**The European Semester: Habitation or Improvement?**

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# Introduction

Prior to the Great Recession, Harmes (2006) painted a bleak, albeit slightly overblown, picture of the existence of a Hayekian, market-preserving federalism in the Eurozone. Therein, the disembedded economy, which operates one level above the market-correcting polity, is exerting disciplinary pressure on sovereign states, which, in turn, led to jurisdictional competition and diminished policy space (Harmes, 2006). As the concept of disembeddedness gained traction in the European Studies literature, more scholars resorted to Polanyi’s critique of the Gold Standard as an expedient way of making sense of the never-ending restructuring of the European Union (EU) governance structure. A critical appraisal of that literature informs us that Polanyi is used in two opposite ways when explaining the EU integration project. On the one hand, scholars rooted in the critical economy tradition render the EU disembedded by looking at the marketization dynamics (Overbeek and van Apeldoorn, 2012). Yet, other scholars have identified a re-embedding tendency by bringing forward instances of social and environmental protection (Caporaso and Tarrow, 2009).

As the Eurozone crisis continued unabated, each new Polanyian intervention on the ‘state of dis/embeddedness’ in the EU became more sophisticated and nuanced. In a recently edited volume, entitled *The Future of the Euro*, Matthijs and Blyth (2015) argue that enduring problems in the Eurozone stems from the lack of its embeddedness in three forgotten unions: a) financial union which entails more than mere banking union, b) fiscal union which entails not only supranational economic governance but also issuance of common debt instruments, and c) political union with sufficient democratic legitimacy. This paper builds on their efforts, however it argues that it is not enough to embed the Economic and Monetary Union (EMU) in a scaled up financial, fiscal and political unions. For the euro problems to disappear we need to embed the single market and currency in a social Europe because the mere scaling up of prerogatives at the regional level would not in itself resolve the social malaise that can be solved by pro-growth policy solutions. The very act of scaling up a policy area or of strengthened coordination at the EU level does not make the structure embedded or disembedded, but the substance of the policy choices that set competitiveness as their objective and internal devaluation as their means. From a Polanyian perspective it is the quality of the policies and not the level of their enactment that results in a disembedded predicament.

My intervention in the ongoing debates consists of advocating a Polanyian perspective that abandons the terminological fight over qualifying the Eurozone as embedded or disembedded. Instead, this paper exploits the analytical potential of Polanyi’s concepts of improvement and habitation by examining the effects of the European Semester on the social policies of member states. The paper is divided in five sections. Following the introduction, the second section discusses the conceptual contradictions present in Polanyi’s concepts of dis/embeddedness. The paper then proceeds to assess to what extend the embedded currency area approach deviates from its Polanyian roots and concludes by introducing two other forgotten Polanyian concepts that are better suited at measuring the extent of dis/embeddedness.

# Polanyi’s use in European Studies

In an attempt to describe the socio-economic transformations of the European Union, increasing number of scholars have made reference to Polanyi’s double-movement thesis. While Polanyi is fairly prominent among sociologists, anthropologists and critical political economists, recourse to his work has become common among EU studies scholars. His concepts of disembedded and double-movement have become the new catchphrases because the current economic predicament is reminiscent of the *laissez-faire* capitalism that Polanyi criticized. Much like the Gold Standard, where macroeconomic imbalances where corrected via adjustment of domestic prices and wages, adjustment in the Eurozone happens via internal devaluation.

A critical appraisal of the literature informs us that Polanyi has been used in two opposite ways when explaining the EU integration project. On the one hand we have a group of scholars rooted in the critical economy tradition which render the EU disembedded by looking at the evidence of the intensified marketization of social relations. On the other hand, EU studies scholars have identified a re-embedding tendency by bringing forward instances of social and environmental protection that supposedly embed the EU project at a regional level.

Hettne (1997; 2002) is among the first scholars in the EU studies literature who inspired by Polanyi asserted that the EU regionalism represents a form of counter-movement that embeds the global economy within a regional block.[[1]](#footnote-1) He identified a neo-mercantilist transnational protectionism, the so called new regionalism that is capable of resisting the dictates of the unregulated global economy. EU regionalism is seen as a counter-movement that is capable of saving the welfare state from the neoliberal logic of globalization. The empirical evidence seems to support his thesis because globalization has not been the exogenous shock that has led to retrenchment of the welfare state. The competitive pressures take place in a regional block where 70% of trade is intra-regional and where competition is not solely based on costs, but on quality that is enhanced by the welfare state itself (See Hay and Wincott, 2012). Yet, what Hettne did not foresee is the fact that Europeanization would become a source of disembeddedness. The fact that the EU trade regime protects certain producers from the external pressure of a global, free-trade market does not mean that it does not promote internally a single market along competitive lines. As a rejoinder to the open regionalism thesis, Abdelal and Meunier (2010) have shown how the European vision of ‘managed globalisation’ has been a force for liberalization that actively pursues the construction and expansion of the free-market by opening previously closed frontiers for capital accumulation.[[2]](#footnote-2)

Recently, Caporaso and Tarrow (2009) and Copeland (2009), although starting from different premises, have reached a similar conclusion about the emergence of a trend of re-embeddedness at the supranational level. The European Court of Justice (ECJ) has been declared by Tarrow and Caporaso (2009) as an agent who brought Polanyi to Brussels, by extending social rights not only to the workers but their economically unproductive family members.[[3]](#footnote-3) They adopt an overly optimistic tone and identify decommodifying tendencies in the recent ECJ case law. Similarly, Copeland (2009) by examining the effect of the social dimension of the Lisbon Agenda declared the emergence of a counter-movement and a Third Great Transformation.[[4]](#footnote-4) Their intervention has been subject to two types of critiques: one points towards their selective reading of the evidence and another claims that the extension of the social citizenship itself serves to undermine the welfare state achievements.[[5]](#footnote-5)

Somewhat different usage of Polanyi is evident in the critical political economy literature where a number of critical scholars have increasingly resorted to the works of Polanyi, whose conceptual apparatus opens a venue for enriching their analysis with a normative commitment. One can discern two lines of arguments within the critical political economy literature: the new-constitutionalism view (also known as the Canadian IPE) and the Amsterdam critical IPE account. The former approach, represented by Gill (1995; 1998; 2012), Gill and Cutler (2014) and Harmes (2001; 2006; 2012), renders the EU unequivocally disembedded,[[6]](#footnote-6) while the latter view, represented by van Apeldoorn, Drahokoupil and Horn’s (2008), Bohle and Greskovits’s (2007) and Overbeek and van Apeldoorn’s (2012), classifies the EU integration project as embedded neoliberalism.

The latest iteration of Polanyian interventions came from the edited volume of Blyth and Matthijs (2015) wherein renowned scholars discuss the minimal conditions necessary for proper functioning of the monetary union. McNamara’s (2015) intervention is particularly pertinent because it puts forward an alternative approach to the optimum currency area theory (OCA) called an embedded currency area (ECA). The ECA approach draws on Polanyi’s ‘embedded markets’ thesis and argues that for a smooth functioning of the ECA we need four minimum conditions: a) legitimate lender of last resort capable of bestowing market confidence and ensuring liquidity, b) fiscal redistributive setup, c) banking union, and d) political union. Having postulated those four criteria, the contributors then assess the extent to which the euro project meets or derogates from those standards. Jones (2015) provides an in-depth examination of the incomplete banking union, which lacked a union-wide supervision, resolution and deposit insurance schemes prior to the crisis. To this day, despite the enormous progress, only the common supervision mechanism is in place, while the resolution mechanism with its foreseen fund is half-way in the making and the deposit insurance is still fragmented along national lines. Jabko’s (2015) chapter examines the political obstacles to building a full-scale fiscal and economic union with mutualized debt instruments. Despite the attempts to increase coordination of fiscal and economic policies under the European Semester and the European Stability Mechanism, the EMU derogates from the standards of embedded currency area and this fact is unlikely to change in the near future.

The *Future of the Euro* contains comprehensive accounts of the limitations of the current governance arrangements of the single currency and the merits of the contributors’ conclusions are difficult to contests. However, this paper attempts to make a conceptual contribution to their analysis by warning against one fallacy: the mistake of conflating embeddedness with strengthening of the supranational governance mechanisms i.e. with scaling up of prerogatives to the EU-level. Namely, much like the earlier iterations of Polanyian analysis of the EU project, Blyth and Matthijs’ intervention is based on an understanding of Polanyi’s concepts that I wish to challenge in this paper. By drawing on the insights of the ever-expanding neo-Polanyian scholarship, I argue that the way embeddedness is understood by the ECA approach bears little resemblance with the way Polanyi used the concept.

# Embedded versus Disembedded

Neo-Polanyian scholars have not reached a consensus on the issue of whether the concepts of embedded and disembedded were used in descriptive, normative, or analytical manner as ideal-types (Gemici, 2008). The concepts of dis/embeddedness are not underpinned by a single coherent meaning. Polanyi used the terms foremost as a political category, rather than as an accurate historical representation (Lacher, 1999; 2007). Hence, his insightful critique of the self-regulating market should not be reduced to a mere statement of fact and taken literally, but should be read against the backdrop of his normative commitment (Block and Somers, 2014).

Scholars have identified two major problems with Polanyi’s concepts of dis/embeddedness: a) it is empirically inaccurate and b) it is riddled with conceptual contradictions. Scholars who read *The Great Transformation* (TGT) in descriptive terms challenge Polanyi’s conclusions for being historically inaccurate. Namely, Polanyi is criticized both for his rendering of pre-modern societies as embedded and *laissez-faire* capitalism as disembedded (Holmes, 2012). By bringing forward evidence for the existence of price-setting markets and rod currencies in the pre-modern world, scholars claim that disembeddedness is not an exclusive feature of *laissez-faire* capitalism (Latham, 1997; Silver, 1983). However, these claims are based on a conflation between trade and the market system as defined by Polanyi. Polanyi himself does not deny the operation of the principle of exchange in pre-capitalist societies, but only the market system as a distinct institutional pattern predicated on economizing rationality (Polanyi, 1977). Although acts of barter are universal, that did not preclude Polanyi to make a conceptual distinction between local, external and internal trade. According to Polanyi, only the latter type of exchange (internal trade) has a competitive underpinning, and developed due to state intervention. While local and external trade are associated with fairs and ports, and as such were present in pre-modern societies.[[7]](#footnote-7)

Polanyi (1957) did not idealize the pre-modern organization of the economy, which undoubtedly would be predicated on social norms that exert structural violence towards individuals. But rather, Polanyi (1957) was using evidence from ancient civilizations to refute the tendency of neoclassical economics to naturalize the competitive price-setting market, which was a mere historical artefact rather than a universally valid norm. In doing so, Polanyi was performing a double critique of both the market society and pre-modern civilizations by advocating the building of a ‘new civilization’ (Inayatullah and Blaney, 1999, p.330).

The second criticism of Polanyi’s (1944) work is more difficult to defend because it reveals a conceptual contradiction between his assertions that all economic activities are socially embedded and his conclusion that the *laissez-faire* economy was disembedded (Block, 2003, 2012; Block and Somers, 2014). At the conceptual level the qualifier ‘embedded’ is redundant because every economy, including the most free-market one is embedded in the social fabric (Krippner, 2004). Thus, it follows that if we accept a) Polanyi’s thesis that the market is always embedded and b) his premise that the realization of the self-regulating market is utopian, then we cannot have institutional structures that are disembedded.[[8]](#footnote-8)

Does the above weakness mean that we have reached a defeatist position, where embeddedness starts to lose its meaning by incorporating everything within itself, as argued by Granovetter (2004)? One road to salvation is via Dale’s (2010, 2012) emphasis on Polanyi’s idea of the market as an instituted process, which acknowledges the social/legal/institutional aspect of the economy, all the while enabling us to deploy the concept of disembeddedness when observing the operation of the autonomous market forces. Thus, even when Polanyi characterized nineteenth century England as disembedded, the disembeddedness does not negate the institutional embedding, but it signifies a state where the market economy is disconnected from the social norms of duty and egalitarianism, and is constituted instead by norms of profit-seeking and social atomism (Dale, 2010, 2012; Watson, 2009, 2014). Despite Dale’s attempts to rescue Polanyi’s concepts of dis/embeddedness, this paper argues for a radical break with the two concepts either by avoiding their usage all together or by redefining them in terms of tendencies that will allow us to escape their representation as all-or-nothing phenomena. Either way, the widespread recourse to these concepts requires a more detailed conceptual demarcation and specification of their meaning.

My intervention in the ongoing debate on embeddedness aims to recuperate a latent formulation, present in Polanyi’s (1944) writing. I put forward a reading of Polanyi (1944) that acknowledges that *the embedding tendency is immanent to the disembedding one*. In his critique of the market society, Polanyi observed that the commodification of land and labor, which was secured through the enclosure movement that created competitive markets for land and labor, immediately engendered counter-measures aimed at securing the wellbeing of the labor force. Thus, it follows, rather than arguing whether the Eurozone is disembedded or embedded, we need to acknowledge that the two tendencies are equally present and underpinned by two forgotten Polanyian principles: a) economic liberalism i.e. the improvement principle and b) socio-environmental protection i.e. the habitation principle.[[9]](#footnote-9) Institutional change is a derivative of the dialectical interplay between the two principles.[[10]](#footnote-10) What determines the level of dis/embeddedness is the level of socio-environmental protection, not the level of governance where economic regulation takes place, as postulated by the embedded currency area approach.

# How Deep are the Polanyian Roots of the Embedded Currency Area Approach?

In view of the above challenges to Polanyi’s concepts of dis/embeddedness, it is worthwhile exploring how the embedded currency area (ECA) approach withstands the limits of the dis/embeddedness concepts. In this paper, I argue that the ECA weakness is not its analysis of the design flaws of the Eurozone *per se*, which contains a widely shared diagnosis among leading economists from all spectrums (Bagus, 2012; Lane, 2012; Krugman, 2012). Rather, the limit of the ECA is its underspecified Polanyian theoretical foundation.

At a conceptual level, the foremost problem facing the ECA view is its lack of justification of revoking Polanyi’s thesis about the embeddedness of markets. ECA does not contain convincing arguments that explain why the postulated four key elements for an optimal functioning of a currency union are Polanyian in nature, i.e. the weakness in the ECA approach is not in its conclusion, but in its premises. ECA is right to conclude that the Eurozone is a suboptimal union because it has a hesitant lender of last resort, partial banking union, limited fiscal redistribution and little political solidarity. However, where it errs is in its omission to explain what makes these four features distinctly Polanyian. The ECA *a priori* asserts its Polanyian roots rather that engage in theoretical assessment of such claims. Moreover, it logically follows that countries which have centralized the prerogatives over monetary, fiscal and financial unions in a single authority are embedded. Such assertion is problematic from a Polanyian perspective because even in the case of the US, which over the course of history has scaled up the four prerogatives at the federal level,[[11]](#footnote-11) the disembedding tendency has left labor and nature dangerously exposed to the wimps of the market forces. Countries that are fully embedded from the ECA point of view can be disembedded from Polanyian perspective because what determines the level of embeddedness is the operation of the habitation principle i.e. the level of social protection.

ECA’s degree of embeddedness, which is a comparative metrics deduced from historical instances of currency unions, is solely a measure of centralization of monetary power rather than a Polanyian measure of embeddedness. It is well known fact that the EU is marked by a constitutional asymmetry between the market-making and market-correcting competences (Scharpf, 2015). Similarly, in the Eurozone we can observe an asymmetric governance structure, whereby the regulatory prerogatives over the monetary, banking and fiscal unions are incomplete and shared between the EU and member states i.e. we have horizontal and vertical fragmentation of competences (Lane, 2012). Although we have common central bank, its key lender of last resort function was legally challenged and not properly exercised until 2012 when under the leadership of Mario Draghi the ECB proved to be more decisive than European politicians in saving the euro by increasing liquidity via various instruments (Schmidt, 2014).[[12]](#footnote-12) The ECB’s balance sheet has ballooned to €4 trillion thanks to its €80 billion monthly purchases of public and private bonds under its various Assets Purchases Programmes in late 2015 and 2016, which were scaled back to €60 billion in 2017. It has to be noted that the public sector PPs comes with some unfortunate strings attached, such as the 33% limit of purchases per issuer and issue share. Yet, despite Draghi’s effort to make the ECB a real central bank, we have seen some worrying practices when the ECB has refused to provide liquidity to Greek banks in 2015 for political reasons when the newly elected Syriza government put the third bailout on a referendum. The cutting of Greek banks form the Emergency Liquidity Assistance resulted in capital controls aimed at preventing runs on banks.

Likewise, we see a fragmented division of prerogatives over the banking union. The EU attempted financial integration without creation of a common banking union whereby the authority to supervise and resolve banks would be scaled up at supranational level.[[13]](#footnote-13) In the effort to curb the systemic risk in the financial system in the aftermath of the financial crisis, European countries have scaled up the macro-prudential policy framework at the EU level, mainly by creating a European System of Financial Supervision.[[14]](#footnote-14) Yet, despite the efforts, the banking union is half-way through with two of the three pillars, the Single Supervision Mechanism, the Single Resolution Mechanism, and the Deposit Insurance Scheme, yet to be instituted (see Jones, 2015).

Finally, the fiscal aspect is least likely to see a decrease in its asymmetric structure because member states will continue to guard their fiscal prerogatives (Jabko, 2015). The post-crisis reforms have achieved a coordination of fiscal and economic policies without mutualization of debt. The fiscal redistribution comes in the form of a stabilization fund, the European Stability Mechanism, which provides public risk sharing when the market-based risk sharing dries up. The great macroeconomic imbalances among member states called into being a new policy cycle, called the European Semester, whose objective is closer coordination of economic and fiscal policies of member states which are bound by the revised Stability and Growth Pact thanks to the Six and Two Packs,[[15]](#footnote-15) the Euro Plus Pact and the Fiscal Compact.

Under the new rules, the Commission a) publishes Annual Growth Survey where it singles out key priorities for the upcoming year, which from 2015 include a Eurozone specific recommendations, b) publishes Alert Mechanism Report which singles out which member states will need in-depth review in light of their macroeconomic imbalances and fiscal deficits, c) sends fact finding missions to countries identified via the Alert Mechanism Report, d) conducts in-depth reviews of member states’ macroeconomic and structural reforms and publishes detailed country reports of the countries under review, e) gives country specific recommendations following the evaluation of the Stability or Convergence Programs and the National Reform Programs submitted by member states where they outline the policies they have implemented in light of meeting the 2020 Agenda and the Stability and Growth Pact, f) conducts progress reports on countries that are under the excessive deficit and excessive imbalance procedures, and g) *ex ante* approves the member states’ budgets. These prerogatives are on top of the Commission’s increased conditionality powers when helping to administer the national assistance programs under the European Financial Stabilization Mechanism and European Stability Mechanism.

All of the above three areas, monetary, banking and fiscal unions, are marked by incremental scaling up of prerogatives and transfer of competences to the EU-level. According to the ECA approach these reforms have made the Eurozone more embedded than before the Great Recession, even though the embeddedness is still partial. In this paper, I want to challenge the view that this reduction in vertical and horizontal fragmentation has made the EU more embedded from a Polanyian perspective. I do not want to challenge the fact that this centralization of authority has made the currency union more optimal in sense of preventing easy breakdown of its financial system and restoring market confidence. Rather I want to underscore the limits of such maneuvers in producing optimal, Polanyian outcomes which presuppose the sustainability of humans’ livelihood by strengthening the socio-environmental protection principle. While the scaling up of banking and fiscal regulation salvages the productive enterprises from the commodity fiction of money, the Eurozone remains disembedded unless we save women and man, and the environment from the commodity fiction of nature and labor.

# Eurozone State of Dis/Embeddedness

As a substitute for the ECA’s level of centralization measure of embeddedness, this paper argues that two other forgotten Polanyian concepts offer us a better way of assessing the extent of dis/embeddedness of the Eurozone. The following two sections of the paper attempt to introduce the concepts new-constitutionalism and habitation vs. improvement.

### *New Constitutionalism*

Although generally attributed to Gill (1995, 2003), Harmes (2006) and Gill and Cutler (2014), the concept of new-constitutionalism was introduced by Polanyi (1944: 234) to denote those policy measures, like the Gold Standard, that insulated the economy not from top-down meddling from the Crown, but from bottom-up democratic pressure.[[16]](#footnote-16) In contrast to the old constitutional safeguards from the seventeenth century that were securing the market from the interference from the Crown, the new-constitutionalism that emerged in the nineteenth century relied on the insulation of the market from democratic control.[[17]](#footnote-17) This concept is particularly relevant when trying to make sense of the increasing depoliticization of the decision-making process which is the most insidious actualization of the idea of the self-regulating market. New-constitutionalism under no circumstances implies the hollowing out of the state, but rather a redefinition of the public purpose, whereby major regulatory choices are depoliticized. The act of depoliticization does not imply a disappearance of politics altogether, but rather signifies the disappearance of the autonomy of the political.

Embedding the Eurozone in common banking, fiscal and political union, as argued by the ECA approach, might produce optimal outcomes, but such scaling up of prerogatives that is already under way engenders new problems. Namely, it reifies the existing trend of technocratization of the policy-making postulates the policy issues as apolitical, which, in effect, removes political and moral considerations from key decisions that have direct distributive consequences on people’s livelihoods. So, although we can welcome the centralization of monetary authority, which, in turn, can stabilize market expectations, we need to be wary of ECB’s vast unchecked powers. The ECB has discretionary authority when and how it exercises its lender of last resort function i.e. it can discriminate among member states by deciding not to provide liquidity to certain national banking system for political ends and consequently cut the financing of the respective government. It can do so simply by a) not accepting certain sovereign bonds as collateral in its regular open market operations[[18]](#footnote-18) and standing facilities, b) refusing to buy certain sovereign bonds as part of its Public Sector Purchases Programmes, and c) refusing to engage in OMT unless the government at stake has agreed on its terms of financing. ECB can out of a sudden turn information-insensitive sovereign debt into information-sensitive debt and bring a country to a brink of involuntary default in a context of dried-up interbank credit lines and shrinking deposit base, as was the case of Greece in 2015. So the question of what exactly in the scaled up governance set-up will make the Eurozone embedded from Polanyian perspective remains unanswered. Nothing in the existing rulebook guarantees that the ECB will indiscriminately generate market confidence in all member states.

The same logic applies to the banking union in the making. The recent financial integration is secured by a) an institutional depoliticization that consists of delegating decision-making powers to unelected regulatory, and b) a rule-based depoliticization predicated on the spread of self-monitoring norms, which are maintained in the new Basel IV Accord that does little to change the practice of entrusting banks with their own internal assessment (Burnham, 2011; Macartney, 2011; Major, 2012). The sheer size and technicality of the financial operations are used as an excuse to endow banks with power to self-comply within a loosely defined regulatory framework. The growth of the financial sector, which has been the epicenter of the Great Recession, has been the other side of the coin of the privatized Keynesian regime predicated on a crisis-prone growth model dependent an ever-growing private debt that compensates for the diminished purchasing power of labor due to falling wages (Hay and Wincott, 2012; Palley, 2012). While the Great Recession has enabled the scaling up of the macro-prudential power at the EU level under the Single Supervisory and Resolution Mechanisms (Baker and Widmaier, 2014), little effort is made to change the finance-led accumulation model or the exogenous view of finance that is the twenty first century embodiment of the idea of the self-regulating market. Together with the monetary and the fiscal reforms the new macro-prudential regulation with its technocratic style of governance, which is the pinnacle of the disembedding tendency, have enabled the market to escape political control. In their analysis of the genealogy of the macro-prudential debates, which can be traced back to institutionalist economics of Veblen and Galbraith, Baker and Widmaier (2014) underscore the legitimacy deficit embodied in the macro-prudential policy solutions in the EU that require regulatory autonomy. According to them, the current macro-prudential regime is ‘a technocratic project designed by technocrats for technocrats’ (Baker and Widmaier, 2014, p. 490).

The fiscal policy domain, although being characterized by less delegation of power to non-majoritarian bodies, is predicated on a new policy cycle that inaugurated a turn towards greater intervention into member states’ domestic fiscal, labor, industrial and social policies. The post-crisis reforms have increased the surveillance capacity of the European Commission and whether the reforms increases its power and how it does it is consequential for the distribution of power in the union. And just like in the case of the IMF’s incremental expansion of its prerogatives, a question imposes itself whether this new expansion in the Commission’s mission might be the ‘result, not of organizational success,’ but of persistent failure to stabilize the economies of member states’ (Barnett and Finnemore, 2004:45).

The post-crisis reforms further constitutionalize a consolidation state, which recent study by Haffert and Mehrtens (2015) shows leads to a permanent redefinition of the fiscal capacity of the states even long after the threat of crisis has disappeared because the gains from the temporary austerity are used to promote tax cuts rather than return to pre-crisis expenditure levels. Although the room for rule violation is present even under the new European Semester (ES), contrary to the OMC whose non-binding nature diminished its prescriptive pull, the ES is marked by higher degree of behavioral effectiveness. The evidence suggests that since its inception in 2011, the ES has resulted in inducing greater convergence and compliance with the revised SGP rules thanks to the excessive deficit procedure and the excessive macroeconomic imbalance procedure.[[19]](#footnote-19) As of March 2016, excessive deficit procedure has been closed for 17 countries whose governmental deficits have been stabilized and made to comply with the existing rules, although at a price of a notable increase in the public debt of some of those countries, such as Italy, Belgium, and Austria.[[20]](#footnote-20) The ongoing EDP for Croatia, Cyprus, Portugal, Slovenia, France, Ireland, Greece, Spain, and the UK promises to be as effective in inducing compliance with the rules. Likewise, the MIP has resulted in 18 countries being subject to in-depth review in 2016, where Bulgaria, Croatia, France, Italy and Portugal remain in the excessive imbalances category without triggering the Excessive Imbalances Procedure.[[21]](#footnote-21)

### *Improvement versus Habitation Principle*

Other forgotten Polanyian concepts that are especially relevant when evaluating the extent of dis/embeddedness of any given political economy are economic liberalism or the improvement principle and socio-environmental protection or the habitation principle. Polanyi (1944) used these two principles to denote the measures that spread the commodity form and those that dealt with the dislocations produced by economic liberalism.[[22]](#footnote-22)In his analysis, he made it explicit that the unfolding of economic liberalism was instantaneously followed by protectionism. Contrary to the ‘belief in spontaneous progress,’ Polanyi (1944, p. 39) underscored the role of government in the extension of both the improvement and the habitation principles.

From a Polanyian perspective, the extent of the Eurozone dis/embeddedness depends not on the level of centralization of policy making, but on the interplay between the two principles i.e. the extent to which women and nature are protected from the vicissitudes from the market. The state of social Europe is the gauge of dis/embeddedness. The examination of the latest in-depth reviews (18 country reports in 2016) and the country specific recommendations suggests that we have a continuation of the type of pro-market liberal conception of social Europe inaugurated with the Lisbon Agenda that represents a fundamental departure from the Delors’ original idea of embedding the single market in social regulation. Although the impetus given to social policy reforms has never been bigger than in the post-crisis period, the content of the policies promoted is centered on a market-driven transformation. The existing recognition of the importance of social policy is admirable and we should applaud the efforts to address important social concerns, such as structural and youth unemployment, homelessness, in-work poverty etc. Yet, we need to subject to greater scrutiny what is promoted as the logical and inevitable solution to the social malaise.

The current predicament of the European political economies is such that most countries are in line with the fiscal rules; all the while their social indicators are dire. In the latest Annual Growth Survey, the Commission has singled out three key priorities: investment, structural reforms of labor markets, and responsible fiscal policies (COM/2016/725). However the re-launching of investment does not entail any public investment that will jeopardize the fiscal position of member states. Likewise, the structural reforms focused on modernization of labor market policies consist of fiscally sustainable activation policies and commitment to the flexicurity model, which already has resulted in increase of the flexible contracts and in-work poverty even in countries whose economies have performed well, such as Germany (SWD/2016/75). Finally, the responsible fiscal policies presuppose that ‘social protection systems should be modernized to efficiently respond to risks throughout the lifecycle while remaining fiscally sustainable in view of the upcoming demographic challenges’ (COM/2015/690: 5). The Euro Area Recommendations which are now streamlined in the AGS follow similar dictum (COM/2016/726).

Although there is no problem with reforming the social policy by substituting ineffective cash transfers with suitable childcare services that have a better record of increasing the labor participation rate of women, such adjustments made in the absence of prosperous economy are insignificant and counterproductive because they drag aggregate demand further down. Countries are encouraged to cut unit labor costs (Italy), provide incentives for later retirement (even Germany), promote greater wage moderation (especially France), increase retirement age, get rid of branch-level agreements and move towards company-level bargaining which is considered more business friendly.

In the aftermath of the crisis we can identify a continuation to the commitment to social Europe centered on a new social paradigm that is predicated on the idea that social policy represents an investment with market returns, i.e. it is denominated in monetary returns.[[23]](#footnote-23) The disembeddedness of the euro from a Delorsean version of social Europe is visible not only in the actual efforts of disseminating a new social paradigm predicated on marketization, but also in the measures not implemented in the aftermath of the financial crisis. The non-action of the political authorities speaks great volumes about the rootedness of the idea of the self-regulating market, even more than the policies that actively institute the idea itself. The lack of public sector investment during the biggest economic slump in recent decades is indicative of the politics of inaction. The Politics of Inaction sheds perfect light on the shallowness of the social cohesion discourse of the EU.[[24]](#footnote-24)

Despite the self-congratulatory overtones in its latest Annual Growth Surveys, the business of making the EU a more socially inclusive is still not finished. The commitment to ‘growth friendly fiscal consolidation’ is empty rhetoric which is actually based on the pursuit of immediate fiscal consolidation and absence of any growth supporting measures. The deficit countries are encouraged to cut expenditure and put their public spending in order. And although Germany is advised that there is space for public sector investment given its persistent surpluses (SWD/2016/75), the asymmetric power between debtors and creditors is inscribed in the post-crisis institutional set-up and prevents an effective resolution of the imbalance problem (Dawson, 2015).

# Conclusion

Compared to the pre-crisis baseline we have a significant transfer of national responsibility to the EU-level, which according to the ECA approach should make the EU more embedded, albeit limited. Yet, from a Polanyian point of view what the reforms do is insulate the economic domain from political control. The newly constitutionalized post-reform package predicated on self-imposed and constraining formulas, only exacerbate the democratic deficit. And although the Eurocrats’ dream ‘is empirically over and normatively unsustainable’ (Chalmers, Jachtenfuchs and Joerges, 2016: 21), it still continues unabated. It is this technocratic ethos that is the source of societal counter-movements that might or might not lead to double-movement, which is not predestined.[[25]](#footnote-25) Notwithstanding the fact that the need for convergence and reduction of imbalances among member states necessitated a more centralized, extensive and intrusive surveillance mechanism, there are some normative concerns that need to be addressed. Thus, scholars like Dawson (2015) have emphasized the need for a new mechanism of political and legal accountability that can restore legitimacy in the system.

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1. Although Polanyi (1945) himself has flirted with the idea of ‘regional planning’ as a counter-force to globalization, he was aware of the limitations of such undertaking. What Polanyi called protectionism was referring to measures aimed at safeguarding people and nature from the vicissitudes of the market, rather than trade protectionism, which can be one small component of the same. [↑](#footnote-ref-1)
2. Parallel to the efforts of creating a competitive home market, the EU is actively promoting the diffusion of competition rules abroad. Opening every possible market for competition has been taken to the extreme in that the Commission actively endeavors to open even the public procurement markets abroad as seen in the new proposal for regulation on the access to the international public procurement markets (COM/2012/124). To that end, the EU has deployed various instruments, both bilateral and multilateral, the most contentious being the competition chapters in the Comprehensive Economic and Trade Agreement between Canada and the EU and the Transatlantic Trade and Investment Partnership between USA and the EU. To this day the EU has incorporated competition provisions in various agreements involving other jurisdictions, such as the Stabilisation and Association Agreements with Albania, Macedonia, Croatia, Montenegro, and Turkey and the Partnership and Cooperation Agreements with Russia, Ukraine, Moldova, Georgia, Azerbaijan, and Armenia. The former types of agreements, whose objective is the approximation of the *acquis communautaire* with the national legislation of the candidate member states, have included provisions that target the public monopolies. On top of those, it has signed agreements solely dedicated to competition with the USA, Canada, Japan and South Korea and various Memoranda of Understandings and annexes to many bilateral agreements. Concomitantly to the bilateral venue, the EU has used a few multilateral platforms in the effort of establishing a global competition regime, such as the WTO Agreement on Government Procurement revised in 2014 that is in effect a plurilateral agreement in which the EU opens up its procurement market on a reciprocal basis. In addition, it actively participates in the informal efforts of the International Competition Network (ICN), whose main function is epistemic in that it engages in both ontological persuasion. [↑](#footnote-ref-2)
3. What the above scholars have in common is an Esping-Andersenian (1990) understanding of social policy which considers the policy measures that increase the welfare of the labor force to be decommodifying in nature. This paper salutes their effort of bringing forward the instances that strengthen the social dimension of the integration process, yet it endeavors not to overstate their potential in embedding the economy. This paper follows Lacher’s (1999; 2007), Watson’s (2014), Burawoy’s (2003; 2010) and Dale’s (2010; 2012) interpretations of Polanyi that puts emphasis on the limit of the progressive interpretation of the social protection when it occurs in the context of continued commodification. Dale (2010: 233) has rightly noted that a return of Polanyi to Brussels would require the realization of his ‘maximum programme – the wholesale decommodification’. [↑](#footnote-ref-3)
4. I have to make one semantic clarification over the term protectionism. Polanyi (1944) used the term in a different way than it is used in common parlance generally referring to trade matters. Herein, protectionism refers not to trade protectionism, but to those measures aimed at defending people’s livelihoods and nature from the vicissitudes of the market (Polanyi: 1944). [↑](#footnote-ref-4)
5. Scholars like Ashiagbor (2013), Höpner and Schäfer (2010) and Lindstrom (2010) have raised concerns about their selective reading of the evidence. Despite the ECJ’s efforts in expanding the access of social security systems to the family members of the migrant workers, such extension of the EU social citizenship unfolded in the guise of even deepened liberalization of the Common Market. The jurisprudence of the ECJ includes the cases of *Viking* (C-438/05), *Laval* (C-341/05), *Rüffert* (C-346-06), *Centros* (C-212/97), *Inspire Act* (167/01) and *Uberseering* (C-208/00) which reveal a continued juridical bias towards negative market integration. The internal market freedom norms, as embodied in the ‘freedom to provide services’ and ‘freedom of establishment’, continue to trump the social objectives in the ECJ jurisprudence (Ashiagbor, 2013). Moreover, the ECJ in its recent case law went a step further in interpreting what constitutes an impediment to market access, which goes beyond being non-discriminatory towards non-nationals. By declaring certain trade union actions as disproportioned, the ECJ, Höpner and Schäfer (2010) argue, have derailed the achievements of the welfare state. Ashiagbor (2013) even laments the demise of the original compromise at the heart of the EU project that embedded the Common Market in diverse national welfare systems. She argues that the ECJ by expanding the access to social provisions to non-nationals effectively gives the option of ‘exit’ to EU citizens; hence it undermines the solidarity of the welfare state and creates pressure for further disembeddedness. [↑](#footnote-ref-5)
6. The biggest shortcoming of the Canadian IPE view is the problematic link between their conclusion and the premise on which they build the argument. Namely, they formulate the argument about the current predicament of the EU by looking only at the surface of the structure, i.e. deeming it disembedded because there is an asymmetry in the competence between the EU and member states. The EU is disembedded because monetary, competition and trade policies are scaled up at the EU level, while social and environmental policies are still decentralised. However, this asymmetry in the competences does not necessarily lead to disembeddedness in a Polanyian sense. The level at which the policy is formulated matter less than the actual quality of the measures that it institutes. [↑](#footnote-ref-6)
7. Likewise, although Polanyi (1977) never denied the circulation of currencies in pre-modern societies, he was able to recognize that the money used in pre-capitalist societies was not a commodity, but an institution concerned with debt obligation. By analyzing the different functions of money (all-purpose vs. special purpose money), Polanyi (1977) was able to demonstrate how in pre-capitalist societies money was not governed through the principle of exchange, but through norms of reciprocity (Saiag, 2014). Despite his historically grounded assertion that money predates the market, which is also supported by recent research on the origin of money (see Peacock, 2004, 2006), the orthodox view still holds that barter produces money and the different functions of money (unit of account and means of payment) follow from its function as a medium of exchange. In addition, Polanyi (1977) criticized the catallactic view of money because of its inability to factor in the state and the central banking into the concept of money. [↑](#footnote-ref-7)
8. Even when Polanyi was criticizing the Gold Standard as one of the key institution that was putting in practice the idea of the self-regulating market, he was careful to note that the Bank of England ‘reduced the automatism of the gold standard to a mere pretense’ (Polanyi: 1944: 204). This is the most interesting operation of the social protection principle because it aims to protect the productive organization that the liberalizing principle has produced in the first place. It is here that we see the commodity fiction of money, which we tend to sideline and focus on labor and nature alone (Polanyi, 1944: 138). Similarly, today the central bank policy of Quantitative Easing has reduced the operation of the self-regulating market to pretense because the latter if left unchecked will annihilate purchasing power itself. The function of QE was to save the system from the commodity function. This is what I mean when I say that the embedding tendency is immanent to the disembedding. [↑](#footnote-ref-8)
9. Polanyi (1944, p. 138) saw the double-movement as: the action of two organizing principles in society, each of them setting itself speciﬁc institutional aims, having the support of deﬁnite social forces and using its own distinctive methods. The one was the principle of economic liberalism, aiming at the establishment of a self-regulating market, relying on the support of the trading classes, and using largely *laissez-faire* and free trade as its methods; the other was the principle of social protection aiming at the conservation of man and nature as well as productive organization, relying on the varying support of those most immediately aﬀected by the deleterious action of the market – primarily, but not exclusively, the working and the landed classes – and using protective legislation, restrictive associations, and other instruments of intervention as its methods. [↑](#footnote-ref-9)
10. We need to be wary of the tendency in recent scholarship to proclaim the emergence of another counter-movement whenever we see the operation of the principle of habitation. Such assertions rely on simplified notions of pendular swings that do not capture the dialectical interaction between the two operating principles (Cangiani, 2011). Dale (2012) rightly emphasizes that the representation of capitalist development in oscillatory terms negates the actual dialectics within capitalism. The results of the interaction of the two principles cannot be *a priori* assumed to follow a specific swing order. Social change is contingent on the spatio-temporal context, which means that the principle of improvement in nineteenth century England is qualitatively different from the one that underpins the neoliberal agenda today. Likewise, the principle of habitation is constituted by protective measures which have different features from the ones Polanyi studied. Thus, a proper Polanyian analysis would not simply find evidence of protectionism and declare the emergence of another counter-movement or a Third Great Transformation, as numerous scholars tend to do (for ex. Becher, 2012; Caporaso and Tarrow, 2009; Gill and Cutler, 2014; Harmes, 2006), but would rather evaluate the quality of those measures on their own terms. The mere existence of the habitation principle does not in any way signify the emergence of a double-movement. Notwithstanding the common practice of conflating the two, especially with the growing regressive right-wing forces in Europe and Trumpism in the US, we must make a conceptual distinction between them. While the existence of embedding tendency is indisputable within the capitalist relations of production, the double-movement is questionable. According to Polanyi (1944, pp. 247-248), the double-movement forms only when certain conditions are met: a) when the market society ‘refuses to function’, and b) when a ‘revolutionary situation’ crystallizes and society tries to escape a compete annihilation by the self-regulating market. [↑](#footnote-ref-10)
11. See Steinback (2015) for a comparative analysis of the sovereign debt assumption in the US and the Eurozone and Sylla (1998) for a detailed historical analysis of the role of Hamilton’s debt restructuring which in a matter of two years produced remarkable results in that the T-bills were sold at 100 or 120% of par rather than 15 cents on the dollar (Sylla 2009). The struggles between the federalist and the nationalist gave rise to the unique US banking system in that because states lost the power to coin fiat money under the new Constitution, they started chartering banks *en mass*. So for a long period of time we had a disembedded banking union. [↑](#footnote-ref-11)
12. Besides its regular short term refinancing operations, in December 2011 the ECB conducted its first Long Term Refinancing Operation with a three year maturity, which was followed with another one in February 2012 (ECB, 2014). These were followed by Targeted Long Term Refinancing Operations with four year maturity in June 2014 and March 2016 (the last batch of the 4 TLTROs II was in March 2017). In the context of a dried up interbank system, the LTROs, which totaled to €1 trillion, and the TLTROs provided liquidity to the troubled Eurozone banks (Gros, 2012; Varoufakis, 2013). In addition to its open market operations, the ECB has conducted various Asset Purchase Programmes (PP), the so called outright operations such as the three covered bond PPs which started in 2009, 2011 and 2014 respectively, the asset-backed securities PP which started in November 2014, the sovereign bonds PP which started in March 2015, and corporate bonds PP which started in June 2016. Finally, besides the QE, the ECB committed to buy unlimited amount of sovereign debt under its Outright Monetary Transactions program that was announced in 2012 and has not been initiated yet. The OMT managed to pass the judicial hurdles. However, the OMT support is conditional on member states first applying for financial assistance from the European Stability Mechanism which entails undertaking further austerity measures. [↑](#footnote-ref-12)
13. Although one of the core pillars of the Single Market project was the integration of financial markets that was supposed to allocate resources more effectively across the Union, It was not until the jumpstart of the Single Market Project in the 1980s when financial liberalization gained impetus. The first legislative efforts of tearing down the barriers to the free movement of capital were made in the late 1980s with the adoption of the liberalization Directive (88/361/EEC) and the banking coordination Directive (**89/646/EEC), which were based on the mutual recognition principle (**Mügge, 2013)**.** The Maastricht Treaty and the foreseen EMU, which was supposed to eliminate the exchange-rate transaction costs, provided additional incentives for the full integration of the financial services market (Bieling, 2011). The Financial Services Action Plan (FSAP), launched in 1999 following the Cardiff European Council’s Conclusions (1998), targeted the institutional obstacles that prevented cross-border integration by foreseeing greater coordination and harmonization of EU-wide regulation, whose substance is marked by a ‘pro-competitive’ direction’ (Mügge, 2013: 992; Frangakis: 2009). The FSAP was an ambitious project which introduced 42 measures, 39 of which were implemented by the predicted deadline in 2004 (DG Internal Market, 2007). In order to facilitate the process of fast and smooth adoption of legislative measures, the Lamfalussy process was launched in 2001, which envisaged the adoption of framework legislation by the Council of Ministers and delegated the technical legislation to the Commission and the respective committees: the European Securities Committee, the Committee of European Banking Supervisors, the Committee of European Securities Regulators, and the Committee of European Insurance and Occupational Pensions Supervision, which have been replaced with three new authorities under the European System of Financial Supervision (Grossman and Leblond, 2011; Mügge, 2013). The FSAP and the Lamfalussy process have undeniably succeeded in securing a *de jure* liberalization of the financial services market given that by the end of 2008 all of the 27 Member States had transposed the 26 Directives (DG Single Market, 2010). And although *de facto* liberalization was still not fully completed by the start of the Eurozone crisis, with the money markets seeing the fasted integration (Coeuré, 2012), the volume of cross-border interbank transactions and the share of investment in mutual funds in other member states were increasing at high pace (Grossman and Leblond, 2011). Coeuré (2012) notes that these private-risk sharing mechanism in the EU were significantly impaired by the crisis and financial markets have fragmented along national lines. [↑](#footnote-ref-13)
14. Three European Supervisory Authorities: the European Banking Authority, the European Securities and Markets Authority, and the European Insurance and Occupational Pensions Authority, and the European Systemic Risk Board (ESRB), which was established following the suggestion of the Larosière group (Regulation EU/1092/2010). The new macro-prudential rules that are in line with the Basel III guidelines (yet to be implemented) provide national authorities with various instruments, such as counter-cyclical capital buffers (up to 2.5% of risk-weighted assets), global systematically important institutions (G-SII) buffer (between 1% and 3.5% of risk-weighted assets), other systematically important institutions (O-SII) buffer (up to 2% of risk-weighted assets) and limits on loans-to-value caps. The ECB is empowered to establish higher capital buffers than those required by the national authorities within the new Single Supervisory Mechanism within the Eurozone (Council Regulation 1024/2013/EU). These new regulation and supervisory measures are not without their critiques. Jabłecki (2012: 13) argues that they both acted ‘pro-cyclically by, on the one hand, encouraging banks to acquire sovereign exposures and, on the other, punishing banks for these exposures after they had been acquired’. [↑](#footnote-ref-14)
15. In late 2011 five Regulations and one Directive, the so called Six-Pack, were adopted with the aim of strengthening the budgetary surveillance mechanism. The revised Stability and Growth Pact now consists of a) preventive arm, which leaves the policy options of early warning and policy advice to the European Commission and obliges countries to comply with the Medium-Term Objectives, and b) dissuasive arm with its semi-automatic sanction envisaged under the excessive deficit procedure and excessive imbalance procedure (Regulation (EC) no. 1177/2011). [↑](#footnote-ref-15)
16. However, we should note that a Polanyian understanding of new-constitutionalism is different from the way the new-constitutionalism scholars such as Gill and Cutler (2014) define it. Namely, the latter can be charged with conflating the liberalization principle with new-constitutionalism. While for Polanyi new-constitutionalism is limited only to some depoliticisation dynamics in the governance process, the likes of Gill and Cutler (2014) tend to group under this category all the measures that extend the commodity form i.e. all legal lock-in mechanisms that underpin the global forces of commodification. This becomes problematic especially in the contemporary context where even the measures that extend a genuine social or environmental protection are themselves predicated on the commodity form (example is emission trading scheme or market-based social insurance). If we follow Gill and Cutler’s (2014) logic then everything can be classified as new-constitutionalism and scholars are deprived of the ability to distinguish the liberalization from the habitation dynamics because both are nowadays predicated on marketization. [↑](#footnote-ref-16)
17. Notice the parallels in the way the Chartists movement was considered an impeachment to the Constitution (Polanyi, 1944), and the plan for holding referendum on the bail-out in Greece, which was likewise perceived as a violations of the EU Treaties by the EU leadership. The instalment of unelected leaders Papademos and Monti in Greece and Italy respectively showed that democracy can be hold to ransom if international debt obligations demand that. [↑](#footnote-ref-17)
18. See Bagus (2012) for the difference between the Fed’s and the ECB’s open market operations. While the former can buy T-bills outright, the latter lends money to the banks which post sovereign bonds as collateral. [↑](#footnote-ref-18)
19. Although there is bias towards surplus countries, in that none has been put under MIP procedures. [↑](#footnote-ref-19)
20. List of countries with closed EDP: Italy, Belgium, Hungary, Czech Republic, Denmark, Finland, Latvia, Lithuania, Luxembourg, Poland, Romania, Slovakia, Germany, Malta, The Netherlands, Bulgaria, Austria. [↑](#footnote-ref-20)
21. Finland, Germany, Ireland, The Netherlands, Spain, Sweden and Slovenia are found to experience imbalances. [↑](#footnote-ref-21)
22. Contrary to the ‘belief in spontaneous progress,’ Polanyi (1944, p. 39) underscored the role of government in the extension of both the improvement and the habitation principle. [↑](#footnote-ref-22)
23. If we look at the 2020 Strategy, which is implemented and promoted via the European Semester, we see a turn towards an active welfare state regime centered on active labor market policies, flexible labor laws, active aging, up-skilling of the labor force and commitment to lifelong learning. Social investment is justified by the fact that the knowledge-based economy with its growth and jobs imperative requires investment in a skilled workforce (COM/2010/2020)*.* The objective of the new policy is to enable to workforce to adjust to the needs of the globalized economy. The modernization of the European social models entails the expansion of the logic of the market, whereby the social policies are considered to be input in good economic governance. Contrary to the conventional social protection measures, the new social investment policy is concerned with increasing human capital by up-skilling the workforce, providing incentives to work, and promoting longer working lives, thereby enabling capital to exploit the marginal productivity of older workers. [↑](#footnote-ref-23)
24. While the EU acknowledges the role of the labor market in securing social cohesion, it refrains itself from engaging in any demand-side measures to stimulate the economy and correct the dire state of unemployment. Not only has the EU abandoned its commitment to full employment, which can be interpreted as a sign of welfare state retrenchment, but it has given up its efforts to correct the prolonged slump. At the policy level we witness a paradox whereby the EU has singled out the labor market as the best guarantor of social inclusion, all the while at best itself refraining from measures to create jobs and at worst pursuing austerity that damage the wellbeing of the workforce. [↑](#footnote-ref-24)
25. According to Polanyi (1944, pp. 247-248), the double-movement forms only when certain conditions are met: a) when the market society ‘refuses to function’, and b) when a ‘revolutionary situation’ crystallizes and society tries to escape a compete annihilation by the self-regulating market. [↑](#footnote-ref-25)