Introduction. Crisis and Need for Renewal of Public Action

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Crisis and Need for Renewal of Public Action

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Confronted with the major crisis that struck the world economy at the end of the first decade of the twenty-first century; analysts, researchers, and political leaders, studied past experiences to avoid repeating errors of diagnosis, recommendation, or action. The disastrous experience of the Great Depression of the 1930's, which caused social misery, massive unemployment, protectionism, forms of nationalism, and led to a world war whose devastating effects were pushed to an extreme, remained in mind.

These unpleasant reminders of the past led the world's decision makers quite judiciously to resort to public intervention on a very large scale, rather than rejecting such action or delaying it for doctrinal reasons, in an effort to remedy the crisis. Things had been quite different, however, during the period when the crisis was emerging. A general laissez-faire attitude prevailed then, especially toward a deregulated financial system that had developed hyper-speculative behaviors with assets that were opaque and subject to high risk. The insolvency of sub-prime credit in the United States was thus the trigger of the crisis, which caused the first bank failures and profoundly altered the confidence of economic agents. If no one–the rating agencies even less than the banks who were their customers–had really grasped the highly toxic effects of financial speculation, the results were brutal, after the U.S. government decided to let Lehman Brothers Bank fail. The ensuing banking crisis of September 2008 forced states from that time forward to act massively and urgently: the world economy was facing a systemic threat of general collapse due to the rationing of credit and deep mistrust by the banking sector. The first phase of the crisis that began then was marked by emergency plans implemented by the principal States of the world, especially with positions agreed upon in the framework of the G7, then the G20, together with their central banks. It was thus possible to avoid the worst by a massive injection of liquidity, a very sharp lowering of the bank base rate, considerable financial aid by States to businesses, especially banks, covering the toxic assets, and nationalizations that sought to prevent a chain reaction of bankruptcies. But once the phase of acute crisis was past, a collapse of world stock markets and a major economic recession occurred, despite massive stimulus plans implemented beginning in 2009 by the principal states of the world. Furthermore, saving the world economy resulted in an unprecedented growth of public deficits and a massive rise in indebtedness, which would very quickly affect Europe, especially the countries of the southern European Union (EU). Then began a second phase of the crisis: with debt of states that threatened Europe in particular this time. The inability of European countries to implement actions on a very large scale that would provide sustainable solutions to restore confidence would lead to a new deepening of the economic crisis following the financial crash of August 2011. The generalized austerity measures considered threatened the EU in particular with an extremely brutal economic relapse, a new systemic crisis, and the rupture of Europe.

If the mistakes of the past were avoided during the first phase of the crisis, their resurgence cannot be ruled out as long as world and European governance show their limits. The pertinence of public intervention is being once again questioned. To reorient public action toward solutions for the future, it is necessary to rethink it at this point. Analysis of the renewal of public action is more crucial than ever, especially in a Europe that is generally seeing its relative position in the world growing weaker. It is therefore necessary to establish an unflinching analysis of the weaknesses of France and the EU in order to analyze the opportunities that would make it possible to commit to a new dynamic of public policies that meets the present challenges. Such is the ambition of this work, whose studies rely on the participation of specialists, researchers, and practitioners of diverse disciplines: economics, law, management, political science, sociology. Intersecting and convergent analyses performed after meetings to discuss contributions that were organized by CIRIEC-France in the framework of its Public Economy Scientific Commission[1] are organized in three parts of the book. The first part analyzes the public intervention that made it possible in a first stage to circumscribe a systemic crisis but not to remedy it. The second part studies the difficulties inherent in the implementation of public policies in France and in Europe. Finally, the third part discusses ways of re-founding public action.

The first part shows how public intervention temporarily limited the scope of a deep recession in the world economy and was unable to prevent its recurrence. Philippe Bance opens this part with an analysis of "Budgetary Policies in the Crisis." He shows how a massive mobilization of public finance was necessary as the last line of defense against a predicted worldwide cataclysm and a remedy to a crisis whose roots lie in the deregulation and greed of the financial sector that States have allowed to spread since the 1980's. Public budgets then played a countercyclical role thanks to automatic stabilizers and discretionary policies. These interventions are the root cause of public deficits that had never been reached in peacetime by most countries. They also very quickly increased public debt, showing the limits of public intervention to remedy the crisis in the present world and European institutional framework. The risk of a systemic crisis returned due to the over-indebtedness of the countries of southern Europe, the sharp contraction of public spending, and sluggish economic growth due to the combination of policies to reduce public deficits and debt. This calls for going beyond the narrow framework of European policies subject to the constraints of markets and orthodox economic analysis.

Nathalie Rey's analysis then examines the relationship between "European States and Financial Systems." She shows that, paradoxically, it is financial systems, especially large European banks, that are after a few years the big winners from the crisis. Public authorities have not been able to learn the lessons of this crisis: they have supported the financial systems financially without seriously questioning the means of regulation before

[1] In a European perspective, this work follows another book produced in the framework of CIRIEC's international scientific commission "Public Enterprises/Public Services": CIRIEC, P. Bance, L. Bernier, *Contemporary Crisis and Renewal of Public Action*, Brussels-New York: Peter Lang 2011.

the crisis. They continue to advocate self-regulation of financial markets, while those markets are imposing today a policy of drastic spending cuts. States are, however, the guarantors of last resort of the proper functioning of the financial markets, and proper awareness of their role should lead them to force the financial world to work for the general interest.

This diagnosis reappears in Luc Bernier's contribution, which deals with "European Public Businesses and the Economic Crisis." The public intervention of the beginning of the crisis is analyzed as an opportunity for change that was missed by public powers. Those authorities nationalized or helped businesses in trouble, and mobilized very large resources to do so, without being able, other than by defensive effects, to change the means of management and regulation of the activities concerned. Thus, there is a danger of facing serious economic difficulties again. In fact, intervention in these businesses was seen first as necessarily temporary, so temporary that problems of governance of these businesses will not have time to be corrected, and they are in danger of returning to their past misdeeds as soon as government control ends. The budgetary situation of governments is sufficiently difficult that they are tempted to sell off these businesses in order to balance their budgets. Beyond the situation of these businesses, one must ask about the economic strategy of the States that own them and their will to give themselves tools to implement it. The crisis is a chance to act differently.

From these diagnoses, it becomes clear that, a few years after the beginning of the crisis, the economic situation remains very fragile, and neither a relapse into recession nor the accentuation of European decline can be ruled out. This is the subject of the studies in Part Two of the book. Fragilities in France and other European countries go beyond the effects of the depression; they are linked to structural weaknesses, the nature of transformations at work or in progress, and the difficulty of instituting new public policies in the EU. The goals set by national or EU authorities and the results obtained are the subject examined in the second part of the book.

Jean-Claude Boual analyzes these mutations in “The French Administration in the Storm.” He emphasizes the essential role of public power and its administration for the development of territories and the functioning of public services. In a context of ecological crisis (global warming, limited natural resources, degradation of bio-diversity, etc.), public power and public services have a role of guiding and setting an example to meet social challenges. Public services are also sources of wealth, jobs, research, and innovative economic activities. Therefore, rethinking and modernizing the State cannot be reduced to cutting the personnel and budget of public functions in order to reduce deficits. The policies that have been followed in recent years toward public services and administrations (institutional act on finance laws, general reform of public policies, change of status of personnel, increasing job insecurity) have had the effect of destabilizing them in their structures, organizations, and ethics, and have hurt the moral of government workers and public agents.

Hugues Jennequin continues this analysis in “Public Policies and Territorial Development in France.” He analyzes the effects of the re-territorialization and concentration of French public services, the ruptures in management and financing of public policies that result from them, the ability of territorial communities to make up for the withdrawal of centralized development policies, effectiveness, and changes in inequalities. He concludes that the economic crisis is accentuating territorial inequalities because of de-industrialization and the strengthening of public constraints. The main policies for adjustment thus appear too oriented toward industry and too widely dedicated to supporting industries in trouble rather than to the real policies to revitalize territories. New geographical maps used by public services for hospitals, law, and the military also accentuate the inequalities within regions between city centers and zones of influence. It amounts to a relative denial of the role of services in the territories.

David Flacher and Hugues Jennequin analyze further European policies of “Deregulation of Network Industries.” They show that if these policies and the associated regulatory arrangements were established to promote competition and profit from increased efficiency in sectors characterized by a certain order of natural monopoly, these gains have not been produced. From a theoretical point of view, “commercial” arguments in favor of deregulation neglect the influence of complex factors such as competition and imperfect information or the consequences of a second order balance. In the short term, these policies restrict countercyclical action by public powers toward pre-existing industrial policies and make it harder to escape the vicious circle of an economy in crisis. Moreover, in the long term, if deregulation can favor innovation and incremental investment, it has negative or ambiguous effects on radical investment and does not necessarily lead to an optimal level of investment in relation to public monopolies.

And yet, must we necessarily see in the new practices of public-private partnerships (PPPs) that the European commission and economic interests are supporting a solution for the future to resolve the financial constraints of States or territorial communities and dynamize public services in the EU? Cathy Zadra-Veil studies this question in “Public-Private Partnerships in Europe?” She shows that the recommendation for PPPs comes from a context of deregulation and disengagement by States that are seeking to reduce their debt. The question of creating regulations that go beyond the area of the contract itself (price, modalities, etc.) is raised. Europe lacks micro-institutions for supervision, follow-up, and sharing of information for this purpose that would create knowledge to supply public goods to meet the general interest. The emergence of new forms of regulation that are more participatory and democratic thus runs up against informal rules that slow the necessary institutional change.

Mihaela M. Similie examines the place of general interest services (GISs) and their contribution to reaching European goals for economic, social, and territorial cohesion, stating the issues involved in the review of the present conception for the cohesion policy for the period 2012-2020. The EU’s goals in terms of economic, social, and territorial cohesion have progressively entered EU policies and law, especially by the Treaties of Amsterdam and Lisbon. Responsibilities are thus shared today between the Union and its member States. But each country undergoes specific changes according to its particular logic of Europeanization, and their implementations integrate national and/or regional impacts of European, national, and/or infra-national policies, situations, and policies that are specific to each country and region. The crisis also appears in national reticence to finance measures based on solidarity within the EU. Unfortunately, it does not motivate the European Commission to promote the role of GISs to strengthen the cohesion of the EU.

To conclude Part Two, François Aballéa analyzes “Wealth and Social Inequalities in Europe.” It becomes clear from this that the various waves of expansion of Europe have increased its internal diversity. Differences in wealth are explained in large part by inequalities in living standards between countries, but also by internal inequalities within each country. It seems that these latter inequalities vary widely from one country to another. If European integration has brought different countries closer in terms of both territorial cohesion and social cohesion, the gap is only narrowing slowly. Beyond rhetoric about the “European social model,” social models made concrete by national fiscal and social policies differ. The Union’s social policy remains at an embryonic stage. Moreover, in the most advanced countries, after years of declining inequality, gaps are once again becoming wider, at least at the level of the extremes. The 2008 crisis, by its effect on corrective or palliative policies, seems to have increased them.

Facing the difficulties of a Europe deeply affected by the crisis, Part Three deals with desirable and sustainable ways to rebuild public action in an EU, that is strengthened by its institutions and its history but also seized by doubt and confronted with the rise of sovereignty claims.

Pierre Bauby thus studies “Rethinking Public Action by the Measure of the European Union.” He begins by noting the difficulty if not the impossibility of analyzing the European situation by using, as is often done, economic, legal, political, and anthropological tools for knowledge and comprehension that were forged to understand nation States. Neither the goals of the EU, nor its institutions, nor its governance, nor its mechanisms for democratic participation correspond to a Nation state, a federation, or a confederation. It is a social construct that rests on a series of specific contradictory units, without precedent in the history of humanity. It requires the creation of tools for knowledge and intelligibility that are adapted to its realities, for only these can account for the present realities, as well as the issues of the future. Approaches to what could be new concepts are proposed, calling for multi-disciplinary exchanges and confrontations.

To rethink Europe, it is also necessary to state on what basis new European public policies can be established. The following analyses come from this perspective, dealing with coordination of public policies, adoption of structural policies and those based on non-profit organizations, and the establishment of policies for sustainable development.

By studying “Coordinating European Budgetary Policies,” Philippe Bance advocates “Strengthened Proactive Aligned Cooperation.” He shows that facing the present crisis of public finance, it is right to give public authorities in Europe maneuvering room to regulate a lifeless and highly unstable economy. To do so, it is first necessary to break free from the neo-Ricardian concepts of economic policy that inspired the EU and that, after lying dormant, could make a forceful return with the debt crisis. Better coordination of public policies, the positive effects of which are clearly shown by post-Keynesian analysis and game theory, should be promoted, going beyond present institutional roadblocks that stem from problems of governance in an EU of 27 members. To initiate a new dynamic, an institutional bifurcation would offer the chance to found new public policies on a “variable geometry Europe” that would make it possible to initiate a new dynamic around countries playing an avant-garde role. By relying on shared values to carry out coordinated proactive policies that are in step with national or even infra-national general interests, European democracy would be revitalized.

In his contribution, Faruk Ülgen examines “The Stability of the European Monetary Space and the International Role of the Euro.” The current monetary and financial instabilities are pushing different economies to consider solutions that lack coordination and also put in question the relevance of the European money. To remedy instabilities, a reconsideration of the role of the euro on the international level is necessary. Constructive expansionism would make it possible to position the euro as the vehicle of a new conception of the international monetary system (IMS) whose stability can be considered an international public good. Such an alternative means modifying the rules of a dominant asymmetrical IMS that seeks to contain latent conflicts without trying to reduce them. It returns to the strengthening of the unity of the euro on the level of monetary/financial rules, instruments, institutions, and practices, but also of common goals. The conditions for regulation and control of the functioning of global economies then call for European and international coordination/cooperation to give greater unity and solidity to the euro zone and increased stability to the IMS.

Jacques Fournier, in “The Difficult Re-conquest of Collective Functions,” deals with structural policies, and more specifically with collective organization in meeting needs around a renewed and expanded approach to public service. Collective functions cover all areas of activity in which satisfying fundamental rights cannot be suitably ensured by the market. In these areas, the collective must define the orientations of the system of production, coordinate actions in it that are undertaken by operators, and ensure the desired level of equality in meeting the corresponding social need. This line of public action includes executive activities (justice, police), major sociocultural public services (health, social action), as well as vital economic functions (energy, transportation, housing, credit). To set it in motion, it would be fitting to institute renewed planning and a new dynamic for its functioning. These policies should rely on new rules: transparency, openness and citizen participation, cost-free service, public pricing, diversification of supply and “capacitation” of demand, and concerted research with greater efficiency.

In “Social Economy and Public Action: Expansion, Substitution, or Stimulus?” Danièle Demoustier questions the ability of actors in the social economy to participate, starting from the satisfaction of collective interests, in the construction of the general interest, especially through public policies. Until now, recognition of the social economy by public powers has had little success in going beyond dichotomized and hierarchical approaches between economic development and social development, integrating sectoral problems into a global vision, and going beyond statutory differences to increase the status of common strategies. The partner approach of the 1990's has largely dissolved into a logic of competition that seeks to resolve in the short term quantitative restraints on volume and price of services to the population. At the territorial level (agglomerations, countries, regions), however, new attempts at transverse approaches (in terms of structuring of actors, joint construction of common policies, encouragement of mutualization and inter-cooperation, search for relevant indicators) are emerging. They rest on the socioeconomic nature of the social economy and should be mobilized to de-compartmentalize public action.

Is it also possible in a long term perspective to aim at establishing “New Indicators of Convergence for a Sustainable Europe”? That is the subject of Florence Jany-Catrice’s analysis. The question of indicators to measure well-being, progress, or sustainable development was reactivated in the 1990's by progressive awareness of the harmful effects of “growth for the sake of growth” and productivism on a collective questioning about what a good company is, or in any case what a sustainable company is. Europe is an interested party in these debates. Nevertheless, the governmental instruments that indicators of well-being are do not have the axiological neutrality that is often attributed to them, which makes it necessary to show the sociopolitical conditions in which they are developed and their collective sustainability. It becomes apparent from this that the institutional and democratic conditions have not yet been established for these indicators to be used for the convergence of a sustainable Europe. For that, it would be necessary to launch debates with civil society to identify the needs and services considered to be of general interest, evaluate them, and judge their sustainability.

Public Action in the Crisis

Toward a Renewal in France and in Europe?

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