

Alternative Approaches to Structural Reform

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Abstract

Alongside with terms such as competitiveness, convergence, incentives, innovation, productivity and sustainability gap, the expression “structural reform” has become dominant in the prevailing economic policy discourse within the EU and its member states such as Finland. Most of these terms gain their meaning from neoclassical economic theory, either directly or indirectly. In this paper, I argue that an analysis of the theoretical underpinnings of the concept of structural reform shows the unrealisticness and ambiguity of those assumptions on which this economic policy discourse is based. Moreover, I argue further that there are more plausible and realist ways of conceptualising social (including political economy) structures and their causal powers. In the final sections of the paper, I specify an alternative conception of structural reforms and outline briefly a possible alternative programme for structural reforms in contemporary European and global political economy.

Introduction: the concept of structural change

In the prevailing EU policy-discourse, structural reforms are seen as the opposite of short-term economic policy focussing on economic fluctuations (see for example Finnish government 2013; EU Commission 2018). Since the definition is negative and indirect, “structural” becomes a leftover category that can accommodate a variety of things. Under the subcategory of tax reforms, it is possible to include attempts to curb tax evasion. Sometimes a structural problem can mean, for example, that people are trained for a wrong job, so there is a lack of compatibility between the demand for and supply of labour. Oftentimes there is assumed to be a problem of regulation that hampers the functioning of the free market. In the 2010s, “structural reforms” have focused above all on efforts to reduce the so called sustainability gap (to be briefly explained below). The sustainability gap has been fought by reducing public spending, increasing labour supply, stepping up production through supply-side economics, and by pursuing the benefits of economies of scale by increasing the size of administrative and productive units also in the public sector.

Even though the term “structural reform” is not tied to a single concept but has multiple meanings, scratching the surface of its different uses can reveal common assumptions and background theories. The focus of attention is on the long run, market functioning and balance of public finances. Sometimes the assumption is that

the optimal functioning of the market mechanism is hampered by something, for example by regulations, practices or institutions. At times, the idea is rather that the sustainability gap threatens the balance of public finances and therefore production needs to be stepped up. In order for the problems to be properly identified and the proposed structural actions to function in the desired way, the advocates of “structural reforms” typically assume the following four theoretical views and hypotheses:

1. Efficient market hypothesis (free competitive markets allocate resources Pareto-efficiently)
2. Doctrine of balanced budgets (sound financial management requires balancing budgets and reducing excessive public debt over time)
3. General supply-side view of the economy according to which better and stronger incentives lead to various gains through improved efficiency (for example, the Laffer-curve, according to which the reduction of taxes and in particular marginal tax rate will increase tax revenue)
4. Hypothesis about the efficiency benefits of large-scale production

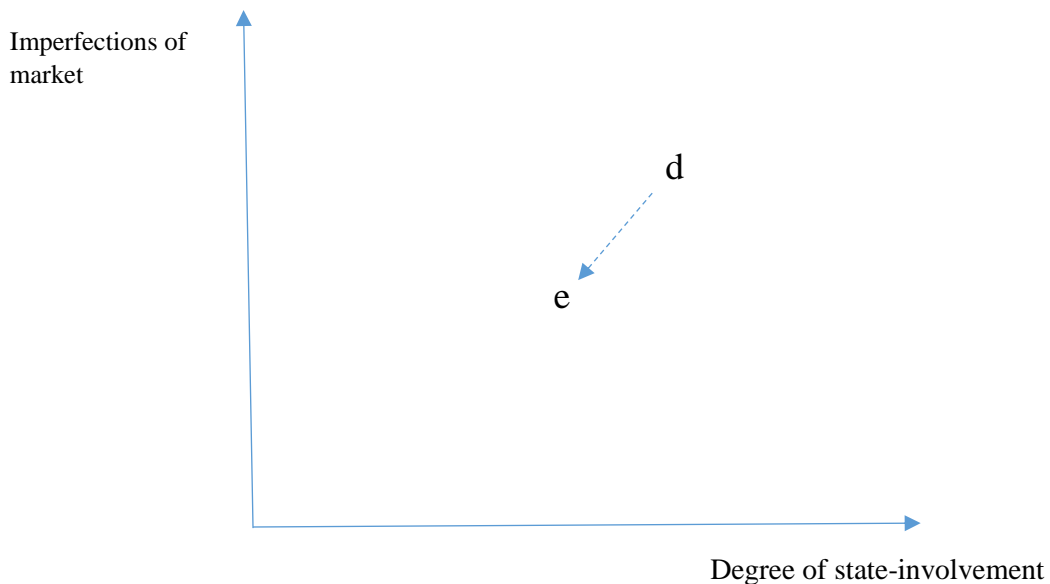
The concept of “structural reforms” presupposes the standard views of late 20th century economic liberalism on how free markets function and what the role of the public sector should be. In addition to this basic view, there are a number of specific ideas about supply-side economics, including the notion that economic growth can be most effectively created by lowering taxes and decreasing regulation. There is also a hypothesis about potential benefits from economies of scale.

The efficient market hypothesis

I use the term efficient market hypothesis in the broad sense, combining two different claims that are related to each other, though they are not exactly the same thing. The first is the efficient market hypothesis developed in the context of a financial market research. Although it has a long historical background, it is most commonly associated with Eugene Fama’s publications (especially Fama 1970). Fama argued that market prices effectively contain all the relevant information, which could affect the prices of securities (for a critique, see e.g. Guerrien and Gun 2011). Robert Lucas (1972) and some other economists close to the Chicago School expanded information-efficiency to virtually all markets through the idea of rational expectations. The second claim concerns the so-called first theorem of welfare economics, according to which any Walrasian “perfect competition” equilibrium is Pareto-effective. Often, this theorem is interpreted to mean that competitive markets normally allocate resources efficiently. While these claims come in many variations, they have a shared core which constitutes the basis of innumerable theoretical and empirical micro- and macro-models. Also through endless repetition, they have become the discursive deep structure of neoclassical economics.

Neoclassical economics teaches perfect competition as a prototype of capitalist market economy, forming the basis of a two-dimensional contrast-space. Contrast-spaces are important because all explanations and policy-recommendations involve contrasts – why x rather than y ? – which are shaped by theories, practical interests and values (on the significance of contrasts, see van Fraassen 1980; Garfinkel 1981; Lawson 1997, 199-226; 2009; Morgan and Patomäki, 2017). The neoclassical model of perfect competition constitutes a generic two-dimensional contrast space, defining relevant options in all situations: (i) from perfect competition to imperfect competition and monopoly; and (ii) from competitive free-markets to varying degrees of state intervention and “command economy” (the extreme contrastive case that is used only negatively). These two dimensions form the basis of micro-theory and, according to a basic mainstream assumption, macro must have micro-foundations. Even when it is accepted that competition is in fact, or even necessarily, “imperfect”, the model of perfect competition remains a key contrast and point of comparison. However unrealistic, the basic model is assumed to be relevant for explanations and policy-recommendations (at least in the never-specified “long-run”). The resulting simplified and ideal-typical contrast-space is depicted in figure 1.

Figure 1: Structural reforms and the two-dimensional contrast-space of neoclassical economics



The origin may be seen neither as the ultimate ideal nor realistic or feasible, but a movement from d to e is nonetheless usually taken as an improvement on both dimensions. Markets become more perfectly competitive and market-distorting state-involvements reduced. This is what is habitually meant by “structural reforms”.

Policy-makers are of course reminded that “perfect competition” is not synonymous with perfection in a normative or utopian sense. The moral of the story is nevertheless obvious (as Sayer, 2011, argues, we are evaluative beings whether we acknowledge it or not). The more competition there is in the market, the closer we are to the perfect competition model. The more perfectly competitive the market, the larger the consumer surplus and the more optimal the situation. Many deficiencies or problems can be explained in terms of “market distortions”. The neoclassical contrast space thus breeds the normative idea that deficiencies or problems can be corrected by means of making the markets more “perfect” and by reducing state-involvement in the economy. Of course, it is also true that problems stemming from various “market failures” or short-term fluctuations stemming from “sticky prices” may require state intervention. For these reasons the origin in figure 1 is not the absolute aim, although normally long-term oriented “structural reforms” must point toward that direction.

Criticism has had no effect, even if neoclassical research itself has repeatedly shown that the basic model cannot work in any possible real world. For example, relaxing the false assumption of perfect information (it contradicts the epistemic principle of fallibility, see e.g. Soros 2013) and accepting the existence of uncertainty and asymmetrical information gives rise to the Greenwald-Stiglitz theorem, which in all imaginable practical situations invalidates the hypothesis of Pareto-efficient markets. According to this counter-theorem, public-sector interventions, for example through taxes, can improve efficiency in every real-world situation. (Greenwald and Stiglitz, 1986) Something similar can be shown even within the tight confines of standard neoclassical assumptions. The Sonnenschein-Mantel-Debreu theorem (Sonnenschein, 1972; Mantel, 1974; Debreu, 1974) results from taking into account the impact of relative price changes on real income distribution, which is a property of the whole in turn impacting its parts. According to the theorem, market demand curves do not necessarily have a steady downward slope, but can head in any direction at each point. It follows that a multi-market system cannot have a single state of general equilibrium, which brings into question the entire equilibrium-seeking methodology.

It is also easy to show that if one accepts that no market in the real world can be “perfectly competitive” –i.e. there are market “imperfections” that cannot be removed – then in order to increase stability and efficiency one should often move away from the recommendations of the ideal model, rather than towards it (Lipsey and Lancaster, 1956-57). The pursuit of the ideal can and often does make things worse. Imperfections are inevitable relative to the sort of imagined world in which the ideal is a stagnant equilibrium in the allocation of resources and in which, for example, all actors and products are homogenous (there is in fact only one representative actor), all actors can predict everything about the future, and there are no economies of scale. The implications of the orthodox ideal have been understood for sixty years, but this seems to have no effect on those who espouse it.

These kinds of “theorems” problematize the basic idea of figure 1, and thus the concept of structural reform as it is currently used also in the EU economic policy discourse. It is important to stress that they come from within the neoclassical conceptual framework. Not only some insiders but also numerous outsider critics have concluded that mainstream economics can explain and/or predict hardly anything, and that in fact, the field may not even be a science. The economists Tony Lawson (1997) and Steve Keen (2011) are well known for their opinion of neoclassical economics as not illuminating, explaining or predicting anything. From an institutional perspective, they act within the field of economics but figuratively speaking, they have been banned and excommunicated from it. Also, many famous neoclassicists have arrived at critical conclusions about the scientific quality of mainstream economics – especially upon retirement. The best known of them is probably Hicks (1984), who labelled neoclassical economics as a quasi-science. Sen, Last and Quirk (1986) also highlight the absence of predictive power of mainstream economics. It thus comes as no surprise that mainstream economics was unable to anticipate the global financial crisis of 2008-2009. What is more, although the crisis was a major event in our global economic history, hardly any methodological learning has taken place since. (Bigo and Negru, 2014; Mirowski, 2014; Morgan, 2015) Cohen-Setton, Letouzé and Lorenceau (2014) provide an informative review of a popular empirical microeconomic study that mimics experimental research design. The “results” of such studies are very unstable and context-bound.

I would argue further that the basic model is not only unrealistic, but also irrelevant for understanding social and political economy realities. Denial of the relevance of the model of perfect competition means renouncing the neoclassical contrast space. After the denial of relevance, it is not possible to think that if the world could only be made more perfectly competitive, then economic problems {a, b, c} could be removed. An adequate causal explanation and normative assessment require different kinds of contrast spaces. A problem is that the contrast space of neoclassical theory is generally much too abstract and built on impossible, “utopian” and nonsensical concepts. Contrasts should be specified closer to concrete open-systemic historical reality and its mechanisms and processes (about more adequate contrast-explanation for economics, see Morgan and Patomäki 2017). What is equally important is that all research requires conceptual work. Our contrast spaces and explanations must be both realistic and relevant. Only in this way can theory have causal explanatory power; and only in this way can it be a meaningful basis for normative assessment.

Balanced budgets, the sustainability gap and supply-side economics

Mainstream economists would generally seem to accept the assumption that lack of sufficient demand may occur at least in the short run. Mainstream models may go as far as to point to the possibility of a relatively long-lasting disequilibrium. Even in the

case of a long-lasting recession, however, deficit-driven stimulus is not considered to be sustainable, given the smallness of the multiplier effect and various long-term constraints such as sustainability gap and the likely effects of a negative assessment by credit rating agencies about the sustainability of public debt. Balancing the budget can be postponed for a while, but not for long. That is why attention focuses specifically on “structural reforms”. The standard new-Keynesian models, which allow for short-term disequilibria to emerge, include the possibility of making the markets work better by means of such structural reforms as removing “rigidities” in the labour markets, i.e. by weakening unions. In the long run, Say’s law, according to which supply creates its own demand, is assumed to hold. Thus supply-side factors such as productivity determine the rate of economic growth and employment.

Essentially similar concepts and arguments were used to defend the doctrines of free markets and balanced budgets in the late 19th century and the first decades of the 20th century. New conceptual distinctions and technical ideas have emerged and the mathematical modelling tools currently in use would appear exotic for an interwar era mathematical economist. Of course, the historical context in which they are now presented is in many ways different. Even decades after the heyday of democratic welfare states, the state (and public sector more generally) remains much bigger than a century ago. A key aim of “structural reforms” is to roll the state back.

The concept of sustainability gap is another novelty, which can be explained by social change. In the early 20th century, the European population grew rapidly and people died younger than today. Many countries did not yet have a pension system. These changes notwithstanding, the neoclassicist of the early 20th century would be at home with this concept as well. The concept of sustainability gap is used to defend relatively orthodox liberal economic policy, which requires self-regulating markets to function well. The concept of sustainability gap refers to the projected public deficit in the future. It is a conclusion based on extrapolating prevailing trends into the future. The idea is that demographic trends, the average GDP growth rate, labour productivity growth, labour migration, tax rate, income distribution, return on public investment and other relevant issues are known with great precision up until, say, 2030. This idea is in sharp contrast to the real predictive capabilities of economics (on the nature and reflexivity of economic predictions, see Patomäki forthcoming).

In reality, claims about “sustainability gap” stem from uncertain opinions about the future and unrevealed theoretical commitments and value orientations. Moreover, the concept may also become a self-fulfilling prophecy. The whole of the economy is more than the sum of its parts. Public expenditure tends to have dynamic effects on economic developments. Innovations and the propensity to invest depend on aggregate efficient demand, which remains to a major degree domestic. Efforts to reduce public spending and at the same time raise taxes in the home country can shift the economy easily to a lower growth path, which will then lead to deterioration of

public finances (the effect will be even more significant if other relevant countries do the same). Policies based on the anticipation of a sustainability gap can thus paradoxically contribute to realising it, contrary to the intended impact.

Anyhow, if demand-management is out and supply-side economics is in, the main problem must be to improve supply-side efficiency. According to the standard neoclassical theory, price incentives influence the demand or supply of a good or service. The term incentive does not in itself exclude the most varied sources of motivation. For example, curiosity or moral concerns can “encourage” activities. In practice, however, neoclassicists assume hedonism, that is, the doctrine that people seek to maximise pleasure (Hodgson 2012). What then motivates a rational economic person to work in a neoclassical sense? According to the standard form of the theory, the motivation of employees, owners and investors is based on costs and benefits measured in terms of time and money. Supply-side economics in particular argues that there is a direct positive connection between money-incentives and efficiency. The bigger the incentives and thus income differences, the more productive people are and the more they are willing to take risks as entrepreneurs, accelerating growth. Even the worse-off will ultimately benefit when the cake through the incentive effect is increased – at least some extra “crumbs” are dropping on their table.

For the EU policy-makers, it does not seem to be a problem that historical experiments with supply-side economics have largely failed. For example, it is well-known that the Reagan era tax reductions in the US led to large public deficits and rapidly growing income and wealth inequalities. Other countries soon followed suit, but economic growth has not improved. During the Bretton Woods era and in the 1970s, when marginal tax rate could be as high as 80-100%, economic growth was much faster than today when maximal marginal tax rate has fallen to 25-50%.

Although the theory of “incentives” is based on an unrealistic and perverted image about human possibilities, it does not follow that the role of economic incentives in capitalist market society should be overlooked. It is for instance possible to analyse incentives that may lead to the unfavourable selection processes of decisions and practices. For example, stock options for corporate management can lead to solutions that are good for raising the share price in the short run, but are not good for the development of production and employment in the next 5-10 years.

On the applicability of economies of scale

Structural reforms that are based on the hypothesis about the efficiency benefits of large-scale production are incompatible with the model of perfect competition, which forms the basis of the two-dimensional contrast-space of neoclassical economics. If per unit costs are reduced as a result of increased total output, “perfect competition”

must be inefficient. Famously, Piero Sraffa (1926; 1930) derived his critique of the neoclassical theory of the firm from this problem, based on analysing the consequences and limitations of the advantages of large-scale production. He criticised, among other things, the idea that the advantages of large-scale production are benefiting the entire industry but not individual companies. Industrial fields are characterised by an oligopolistic or monopolistic tendency.

In many industrial sectors, such as car manufacturing, economies of scale are significant, but from the point of view of “structural reforms”, the question is where and when exactly may larger scale generate more efficiency? In car manufacturing, a significant part of the cost is related to car design, testing and the erection of a car plant. Making a single car is expensive, while in manufacturing thousands or even millions of cars, the same fixed costs can easily be covered by car sales. In this case, the average cost per car decreases as the number of cars produced and sold increases.

The following reasons are usually cited as the main benefits of large-scale industrial production (e.g. Sloman 1995, 172-174): (i) specialization and division of labour can increase efficiency; (ii) the efficient use of some machines requires a large minimum input; (iii) bigger machines may be more efficient; (iv) larger containers require relative smaller surface area and may thus be more economical; (v) large-scale production may have positive side effects, (vi) concentrating multi-step production at one location can reduce transport costs. In addition, the scope of the firm itself can have advantages: (vii) centralized management can in some cases save on overlapping design; (viii) sharing overheads can also save (e.g. research lab may be costly and therefore a large firm can better afford such) and (ix) acquiring finance and materials is often easier for large firms (getting funding easily and at a lower interest rate; purchasing materials in large batches at lower prices).

There is no general rule or empirical regularity according to which a larger or smaller size would always increase efficiency. In the automotive industry, the economies of scale can be very significant to a point, but when it comes to teaching or medical services, smallness can be a prerequisite for efficiency. Most of the explanations usually given for economies of scale in industrial production are not applicable to services such as health, education and research, or to public organizations more generally. Size does not automatically bring efficiency-benefits in any sector, and economies of scale have a limit on all sectors of industry (limits may also be set politically to prevent the concentration of ownership and control of production assets). We would need to know the concrete mechanisms that may bring about benefits and know how to relate them to the disadvantages of large size.

Large scale may also lead to many disadvantages: communication costs increase; decision makers move away from substantive practices and do not see the real effects of their decisions; quality control is difficult and often expensive; larger scale begins

to generate more bureaucracy; ignorance about others' projects generates overlapping functions; internal power-struggles starts to dominate activities; employee alienation deepens and reduces motivation etc. For example, in education and health care, the smallness of the scale brings usually immediate benefits. The less students with one teacher, the easier it is to teach and learn. The better the general practitioner knows his or her patient, the easier it is to interpret symptoms and see them also in the broader bodily and psychosocial context. Small decentralized schools and health centres are close to people's homes, saving in, among other things, transportation costs and may, for example, make it easier for parents to work full time. In small schools, it is easier for a teacher to become acquainted with their students and sustain authority and thus enable students to focus on learning. It is absurd to act on the assumption that increasing size would always increase efficiency – not to mention that small scale may be a positive thing from the point of view of values other than efficiency. Often small is not only effective but also good and beautiful. (For research results along these lines, see e.g. Johns and Torres 2005; Kokkelenberg, Dillon and Christy 2008; van der Wal, Fischer and Marquiss 2009.)

Toward a better understanding of social structures and their causal powers

The term “structure” is normally used in connection with compositions or relations. In neoclassical theory, structure tends to mean composition: (i) the amount of actors (and thus competition) in a given market; and (ii) the degree of public involvement in the economy. It is not illegitimate as such to define structures in this way (e.g. “age structure”, “occupational structure”, “structure of industry”). However, from the causal analysis point of view it is necessary to examine substantial relations of connection and interaction, rather than formal relations of similarity and dissimilarity or the number or amount of X versus Y in a given context. In order to perform causal analysis, compositions should be interpreted in relational terms, translated into them, or explained by means of relational conceptions. Social structures are real and this can be shown with causal criteria. As the ever present condition (material cause) and the continually reproduced outcome of human agency, historical social structures take part in causation. (Bhaskar 1979; Patomäki 1991; Archer 1995)

A key ‘point of contact’ between human agency and social structures in complex society is the mediating system of positions (places, functions, tasks, duties, commitments, rights, etc.) occupied (filled, assumed, enacted etc.) by individuals, and of the practices (activities etc.) in which, by virtue of their occupancy of these positions (and vice versa), they engage. Certain meanings of “structural reforms” in the prevailing discourse come close to a relational understanding of structure. For instance, the fulfilment of a position in the positioned practices of an economic organisation may require specific skills and know-how. The system of relations between positioned practices which agents reproduce or transform involve also the

educational system that produces skills and know-how and, most importantly, their generic prerequisites (training to concrete tasks can take place within organizations). Also absences can be caused. The absence of particular competencies can be a causal effect of organising the educational system in a specific way; and this absence can have causal effects on the capacities and development of economic organisations.

The number of actors or the degree of public involvement in a given market, however, does not have any causal effects in itself. To illustrate, Anwar Shaikh (2016, 14, 259-326) takes distance from the neoclassical theory and develops a theory of “real competition”. The real competition is antagonistic and stormy. Its intensity is independent of the number of companies in the market. All seek profits, but many suffer losses, some barely surviving from year to year while others go bankrupt or out of business, or are bought by other firms. On the other hand, winners may from time to time to make huge profits, especially in an upswing. Profitable markets attract. There are barriers to entry, however. For those trying to overcome these barriers, competition is often war, involving “tactics” and “strategy”. The whole is therefore relational, not atomistic: each firm seeks to achieve relative strategic and tactical advantages and convince buyers. Also structures of ownership are complex and relational. From this perspective, the dimensions of the neoclassical contrast-space are empty: they do not have any direct bearing on causation.

Structural reforms concern rule-constituted and -generated social relations and systems (including organizations), the positioned practices of which are (re)produced by individual actors. Rational reforms require knowledge about the likely real effects of the proposed reforms. Social systems are open and cause-effect relationships are inherently complex. Each process is shaped by many interconnected processes whose mutual relationships are changing. Rules and practices, as well as social relations and systems, are open and changing. There are no general regularities that would be valid everywhere. Still, many enduring connections can also be found – not all relations, structures and mechanisms change all the time. Contrastive demi-regularities and explanations of their causes can be used to help design economic policy.

The word “contrastive” indicates that demi-regularities must be defined in terms of differences and contrasts across time-space regions (Lawson 1997, 199-204). In open systems, these demi-regularities can be used to anticipate policy impacts even though they are susceptible to change and although their explanation requires qualitative and historical knowledge about relational social structures, processes and mechanisms (Næss 2004). The likelihood of large-scale historical scenarios can also be estimated and then revised in the light of new arguments and evidence and with new events and turns of history (Patomäki 2010). The future is real but not yet (fully) determined.

An alternative conception of structural reforms

Thus, in social sciences, the term “structure” has a different meaning than in neoclassical economics. The term is used more descriptively and in a less charged way. The starting point is no comparison with any utopia, but real social relations, processes and impacts. Structures emerge from rules that constitute and regulate identities, relationships, and practices. People’s activities consist of practices where they follow rules and improvise on the basis of rules. In doing so, they renew and, from time to time, also shape social relationships. Internal (constitutive) and external (causal) relations form part of broader and multifaceted contexts, complexes and systems. Social wholes change with their parts. On the other hand, wholes condition parts and their possible changes; the functioning of parts is context-dependent.

Structures can be changed and made better, but they can also be made worse from any given normative vantage point. A variety of normative meanings can be ascribed to reform-proposals. Apart from effects on efficiency, changes may also purport to increase freedom, justice or well-being or strengthen democracy or sustainability, or even further many values at the same time, although choices cannot be avoided. From this point of view, a structural change can mean, for example, changes to set of rules defining a public organization or an enterprise (e.g. purpose or ownership), or a change in power relationships (e.g. democratization). Such changes are ethical and political. What kind of structural change increases, say, efficiency, well-being or fairness, is contingent, that is, depends on the context and its wider context.

Although it may be possible to demonstrate links between certain relational structures and, for example, efficiency in open systems, these relationships tend to change. Assumptions about the independence of the parts of relational contexts and excessive generalizations based on this kind of atomist reductionism are likely to produce unintended consequences, which are often harmful (see Garfinkel 1981, ch 5). For instance, the neoclassical agenda of structural reforms customarily includes privatisation of public activities and companies (for a critique of the theoretical underpinnings of privatisation, see e.g. Wright 1991). Assessments of the real impact of privatisation vary and are theory- and ideology-laden, but often evaluative studies conclude that the results are sector-specific and regularly mixed or inconclusive (compare e.g. Frangakis et.al. 2009, stressing negative impacts, and Zartaloudis 2010, stressing context-dependent and mixed results). Privatisation also means different things in different parts of the world – where both the prevailing practices and institutions and the purpose of privatization may differ. In many well-known cases such as British railways, however, the near-consensus and the most plausible conclusion seems to be that “rail privatisation has resulted in considerable additional costs: it was a major public policy error” (McCartney and Stittle 2017, 1).

An alternative conception of structural reforms must be based on a better understanding of rationality. Being rational means being open to criticism and having the ability to learn. There are several forms of rationality (including instrumental, normative and expressive), but all of them are subordinate to critical communication based on evidence and plausible reasoning. Our claims of validity can be criticised and disproved. They call for intersubjective justification, which we must provide upon request. Science is based on the hypothetical analysis and examination of truth claims and normative claims. (Habermas 1984) It would be thus wrong to equate science with one or two special research methods or a specific set of substantive assumptions. Science is not synonymous with mathematical modelling, regression analysis or rationalistic mechanics tied to neoclassical assumptions. Each of these may be part of scientific practices. The viability of research methods or substantive assumptions can only be determined by considering their grounds in context.

Rational science is reflective and self-critical. It is conscious of the social-psychological and ideological mechanisms that influence our observations and reasoning (see Patomäki forthcoming). Falsification – the attempt to disprove a proposed hypothesis – is essential to science but must not be confused with any particular method of hypothesis testing. Political economists should not give up simply because their object of study is a diverse, historically changing and normative reality. The mission of science is to study reality as it is, on its own terms, as precisely and in as great detail as the research object allows, and this should also be the basis of normative judgements (see Patomäki 1992; 2006; 2018a).

It is our task to collect information from manifold sources, using a wide range of methods and various social traditions, constantly changing the historical time scale from very brief to very long. The goal is to use theoretical and conceptual work to synthesise available information into understandable and truthful explanation models and stories that help us apply our practical reason, that is, act ethically and wisely in each context-bound situation (Spicker 2016). Ultimately, the significance of social research lies in the future, because practical action is future-oriented.

A brief outline of a possible programme for structural reforms in the 2020s

Attempts to prevent tax evasion, or make the competencies of potential employees and the needs of employers meet, seem justified. However, neoclassical structural reforms based on efficient market hypothesis, doctrine of balanced budgets, supply-side economics and hypothesis about the benefits of large-scale production fare less well. These “reforms” have included privatisation, deregulation, cuts in public spending, cuts in marginal tax rate, attempts to increase labour supply for instance by reducing education-time, increasing “flexibility” in labour markets, and attempts to reap the benefits of economies of scale by increasing the size of administrative units

in the public sector. Historical experiences, conceptual-theoretical analysis and systematic empirical and normative evaluations all indicate that more often than not, these “reforms” have been counterproductive. The overall assessment is of course dependent on a variety of normative considerations.

There are many alternatives, but rational reform-proposals cannot rely on a simple, standardised abstract theory that is detached from changing historical realities. Given the current conjuncture, deindustrialization is a key problem. The EU and its member states could engage in selective reindustrialization. This means more investments. The level of output and employment depend on the amount of investment; and the amounts of factors of production are not given but depend on the level of investments. Since the beginning of the global financial crisis and the consequent recession, EU investment levels remain some 15% below their short-range peak in 2008. Eurozone investment was about 26% of GDP in 1991, but only 19% in 2016 and 20.5% in 2017. While it is inevitable that industrial employment will continue to decline, it is possible to reindustrialise partway through large-scale public investments, geared toward missions that matter and are sustainable also ecologically.

A key structural change – changing the rules, principles and powers of the EU – would be to create full fiscal capacities for the EU (see Patomäki 2013, ch 6). The EU budget should be increased also in order to create redistributive systems such as proper regional policies, a European minimum wage, and unemployment benefit schemes. Essential transformations of the EU require changing the EU Treaty. A cosmopolitan and democratic solution would be to convene an Assembly of directly elected citizens’ representatives. However, because immediately implementable reform proposals must be consistent with the EU Treaty, at least in the next 3-5 years, increases in public investments must at first come largely from member states.

An ambitious but feasible target would be to increase investment by 5% of the EU GDP, of which 3-4% would be coming from member states, 1-2% from the EU. To make this possible, public investments must be exempted from the deficit spending rules. Until the EU Treaty is changed, EU-level investment programmes can rely on creative arrangements involving central bank funding (such as those proposed “modestly” by Varoufakis, Holland and Galbraith 2013). Moreover, through the enhanced cooperation procedure, groups of member states can implement European taxes benefitting special funds established for a particular purpose.

Investments can generate new qualities and abilities. As Mariana Mazzucato (2014) stresses in her widely acclaimed book, *The Entrepreneurial State*, and other publications, strategic public investments and policies should aim at creating and shaping productive powers and markets. The creation of production-powers and markets can also be achieved through “mission-oriented investments that led to

putting a man on the moon and are currently galvanizing green innovation” (Mazzucato 2016, 140).

One indication of the effects of globalization is that states’ power to tax corporations and wealth has eroded. Corporate tax has fallen dramatically (tens of percent) in most countries. In addition, large multinational companies and wealthy individuals engage in aggressive “tax planning”, which further reduces tax revenues. Collective action and institution-building are indispensable to counter these trends and tendencies.

Corporate taxation has been under discussion in the EU, with concrete proposals on the table. The Common Consolidated Corporate Tax Base (CCCTB) would to a large degree abolish harmful corporate tax planning within Europe by creating a single set of rules for how corporations operating within the European Union calculate their EU taxes. A more ambitious version of that proposal would involve an agreement on a common minimum corporate tax rate – say 30% – which is substantially higher than the average corporate tax rate in the EU. The states participating in the CCCTB could treat a part of the revenues as a common tax even in the absence of treaty-change.

The problem is of course not only European but global, so the CCCTB is best conceived as a part of more general attempt to tackle global corporate power and value chains. An emancipatory EU would also take part in building new worldwide institutions. Consider the case of trade. Many states are committed to improving their current account balance by enhancing their “competitiveness”, often simply by means of lowering export prices. Yet current account deficits and surpluses cancel each other out and, moreover, attempts to increase cost competitiveness through internal devaluation tend to prove contradictory due to decreasing effective demand. What is needed to overcome this contradiction is a collective mechanism through which world trade surpluses and deficits are automatically balanced through tax-and-transfer; and a global central bank that can issue global reserve money. (Originally proposed by Keynes in the 1940s; for discussions and further developments, see for instance Davidson 1992-3; Stiglitz and Greenwald 2010; Patomäki 2018b).

As local and global struggles are closely interwoven, it is necessary to increase and intensify political collaboration across the world. This process involves support for workers’ rights and trade unionization on a planetary scale, both out of solidarity and to increase global aggregate demand. Better working conditions and salaries, for example to the Chinese workers, would mean less reasons for capital relocation and more demand for European goods and services in China. Deepened global political cooperation could over time lead to the formation of new kinds of actors. A further possibility is universal right to high-quality education, which could be facilitated by various global means, including global tax revenues. The practical realization of this kind of universal right to education can be seen (i) as an attempt to build human capital as the basis of sustainable growth, (ii) as an attempt to speed up the process of

demographic transition, (iii) as a mechanism for global redistribution, and (iv) as an example of what enlightenment and global solidarity can mean in the 21st century.

This kind of programme of structural changes would amount to reversing the current EU strategy of growth. The aim of proactive economic policies is to stimulate investments, create capacity and increase output and thus reduce unemployment, which is major source of insecurity. A sufficiently high-level basic income for all European citizens would further diminish dependence on unstable markets. Also, participation in processes of collective will-formation can generate trust and existential security. The idea is thus to democratise power-relations; make personal employment paths more secure; and actively shape political economy developments in the desired direction by means of industrial and other policies. The goal is to create an upward spiral of virtuous developments. This spiral must be grounded in existential security and trust, encouraging hope for better futures.

Hope is, in part, based on the promise of fulfilling people's higher needs, including: belonging to a community, gaining recognition from others, and realising autonomously set purposes. After a certain amount, more consumption does not increase well-being. When Keynes envisioned life after capitalism in his 1930 essay "Economic Possibilities for our Grandchildren", he argued that "it will be those peoples, who can keep alive, and cultivate into a fuller perfection, the art of life itself and do not sell themselves for the means of life, who will be able to enjoy the abundance when it comes" (1963/1930, 370). Keynes argued that capitalist profit-motive will fade away as historically unnecessary. This will not happen automatically, however.

In a good society, work is organized so that everyone has the opportunity to enjoy communality, recognition and at least some self-realization in their work and participate in the public definition of activities and goals. The essential question is: how should we collectively organise relations of production? The long-standing but unresolved debate between the advocates of hierarchy and democracy has revolved around efficiency. There are always many possible and plausible ways of organising things, also from the point of view of efficiency.

We can learn from history. In the absence of practical skills and widespread virtues of participation, democratic experiments may fail. Moreover, they tend to evoke movements of counter-reformation. Thus, for instance the democratic experiments realised in many universities around the world have, by the 2010s, been replaced by New Public Management managerial hierarchies, relying on hierarchical capitalist corporations as their inspiration and model.

The German social democrat Eduard Bernstein (1907) defined "socialism as a movement towards – or the state of – an order of society based on the principle of

association”. This idea was also at the heart of Marx’s vision. Structural changes can aim at building society around voluntary partnership and democratic cooperation rather than competition and greed. The question is: how to achieve a maximally open space for cooperative and democratic experimentation?

One possibility is the negotiated involvement model of relations of production, which involves workers directly intervening in the introduction of a process. This would provide functional flexibility of working practices instead of neo-liberal flexibility of wages and working conditions. Efficiency and innovations could be sought also in terms of breaking the gap between routine production and new emerging sectors of the economy and by means of deeper institutional experimentation.

The potential for economic growth is gradually diminishing also because of what is known as “Baumol’s disease”. Economist William J. Baumol realised in the 1960s that the share of services in the economy is growing (Baumol and Bowen 1966; Baumol 2012). This is the other side of the coin of deindustrialisation. In many service sectors, labour productivity does not rise at all; while in others only a little. Music training today takes just as long as it did a hundred years ago and almost as many barbers are needed today as before to keep 100 people’s hair neat. Baumol’s solution in his well-known 1960’s study was to increase the relative funding of sectors where labour productivity does not increase. As many of the services are best produced publicly, this means the expansion of the relative share of the public part of the economy. According to many indicators, gravitation toward social services, health, education and research means an increase in sustainable well-being.

Agriculture and manufacturing will employ an ever smaller proportion of people. For example, in Germany the share of employment in manufacturing has already declined from 40% in 1970 to 20% in 2016 (e.g. FRED Economic Data, available at <https://fred.stlouisfed.org/graph/?id=DEUPEFANA>). Yet industry is critically important because of the benefits of economies of scale and increasing labour productivity. It is essential to retain industrial know-how as widely and deeply as possible. Growth comes from the diversity and complexity of production, enabling the development of new industries.

H.G. Wells envisaged a century ago, in his *Outline of History* first published in 1920, a future world in which “perhaps 10% or more of the adult population will, at some point or another in their lives, be workers in the world’s educational organization”. Wells also envisaged “a vast free literature of criticism and discussion” (Wells 1931, 1163). Today we could set a new target: at least 10% of the adult population will work at universities or research institutes for a major part of their working lives. A part of this group will train future engineers and architects and develop new technologies, while others can focus on science and education (*bildung*) as such.

The true goal of structural reforms should not be free markets but emancipated and self-determining humans. The aim is to identify further ways to democratise relations of production, work organizations and systems of global governance. The structural reform programme should combine employment, transforming society's power structures and economic efficiency. These could be achieved simultaneously by breaking the gap between routine production and established privileges, on the one hand, and emerging areas and forms of the economy, on the other.

It is the collective history of humankind that has enabled our current average level of material and immaterial consumption. We are all standing on the shoulders of the past generations and depend on the multitude of our contemporaries. This suggests a major degree of socialization of the output from large-scale production. A major step in that direction would be a considerably high global tax on wealth and capital (as proposed by Piketty 2014; for a discussion on its realisation, Patomäki 2014).

Conclusions

Modern imaginary is grounded on anticipations of the future; people routinely dream about better futures. In the absence of systematic social scientific critique, however, it is all too easy to harness the hope for a better world to serve some hard will, constituted by abstract utopian theories and supported by particular powerful interests. This tendency is at the heart of the current EU problematic. The inner grammar that is driving developments both in the Union and, with somewhat different texture and dynamics, in the global political economy as a whole, stems to a large degree from neoclassical economics. By following uncritically if not blindly this inner grammar, the EU has come to represent a hard will and one-sided domination, especially during the Euro crisis.

A hard will talks but does not listen or learn. A rational democratic society learns and transforms itself easily, whereas a non-learning society becomes, with no trouble at all, blind, and "is driven, like bullet or torpedo, wholly by its past" (Deutsch 1963, 111). The logic of the hard will is evident also in the push for "structural reforms" within the EU, repeatedly resulting in counterproductive and, often, dystopian effects.

Criticism presupposes the possibility of better practices and systems; how can we have knowledge about better futures? I have argued in this paper that alternatives must be concrete and based on a historical diagnosis of the currently most salient problems. Well-grounded reform proposals require practical wisdom, i.e. knowledge about what is good and how to achieve it. Rationality requires open-mindedness and willingness to draw lessons from the past experiments. We can nonetheless use also abductive reasoning in creating hypotheses about new possibilities and counterfactual reasoning about the possible effects of an altered context. While thought-experiments

about the consequences of the transformed practices and systems are important, open-ended history must be seen as the final arbiter of concrete utopias (or eutopias). Thus, each proposal for a structural reform is best seen as a potential social experiment, bearing in mind, however, that the relevant context and its wider context may be critical in determining the conditions of success of an experiment.

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