality of the crisis well, and also how the industries at the centre of the global financialist regime (multinational investment banks and insurance giants) were also at the centre of the crisis and the various governments' responses to it.

Table 1: Abbreviated timeline of global financial crisis: 2007-2008¹¹

Year	Period	Event
2007	April - August	There are warning signs coming from financial conglomerates and institutions across the western world that the previous boom period is ending, as inter-bank lending rates rise and available liquidity begins to shrink. Some reserve banks begin putting money into markets to increase liquidity levels.
	September	Large market-dependant British lender, Northern Rock, receives emergency support from UK reserve bank, leading to £1bn being withdrawn by depositors in one day alone.
	October - December	Financial giants such as Merrill Lynch are revealed as being exposed to billions of dollars of bed debt and over one million sub-prime mortgagors in the US face mortgagee foreclosure.

¹¹ <http://news.bbc.co.uk/2/hi/7521250.stm> (accessed on 9 April 2012); http://www.newyorkfed.org/research/global_economy/policyresponses.html (accessed on 9 April 2012).

2008	January - March	Credit ratings agencies downgrade insurers. Reserve banks continue to lend money to bail out financial institutions. Wall Street's fifth-largest bank, Bear Stearns, is acquired by larger rival JP Morgan Chase for US\$240m in a deal backed by US\$30bn of central bank loans. A year earlier, Bear Stearns had been worth £18bn.
	April	20% of mortgage products are withdrawn from the UK market in just 7 days. First annual fall in house prices in UK for 12 years. Swiss bank UBS, one of the worst affected by the credit crunch, launches a US\$15.5bn rights issue to cover some of the US\$37bn it lost on assets linked to US mortgage debt.
	July	UK FTSE 100 stock exchange falls into "bear market" state and suffers losses of 20%. US government steps in to assist Fannie Mae and Freddie Mac, owners or guarantors of US\$5trillion worth of home loans. They are considered 'too big to fail', as their collapse could unwind entire economy.
	August	UK house prices fall by over 10% in one year. UK lenders begin posting losses in the tens of millions of pounds. The UK Chancellor announces the UK is facing its worst financial situation since the Great Depression.
	September 12-14 15 16 17 18-24	Wall Street bank Lehman Brothers posts a loss of US\$3.9bn for the last 3 months. US officials step in to try to find a buyer for it. 15 Lehman Brothers files for bankruptcy, the Bank of America agrees to bail out Merrill Lynch for US\$50bn, and shares in HBOS, the UK's biggest mortgage lender, crash by 34%. £50bn is wiped off the FTSE 100 in one day. US authorities also agree to a US\$20bn bailout package for insurance giant AIG. 16 Asian markets begin to plummet. Global investment banking and securities giant Goldman Sachs (Wall Street) reports a 70% drop in profits. 17 Russia suspends stock market trading. Morgan Stanley bank (Wall Street) shares fall 30%. It is revealed that Merrill Lynch's executives received US\$200m in bonuses. From now on, successive governments move to prohibit short sales of financial stocks, whereby assets (usually securities) are borrowed from a lender then sold with the intention of buying them back "shortly" for return to the lender – with the intention of profiting from the fall in price between sale and re-purchase. 18-24 Central banks around the world pump US\$180bn into the system in a concerted effort to end the crisis. More bailouts are announced and there is worldwide consternation over the levels of salaries and bonuses being paid to financial executives. Markets fluctuate in response to government actions. US Secretary of

	<p>25-27</p> <p>28</p> <p>29</p> <p>30</p>	<p>the Treasury, Henry Paulson, develops a US\$700bn bailout plan to rescue the economy.</p> <p>Ireland becomes the first state in the Eurozone to fall into recession. Companies across the Western world begin shedding jobs as consumption reductions begin to bite. Debate in the US rages over the proposed bailout plan.</p> <p>New Zealand economy officially falls into recession. Inter-bank lending rates reach unprecedented highs. The Icelandic government takes control of one of its biggest banks. FTSE 100 plummets in one of its worst-ever trading days.</p> <p>US government bailout package fails and stock markets around the globe fall again in response. The Irish government takes the unprecedented step of guaranteeing retail deposits for the next two years, to prevent bank runs. In US, biggest ever fall in house prices announced.</p>
	<p>October</p> <p>1-7</p> <p>8-9</p> <p>10</p> <p>11</p> <p>12</p> <p>14</p> <p>16</p> <p>17-21</p>	<p>US Senate votes in favour of the Wall Street bailout. UK government guarantees British bank deposits of up to £50,000. FTSE 100 has its largest one-day points fall.</p> <p>UK Treasury announces £50bn bank rescue package. Bank of England, US Federal Reserve and European Central Bank all cut half a point off their key interest rates. Icelandic bank accounts begin to default. Dow Jones loses 14.7% of its value over six successive days. International Monetary Fund (IMF) announces emergency plans to bail out governments affected by the crisis.</p> <p>Stock markets again take massive falls. Japan's Nikkei Index falls 10%, Singapore moves into official recession, the FTSE 100 falls 10% (wiping £100bn off the value of Britain's largest companies) and the Dow Jones falls 8%. Oil prices fall by US\$5 per barrel.</p> <p>G7 finance ministers and IMF meet in Washington to develop five-point plan to rebuild the global banking system (using billions of taxpayer dollars).</p> <p>UK government bails out Royal Bank of Scotland, HBOS and Lloyds TSB. 15 member countries of the Eurozone, led by France and Germany all announce co-ordinated plans to provide their banks with capital.</p> <p>Icelandic stock exchange resumed trading, but falls 76% after opening.</p> <p>Swiss bank UBS receives government bail-out. EU summit held in Brussels. OPEC calls emergency meeting after oil prices fall to half the level they were in July.</p> <p>Dutch government announces bail-out of savings bank ING. UK government announces infrastructure investment plan to boost productivity and employment levels Public debt in those countries reaches record levels.</p>

	22-24	Pakistan seeks emergency bail-out from IMF. Large, multinational corporations announce job losses, pay cuts and wage freezes. Canadian government guarantees deposits.
	27 28-31	Ukraine and Hungary seek IMF rescue packages. So far, losses to the world's financial institutions amount to US\$2.8 trillion and the Bank of England calls for reform of the world banking system. Japan cuts interest rates for the first time in 7 years.
	December	In Japan, purchases of government bonds increase to JPY1.4 trillion per month. Bank of Japan buys trillions of Yen worth of capital paper, asset-backed paper, bank stock and corporate loans.

The global financial crisis – root causes

We need now to examine the specific elements within the financialist regime of accumulation which led to the crisis. Capitalism by its very nature is subject to cyclical periods of boom and bust, of crisis and confidence, and this is a feature of the system which has always occurred, and seems likely to continue into the future. The global financial crisis was such a bust: ‘the first major crisis of the twenty-first century involves esoteric instruments, unaware regulators, and skittish investors. It also follows a well-trodden path laid down by centuries of financial folly’ (Reinhart and Rogoff, 2008). However, this was an almost unprecedentedly large bust.

Classical economic thought sees such cycles as a necessary part of the modern economic system. The school has as its foundation the proposition that the market should be left to its own devices and will always try to return to a state of perfect equilibrium. However, classical and neo-classical economics are nearly always unable to predict, and counter, the worst effects of crises before they arise, instead seemingly believing that one should always continue to make hay as in

this instance (as opposed to all other times in the past!) the sun won't stop shining.

In contrast, according to Marx, economic and financial crises are the result of destructive forces which demonstrate the fundamental flaws in the capitalism system. They are also stark evidence of Marx's materialist conception of modern history, as the following illustrates:

Commercial crises... by their periodical return put on its trial, each time more threateningly, the existence of the entire bourgeois society. In these crises a great part not only of the existing products, but also of the previously created productive forces, are periodically destroyed... And how does the bourgeoisie get over these crises? On the one hand by enforced destruction of a mass of productive forces; on the other, by the conquest of new markets, and by the more thorough exploitation of old ones. That is to say, by paving the way for more extensive and more destructive crises, and by diminishing the means whereby crises are prevented (Marx and Engels, *The Communist Manifesto*, 1967:225-226).

And so it came to pass in 2008. The global financial crisis was the largest economic crisis since the Great Depression of the 1930s. Although it has become common parlance to speak of the crisis occurring as a result of the failure of the US subprime mortgage market, the subprime mortgage crisis was merely the catalyst for the bust.¹² In reality the root causes of the crisis are likely to be found in the US Government's response to the stock market crash and the burst of the internet bubble in the late 1990s (Crotty, 2009; Clarke, 2010). These responses included (beginning in 2004) slashing short-term interest rates to stimulate investment, which flooded the market with cheap credit (Crotty, 2009; Clarke,

¹² Subprime mortgages were mortgages over family homes which were provided to those with a reduced ability to service their debt. These borrowers were considered 'subprime' because they may have had low incomes, bad credit or unstable employment histories. These mortgages were usually on-sold after the debt was created.

2010). Other causes relate to the 1998 Basel Accord banking rules which encouraged banks to shift risky activities off balance sheets (Eichengreen, 2009), and the decision of the US Securities and Exchange Commission to raise acceptable leverage ratios for investment banks from 12 times capital to 40 times capital (Crotty, 2009).

These specific actions, coupled with macroeconomic neoliberal policies, led to a massive boom in most Western economies, with the boom most affecting financial products and property markets. House prices in the US rose by around 30 per cent in the five years leading up to the crisis (Claessens et al, 2010). In New Zealand, real house prices increased by eighty per cent between 2002 and 2008.¹³ However it has been shown that the larger and longer the boom, the more likely a major crisis will follow (Claessens et al, 2010). The flood of cheap credit mentioned above saw household debt burdens (in comparison to wages) rise sharply and lending to borrowers unlikely to be able to sustain such debt became widespread. In the US, this private debt accumulation (particularly by those in the most vulnerable position) was further fuelled by loans which had very low teaser interest and repayment rates for the first one to five years of the loan, with those rates then rising sharply to match market rates at the end of the teaser period. When this occurred, many people were unable to meet their debt obligations, which caused a crash in the housing market, forcing mortgagee sales and many households then found themselves in negative equity. This was the 'trigger' of the crisis, but it was fundamental structural economic causes which

¹³ Department of Prime Minister and Cabinet, Final Report of the House Prices Unit, March 2008. Available at: <http://www.dpmmc.govt.nz/sites/all/files/publications/hpr.pdf> (accessed 30 December 2011).

saw the unravelling of the financial system worldwide. In analysing the links between the economic system and unemployment rates, Huber and Stephens provided a brief commentary in Scandinavia in the 1980s, which mirrors the events that unfolded on a global scale - namely deregulation followed by spending booms and inflated property values. This led to a bust which 'caused bank insolvency and consumer retrenchment, which in turn aggravated the deep recession' and ultimately led to government bank bailouts (Huber and Stephens, 1999:14).

As mentioned above, banks and other financial institutions had for some time been allowing the gradual build-up of systemic risk across the financial system (within households as well as across and between financial institutions) (Callinicos, 2010:29). During the boom, derivative markets greatly expanded (including mortgage backed securities and collateralised debt obligations), and a shadow banking system developed, whereby financial products and instruments were developed in order to sidestep government regulations. In 1979, Michel Aglietta provided a comprehensive analysis of financial crises. He identified that crises which have at their epicentre credit products given liquidity by the banking sector will be their very nature become global financial crises and that such crises will have social aspects, and the crises represent a rupture in the process of accumulation (1979). The financial system, which had previously been controlled by the banking 'oligopolies' began to fundamentally change as the Western Fordist accumulation regime was replaced by the post-Fordist regime. Market finance and debt became *de rigueur*, with institutional investors (that is, shareholders) gaining ever-increasing influence over increasingly global

corporations and by extension, the transnational financial system. International credit rating agencies were (in hindsight) dramatically underestimating the level of risk attached to the financial institutions and the 'shadowy' products which were becoming increasingly common.¹⁴

The causes of the sluggish real economy

Although it is an aspect of Marxist economic thought that could have an entire volume dedicated to it, it is perhaps useful here to give some consideration to the theory of the 'tendency of the rate of profit to fall' (TRPF). This theory could help to explain why there was a shift in investment from the real economy towards the riskier financial sector, which ultimately led to the global financial crisis.

Marx outlined his theory around the TRPF in Volume Three of *Capital*, completed in 1864. Marx considered that capitalist accumulation would likely always result in a long-run tendency for profits to drop. This is because the costs of the organic composition of capital (that is, the human labour power), will necessarily always increase. This will be so even as the costs associated with the inorganic (or mechanical) composition of capital decrease. The organic composition of capital tends to be more variable than the fixed or even sunk costs of the inorganic portion. Technology improvements and advancements result in changes in the organic composition of capital and production (for instance, mechanised or computerised production requires less people to produce the same

¹⁴ Austin Murphy, of the Oakland University School of Business, provides a critical analysis of the purely mathematical models which the rating agencies employed to evaluate credit risk and finds it caused widespread risk underestimation (Murphy, 2008).

product than previously). If the organic composition of capital was to remain static, then profit rates would also remain stable. A fall in the rate of profit will follow a technological advancement becoming widespread across competing producers (and therefore cheaper), as the variable costs of the organic composition of capital have a greater impact on profit margins. It is the competitive nature of capitalism which results in profit margins ultimately dropping in the longer term (Marx, 1977:489-491). The rate of profit might also fall when the fixed costs of inorganic capital increase. What is important is the proportion of capital which must be spent on human labour power (Wolff, 2002:80-81).

Brian Roper has considered the causes of the stagflation period which set during the 1960s, in particular how the end of the long boom relates to the New Zealand context. He considers that the causes of the high rate of profit seen during the Fordist long-boom led to a longer-term fall in the rate of profit. These causes included 'historically low organic composition of capital, [a] rise in the rate of surplus value, [and a] decrease in the turnover time of capital' (1993:19). In terms of regulationist interpretations, Robert Boyer notes the escalating price of inorganic production costs (including the price of oil) in the development of the period of economic downturn at the time.

Therefore, the fall in general rate of profit which was occurring during the 1970s saw states embarking in policy programmes at the micro and macro level which

sought to increase profit levels, but which ultimately would lead to over-investment in the financial sector.¹⁵

The accumulation of risk in the financial sector

Returning to the developments which led to the global financial crisis, as the value of credit and derivatives continued to rise, the unprecedented growth was not mirrored by growth in the real economy, which was simply unable to return acceptable levels of profit. Crotty describes how speculation in the financial sector became more common in response to this:

Given perverse incentives in financial markets, the spectacular returns to financial risk-taking, and a sluggish real economy in which growth was sustained primarily through the impact of rising debt and financial wealth on aggregate demand, the additional funds [generated and available] were mostly used for speculative financial investment (2009:574-575).

The increasing use of derivatives such as mortgage-backed securities saw layers of leverage being created. Credit default swaps in the US totalled over US\$55 trillion and these transactions occurred in a totally unregulated fashion and were often sold over the phone (Murphy, 2008). When the defaults began on the subprime mortgages, it soon became clear that the credit default swaps charged on them were under-priced and losses began to exceed credit premiums. Commentators have also described how the global financial system was becoming increasingly opaque and complex, with not even specialists fully able to understand it (Claessens et al, 2010; Eichengreen, 2009). The spreading of risk

¹⁵ See also Callinicos's discussion of Harvey's analysis of crises using theories around TRPF (2010:44-49).

created by the complex financial products created a system where problems in one area led to rapid spillovers into others, and ultimately the risk was transferred to those least able to understand it – households (Crotty, 2009).

As monetary losses mounted on the derivative market, losses of confidence and trust accelerated rapidly. Banks were forced to absorb their off-balance-sheet subsidiaries to prevent them failing and the rating agencies started to downgrade ratings in ‘multiple notches’ (Claessens et al, 2010). Internationally, credit started to dry up. This led to a general liquidity shortage and massive sell-offs. Businesses began to fail, leading to a sharp leap in unemployment, insolvency and more mortgage foreclosures. Stock prices declined and foreign exchange markets fluctuated wildly. One of the major crisis points of the whole process was the collapse of financial giant Lehman Brothers – this led to governments around the world bailing out financial institutions considered ‘too big to fail’ and (starting with the Republic of Ireland and then followed by other countries including New Zealand) guaranteeing bank deposits in order to prevent a run on bank money (such runs had occurred during the Great Depression).

As mentioned above, one of the factors which made this financial crisis different from those previous was its global quality. Aglietta considers how in a globalised financial structure the prices of financial assets are subject to considerable fluctuations. The behaviour patterns of financial operators may be affected at any moment by a burst of ‘frenzied speculation’. He considers it illusory to believe that prudential regulation and supervision of institutions will be enough to shore up the banks if the financial markets are unstable and the peak and trough

elements of business cycle are substantial –a remarkably prescient statement of what was to occur during the global financial crisis (Aglietta, 1998:85).

However, in order to understand whether or not this crisis was so different from those that preceded it, we need to ask how the systemic developments which led to the global financial crisis compare to broader Marxist conceptions of economic cycles.

Marxist theories of economic cycles

One useful comparison may be to examine how Marxists (at the time, as well as since), interpreted the largest and most widespread economic downturn in modern history, the Great Depression. Economists Michael Howard and John King observe that in relation to the Great Depression ‘there was no agreement among Marxian theorists concerning the nature of the crisis’ (1990:82). They go on to analyse the various Marxist and Marxian theories developed at the time of the Depression and soon after, and ultimately conclude that due to Marx’s own various theories of economic cycles, there could not be any agreement between the theorists as there is an ‘embarrassment of riches’ in Marxist economic theory (Howard and King, 1990:100).

One approach which is particularly salient in regard to the global financial crisis is that relating to disproportionality. Contributions to this theory have variously come from Otto Bauer, Fritz Naphtali, Friedrich Pollock, the Bolshevik economist Yvegni Preobrazhensky and Natalie Moszkowska. Disproportionality is a theory

of overproduction which is caused by capitalism's inherent anarchy – investments are undertaken on an individualist, discrete basis with no overall planning or consistency, which can lead to overproduction in certain sectors which can then lead to overall general overproduction.

The theory was further developed as having particular relevance in relation to monopoly capitalism, as considered by Paul Sweezy, who considered that capitalism was becoming dominated by a shrinking number of giant corporations (1946). Such monopolisation could aid disproportionality as the shrinking industrial “gene-pool” can easily lead to sectoral overinvestment. Writing at the time of the Great Depression, Preobrashensky theorised that under monopoly capitalism, economic crises are more intense and recoveries are slower than under full competition capitalism due to the limited number of industries and corporations within them restricting innovation and investment (Howard and King, 1990).

Regulationists have identified that the predominant place of market financialism in the economic systems of the Western world saw global debt markets and global asset markets becoming increasingly interlinked – note the above discussions of the boom in credit and market derivatives that was not mirrored in the real economy. As this interlinking continues to grow, there is an increasing tendency for financial cycles to be magnified. This is precisely what occurred in the 2000s – there was a massive boom followed by a catastrophic crash. Indeed, in a very prescient statement, Aglietta and Rebérioux said 'the interlinking of the financial logic of markets and of a regime of corporate governance controlled by the stock

market is a dynamic system that oozes instability' (Aglietta and Rebérioux, 2005:183).

Financialist monopoly global capitalism

Thomas Clarke in a very recent analysis of the Global Financial Crisis cycle, stated:

After almost half a century in the cupboard, the global financial crisis resonates strongly with central elements of Marxist analysis, and reinvigorates the force of a Marxist critique of capitalist economy and society. The financialisation of western economies seems to be compounding the most exploitative elements of capitalism: increasing economic enslavement, intensifying inequality, and increasing instability (Clarke, 2010:2).

He expands on the elements financialisation as comprising: the ascendancy of 'shareholder value as a mode of corporate governance'; the growth of capital market over bank-based financial systems; the increasing power (both political and economic) of the rentier class; the 'explosion' of financial trading and new financial instruments; increase of profit being derived purely through the financial rather than through the real economy and overall 'the increasing role of financial motives, financial markets, financial actors, and financial institutions in the operation of the domestic and international economies' (Clarke, 2010:14). It is notable that this list shares many factors in common with the root causes of the global financial crisis discussed above.

The global financial crisis was caused by overinvestment in the financial sector – a sector which had developed monopolistic tendencies in relation to growth and wealth generation in comparison with the real economy and the traditional

wealth creation of trade and production. This disproportionality could not continue, and the subprime mortgage collapse triggered the near-collapse of the straw man that was the opaque and complex financial system. The monopolistic tendencies of the financialist regime led to a far more intense crisis than had occurred in eighty years.

Using the regulation approach, one can see that the financialist monopoly global capitalist regime evolved out of the earlier accumulation regimes or modes of growth of the capitalist system of the twentieth century – namely Fordism and post-Fordism. The stagflation which occurred in the post-Fordist regime in the 1980s saw a reversion across the Western world to neoclassical economic policy paradigms. Financial deregulation was rampant and it was accompanied by monetarist economic policies, implemented in order to stimulate growth. In the first decade of the twenty-first century, the birth of the ‘new economy’ in the form of information technology growth and the internet boom, as well as the elevation of shareholder value as the dominant corporate model, laid the foundations for the development of the financialist regime. The fundamental elements of the regime ultimately led to the global crisis which unfolded in 2008.

As the causes of the global financial crisis lay in the disproportionality caused by financialist monopoly capitalism, one could assume that states’ responses to the crisis might aim to counter the disproportionality through fundamental reform to curtail the overinvestment in the financial sector. However, as it will be shown, the states’ responses to the global financial crisis illustrate Jessop’s theory that the state in advanced capitalist societies exists in a strategic-relational space with

the capitalist system. The regulationist interpretation of unemployment-related policies illustrates that social policy programmes support - and are supported by - the dominant regime of accumulation. Unemployment-related responses to the crisis indicate that this interpretation is valid, and the New Zealand government's response in particular demonstrates this.

Chapter Three: Transnational historical materialism: Marx meets Gramsci in Holland (and how this relates to the global financial crisis)

The regulation approach is a framework for analysing the changes in the capitalist system as well as its enduring nature, which rejects the notion that the economic system can be understood as an abstract notion that tends towards general equilibrium. The system is instead, primarily, a social creation and as such, develops through changes in the dominant structure of social relations. These social relations, along with other extra-economic factors create and support the dominant accumulation regime which determines the specific forms of *règulation* that define a particular period of capitalist development.

Since it was conceived of in the 1960s and further developed in the 1970s, the regulation approach has evolved somewhat as a research programme. This has been a result of refinements in the theories developed and also as the approach has been used to analyse different capitalist epochs and developments. Bob Jessop and Ngai-Ling Sum state that over time, the regulation approach has moved beyond simply examining:

The generic crisis tendencies of capitalism to identify their specific forms in different periods and/or varieties of capitalism and to examine the major ruptures and structural shifts that occur as accumulation and its regulation develop in and through class struggle and other types of social conflict (2006:14).

Delving more deeply into the regulationist research programme will enable us to identify a more detailed framework in order to state policy responses to the global financial crisis.

The Amsterdam school of regulation

Jessop and Sum have identified seven different regulationist 'schools'. The schools all share four features which define the research programme.

First, 'the regulationist programme implicitly adopts a *critical realist* scientific ontology and epistemology' (Jessop and Sum, 2006:16). This method seeks to explain why certain events happen or observations can be made, based on a logical method of considering the factors which could have led to such an event or process.

Second, the regulation approach uses a method of articulation which 'continually redefines, elaborates and adds analytical categories as it gets closer to specific conjunctures' (Jessop and Sum, 2006:17). By this, Jessop and Sum are meaning that the approach dismisses 'explanatory principles' which do not take into account situation-specific differences. It actively avoids deliberate over-abstractation and focuses instead on social formations and transformations using the third feature - historical materialism and critical theory. This will be explained further in this Chapter. Lastly, 'all schools engage in empirical research on the changing *economic and extra-economic forms and mechanisms...that secure capital's reproduction as a social relation*' (Jessop and Sum, 2006:18, original emphasis).

Each of the schools which Jessop and Sum identify are regulationist in that they adopt the four features just described, yet each school focuses their research programme around a specific facet of regulationist political economy, and are

generally grouped geographically, depending on where the thrust and focus of their research agendas developed. It is not within the parameters of this writing to provide an in-depth analysis of all the different schools.¹⁶ Instead, this research will utilise the principles and theories developed by the so-called Amsterdam school, which was (obviously) developed in the Netherlands.

The leading proponents of the Amsterdam school are Henk Overbeek, Otto Holman, Kees van der Pijl, and Bastiaan van Apeldoorn. Jessop and Sum attribute the school's political origins to the Dutch student movement of the late 1960s. The school has labelled itself 'transnational historical materialism', and the focus of its research is the way social relations under the capitalist accumulation regime have been transnationalised, using an historical materialist framework to allow critical examination of actual, specific developments in national, regional and global political economics.

Overbeek defines it as:

The application of the historical materialist method to the study of transnational social relations. It comprises:

1. a materialist philosophy of history... which leads to the ontological primacy of 'social relations of production';¹⁷

¹⁶ Jessop and Sum identify the seven schools as being: (1) the 'regulation through overaccumulation-devalorization' school developed from the mid-1960s by Paul Boccara, chief economist of the French Communist Party; (2) the *Groupe de recherche sur la régulation d'économies capitalistes* (GRREC), based in Grenoble, which analyses the role of profit rates and competition; (3) the dominant Parisian school, as developed by Aglietta and Boyer; (4) the West German approach which synthesises the Parisian approach with traditional Marxist political economy and state-theoretical analyses; (5) the Amsterdam school; (6) the Nordic economic policy school which specifically analysed small, open economies; and (7) the American radicals who analyse different social structures of accumulation (Jessop and Sum:2006).

¹⁷ Here, Overbeek is referring to Marx's concept of *Produktionsverhältnisse*, which was central to his analysis of capitalism and its complex economic and extra-economic relations between workers, employers and capital. Marx described this concept most succinctly in his *Preface to A Critique of Political Economy*: 'In the social production of their life, men enter into definite relations that are indispensable and independent of their will, relations of production which

2. a rejection of the separation between subject and object which is characteristic of 'positivist' social science¹⁸ and the adoption of a dialectic understanding of reality as a dynamic totality and as a unity of opposites...;
3. the method of abstraction as outlined by Marx in the Introduction to the *Grundrisse* (Overbeek, 2000:168).¹⁹

Overbeek goes on to describe how the themes explored in the transnational historical materialist method were more common in the early twentieth century, that the 'global dimensions of the processes of capital accumulation and of class formation, and the changing roles that national states play in these processes, were central in Marx's own understanding of capitalism' (2000:169).

Indeed, historical materialism was one of the foundation concepts that shaped Marx's epistemology. Materialism was a philosophical tradition expounded 'from Hobbes to Feuerbach' (Wolff, 2002:27), which considers all that is apparent in the physical world to be the foundation of life itself. However, early in his analyses, Marx inserted conscious and unconscious human activity into the theory – we change the physical world in our interactions with it. Jonathan Wolff explains Marx's historical materialism by stating that humans:

correspond to a definite stage of development of their material productive forces. The sum total of these relations of production constitutes the economic structure of society' (Marx, 1977:389).

¹⁸ A positivist approach assumes that there is an objective reality which can be used to test various theories to determine truth. The separation between subject and object refers to there being a difference between this objective reality and what we know of it.

¹⁹ The *Grundrisse* was written by Marx in the middle of his career, but was not published until 1941. The 'method of abstraction' to which Overbeek refers is Marx's theory that political economy should be analysed by beginning with 'chaotic conceptions of the whole' which will lead to 'simpler ideas' and ultimately the 'simplest determinations', through 'less and less complex abstractions'. Marx postulates that a given country's population may seem a concrete whole but in fact it is an abstraction 'if leave out for example the classes of which it consists'. Classes are also an abstraction 'unless we know what are the elements on which they are based, such as wage-labour, capital, etc... Capital... does not mean anything without wage-labour, money, price, etc' (Marx, 1977:351).

Change the world not merely by changing the way they conceptualize it, but by physically transforming it: with picks and shovels; with ploughs and mechanical diggers, with looms and lathes. In changing the world they change themselves, by developing new skills, but also new needs. And this, in turn, gives rise to new forms of interactions, another aspect of our practical activity (2002:28).

So, our constant interactions with the physical, material world which we change (and it in turn changes us), create and become our history. Human history, by definition, is material because we cannot separate our physical interactions from the historical process. To be human is to act materially. As stated by Marx:

The writing of history must always set out from these natural bases [geological, oro-hydrographical, climatic etc] and their modification in the course of history through the action of men [who] begin to distinguish themselves from animals as soon as they begin to produce their means of subsistence a step which is conditioned by their physical organization. By producing their means of subsistence men are indirectly producing their actual material life... The nature of individuals... depends on the material conditions determining their production (McLellan, 1977:160-161).

However, Wolff identifies that Marx never specifically defined what his theory of historical materialism was, rather it needs to be gleaned from an analysis of his writings (Wolff, 2002:52). Wolff has interpreted it thus:

Human history is essentially the story of the development of human productive power. We human beings differ from most animals in that we act upon nature to produce the things we want and need. The driving motor of human history is the development of our methods of production, which become ever more complex, ingenious and elaborate. Such development, however, always takes place within some economic structure or other (2002:54).

The Marxist theory of historical materialism was fundamental to Gramsci's work and he developed it further into what he called a 'philosophy of praxis', of which he considered Marx to be the 'founder' (Gramsci, 1971:384). The term praxis refers to practical exercise or experience, as opposed to the merely

theoretical. Gramsci's philosophy of praxis is broader than classical Marxist historical materialism, however, as he examines the development of philosophy itself within its material context.

As stated by Hoare and Smith:

[Gramsci] is not juggling abstractly with the ideas he criticises, but always sets them in an implied or explicit historical perspective. Essential to Gramsci's approach is the notion that an intellectual revolution is not performed by simply confronting one philosophy with another. It is not just the ideas that require to be confronted by the social forces behind them and, more directly, the ideology of these forces have generated and which has become part of what Gramsci calls "common sense" (1971:321-322).

In developing his theories on the philosophy or praxis, Gramsci was attempting to move philosophy from being an ethereal exercise conducted only in the minds of the intellectual group, to having it viewed as being something which is accepted as being undertaken by 'everyone...though in his own way and unconsciously' (Gramsci, 1971:323). Thought must materially turn into action:

The conception of the world, contemplation, philosophy become "real", since they now aim to modify the world and to revolutionise praxis. One could say therefore that this is the central nexus of the philosophy of praxis, the point at which it becomes actual and lives historically (that is socially and no longer in the brains of individuals), when it ceases to be arbitrary and becomes necessary – rational – real (Gramsci, 1971:369).

The historical materialist method employed by the regulationists involves analysing the economic structure (accumulation regime) within which the method of production prevalent at the given time is occurring. The economic structure is fundamentally a social relation: it is political and cannot be divorced from this political-ness. Hence, 'political economy'. As stated by van Apeldoorn, 'a historical materialist focus on social relations in capitalism sheds light on the

important question of how and why it is that some groups in society have more power to reproduce or transform social structures to their perceived advantage than others' (van Apeldoorn, 2004a:154). As mentioned in Chapter One, the foundations for this can be found in Gramsci's writings on *Americanism and Fordism* (Gramsci, 1971:279-318).

One of the most important facets of the Amsterdam approach to political economy is the way it has incorporated some of the crucial elements of Gramscian theory into its methodology; namely hegemonic theory and his philosophy of praxis. Overbeek describes the rediscovery of Gramsci's ideas relating to coercion and consent as being 'music to the ears of the revolutionary generation of the 1960s because it offered an explanation for the passivity and acquiescence of the working class' (2000:171). The Amsterdam school develops the Gramscian theory of hegemony and how it impacts on a world which has seen capitalist accumulation and its accompanying neoliberal hegemony spread across national boundaries to become globalised: class formation and capital accumulation are not confined within nation-states, and how this spread occurred and is still occurring is, according to the Amsterdam school, fundamentally due to 'comprehensive concepts of control'.

Comprehensive concepts of control

It has been noted that several of the regulationist schools share Gramsci's interest in the close relationships between economics, the state and civil society:

According to Gramsci, economic laws are secured only insofar as one or more strata of intellectuals give the dominant class a certain

homogeneity and an awareness of its own function in the social and political as well as the economic fields... where these forces are successful, a 'historical bloc' will develop. The hegemonic bloc solves the perennial problem of the reciprocal relationship between the material 'base' and its politico-legal superstructure. A historical bloc could be understood (in regulationist terms) as the complex, contradictory and discordant unity of an accumulation regime (or mode of growth) and its mode of regulation. It is a durable alliance of class forces organised by a class (or class fraction) that has proved it can exercise political, intellectual and moral leadership over the dominant classes and the popular masses alike (Jessop and Sum, 2006:358).

The theory of comprehensive concepts of control seeks to explain how groups are able to maintain social order in a system which is inherently unstable. Capitalism, by definition, creates and requires competition. This competition does not just occur between different social classes, a crucial aspect of this competition is that which occurs within the capitalist, bourgeois class itself – they are competing against each other in the constant race for capital accumulation. This competitiveness leads to the capitalist class splitting into fractions. These fractions coalesce around certain particular interests, and it is the ability of a fraction to see their particular interest adopted as the general interest (or Gramscian 'common sense') which will determine what the prevailing regime of accumulation will be. A capitalist fraction needs its interests to become the general interest so that it can gain ascendancy over the other capitalist fractions and ultimately the working classes. As will be discussed later, this allows the particular class fraction to rule through consent, rather than coercion. Jessop and Sum describe how comprehensive concepts of control:

Serve to unify the ruling class and attract mass support and can become hegemonic insofar as they combine mutually compatible blueprints for handling relations among various fractions of capital and for conducting labour relations... For example, the corporate liberal concept, which served to organize Atlantic Fordism after the New Deal, synthesized the liberal and state monopoly productivist

concepts (2006:25).

In order to turn their concept of control into an effective, functioning, Gramscian 'historic bloc', the dominant capitalist class fraction requires the mechanisms of the state. Holman defines comprehensive concepts of control as the political strategies employed for use through state apparatus. According to Gramsci's theory, the dominant capitalist fraction creates cultural consent within society, whilst the state provides the necessary coercion required should the consent of the rest of society falter (Gramsci, 1971:12). As Otto Holman puts it:

Hegemony... implies a certain degree of institutionalization and the capacity of the dominant class to represent diverse interests ideologically without obstructing its own particular interests or material position within the prevailing power structure. In other words, hegemony refers to the degree in which civil society has obtained an autonomous position vis-à-vis the state. Hegemonic concepts of control are political strategies, originating in civil society and using the state as a political platform (1989:86).

van Apeldoorn argues that without being translated into state policy, concepts of control cannot become effective, and that 'the power of transnational classes is necessarily supported by state power and the projection of that state power internationally' (2004a:155).

What exactly defines a concept of control? Overbeek considers that they 'express...particular historical configurations of capital' and that they are 'constituted around two prototypes, the money capital and the productive capital concept' (2000:174). He then theorises that whichever group is able to 'assert' itself most effectively through closely aligning its group interests with the 'prevailing objective state of capital accumulation and class struggle' will then be able to claim to represent the general interest(2000:174). Political forces have a

vested interest in securing a productive economic base that generates political resources and permits scope for making material concessions (Jessop, 1990). Kees van der Pijl considers that concepts of control represent a fusion between the economic and the social (not unlike Gramsci's reference to *ensemble* of structures and superstructures forming an historic bloc (Gramsci, 1971:366)):

Concepts of control denote a temporary synthesis between the perspective generated by an ascendant trend in the economy articulated by particular 'moments' in the capitalist cycle (the financial, the productive, the commercial, the national or world market, etc.); and the capacity of a set of social forces operating in the context of one or several state(s) to translate this perspective into a general ('comprehensive') programme for society as a whole (van der Pijl, 2004:182).

It is not simply enough for the state to maintain the capitalist system to allow the capitalist class (as a whole) to maintain power. van der Pijl argues that even if 'there were only one 'capitalist world state', the bourgeoisie class would still be divided (1989:10). The state must be able to provide the specific playing field required by a specific fraction in order for it to maintain its hegemonic concept of control.

However, the hunger for wealth created and supported by the capitalist system means that the capital class fractions will begin to compete beyond the sphere of the nation-state. In order for the specific class fraction to continue in its drive for ever-growing capital accumulation, capitalism must reach beyond national boundaries. The ruling class of a given state is 'dependent on the world movement of capital, which it cannot control by its national means of power' (van der Pijl, 1989:11). Therefore, the concept of control, and the regime of accumulation it supports, becomes transnational through necessity. van

Apeldoorn defines transnationalism as 'a phenomenon that *extends across, and thereby links as well as transcends different (territorial) 'levels'* (2004a:144). As an example, he goes on to describe neo-liberalism as being a concept of control which:

Both promotes and reflects the transnationalization of capital that set in with capital breaking loose from its (post-war) national moorings, enabling it more than ever to achieve 'sovereignty' on a global scale above and beyond the sovereignty of states (2004a:160).

One of the leaders of regulationist thought, Michel Aglietta, touched on the transnational and hegemonic nature of capitalism in 1979, when he considered the concept of imperialism in regulationist terms:

A hegemony difficult to exhibit through which one state manages to influence a series of other states to adopt a set of rules that are favourable to the stability of a vast space of multilateral commodity relations guaranteeing the circulation of capital. It is not the multinational forms that give rise to imperialism. Their existence would be impossible without a system of states maintaining stable relations of unequal influence' (1979:32).

In the next section, we shall examine transnationalised neo-liberal capitalism in its financialist manifestation and how this relates to the global financial crisis.

Transnational historical materialism and the global financial crisis

The capitalist fraction which is best able to align itself with the prevailing objective of accumulation will determine the comprehensive of control, and will then make the concept of control effective through translation into state policy. We can combine this idea with the analysis of the financialist regime of accumulation as espoused in the previous chapter, and we start to see how the

modern equivalent of the rentier class (that is, the capitalist class fraction which gains most from financialist market-driven capitalism) would need to ensure that the economic system survived beyond the global financial crisis. If the crisis was to lead to a complete economic collapse, then arguably it would be unlikely that the fraction of the bourgeoisie so dependent on market driven capitalism, would be able to continue to receive the consent of the, numerically superior, proletariat.

Another regulationist examined by Jessop and Sum, Robert Delorme, considers that there are three ways in which the state may intervene in the economy: through co-ordination, legitimation and coercion (Jessop and Sum, 2006:231). As a complex social relation, the state is a necessary mechanism for ensuring the economic and extra-economic conditions which allow the ruling class fraction to maintain its hegemonic power (through a comprehensive concept of control which allows it to obtain the consent of the populace) - Marcus Green points out that hegemony is more than merely 'state dominance'. He explains that hegemony is established by social forces which may, initially, act within state mechanisms, however the hegemonic project will expand beyond the limits of the state apparatus and will expand to become the 'acceptance of ideas, supported by material resources and institutions' and that these ideas and supports will eventually extend 'outward on a world scale' (2011: 150). As such, the state is not just a system of government, but extends into the 'private' sphere as well (Green, 2011:153).

In Chapter Two, we saw that the global financial crisis resulted from the seemingly inexorable development of market-driven financialism as the

dominant regime of accumulation. van der Pijl has provided some analysis of the regime's transnational character, and the institutions which aid and abet its development:

Investment banks often act as the nerve center in which the international and national aspects of hegemony are joined. The empirical profit distribution between money capital and industrial capital is an important indicator of the orientation of such besides showing the possibilities functional fractions have to assert themselves as the embodiment of the common good (van der Pijl, 1989:15).

In a more recent piece, van der Pijl discusses the neo-liberal concept of control in its most recent form as being 'structured around the revised *rentier* active in the stock and derivatives markets, with customized industrial production parcelled out along transnational chains, and a general surge forward of the market as the principle of social organization' (van der Pijl, 2004:194). He then goes on to discuss what he terms the hegemonic 'cadre' which has been able to gain social and political control, even though the majority of the class is not engaged in state employment. Instead, the cadre exists largely in the private sector, in 'multinational law, insurance, and management consultancy firms, debt-rating agencies, stock exchanges, and financial clearinghouses' (van der Pijl, 2004:195). It should be noted that the sector in which this cadre exists featured heavily in the factors considered to be fundamental to the development of the global financial crisis, as discussed in Chapter Two.

To continue examining van der Pijl, he points to the development of market-led financialism (and the accompanying concept of control) as developing thus:

[From 1971] an automatization of the international circuit of money took place. This was partly a consequence of competitive restructuring, as the major capitalist states one after another

rescinded Keynesian legislation controlling money capital by a separation of functions in order to allow national bank capital to partake in the movement to world finance capital, and partly the effect of a weakening of the class bloc of management in state-supported mass production industry, the welfare state bureaucracy, and the unionized working class. This bloc was associated with the circuit of money capital (bankers, rentiers, and various intermediaries), who did not want to foot the bill of the welfare states in crisis now that the internationalization of deregulated private finance opened up new sources of profit (van der Pijl, 1989:27).

Overbeek points to the adoption of monetarist policy platforms in many Western economies as the reassertion of the 'general' capitalist interest. Monetarism 'holds that by making money scarce, inflation can be combated effectively and sound microeconomic reasoning can be forced upon the state and society as a whole' (Overbeek, 2003:25).²⁰ More recently, as has already been discussed, 'investment banking and financial services became the hottest industries' as global financialism developed as the dominant regime of accumulation (Overbeek, 2003:25).

But we have seen that the regime nearly came to an end. The greatest international economic upheaval since the Great Depression occurred due to the fundamental elements of the dominant financialist regime of accumulation. Yet the entire system did not fail. Why not?

The execution of hegemony on the basis of the supposed international general interest requires that the strongest states accept it as their own. In turn, if the strongest state is to act in the general interest of the system, an effort on the part of the ruling class of that state to use to the maximum the informal channels of policy planning and to thrash out a consensus in them is required as

²⁰ For an analysis of the development of monetarist policies in New Zealand, see Bertram, G. Keynesianism, Neoclassicism, and the State in *State and Economy in New Zealand*, edited by Brian Roper and Chris Rudd.

well (van der Pijl, 1989:26).

This quote helps to show that in order for the neo-liberal concept of control to be able to continue to be propounded as the general interest, it needed the strongest states to maintain it in the face of the crisis. The next chapter will show how the regulation approach is able to provide a useful framework for analysing social policy programmes which shed light on how states seek to support a given regime of accumulation through unemployment-related policies, in order to maintain the hegemonic concept of control.

As stated by Jessop, if the regulationist research programme requires anything, it is 'more detailed local, national, regional, and international studies' (Jessop, 1988:162) and accounts of national modes of growth, their insertion into the international economy, the specific national modes of regulation with which they are associated, the dynamic of specific forms of state, and the specific 'historic blocs' to which these have given rise (Jessop, 1988:163). Therefore, the regulation approach to social programmes explored in the next chapter will then be related to the New Zealand experience as an illustration of the actions of the 'strongest' states.

Chapter Four: Regulationist interpretations of unemployment-related social policies: from welfare to workfare

The global financial crisis caused significant disruption to the functioning of the capitalist system, and more specifically the transnational market-driven financialist regime. In order to add further depth to the regulationist research programme, more analysis is required in relation to national capitalist economies and their specific forms of *règulation* (both economic and extra-economic, state and non-state). The state in New Zealand (acting as many of the states in the developed world did) attempted to ensure that the turmoil created by the global financial crisis did not lead to widespread economic panic, and these actions represented adjustments in order to preserve (as far as possible) the market-driven transnationalised financialist regime of accumulation and the neo-liberal hegemonic bloc.

Studying the complete suite of policy developments and reforms undertaken by the New Zealand government in response to the crisis is too large a field of inquiry for the present purpose. However, the regulation approach considers that the economy is essentially a social construction which is regulated by extra-economic factors. State social policies (and more specifically policies relating to the problem of unemployment) provide evidence of the state's broader role in assisting to maintain the regime of accumulation in order to counter the crisis. To provide a context within which the New Zealand government's actions can be analysed in the following chapter, this chapter will explore how the regulation approach has analysed past accumulation regimes and how these regimes

coevolve with unemployment-related social policies. For illustrative purposes, the development of the Keynesian National Welfare State and its transition into the Schumpeterian Workfare Post-national Regime is discussed in this chapter. Primarily, the work of non-regulationists will be used in order to provide context-specific analysis of social policy development. However, these analyses do support the regulationist approach and their interpretation of economic and extra-economic regulation of the modern capitalist state. The transnational financialist regime required and facilitated the development of a workfare regime which emphasised supply-side flexibility, retrenchment of state-provided welfare and decreased decommodification of services. This establishes the framework for the following chapter, which will analyse the developments of unemployment-related social policies in New Zealand, pre and post the global financial crisis.

Regulationist understanding of social policy: Fordism and the Keynesian National Welfare State

Social policy is a key area of focus for the regulation approach when examining the evolution of the capitalist system. State-provided social welfare seeks to lessen the negative effects of the capitalist economic cycle on human participants, reduces class conflict and maintains a healthy, productive workforce (Quadagno, 1987). Gramsci considered that intervention into the social sphere is necessary whenever social issues threaten to disrupt the accumulation process (1971:303-304). Gramsci also referred to the problems inherent in the capitalist system requiring active intervention at the levels of both civil society and at state level, in order to maintain on-going consent in the populace (1971:13-14).

The inherent instability of capitalism means that in order for accumulation to continue through the peaks and troughs of the business cycle, market forces need to be 'supplemented by non-market mechanisms' (Jessop, 2003) - in other words, regulated (Jessop, 2003:30; see also Roper, 2008). Keynesian economic thought predominant in developed world during the middle of the twentieth century considered that state welfare provision was important for stimulating aggregate demand (Quadagno, 1987). The sociologist David Beddgood considers that:

The welfare state apparatus is the most sophisticated array of institutions yet devised to counter the tendency to crisis. Its key is the role of the state in manipulating consent on the pretext that its purpose is to promote social security, equality and welfare (1977:207).

According to neo-Gramscian theory, the state has a repertoire of mechanisms which it draws from to ensure the consent of the working class. One of these mechanisms is the provision of a level of social security, and this support means that a minimum level of income allows all citizens to continue to participate economically in society (even if only at the level of subsistence). This continued participation in the economy is crucial to the ongoing functioning of the capitalist enterprise, as stated by Aglietta: 'collectively the capitalists depend on employees' consumption in the market to honour their financial obligations and realise their monetary profit' (1998:49). Even non-regulationists consider economic and social policies to be critically linked: 'economic policies that impact on work – its availability and its remuneration – have had a particular impact on social policy' (McClelland and St John, 2006:188; see also Pochet and Degryse, 2010; Prasad and Gerecke, 2010; Swank, 2005; Roper, 2008).

The regulation approach takes these ideas one step further, however, and considers there to be a direct correlation between the dominant regime of accumulation and the social policies enacted by the state (as part of the wider mode of regulation). The regime of accumulation and social policies must work in concert with each other and co-evolve together; otherwise the forces and relations of production will cease to be able to function effectively and may become fettered.

Although Jessop is not a self-identified regulationist, his case study of the American Fordist accumulation regime (Jessop, 1997 and 2003) uses the regulationist framework and tools. The factory-driven, production line Fordist system was based on a model of mass production of goods. Mass production requires mass consumption, otherwise production surpluses result, which can lead to economic stagnation or even crisis due to over-production (Neilson, 2011:6) and Fordism 'facilitated a particular form of regulation of the capitalist mode of production that addressed the internal accumulation instability common to all advanced capitalist countries which had been manifested as the Great Depression' (Neilson, 2011:8).

With the development of American Fordism, bourgeois hegemony became rooted directly and simultaneously in the factory and the private sphere. It later manifested and secured its position through mass consumption and a formally developed welfare state. The social policy programme that supported the Fordist accumulation regime has been labelled by Jessop as the 'Keynesian Welfare National State':

The Keynesian Welfare National State (KWNS) was... premised on a class compromise between organized labour and organized business in which responsible unionism and collective bargaining permitted managers to manage and workers to benefit from rising productivity as wage earner and welfare recipients (Jessop, 2003:36).

In order to ensure that the entire populace could consume as much as possible, the social policies of states during the Fordist period (1935-1984; see Wilkes, 1993) were based around full employment of working-age males (Huber and Stephens, 1999:7). National economies were closed, and employment-related policies were based mainly on demand-side management (Jessop, 2003:31; see also Bertram, 1993:28-29; and Neilson, 2011:8). As Jessop puts it: 'social policy was premised on conditions of full or near-full employment, on lifelong employment... with a family wage for male workers, and on the patriarchal nuclear family as the basic unit of civil society' (2003:36).

States, including New Zealand, adopted the KWNS framework in response to the economic crisis surrounding the Great Depression in the 1920s and 30s (Bertram, 1993:28-29). Extremely high unemployment levels were to be reduced by increasing labour demand through 'fresh injections of effective demand from government, private investment, and... rising export sales' (Bertram, 1993:29). According to Keynesian theory, job creation is to be supported through direct state intervention and investment. The Keynesian model of state welfare provision and demand-side control was 'centrally facilitated' by mechanisms and policy programmes 'negotiated' in 1944 at the Bretton Woods talks. This conference of the Allied nations established a plan for the Western post-war

recovery, and which set a 'regulatory framework' to control transnational flows of capital (Neilson, 2011:7-8).

The changes that were brought about under the Keynesian paradigm represented a major shift away from the state policy positions that preceded it,²¹ and have even been described as a revolution. Contrary to previous paradigms, Keynesianism 'claimed that governments could intervene in their economies to achieve desirable macroeconomic outcomes, including 'full employment' (Wooding, 1993:94).

Keynesian political economic thought holds that the causes of unemployment can be attributed to a 'lack of demand for labour' and therefore, as unemployment is the responsibility of the government, states must enact policies which stimulate labour demand to create employment opportunities (Bertram, 1993:3). Huber and Stephens note that 'highly regulated labour markets' characterised the social protection aspects of welfare states in New Zealand and Australia during the Keynesian era (1999:3).

Although the KWNS worked hand-in-glove with the Fordist regime of accumulation for a number of decades, as the capitalist system became increasing transnationalised, the statist social policies which sought to control and support nationalised economies were no longer viable. As Roper argues, 'during the 1970s the post-war long boom collapsed in spectacular fashion... unemployment started

²¹ For a full discussion of the 'Minimalist' (1840-1890) and 'Pre-Fordist' (1890-1935) states in New Zealand, see Wilkes, 1993:193-196.

to rise dramatically, and inflation skyrocketed' (2008:19). A period of so-called economic 'stagflation' followed (low economic growth coupled with high levels of inflation). States were not able to maintain full employment through the control of the demand side of the labour market and therefore risked losing the consent of the populace. Transnationalised corporations began to shift production to those places where they would find the most favourable conditions for their respective businesses – most significantly those conditions relating to labour. In response, the supply side of the labour market must respond to the transnational demands of global capital and became more 'flexible'. Governments had to develop policies which retained capital within their national spheres in order to ensure continued accumulation within their tax bases.

Neilson also examines the deterioration of the Keynesian/Fordist regime in the increasingly transnational context of the 1970s:

In the new liberalizing environment, especially as national growth regimes stumbled, the globalizing tendencies of finance capital and productive capital could once again come to the fore. Finance steadily became more privatized, liberalized, and re-internationalized. Multi-national corporations centred in the advanced capitalist countries, as part of the process to counter falling profits, began to internationalize production by out-sourcing or relocating parts of their production to labor forces in the newly emerging low-wage capitalist economies (2011:9).

The following section will examine how the end of the long boom and the crisis of Fordism led to the development of a post-Fordist welfare regime which shifted the focus of policy levers from the demand side of the labour market to the supply side.

The development of the workfare regime

What developed in the latter decades of the twentieth century and the first decade of the twenty-first has been labelled by Jessop as the Schumpeterian Workfare Post-national Regime (SWPR), which has evolved 'in tandem' with the post-Fordist accumulation regime (and subsequently, as has been argued here, the market-driven global monopoly financialist regime). Jessop named this theory after the Austrian-born economist and political scientist Joseph Schumpeter (1883-1950), who, like the regulationists, examined the ongoing development of capitalism, and its constant need to evolve in order to overcome the crisis tendencies of the business cycle. Jessop has analysed this modern workfare system which has developed (to different degrees) in the advanced capitalist societies. What he calls the 'ideal-type' SWPR he described thus:

First, regarding its functions for private capital, it is *Schumpeterian* insofar as it tries to promote permanent innovation and flexibility in relatively open economies by intervening on the supply side and to strengthen as far as possible their structural and/or systemic competitiveness... Second, regarding social reproduction, the SWPR can be described... as a *workfare* regime insofar as it subordinates social policy to the demands of labour market flexibility and employability and to the demands of structural or systemic competitiveness. In this sense, social policy is now modelled on human capital theory and becomes a form of human resource management (Jessop, 2003:38-39).

In most advanced capitalist societies, the SPWR has evolved in some form or another over the last twenty years. One of the key features of the SPWR is the increasing tendency towards the implementation of policies that seek to manipulate the supply side of the labour market through 'activation'. Activation seeks to 'encourage' those who are unemployed back into the labour market and

to disincentivise living on state-provided welfare through a various number of mechanisms. Activation policies see a greater emphasis being placed on the individual responsibility of the welfare recipient to move into employment than under KWNS policies. Individuals are required to take responsibility for matching themselves to skill gaps or labour shortages on the demand side. However, as the state cannot devolve itself of all its responsibility, it attempts to act as something of an enabler of the unemployed so that they move back into the labour market. Mike O'Brien has provided us with the following definition of activation:

In social democratic welfare states, the phrase 'active labour markets' has been used to refer to approaches to a range of social and economic policy measures in which the effects of economic and employment changes have been managed through services and programmes so that those who became unemployed as a result of the processes of economic change were provided with the requisite assistance to enable them to move into new employment as quickly as possible (2008:79-80).

Duane Swank identifies active labour market policies as those which 'generously fund training, relocation and general employment services (and social transfer programmes contain strong work incentives)' (Swank, 2005:188).

The emphasis on individual responsibility means that states will encourage those in receipt of welfare payments to move out of unemployment through punitive measures as well as incentives. Louise Humpage and David Craig have discussed this form of encouragement: 'focused on transforming individuals for the supply side of the labour market, employment programmes required many beneficiaries to participate in work-related activities to receive their benefit, with sanctions/punishments used to encourage the "right" behaviour' (2008:71).

Not only must the individual gain employment by matching themselves to labour market opportunities, but the state ensures the recipient of a benefit is obliged to meet whatever conditions are placed on their benefit or run the risk of having some of their financial assistance removed. Grant Duncan elaborates that ‘entitlement to benefits is made conditional on the acceptance of ‘mutual obligations’ (to seek employment or to improve one’s employability in co-operation with the income-support agency), or else face ‘reasonable’ sanctions, such as suspension of benefit’ (Duncan, 2004:227). These obligations are a crucial part of activation. The main ‘activator’ is the work test – an individual must be actively seeking or available for employment or else they risk losing their benefit. This paradigm assumes that financial concerns are the sole, or at least primary, motivator for welfare recipients’ behaviour.

In his analysis of the development of the workfare regime, Overbeek has identified that as it developed in concert with the global financialist regime of accumulation, the neo-liberal concept of control has:

... redefined unemployment as a personal defect of the unemployed, who is incapable (or unwilling at the prevailing wage rate) to avail him- or herself of the opportunities in the labour market. *Employability* has become the label for these views: it is the personal responsibility of individuals to make sure that they qualify for employment (whatever the changes in the structure of the labour market). The role of the state in this view is to engage in an *active labour market policy* that encourages and facilitates workers to upgrade their skills and qualifications (2003:27).

The desire for, and compulsion on, workers to upgrade their skills and match *themselves* to current labour market conditions has evolved largely as a result of the transnational nature of the neo-liberal accumulation regime: ‘the individual is

treated as 'human capital' to be trained in the expectation of fitting the rapidly-changing requirements of the contemporary labour market' (Duncan, 2004:233).

In an economy where jobs can easily be (figuratively) exported overseas, it becomes necessary for workers in the modern economy to develop their own skill set to match any opportunities which remain within their national economy or to even, perhaps, transnationalise themselves to find employment opportunities in other countries. This is in direct contrast to the situation under the KNWS system, where the closed national economies needed policy levers to be applied on the demand side of the labour market in order to ensure there were jobs adequate to ensure full employment of the working-age male population: 'the prime object of economic and social intervention by the national state [has] changed from well-balanced domestic performance of the 'national economy' to its overall 'international competitiveness' understood in very broad terms' (Jessop, 1997:306).

In a fairly recent piece examining how social policies in Australia and New Zealand have changed in response to globalisation, McClelland and St John consider that not only have increasingly transnationalised labour markets forced the unemployed and the worker alike to manage themselves and their own individual responses to changes in labour market opportunities, but these transnational changes have also forced governments to respond to such changes, which has in turn led to inequalities and changes in the tax base and government transfers:

International competitiveness creates pressures for labour market deregulation, constrains or reduces taxes on mobile factors of production (companies, capital and high-skilled individuals) and,

by limiting the tax base, also restrains social expenditure. At the same time, the reduced capacity for some workers to support themselves increases pressures especially in the welfare system. Thus, globalisation increased labour-market inequality and also placed pressure on the capacity of governments to ameliorate them through tax policy and transfer payments and services (McClelland and St John, 2006:179).

Transnationalism has also led to other changes in government policy programmes (and those who are influential to such programmes). The transnationalisation of capital and by corollary, jobs, has meant that as the labour market has become more transnationalised than ever before, there has also been a general trend in advanced Western capitalist states towards the:

... internationalization of policy regimes. This refers to the increased strategic significance of the international context of domestic state action and the former's extension to include a widening range of extraterritorial or transnational factors and processes. It also refers to the expansion of key players in policy regimes to include foreign agents and institutions as sources of policy ideas, policy design and implementation. It involves, in short, a change in the overall balance of the state's strategic orientations. This is reflected in economic and social policy (Jessop, 1997:306).

This emphasis on international competitiveness, and the fundamental changes which occur in a nation's tax base as a result, has seen something of an ideological shift occurring, whereby modern welfare states are not considered to be there to support the functioning of the national economy, but are rather a (generally temporary) 'safety net' for the individual (in contrast to the position under the KWNS: see Humpage and Craig, 2008; Lunt, 2008). Governments increasingly use the argument that social welfare transfers should only be utilised as a last

resort and for only very limited periods of time.²² Rather than providing an average, or even adequate, standard of living for individuals and families, it is considered that generous social welfare payments will encourage long-term benefit dependency. Work is the only viable means by which someone can keep themselves and their family above the poverty-line.²³ This concept has been labelled the ‘work first’ paradigm (O’Brien, 2008).

Benefit recipients under such a paradigm are classified into those who are subject to work testing and those who are not.²⁴ There are concerns that such a model will lead to class divisions between those that work and those that do not. Such a situation has significant implications for those unable to work due to ill health, disability or familial caring responsibilities. As stated by O’Brien:

The philosophical, political and ideological influences which created and now sustain ‘work first’ lend readily to arguments in which it is assumed that those who are not in work are failures, second-class citizens or have ‘chosen’ to be and/or place themselves in those circumstances (O’Brien, 2008:92).

²² An example of this in New Zealand is the removal in 2005 of the Special Benefit which was a discretionary benefit which could be paid to those in receipt of a benefit or on a low income who had a long-term deficiency of income in comparison to their expenses, and was potentially payable in perpetuity as long as the recipient needed it. This was replaced by Temporary Additional Support which is time-limited to 13 weeks. As will be discussed later, in 2010, a 52-week time limit was placed on receipt of the Unemployment Benefit, after which time a recipient must undergo a lengthy re-application process.

²³ Although it should be noted that a growing body of research indicates that in many Western countries, work is no longer an effective route out of poverty. As wage levels have stayed static in comparison to escalating costs of living, a burgeoning section of the population are experiencing ‘in work poverty’, and this is especially true since the global financial crisis occurred (see, for example, the 2010 work of Gottfried for the British think-tank, the Institute for Public Policy Research).

²⁴ For example, the introduction of the Universal Credit for those subject to the work test in the United Kingdom.

The principle objectives of the SWPR in economic and social reproduction are notable for how contrary they are to the objectives of the KWNS:

To promote product, process, organisational and market innovation in open economies in order to strengthen as far as possible the structural competitiveness of the national economy by intervening on the supply-side; and to subordinate social policy to the needs of labour market flexibility and/or to the constraints of international competition... This involves a break with the [KWNS] as full domestic employment is deprioritized in favour of international competitiveness and redistributive welfare rights take second place to a productivist reordering of social policy' (Jessop, 1997:304).

Jessop considers that the move to the SWPR has occurred most significantly in 'Western Europe, North America and the antipodes' (2003:30). The transnational nature of the post-Fordist and current regimes of accumulation mean that economic and social policy is now developed in an international context, in contrast to the closed national economies of the KWNS. Because transnational capitalist enterprises require a flexible supply of labour which can respond to its demands in order to remain viable in this international context, states must implement policies to support these enterprises.

The KWNS previously had a qualified commitment to redistributive welfare policies in order to (among other things) prevent capital flight and to promote social equality and to even out regional development, and in general it sought a qualified sort of universalism in its distribution (Wilkes, 1993:200-201). In contrast, the SWPR accepts increasing economic, social and regional inequalities, and compensates for these through more limited policies aimed at combating social exclusion (Jessop, 2003:39). Wilkes considers this targeting of support, as opposed to universalism, as a key feature of the Post-Fordist state (1993:206-

207), and that during the post-Fordist state (1984-1993), 'those in the government saw no place for State-dependent employment policies' (Wilkes, 1993:201). Goldfinch and Roper discuss the changes from the demand-led Keynesian policy position, to one in which the *problem* of unemployment is considered to lie squarely on the supply-side:

Supply-side economics focuses on the investment, savings, and work decisions of individuals and how these are affected by government social spending and taxation (welfare payments and tax rates). It is assumed that individuals are motivated primarily by monetary considerations (1993:62).

Indeed, it can even be considered that increasingly transnationalised economies have seen state actors responsible for social welfare being captured by business-friendly economic interests: 'state agencies in close contact with the global economy – offices of presidents and prime ministers, treasuries, central banks – have gained precedence over those agencies closest to public policy' (Green, 2011:157). Farnsworth also describes it thus:

The bottom line for international capital is that state social provision is justified only if it contributes directly to economic growth or at least does not undermine it, and is affordable only if it exists in an environment populated by profitable and successful firms. International capital has therefore urged governments to address impediments to job creation which are argued to include generous social provision, inefficient welfare services, and high levels of state spending (2005:219).

This bottom line for international capital has created similar public policy drivers across developed countries, and New Zealand is no exception: 'since the New Zealand state is increasingly a competition or market state, its role is to pursue

strategies for national prosperity on conditions of global competition' (Eichbaum, 2006:56).

Unemployment policies and economic crises

Political scientist Peter Starke has undertaken a thorough analysis of welfare state retrenchment in order to identify the links between economic cycles and state social welfare policies and spending. He concludes that modern welfare retrenchment - that is, reductions in social security spending, tightening of eligibility criteria and a contraction of the welfare state in general - has always occurred during periods of economic downturn. He notes that, in the case of New Zealand '*not a single significant retrenchment event can be found during a moment of sustained economic recovery or even economic boom*' (Starke, 2007:137) (original emphasis).

Roper explains how economic crises have wide-ranging impacts on government policies (which by necessity will include policies relating to state welfare provision):

The onset of a prolonged economic crisis fundamentally alters the structural constraints on State policy formation. At the same time that rising unemployment dramatically increases the demands on State expenditure, the decline in the growth of national income places pressure on the collection of the increased revenue required to fund extra welfare spending. For this reason the economic crisis soon generates a fiscal crisis of the State. Crisis-management then becomes the central preoccupation of policy-making. The State is compelled to introduce policies aimed at restoring the conditions for profitable capital accumulation (1993a:22).

Roper goes on to describe how the nature of prolonged crises reveals that the State 'is not a neutral arbiter between capital and labour, managing the economic crisis in the public or national interest' (1993a:23). Not only this, the state will actively support the process of capital accumulation in order to 'fund its operations' as it is fiscally dependent on the taxation of incomes (Roper, 1993b:21).

This conclusion highlights the differences in the social policies developed in response to economic crises in the later twentieth and early twenty-first centuries as opposed to those which were characteristic of the KWNS. Whereas the aim of the KWNS was to address the social consequences of the economic crisis of the Depression through increased social spending and intervention in the demand-side of the labour market, modern state responses have focused on a reduction in social spending and increasing labour supply flexibility to address issue of unemployment.

Roper discusses how successive New Zealand governments have strived to quell the unstable nature of the modern capitalist accumulation regime throughout periods of crisis:

It is clear that the political turbulence of the 1970s, 1980s and 1990s has been generated in large part by the inability of governments either to reverse the decline of the New Zealand economy or to resolve the conflict of interest between employers and workers. Crisis and class have impacted upon State policy formulation in a whole series of ways. At the same time the State has not reacted passively to these circumstances; it has actively intervened in order to manage the economic crisis and the conflict between workers and employers (1993a:21).

As an example, Starke describes how welfare state retrenchment in response to the Asian economic crisis which began in 1997 (2007:122). American political scientist Duane Swank comes to the following conclusion as to how the developed state is 'forced' to undertake retrenchment within the modern, globalised context of modern capital accumulation:

Expansions of trade may force government to retrench social protection in order to reduce labour costs, the disincentives to work and invest, public sector debt (and hence interest rates), and to otherwise foster efficiency and international competitiveness... economic internationalisation may foster welfare state retrenchment through conventional democratic politics. Indeed, the credible threat of capital flight certainly increases the electoral and organisational political resources of private enterprises... rises in capital mobility and trade bolster the appeal of neoliberal economic orthodoxy (2005:186).

The concept of capital flight has proven to hold a significant amount of weight in our ever-more globalised, and transnationalised, world. Colin Hay also discusses how the modern welfare state is increasingly the subject of economic analysis and that states have to justify welfare expenditure in terms once reserved for business decisions:

Perverse though this may seem, it is increasingly rare for welfare reform to be justified principally in terms of its social consequences – its contribution to the wellbeing of citizens. Welfare expenditure, it seems, can only be defended these days insofar as it is cast as an investment in economic performance, a down-payment of future competitiveness... the default assumption... would seem to be that... welfare provision *per se* is a net burden on competitiveness and hence a drain on economic performance (Hay, 2005:197).

Persistent transnationalisation and capital flight risk has spurred an increased drive for supply-side flexibility, welfare-state retrenchment and decreased decommodification of services. As stated above, this has been found to occur

largely in relation to economic crises, and has to a large extent been created by the transnational accumulation regime. Although not a regulationist, this was identified by the English sociologist and social policy specialist, Kevin Farnsworth:

The general perception of capital is that state services tend to be inefficient and costly... For international business, the state must do more to address the direct skills needs of employers, and increase the flexibility and adaptability of labour... whilst removing the financial burden faced by firms who have to make up for poor schooling... As for social protection, capital has pushed for benefit reforms that increase, for it, employability, affordability, and personal responsibility. For capital, high social security costs and accompanying administrative burdens undermine profitability and discourage firms from employing new workers... although temporary benefits are defended as key to smoothing out employment markets (2005:220).

As economic crises continue - and continue to expand in both depth and scope – arguably, there will be increasing importance placed on non-state mechanisms in compensating for market failures and inadequacies. The delivery of state-sponsored economic and social policies (particularly as faltering levels of accumulation reduce the resources available to the state) and responsibility for socio-economic equality shifts from the state to the individual.

A New Zealand author who has undertaken research using the regulation approach, David Neilson, has also examined how a fiscal and/or economic downturn forces the modern state's hand in relation to unemployment policies:

In order to reverse increasing unemployment in a laissez-faire system, the national state needs to address capital's declining business confidence or willingness to invest. However, the national state's direct sensitivity to business confidence requires it to be subordinated to capital's will via the structures of market competition (2006:15).

This chapter has argued that social policies, and more specifically unemployment-related policies, are intimately connected to the predominant regime of accumulation and cannot be divorced from prevailing economic conditions. This holds true, and is in many ways exacerbated, during periods of economic crisis. Evidence shows that major social welfare retrenchment is likely to occur during deep troughs in the business cycle – largely because the modern state is reliant on maintaining the confidence of international capital in a transnationalised global financialist accumulation regime. The following chapter will examine how the New Zealand government developed unemployment-related policies, both before and after the global financial crisis, and will establish that these policies are a reflection of what has occurred on the international scale.

Chapter Five: Unemployment-related policies in New Zealand, pre and post the global financial crisis

The regulation approach requires specific examples to be analysed empirically, in order to demonstrate the coevolution of regimes of accumulation and social policy programmes. This will help the continued development of the approach as an effective, convincing and compelling framework for analysing state actions. This chapter provides such an analysis by examining the development of unemployment-related policies in New Zealand. In order to provide a more complete picture, unemployment-related policies are analysed both before and after the global financial crisis. This is done in order to determine how the policy hallmarks of the global financialist regime relating to unemployment - activation and flexibility - evolved (and responded to the global financial crisis) and to what extent the policy developments in New Zealand illustrate the global theories explored in the previous chapters.

The development of unemployment policies in New Zealand – tending towards activation and flexibility

Although activation and flexibility have become the predominant tools used in relation to addressing unemployment under the SPWR, they are not a particularly new concept. This is particularly so in New Zealand. O'Brien considers that an 'activation requirement' has been part of New Zealand's social welfare matrix for seventy years (2008:82). Easton describes how New Zealand and Australia, even in comparison with other Western countries, have always used the labour market

as a delivery mechanism for social welfare (Easton, 1996). Huber and Stephens discuss the distinction between the ‘antipodean’ welfare state and those in the northern hemisphere, namely Francis Castles’ description of Australia and New Zealand’s ‘wage earner welfare states’ (1999:2). But, as is described in this chapter, these concepts have gone from being one tool in the social welfare package to combat the problem of unemployment, to being the critical, definitive policy levers used under the SPWR.

This section provides a brief overview of the development of unemployment-related policies in New Zealand since the disestablishment of the KWNS under the Fourth Labour Government to time of the global financial crisis (when the Fifth National Government came to power in 2008), with a special focus on developments since 1999. This period is of particular importance as this is the time in which activation and flexibility came particularly to the fore under the so-called Third Way social policy paradigm. It is then argued that the hallmarks of Third Way policies align with, and support, the global financialist regime of accumulation and the SPWR.

The Fourth Labour Government

The Fourth Labour Government came to power in 1984 and was firstly led by David Lange until 1989. The policies which this government implemented would fundamentally alter the course of New Zealand’s economic development for the next 30 years. They were examples *par excellence* of the monetarist, neo-liberal policy ‘solutions’ which were followed in many Western countries – for instance under Thatcherism in the United Kingdom and Reaganism in the United States

but also in Australia West Germany, Canada, the Netherlands, Belgium, Japan, Sweden, Denmark and Norway (Huber and Stephens, 1999:10; Callinicos, 2001:7; Edwards, 2003:130). However, as radical as the economic policies implemented by the Fourth Labour Government were, they did not actually implement many radical social policies relating to unemployment and the labour market (Neilson, 1998:57). Instead the government's focus was on responding to deepening economic problems through an emphasis on economic policy drivers, namely implementing austerity measures around welfare targeting, rather than retrenchment (Roper, 2008:22; see also Cheyne et al, 2008:ix). The economic policy concerns were a reaction to the period of stagflation which was becoming embedded. The Keynesian policy programmes which sought to counter the troughs of the business cycle were perceived as being ineffective and stale (see Huber and Stephens, 1999:9).

During the Fourth Labour Government's second term, it promised to implement changes to social policies and established a Royal Commission, but once re-elected, 'Labour ignored [the Commission's] findings and pursued the neo-liberal agenda more vigorously, focusing on corporatisation, privatisation and the reform of the labour market' (Neilson, 1998:58).

The Fourth National Government

Fundamental welfare retrenchment did not occur until the Fourth National Government took office in 1990. Such retrenchment was, in the main, led by the then Finance Minister Ruth Richardson and Minister for Social Welfare Jenny Shipley. The changes were implemented in response to a sharp jump in the

number of people unemployed in the late 1980s: 'with the growth seen as resulting from incorrect labour market incentives' (Easton, 2008:51), in other words, the welfare state was not 'encouraging' people into employment.

The Fourth National Government, under Ruth Richardson's guidance, implemented a programme based firmly on the principles of neo-liberal economics. Social welfare responsibility was shifted from the state to the individual and there was a focus on individual choice and efficiency (Roper, 2008:24). This led to a social welfare retrenchment programme which saw reductions in payment levels across all benefit types (Cheyne et al, 2008:172). The prevailing wisdom at the time assumed that benefit levels paid at a rate anything higher than subsistence level dis-incentivised work. The changes were implemented not only as austerity measures, but were part of a larger philosophical paradigm which considered that dependence on the state represented a moral failing on the part of the beneficiary. The welfare state, in essence, became 'minimalist' (Easton, 2008:39; see also Huber and Stephens, 1999:10).

This government considered that it was the state's role to ensure people moved off benefit as quickly as possible and at the same time, more responsibility should be placed on the individual for finding and securing their own employment, and therefore, financial situation. Beyond the philosophical paradigm, the retrenchment measures were also considered necessary to bolster business growth, and they supported the government's monetarist economic policies. Social policies, and in particular those relating to unemployment, reflected the

significant shift towards neo-classical and neo-liberal economic thought, and became closely aligned with those relating to the labour market:

As the title of the *Social Assistance: Welfare that Works* (Shipley 1991) package indicates, the language of welfare debate was increasingly the language of the labour market. But this was not, as before, a labour market where the state took responsibility for managing demand and ensuring full employment' (Humpage and Craig, 2008:71).

The significance of the changes which occurred under this government cannot be overestimated. They are as important when analysing the trajectory of the evolution of social policies in New Zealand as are the economic policies enacted by the Fourth Labour Government when examining our modern economic evolution. Roper has argued that there has not been such a comprehensive reform package since:

Richardson's 1991 'Mother of All Budgets' commenced the most comprehensive programme of social policy reform since the establishment of the Keynesian welfare state by the First Labour Government. In redesigning the welfare state, the Government reiterated central neoliberal themes in social policy. Self-reliance and reliance on 'the family' was preferable to dependence upon the state. Monetary incentives were important for getting people off welfare, in providing workers with incentives to work harder and longer hours, and to encourage 'wealth creators', that is business, to increase investment and generate a higher rate of growth (2008:25).

It is within this philosophical shift towards neo-classical economic thought (and its supporting social and financial policies) that we can espay the beginnings New Zealand's part in the global financialist regime of accumulation. The government sought to implement policies which supported the free market economy and its

increasingly transnational nature. Beginning during the term of the Fourth Labour Government, those interest groups which were most likely to benefit from these policies, such as the Business Roundtable, began to have increasing influence over the government, and in particular the executive. The Treasury became an increasingly influential advisor to the government, in comparison with other government departments (Roper, 1993a; Goldfinch and Roper, 1993).

The reform package implemented by the Fourth National Government delivered the social policies that were necessary to support the post-Fordist regime of accumulation that had developed since the disestablishment of the Fordist mode of growth and the KWNS.

The Labour-led Government, 1999-2008

In 1999, the Labour Party formed a coalition government with the left-wing Alliance party under the leadership of Helen Clark. The Labour Party would lead three successive coalition governments.

Although this government did not take any major steps towards reinstating benefit levels to their pre-retrenchment levels, the 1999 Labour-led government gradually introduced a number of changes in relation to unemployment-related policies and social policies more generally which marked a shift towards the Third Way social policy paradigm.

The programme was so-named the Third Way as it was meant to be something of a compromise between neo-liberal conservatism and the 'economic statism' of the

failed socialist states (Callinicos, 2001:6). It is the 'third' way as it is an alternative to the two beaten paths, as stated by Cheyne et al:

The Third Way is considered to be a new form of political economy that seeks to provide an alternative to both neo-liberal and traditional social democratic policies... it is often viewed as a middle way between the two major systems of economic and social organisations (capitalism and socialism), the competing principles of resource allocation (that is, market and state), and ideologies (old Left and New Right) (2008:77).²⁵

The Third Way encompassed not only changes to welfare programmes, but also changes in language ('social welfare' changed to 'social development', beneficiaries became 'clients' who were assisted by 'case managers'). Neil Lunt considers that these changes in language were more than simply window dressing – they were a fundamental part of the development of the SPWR:

Modernising welfare provision and maintaining government commitment to 'active labour market; intervention is presented as the way to harness the new employment realities of global markets, and policy documents draw a sharp distinction between traditional approaches to 'social welfare' and the vision of 'social development' (2008:413).

The Third Way saw the already-established tendency towards activation and the use of the labour market as the primary delivery driver for social welfare becoming increasingly important. This activation components (and coupling of social policy with labour market drivers) of the government's programmes were quite overt, as set out in the Ministry for Social Development's 2006 Statement of Intent:

²⁵ An overview of the Third Way philosophy and a thorough critique of it is provided by Alex Callinicos in his book *Against the Third Way*. Here, Callinicos examines (predominantly) the Third Way approach as it was implemented by the British Labour Party under Tony Blair, and to a lesser extent, the US experience under Bill Clinton. Callinicos discusses the transnational nature of the paradigm and how various forms of the Third Way were established around the world.

The OECD profiled some of the work we do in a report, referring to New Zealand as a 'labour market success story'. The report recognised that the Ministry has taken our activation programmes to international best practice standards. Some of the successes discussed in the report include:

- WRK4U (Work for you) seminars for potential clients that reinforce the message that work is available, and should be considered ahead of benefit payments.
- JPI (Jobs Partnership Industry), where the Ministry has developed employment partnerships and programmes that will fill skill shortages and ensure that training leads to real work.²⁶

Under this paradigm, there was a slight shift back to some of the concepts of the KWNS (largely due to the traditionally left-wing leanings and working-class roots of the Labour party), in that there was more of an emphasis on the demand-side of the economy than under the previous government. However, there was no promise of full employment (Duncan, 2004:227), nor was the social welfare policy framework considered to be dependent on a closed national economy. The state did have a role in creating employment opportunities, but it was still very much up to the individual to ensure they could meet the labour market, and employability of the individual was a key area of focus (Duncan, 2004:219-220). Rather than being a planned approach to the national economy, job creation was instead focused at the regional and community level, which aligned with a general devolution of services from the centre.

Examples of such job creation schemes included the Enterprising Communities programme which sought to fund community groups to develop projects which created employment opportunities. Job subsidies were also introduced which

²⁶ Ministry of Social Development, 2006, Statement of Intent. <https://www.msd.govt.nz/about-msd-and-our-work/publications-resources/corporate/statement-of-intent/2006/working-age-people.html> accessed 7 January 2012.

funded employers to create jobs for those receiving an unemployment benefit and considered to be at risk of long-term detachment from the labour market. At the individual level, financial assistance such as Transition to Work grants provided funding for people to purchase goods, travel and so on required for starting work. There was also support for individuals wishing to increase their employability through education, such as the Training Incentive Allowance which covered a range of costs associated with undertaking education for those in receipt of the Domestic Purposes Benefit or Widows' Benefit.

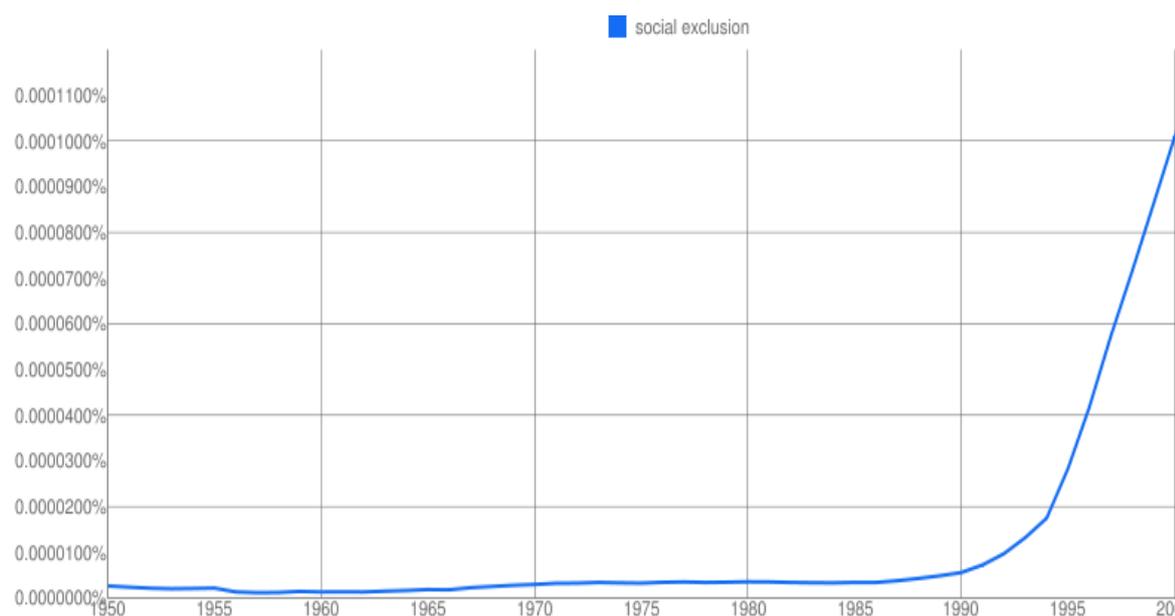
The theme of mutual obligations relating to work search continued through the Third Way (Eichbaum, 2006:52). According to Easton, under the Third Way,

Both the state and citizens have rights and responsibilities, with the state having the responsibility to encourage citizens' self-help through the expansion of employment opportunities, assisted by a mix of labour market incentives, activation and case-management. For those unable to work due to age, caring responsibilities or health-related reasons, the goal of social inclusion requires a minimum but adequate cash and in-kind provision from the state, but an obligation to look for work when circumstances alter (2008:44).

Social inclusion, coupled with social development, was one of the overarching goals of the Third Way approach. Social inclusion refers to an individual or family being engaged with and actively participating in their community and society more generally (namely through attachment to labour market). Social exclusion refers to those groups who are voluntarily or involuntarily excluded from active participation in their communities through their detachment from employment and the economic security it brings.

As stated by Peace the term social exclusion did not appear regularly in social policy discourse until the mid-1980s (Peace, 2001:18). A rather trite, but compelling illustration of this is derived using Google's Ngram Viewer tool²⁷:

Figure 1: Google Ngram Viewer count of the phrase “social exclusion”²⁸



A New Zealand social policy specialist, Robin Peace, explains that the roots of social exclusion as a concept can be found in France in the 1970s, where the term *exclusion sociale*, where certain groups within the population were literally

²⁷ Google Books Ngram Viewer displays a graph showing how many word or phrases have occurred in a corpus of scanned books (e.g., "British English", "English Fiction", "French") over selected years.

²⁸http://books.google.com/ngrams/graph?content=social+exclusion&year_start=1950&year_end=2011&corpus=0&smoothing=3 accessed on 6 January 2012.

excluded from social insurance provision (2001).²⁹ The term then gained greater traction through the policy programmes of the European Union:

As the European policy makers struggled to find a term for innovative social policy that avoided the stigma of concepts such as “poverty” and “deprivation”, “*exclusion sociale*” or “social exclusion” as it neatly translated, offered a fresh alternative. It was mutually recognisable in both [English and French], it avoided conceptual stigma and it was indeed “shiny and new”. In a sense, it was used as a “branding” exercise for the European Union’s highly controversial Poverty Programmes (Peace, 2001:18).

Those who spent extended periods of time on benefits were considered to be most at risk of being socially excluded. ‘Benefit dependency’ became a spectre looming to cause irreparable damage to society if individuals were not moved into work (Cheyne et al, 2008:183).

However, not only did the Third Way paradigm seek to increase levels of employment through its social policies, it sought to integrate these policies with broader economic goals. Developing human capital improves economic performance, and participation in the global economy is a key element to the approach. It is considered that active participation in the economic life of society should be encouraged (if not enforced), and this is combined with a free-market approach to economic policies at the macro level. As explained by McClelland and St John,

With respect to social policy it is clear that the focus on ‘welfare dependency’ and ‘social exclusion’ has been an important aspect of

²⁹ Peace identifies ten ‘categories or groups who came under the “uninsured” umbrella. These were the physically and mentally handicapped, those who were “suicidal”, aged invalids, abused children, substance abusers, delinquents, single parents (notably sole mothers), multi-problem households (where more than one of the factors existed at any one time), “marginals”, “asocials” and “social misfits” (2001:19).

the process of cultural globalisation and led to an acceptance of the need for 'active welfare' including the promotion of work as the most important way to reduce poverty. Such social policies, when combined with market-oriented or 'neo-liberal' economic policies, may be regarded as the core of the 'third-way policy approach (2006:178).

This combination of market-driven economic and labour market (de)regulation, coupled with the desire to combat social exclusion by integrating people into the labour market are the hallmarks of the social development approach under the Third Way.

As mentioned above, the workfare focus can place an overemphasis on paid employment as a definer of citizenship: 'the market drives social development and the contingent citizenship that results is market-determined. With inclusion seen to result from paid work there is a danger of overvaluing citizens in one sphere to the neglect of other forms of productive contribution' (Lunt, 2008:414).

This emphasis on the market is indicative of how the Third Way approach is essentially another name for the SPWR, and how this regime supports the market-driven transnationalised regime of accumulation, which is a point elaborated by Stephens:

Work has always been central to the operation of the welfare state, especially receipt of the Unemployment Benefit, but other income-tested benefits were received as of right. National-led governments had certainly promoted and enforced work, and extended the coverage of those work-tested, but the objective was economic growth and to improve fiscal balance, with a view that globalisation required greater (downward) flexibility in the labour market if full employment was to be obtained... In contrast, [the Labour-led government from 1999 onwards] sees social development as integral to its economic goals. Improving social and economic well-being is best achieved through work in paid employment... moving beneficiaries into work necessitates dealing with their specific constraints on labour market participation, requiring a move to

looking at individual circumstances rather than a category of beneficiary (2008:3-4).

An example of how the social development approach was put into practice was the introduction in 2004 of the Working for Families package. The aim of Working of Families was to incentivise work by introducing generous tax credits to families where one parent was working full-time, or for sole parents, who work at least 20 hours per week. Although receipt of the credits was dependent on meeting an income test, the income eligibility cut-off threshold was very high (at around \$80,000 per annum), meaning that a great number of families received state assistance in the form of tax credits. Eligibility for the Accommodation Supplement was also extended. Coupled with this package, the government introduced a more generous system of 100 per cent subsidies for 20 hours of early childhood education for all 3 and 4-year-olds. This measure was introduced in order to remove unaffordable childcare as a 'barrier' to employment. In keeping with the workfare regime's unrelenting focus on work, removing barriers to employment was a key feature of the programmes implemented under the Third Way. Theoretically, a case manager would simply help their clients to identify the barriers to them obtaining work, and then the client would just need to have the barriers removed in order to gain work. Non-government organisations were awarded contracts to help clients overcome these barriers that were preventing them from joining the workforce, whether it was literacy problems, health concerns (such as the PATHS³⁰ programme which funded clients to receive

³⁰ Providing Access to Health Solutions, see <http://www.msd.govt.nz/about-msd-and-our-work/publications-resources/corporate/statement-of-intent/2006/working-age-people.html> accessed 7 January 2011.

multiple health interventions) or curriculum vitae and interview preparations. The bulk of the workfarist changes were brought in under a staged programme titled Working New Zealand: Work Focussed Support.³¹

This was all done because participation in the productive economy was (and still is) the only way for a person to be able to provide an income for themselves and their family at anything higher than subsistence level. All interventions and assistance was geared towards moving individuals into employment – it truly was the development of the workfare regime: 'social development offers a way of reintegrating economic and social policy in such a way that (a) economic development brings benefits to all, and (b) social welfare enhances people's abilities to participate in the productive economy' (Shaw and Eichbaum, 2011:272-273). In many respects, the Third Way is workfare made to look less draconian, as argued by Humpage and Craig:

The Third Way has not displaced this liberal work orientation as the central element of New Zealand's welfare regime. Work-focused policies aiming to achieve 'social inclusion' do not conceive 'welfare' as a fundamental goal. Rather, an economic agenda dominates, wherein well-being at the individual, community, and international levels is achieved through the integration of workers into the global economy... The language used to justify and promote it may have changed [under the Third Way], but participation in the paid labour market remains the primary form of welfare in New Zealand' (2008:77).

Duane Swank has looked at labour market 'decommodification' - that is, the degree to which welfare services are free from the market - and has found that New Zealand is one of four states where there has been 'notable' declines in

³¹ <http://www.beehive.govt.nz/release/programme-launched-help-sickness-and-invalid%E2%80%99s-benefit-recipients-back-work> accessed 7 January 2012.

decommodification (the others being Sweden, the Netherlands and the Republic of Ireland) (Swank, 2005:184). What this means is that New Zealand fits into a global trend whereby in advanced welfare states, the provision of welfare services is becoming more and more conflated with market mechanisms, and therefore social welfare delivery programmes are clearly aligned with the market-driven financialist regime of accumulation.

Indeed, the economic policies adopted under the Third Way approach, indicate just how entwined with the market-driven accumulation regime the policy programmes were. As stated by Duncan:

Third-way governments embrace monetarism and fiscal conservatism. They try to avoid any accusations that they are 'soft' on welfare, and they extol the traditionally right-wing ideals about personal responsibility, strengthening families, nation-building and promoting private enterprise... [they] are generally anxious to be seen to be responsible 'managers' of the economy, relying on orthodox macro-economic theory to guide policy-making (2004:220).

Writing in 2004, Duncan considered that the policies being implemented were very much driven by developments in the international economy and policies had to reflect the demands of employers:

Governments are now in a position... where any change of policy which is not immediately favourable to 'the markets' may result in a flight of [mostly foreign] capital... Foreign investors, of course, have no loyalty to New Zealand, and, if they do choose to invest here, there is no expectation that they will act in the long-term interests of New Zealanders (2004:215).

The development of the workfare regime, or Third Way approach, in New Zealand which has occurred since the late 1980s has largely been greeted with support

from most political parties. Mirroring this on a global scale, this support has also occurred in many other countries as well, such as Australia, the United Kingdom and some countries in Western Europe (Cheyne et al, 2008:181). Starke discusses this and uses some of the more right-wing aspects of the Third Way programme in New Zealand as examples:

In 2004, the so-called 'Jobs Jolt' was implemented: a package consisting of a variety of active labour market measures... The most controversial element of the scheme was a clause that to some extent limited the right of movement of the unemployed. The government designated 259 'limited employment localities' – more commonly known as 'no-go areas' – to which unemployed are not allowed to move if they want to continue drawing benefits. The government also obliged the unemployed between 55 and 59 years of age... actively to seek employment... In contrast to other areas of social policy, activation and workfare policies seem to enjoy a strong consensus across the party spectrum, a trend which can also be found outside New Zealand (2007:130).

New Zealand government unemployment policies post the global financial crisis³²

Some, if not many, may consider the policies and programmes enacted by the Labour-led governments from 1999-2008 to have been a success. As has already been described, the period before the crisis saw an economic boom occur across the globe, and New Zealand was no exception. New Zealand's unemployment level fell to its lowest ever recorded level in June 2007, at only 3.6 per cent (Shaw and Eichbaum, 2001:231), and for a period New Zealand had the lowest

³² At the time of writing, the National-led government was re-elected in November 2011, and was in the process of implementing social policy reforms which were mooted prior to the election. In order to provide a clear delineation of policies, only the policies which were actually implemented in the term of the government (elected in 2008) before the 2011 general election will be analysed here.

unemployment rate of all OECD countries.³³ Not surprisingly, the government of the day claimed credit for this record low employment level and believed that this was indicative of the efficacy of their Third Way policies. However, even with the unprecedented levels of employment, there were still high levels of economic inequality, and the fruits of the boom were not shared by all:

In the early to mid-2000s, New Zealand enjoyed a time of apparent unparalleled economic prosperity and political stability. While acknowledging real achievements in the reversal of the worst excesses, in this market environment it has been easy to undermine rather than strengthen the traditional securities of the welfare state and to marginalise those outside of the impact of the economic boom (McClelland and St John, 2006:189).

By the time New Zealand became the first OECD country to move into official recession in early 2008, this growing level of inequality was starting to be discussed at the national level and on the public stage. In the 18 months leading up to the 2008 general election, the leader of the then National opposition, John Key, began speaking publicly of what he described as a growing ‘underclass’ in New Zealand communities which was threatening to unravel the fabric of society:

We are seeing a dangerous drift toward social and economic exclusion... I'm talking about places where rungs on the ladder of opportunity have been broken. I'm talking about streets like McGehan Close in Owairaka, Auckland. In one week last year, two kids in that small street killed themselves and another two made unsuccessful attempts. It is a street terrorised by youth gangs.³⁴

³³ Department of Labour, Household Labour Force Survey, ‘Employment and Unemployment at a Glance’, published 13 August 2007. <http://www.dol.govt.nz/PDFs/lmr-hlfs-jun-07.pdf>, accessed on 14 November 2011.

³⁴ Key, John. State of the Nation address, 'The Kiwi Way: A Fair Go For All', 30 January 2007. <http://www.johnkey.co.nz/archives/28-National-to-tackle-NZs-growing-underclass.html> (accessed 5 November 2011).

The 2008 New Zealand general election took place in November in the midst of the looming crisis. The National party was given a clear majority (45 per cent of total votes cast), and formed a government with support from the Māori Party and ACT. Political scientist and commentator Bryce Edwards notes that:

In general, National attempted to run a relatively policy-free campaign... despite the unfolding economic crisis there was a lack of a coherent economic vision from Key and his finance spokesperson Bill English. What little economic policy that was actually presented was criticized from both the left and right as being neither visionary nor a comprehensive enough response to the global economic crisis that was widely predicted to impact strongly on New Zealand.³⁵

Although the National Party's campaign may have been thin on economic policies and planned responses to the financial crisis, the new government found itself having to quickly respond to the worsening recession:

In June 2007 New Zealand's official unemployment rate was 3.6%, equal to the lowest level ever recorded in the Household Labour Force Survey, and less than half what it had been in the early 1990s... By December 2009 the rate had almost doubled to 7.1%. The [global financial crisis]... was the main driver (Shaw and Eichbaum, 2011:231).

The response of the new government to the crisis in relation to (un)employment policies illustrates the marked differences between the SPWR and the KWNS. Whereas Keynesian economic policies focus on governments creating employment through counter-cyclical injections of funding into (largely public works) development programmes such as infrastructure investment, in order to

³⁵ Edwards, Bryce 'National's 2008 election campaign', 6 September 2009. <http://www.liberation.org.nz/> (accessed 14 November 2011).

create jobs, the new government turned to the private sector to set the agenda for job creation. In February 2009, the Prime Minister convened a national ‘job summit’ with representatives from the business community, non-governmental organisations, trade unions, iwi, and government agencies to discuss various strategies to create jobs and counter unemployment growth. In spite of the rise in unemployment and the costs of living, the government did not make any moves to increase spending on benefit levels or other forms of state assistance, as would have been expected under the KWNS.³⁶

Starke has provided a comprehensive analysis of welfare state retrenchment, with a particular emphasis on New Zealand. He shows that since the disestablishment of the KWNS, there have been no large-scale increases to state welfare support payments during times of economic downturn or crisis (just when increased unemployment and reduced employment levels mean there are more individuals and families seeking support from the state). In fact, Starke shows that state welfare retrenchment events are most likely to occur during periods of crisis:

The main cutbacks [between 1975 and 2005] were enacted during moments of economic crisis, particularly steep increases in unemployment, and immediate fiscal or monetary crises such as the 1984 currency crisis, the 1987 stock market crash, the fiscal crisis in the aftermath of the 1990 election and the 1997/98 Asian economic crisis (2007:135).

³⁶ The National government did introduce a temporary support package (‘ReStart’) for people who had lost their jobs through redundancy. The ReStart package was launched in December 2008. It provided time-limited support to those individuals who had been made redundant the ReStart package was comprised of three components: ReCover - a payment for families with children and who are no longer eligible for the In Work Tax Credit; RePlace - an accommodation top-up available for those who qualify for the maximum Accommodation Supplement after they have been made redundant; and ReConnect - job search and employment placement services. See <http://www.beehive.govt.nz/release/restart-assistance-package-redundant-workers> for more information.

These retrenchment events occur regardless of the political party in power. It is the scope and depth of the cutbacks rather than the cutbacks themselves that are determined by left/right ideology (Starke, 2007:135).

Whereas on the one hand the new government talked about job creation, on the other they discussed benefit reductions and increased elements of activation. In February 2010, the government announced a package of welfare reforms dubbed 'Future Focus' and legislation was introduced in 30 March 2010 to enact the changes. The changes included introducing work tests for sole parents in receipt of the Domestic Purposes Benefit when their youngest child turns six; introducing a part-time work test for those in receipt of the sickness benefit and deemed by their doctor to be capable of some work; anyone in receipt of the Unemployment Benefit for a period of 52 weeks or longer must go through a lengthy re-application process in order to continue to be eligible, and hardship assistance payments were made more difficult to receive for repeat applicants through compulsory budgeting advice and other strict eligibility requirements. Shaw and Eichbaum consider that 'the approach evident – at least in the political rhetoric around the Future Focus programme – is more weighted towards sanctions, and the assumptions (at times) is that welfare is a lifestyle choice for those on income support' (2011:285). Humpage and Craig consider that the Future Focus package was very much a strengthening of the 'work first' paradigm already begun under the Third Way:

Increasingly adopting the language of the labour market, the income support system was adapted so that beneficiaries were streamed according to 'work status' (i.e. able to work now, in the future or not at all). This 'work-first' approach saw employment-focused assistance extended to all clients regardless of their benefit type in 2007, while at the same time strengthening and extending

work search planning requirements and sanctions. No longer was social protection about the causes of need (such as disability or caring for children) but future employment and outcomes (2008:76).

Also in March 2010, the Minister of Social Development and Employment, Paula Bennett, took a paper to Cabinet proposing the establishment of a Welfare Working Group (WWG). The WWG was charged with developing a range of options for the government to consider implementing in order to reduce levels of benefit dependency. The WWG released an issues paper, followed by an options paper in November 2010, titled *Reducing Long-Term Benefit Dependency: The Options*. The parameters of investigation for the group were largely determined by SPWR ideology, for example, one of the questions it set out to answer was whether or not the benefit system in New Zealand contained the right incentives to get people into work. The establishment of the WWG fitted with the renewed emphasis on activation and sanctions, as argued by Cheyne et al:

The major difference between [the Labour government's social development approach] and that used in the neo-liberal approach is that the neo-liberal approach relies heavily on sanctions and punishment in order to make beneficiaries move into work. Beneficiaries are regarded negatively, as failures whose behaviour will only change through strong controls (2008:183).

This chapter has provided a brief sketch of the development of social policy programmes in New Zealand since the disestablishment of the KWNS. These developments are illustrative of the global shift in modern capitalist social democratic societies towards the concept of SPWR, as portrayed by Jessop and the Dutch regulation theorists. The following and concluding chapter will provide

some final analysis on how the changes in social policy in New Zealand between 2008 and 2011 were illustrative of the neoliberal state attempting to introduce measures that would re-stabilise the economy in the face of the global financial crisis, in order to protect the global financialist regime of accumulation.

Chapter Six: A foil to a counter-hegemonic project? New Zealand's unemployment policies 2008-2011, the global financial crisis and the financialist regime of accumulation

Heterodox interpretations of global political economy are able to provide a compelling analysis of the global financial crisis as it developed within the broader financialist, market-driven capitalist accumulation regime. This has been illustrated in the previous chapters, together with an explanation of how this relates to social policy generally, and specifically to unemployment-related policy programmes.

In Chapter One, it was shown that the Regulation approach is particularly useful when examining the development of capitalism over time: how it manages to survive by continually taking on new forms. The regulationist concepts of the regime of accumulation and mode of regulation which define particular epochs were discussed and explored. Chapter Two then used the regulationist toolkit to examine the development of the global financialist regime of accumulation at the end of the twentieth and start of the twenty-first centuries. It described how the underpinnings of the regime ultimately led to the global financial crisis. Chapter Three provided a more in-depth analysis of a specific regulation school - transnational historical materialism. Chapter Four then demonstrated how transnational historical materialism can be used to examine social policy programmes, particularly in relation to unemployment, and how they relate to the dominant regime of accumulation. The chapter charted the change from the KWNS to the SWPR. Chapter Five examined the development of social policy programmes in New Zealand since the disestablishment of the KWNS in order to

show how the New Zealand example illustrates the concepts explored in Chapter Four.

This chapter seeks to bring the ideas developed in the earlier chapters together. What needs to be determined now is how the unemployment-related policies introduced by the New Zealand government from 2008 to 2011 supported the global financialist regime of accumulation in the face of the global financial crisis.

New Zealand's unemployment policies from 2008

The National Party campaign in the lead-up to the 2008 general election was fairly thin on concrete policies designed to counter the worst impacts of the global financial crisis. Upon taking office, the government acknowledged that there was likely to be increases in the number of unemployed, but did not provide much in the way of detail as to how this would be addressed (beyond the limited ReStart support package for those made redundant). In the Speech from the Throne delivered by the Governor General on 9 December 2008, the government set out its priorities for its term in office:

The driving goal of the new Government will be to grow the New Zealand economy in order to deliver greater prosperity, security and opportunities to all New Zealanders... In pursuing this goal of economic growth my Government will be guided by the principle of individual freedom and a belief in the capacity and right of individuals to shape and improve their own lives. My government believes that building a stronger economy in the term of this Parliament will not be without considerable challenges. These are extraordinarily difficult times for the country and the world. The world is experiencing what is now being described as the worst financial crisis since the Great Depression of the 1930s. Global credit flows have dried up, financial institutions have fallen over, sharemarkets have plunged and economies worldwide are falling into recession. The New Zealand economy has been in recession

this year and economic growth in 2009 is forecast to be low. Asset values are falling and unemployment is predicted to rise. The Government will run an operating deficit this year and is likely to do so for some years to come (Speech from the Throne, 9 December 2008).³⁷

The Job Summit which was held in early 2009 was intended to develop concrete ideas on 'how to retain and grow jobs' in New Zealand.³⁸ The focus of the summit was not on assisting those already unemployed, but rather in preventing further unemployment growth. The fact that the summit was chaired by the head of the New Zealand Stock Exchange illustrates that the Government was committed to addressing unemployment through market mechanisms. The summit really only generated three 'ideas': a nine-day working fortnight which would see a wage subsidy provided to employers for the tenth day for employees who might otherwise lose work (eligibility for this subsidy was very tightly targeted and controlled); a proposed project to build a cycleway the length of the country; and the development of a crown-private equity investment fund.

Although the concepts behind the summit were Keynesian, in that it was focused on stimulating growth on the demand-side of the economy, in reality it arguably delivered little in the way of actual job creation. In the releases associated with the Budget announcement of 2009, Finance Minister Bill English in some ways admitted defeat in terms of Keynesian job creation policies: 'increased unemployment is one of the harshest effects of the global recession. We cannot

³⁷ <http://www.beehive.govt.nz/speech/speech-throne> accessed on 13 January 2012.

³⁸ John Key, 15 January 2009. <http://www.beehive.govt.nz/release/prime-minister039s-summit-employment> accessed on 7 January 2012.

reverse that, but we are taking steps to cushion New Zealanders from its sharpest edges'.³⁹

Rather than implementing large-scale public works acts as had been undertaken during the Great Depression (apart from some infrastructure projects such as roading and broadband initiatives), a year after the Job Summit the government's discourse switched back to the workfarist regime when it announced its Future Focus package of welfare changes and the establishment of the Welfare Working Group, as described in the previous chapter. This is evident in the wording of the media release from the Prime Minister and Minister of Social Development and Employment which accompanied the announcement of the package:

The recession has made life tough for many New Zealand families. Welfare will always be there to catch those who have fallen on hard times. But for some, this safety net has become a trap, imprisoning them in a life of limited income and limited choices. Others are falling through the cracks. We say 'enough'. Now it is crunch time for this Government. We are rebalancing obligations and support so that beneficiaries can achieve the best outcome for themselves and those who depend on them... We want beneficiaries to step up and find themselves a job, gain work skills, and get back that confidence in their own abilities. We will back them all the way. With Future Focus we will support people when they are most in need, encourage them to get back to work, and act when they don't take responsibility for themselves.⁴⁰

Just half a year earlier, the Finance Minister stated that 'maintaining welfare entitlements will stimulate the economy'⁴¹ but the Future Focus package ultimately led to tighter eligibility and increased obligations. The language

³⁹ <http://www.beehive.govt.nz/release/budget-2009-supports-thousands-jobs> accessed on 13 January 2012.

⁴⁰ <http://www.beehive.govt.nz/feature/future-focus-benefit-reforms> accessed 13 January 2012.

⁴¹ <http://www.beehive.govt.nz/release/budget-2009-supports-thousands-jobs> accessed 13 January 2012.

associated with the package is replete with references to activation and the workfare regime; the focus was on the choices and actions of individuals. This language is also apparent in the Cabinet papers which sought support for the reform package:

In addition to the focus on work, the package of changes seeks to reinforce the importance of reciprocal obligations for people receiving welfare such as education or training, planning or budgeting. The objective is a welfare system that is fair for everyone, for those receiving the assistance as well as to taxpayers who are providing the assistance. Overall, it seeks to create a welfare system that does not encourage people to remain on welfare longer than they have to, but does continue to provide support to people in genuine need.⁴²

But what is not immediately apparent is whether these changes were simply an extension of the SPWR which had been developing since the disestablishment of the KWNS, or whether they were attributable to the effects of the global financial crisis and the government needed to implement them in order to shore up the fragile financialist regime of accumulation.

New Zealand's unemployment-related policies and the global financial crisis

In terms of rhetoric, the New Zealand government did not use the global financial crisis as a justification for massive welfare state retrenchment. The language which the government used when it introduced the Future Focus legislation

⁴² <http://www.msd.govt.nz/documents/about-msd-and-our-work/newsroom/media-releases/news/2010/paper-a-overview.pdf> accessed on 13 January 2012.

focused on ‘fairness’, ‘responsibility’, ‘obligations’, ‘incentives’ and ‘society’.⁴³ These are all based well within traditional neoliberal ideology and represent an extension of the activation elements implicit in the SWPR.

However, what is evident is that the global financial crisis provided the government with a mandate to implement these changes that it might not otherwise have had. As discussed in previous chapters, under periods of recession and economic crisis, changes in the tax base mean government income contracts. Unless a government chooses to resort to increased borrowing, it will generally by ‘necessity’ undertake cuts in social spending. But not only this, periods of extreme crisis force changed to policy paradigms, as argued by Jessop:

Whereas governance in periods *en régulation* occurs within parameters defined by institutionalized structural forms, during periods of structural crisis it is far more experimental, trial-and-error and chaotic. But this search process acts as a source of institutional and behavioural variation; more successful experiments are selected in an *ex post* manner; and, through their co-evolution, are reinstitutionalized and retained as the basis for a new repertoire of governance mechanisms (1997:303).⁴⁴

In the case of the 2008-2011 National-led government, the significant financial crisis led to deeper retrenchment than might otherwise have occurred. The fragility of the economic system allowed it a window in which to (as Jessop states) ‘experiment’. The Chair of the Welfare Working Group, in the issues paper the

⁴³<http://www.msd.govt.nz/documents/about-msd-and-our-work/newsroom/media-releases/news/2010/paper-a-overview.pdf> and <http://www.msd.govt.nz/about-msd-and-our-work/work-programmes/initiatives/future-focus/index.html> accessed on 13 January 2012.

⁴⁴ *En régulation* refers to the regulationist concepts of states operating at varying levels of autonomy in periods “in regulation” and “out of regulation”. As defined by Neilson, in regulation ‘is characterised by economic and social stability’ and out of regulation phases ‘comprise times of decline, turmoil, restructuring, and the consolidation of a new model of development’ (Neilson, 1998: 51).

group released in August 2010 discusses the seeming necessity of reform due to the crisis:

We heard in our discussions that this [financial] support was clearly needed in 2008 when the New Zealand economy was hit by a global financial crisis. Some New Zealanders lost their jobs or were unable to find work and certainly the benefit system supported many New Zealanders to get back on their feet. But there is also evidence that many people who entered the benefit system as a result of the last recession have found it difficult to escape, and may go on to spend many years out of work. It is this group that is of most concern. This phenomenon, of many people entering the benefit system and remaining there for long periods has become increasingly prevalent in New Zealand.⁴⁵

A good way to examine this retrenchment is by way of comparison with the significant welfare retrenchments that occurred under the Fourth National Government, beginning in 1991 (as discussed in the previous chapter). As Starke has shown, the depth of retrenchment is attributable to political ideology, rather than the retrenchment event itself which is in fact aligned with prevailing economic conditions (and stimulated by rising unemployment (Huber and Stephens, 1999:11)). However, the fact an economic crisis is occurring can provide a government with an apparent motive it might not otherwise have had. In reviewing Starke's book on welfare retrenchment, Stephens observes that the retrenchment announced as part of the 1991 'Mother of all Budgets' meant that 'an economic crisis was used as a smoke screen for a New Right agenda' (Stephens, 2008:193) and economic crises were a major trigger [of retrenchment in New Zealand and the United Kingdom], but not all recessions led to cuts: crises were used to justify and legitimise an ideological desire for retrenchment'

⁴⁵ The Welfare Working Group, Issues Paper, August 2010, p. i
<http://ips.ac.nz/WelfareWorkingGroup/Downloads/Issues%20Paper/Welfare-Working-Group-Long-Term-Benefit-Dependency-The%20Issues.pdf> accessed 7 January 2012.

(Stephens, 2008:195). However, the question remains: why did the government adopt an approach which further cemented a policy paradigm that has been shown to have contributed to the crisis in the first place?

According to a more macro regulationist interpretation, a state can have two types of responses when facing a 'restructuring imperative' (which will likely occur in the face of a major economic or financial crisis). First, a group or party may work to establish a 'new active hegemonic bloc... institutionalised social compromise and a new model of development' – such as occurred with the establishment of Fordism and the KWNS in response to the imperative created by the Great Depression (Neilson, 1998:51). Alternatively, a non-hegemonic strategy could be adopted, which seeks to restructure without first establishing a clear mandate or garnering broad consent. This occurred in New Zealand in 1984 and again in 1991 when the Government implemented restructuring programmes without the consent of the electorate (and which in fact drew widespread criticism). Such a strategy was at the time a successful one in a country like New Zealand, with its unicameral legislature and (then) first-past-the-post electoral system. As Neilson states, active hegemony is the end goal, rather than the foundation for the programme of change (1998:53).

In 1984, the government seized on the lack of a credible opposition strategy to implement a raft of economic changes under an 'elected dictatorship', and the reforms were presented with rhetoric which argued that 'there is no alternative' (TINA) (Neilson, 1998:56-58). In 1991, it implemented a package of welfare retrenchment that was wildly unpopular but remained defiant in the face of criticism.

In spite of such criticism, by 2008, the neo-liberal mode of political regulation was well and truly established – even with changes in governments the restructuring and retrenchment were not reversed. And under this mode of regulation:

The state has much less capacity to directly regulate economic and social outcomes because the norms and institutions of the integral state have been rolled back... the central state is no longer to be held responsible for failures in the marketplace or within the institutions of the welfare state... with the unleashing of the increasingly global forces of the market, such frameworks position the state as midwife to the independent power of international capital (Neilson, 1998:61-62).

The responses of the New Zealand government during and since the global financial crisis demonstrate that the state in many capitulated to the power of international capital. The Job Summit think tank which sought to generate the best ideas for countering unemployment growth on the demand side amounted to little. Instead, the government sought to counter the impacts of job losses by transferring the policy levers back on to the individuals through activation and tightened benefit eligibility.

However, as stated earlier, significant growth in unemployment and reductions in services could lead to a government losing the consent of the populace and having to revert to coercion as its controlling mechanism. Strong states would wish to avoid this happening in order to ensure the continued accumulation of the capitalist system (cf. the situation in Greece where mass unemployment, spiralling state debt and painful austerity measures have seen massive public demonstrations and violence).

From 1998, the National-led government extended and sharpened the SPWR which was established under the terms of the previous Labour-led government, and used the global financial crisis as a convenient mandate for implementing a package of more significant welfare retrenchment. The Government in some ways absolved itself of the 'blame' that might be attributed to it (as was attributed to Ruth Richardson and Jenny Shipley after 1991) by establishing the Welfare Working Group which essentially had a briefing to justify reduced social expenditure and to do so whilst appearing to undertake widespread consultation.⁴⁶

Foiling a restructuring imperative

Although it would seem (at first blush) that a massive economic crisis (such as the global financial crisis) should lead to a major change in the system, given that the causes of the crisis were actually systemic, the evidence would show that this is not always the case. Indeed, as stated by Gramsci, it can be that motivated by self-preservation, the status quo is actually in many ways likely to succeed in defending its territory when under threat:

The superstructures of civil society are like the trench-systems of modern warfare. In war it would sometimes happen that a fierce artillery attack seemed to have destroyed the enemy's entire defensive system, whereas in fact it had only destroyed the outer perimeter; and at the moment of their advance and attack the the (sic) assailants would find themselves confronted by a line of

⁴⁶ The Welfare Working Group undertook a series of engagement meetings with key 'stakeholders' followed by a forum. It then received hundreds of submissions on its Issues Paper before releasing its Options Paper. For more detail, see <http://ips.ac.nz/WelfareWorkingGroup/Engaging%20with%20New%20Zealanders.html> (accessed 27 January 2012).

defence which was still effective. The same thing happens in politics, during the great economic crises. A crisis cannot give the attacking forces the ability to organise with lightning speed in time and in space; still less can it endow them with fighting spirit. Similarly, the defenders are not demoralised, nor do they abandon their own positions, even among the ruins, nor do they lose faith in their own strength or their own future. Of course, things do not remain exactly as they were (Gramsci, 1971:235).

David Neilson has considered the neo-liberal mode of political regulation which has become entrenched in New Zealand. This mode of regulation seeks to ensure that ‘the state becomes more distinct and independent [than under Keynesianism] but its scope of intervention becomes narrowed to the upholding of the market and the rule of capital’ (1998:51). He argues that under conditions of ‘restructuring imperative’, a counter-hegemonic project may be established. In order to counter such a project being established, the state will implement reforms ‘foiling the formation of a counter-hegemony’ (Neilson, 1998:66). Neilson argues that this is what occurred in 1984 under the Fourth Labour Government. However, his description of the restructuring implemented then could readily describe to the policies implemented in 2008-2011:

The speed of reform, the oft-repeated TINA incantation, widespread consultation, high levels of state-funded advertising, strategic concessions on non-vital issues, and the sequencing of the reform process to avoid early direct confrontation with welfarist and trade union values all assisted the independent momentum of the project... The obligation of the state to deliver and redistribute wealth is being replaced by the discourse of the market liberty of individuals responsible for themselves in an autonomous civil society which is overcoming “welfare state dependency” (1998:66-67).

Huber and Stephens have analysed the linkages between production regimes and welfare state functioning and retrenchment. In their analysis, they provide a 'prescription' for solving the unemployment (and poverty and inequality) problem. Although they consider activation important (if not crucial) element of improving labour market participation (which will in turn stimulate real growth), this needs to be done through the provision of 'legal protection and services to make it easier to combine child rearing and working life'. They also consider that there needs to be a focus on job creation through significant investment (1999:17-18) and 'support mechanisms for workers and families' if those participating in the labour market need or wish to undergo 'life-long learning' (1999:21). Crucially, they consider that the policies advocated by the OECD (to increase job creation through wage dispersion, deregulated labour markets, and reductions in welfare benefits and entitlements), to be ineffective at curtailing unemployment and socio-economic inequality (they politely claim to be 'sceptical' of this policy suites) (1999:19). They go on to note that New Zealand is one of the 'two countries which made the most dramatic moves in the direction suggested by the OECD' and that we are 'paying the social costs' while our unemployment levels remained little better than other countries (1999:20). Although they were writing in 1999, the arguments they make are equally valid in relation to the policies implemented in the wake of the global financial crisis.

The New Zealand government followed prescribed wisdom from the OECD – a paradigm which assumes deregulation of the financial system will bring with it sustained growth; in other words, maintain the global financialist regime of accumulation through microeconomic policies. These policies were implemented regardless of the evidence that such policy programmes had previously led to

entrenched inequality and in work poverty. They are also critical of the way governments such as that in New Zealand have allowed ‘unemployment crises’ to dictate ‘an agenda of curtailment of welfare state expenditures’ which means their ‘range of political choices was extremely restricted’ (Huber and Stephens, 1999:21).

In summary, the policy programme in relation to unemployment implemented by the National-led Government between 2008 and 2011 was arguably counter-intuitive. It sought to further entrench the paradigm which had aided and abetted the global financial crisis to occur in the first place: by absolving itself of blame by focusing on the transnational aspects of the crisis, using rhetoric which implied there were no viable alternatives to their policies, concentrating effort on the supply side of the economy and reducing entitlements to avoid creating “benefit dependency”. It did this rather than introduce policies to counter the causes of the crisis. This was because it was acting in a way which cemented the active hegemony of the neoliberal mode of regulation, which supported the dominant transnational financialist regime of accumulation, to act as a foil to any counter-hegemony which might otherwise have emerged. Neilson considered that a ‘generalised crisis’ which affected ‘all national states’ might be necessary in order to trigger a ‘more radical departure’ from neoliberal hegemony. At least in the case of New Zealand, the strong state actions were able to provide a foil to such a counter-hegemonic movement, at least in the short term.

Conclusion

The problem of unemployment still vexes the capitalist system in spite of the evolutionary phases through which it has developed. In times of recession and crisis, as available capital shrinks through market and investment contractions, labour is in many respects the easiest for businesses and corporations to shed in order to try and keep accumulation at acceptable levels.

According to the modern neoliberal mode of political regulation, states are in the position of being able to absolve themselves of the blame for increased unemployment levels, as job losses are simply a natural functioning of the market as it seeks to correct itself as part of the 'business cycle'.

The global financial crisis which commenced in 2008 demonstrates that the mainstream neoliberal economic and political tradition is unable to predict and provide convincing critical analyses of such crises. The regulation approach is a theoretical framework which is based upon heterodox neo-Marxist theories of political economy. It seeks to explain how modern capitalist systems are regulated by economic and extra-economic mechanisms, which help it respond and adapt to shocks and crises - such as the global financial crisis. The regulation approach provides tools of analysis including the regime of accumulation and the mode of regulation.

The regime of accumulation exists at the macro level and is a pattern of production and consumption which extends over a period of time to define a specific juncture of capitalist accumulation. The mode of regulation exists at the meso level and includes social rules, norms and institutions that mediate the class

struggle and creates the social cohesion necessary to allow capitalist accumulation to occur.

Using the regulation approach to examine the global financial crisis, it is evident that the transnational financialist regime of accumulation that had developed over the course of fifteen years (as a result of deregulation, macroeconomic policies, and changes to corporate governance structures) ultimately led to overinvestment in the financial sector and a contraction in growth in the real economy.

The Amsterdam school of the regulation approach, or transnational historical materialist method, seeks to demonstrate how social policy programmes (and more specifically policies relating to the problem of unemployment) co-evolve with the regime of accumulation in order to support and maintain it in response to periods of crises. An example of this is how the Fordist regime of accumulation was supported by, and developed with, the Keynesian National Welfare State. The financialist regime of accumulation has been supported by the development of social policies marked by the transnationalisation of capital and labour through supply-side activation and flexibility under the Schumpeterian Post-national Workfare Regime.

In 2008, the newly-elected New Zealand government initially responded by undertaking projects such as the Job Summit and policies such as the ReStart Package, as well as employing Keynesian-type language. These actions supported those citizens who had lost their jobs as a result of the crisis, but did little to create job opportunities on the demand-side of the equation. The government then turned to implementing a package of welfare reforms which were a

continuation of the retrenchment events which had begun under the Fourth Labour Government, and continued by subsequent governments, including under the Third Way paradigm.

Although it may seem somehow counter-intuitive for a government to be reducing financial support for those without work in a time of economic retraction, the regulation approach tells us that this is not unlikely in such a period. A widespread and sustained crisis provides the opportunity for a counter-hegemony to develop which provides an alternative to the hegemonic project. It is crisis periods which 'shape the welfare state' (Prasad and Gerecke, 2010: 224), and in such a 'trench warfare', a strong state will act in order to present the hegemonic project as the only viable option in the face of the crisis. Perhaps a double-dip crisis could yet see an effective and credible counter-hegemonic project developing, or whether strong state foils will instead manage to maintain the transnational financial and economic system *en r egulation*.

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