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***Campaigning in Poetry,
Governing in Prose***

by

David Coates

Worrell Chair in Anglo-American Studies

Wake Forest University

North Carolina

coatesd@wfu.edu

ABSTRACT

New Labour's performance in office—as an orchestrator of economic and social change—is situated against, and evaluated by reference to, two sets of legacies: legacies inherited from the years of Conservative political dominance after 1979; and legacies brought to power by New Labour. The paper argues that the first set of legacies was deep and enduring, and threw a long shadow forward. It argues that the second set of legacies were highly coherent and intellectually informed, but cumulatively involved a diminution in the capacity of the state. The result has been a two-term government that is sufficiently superficially successful to win a third term; but which has yet seriously to transform the legacies it inherited: to our misfortune, and ultimately—in electoral terms—also probably to its own. This paper is based on my study of New Labour's domestic policy—*Prolonged Labour: The Slow Birth of New Labour Britain*; I have also co-authored a study of New Labour's policy towards Iraq—*Blair's War*—which was published by Polity Press in 2004.

Tony Blair's *foreign* policy—at least its most visible part—needs no explanation to an American audience, intellectual or otherwise. The UK's New Labour Prime Minister was George Bush's enthusiastic point man in the war against the Taliban, and he remains his key ally in the invasion and occupation of Iraq. But what is less known here, of course, is Tony Blair the *domestic* politician: the leader of the most successful Labour Government in the UK certainly for at least four decades, arguably perhaps the most successful Labour Government ever. And that domestic record needs also to be known and thought about in the United States too: for these reasons at least. The first is that the UK and the U.S. are in many ways very similar sorts of society, with similar economies, similar political systems, parallel world roles and shared points of cultural reference. The UK and the U.S. are very different places, of course, but the similarities matter. The UK often has a way of holding up to the United States dimensions of its own future, particularly when the UK demonstrates, as it is doing now, some of the costs of empire and of the hubris of world leadership. And particularly for the American Left—for progressive democratic forces in the United States—the nature and potential of European social democracy is an important point of reference. The British Labour Party occupies a special, and in ways a marginal, position within the family of European social democratic parties: but it is a member nonetheless, and as the Democratic Party in the United States struggles with this key issue of how best to reconnect the party to its traditional electoral base, there are real lessons to be learned from the way in which Tony Blair—from a not dissimilar position of weakness and despair—led the British Labour Party back to power after nearly twenty years of Center-Right dominance in the UK. It is not possible, of course, in one presentation, to do full justice to the entire range of policies initiated by the New Labour leadership. Since it came to power in 1997, the New Labour government has pursued a range of constitutional changes, and a set of foreign policy issues, that I will not touch on here. But they have also set a new course for the party, and for the country, in the area of economy and society. It is in the areas of economic growth and social change that the U.S. parallels and points of comparison are at their sharpest and most relevant, and it is on those, therefore, that I will focus now.

I

To understand the performance of particular governments, the first thing you have to understand is the legacies that surround them: both the legacies they inherit, and the ones they carry into power with them. The legacies they inherit set the context of action, and give them their agenda and balance of forces. The legacies they bring then shape their response to that agenda, and widen the agenda itself. They certainly did in New Labour's case.

So, first: the two sides of the legacy: the legacy inherited and the legacy brought.

The legacy inherited

Economically, the immediate inheritance was more favorable than was traditionally the case with incoming Labour governments. There was no wartime austerity as in 1945. There were no balance of payments/sterling crises as in 1964. There was no working-class militancy as in 1974. There was just the legacy of four years of quiet economic

growth, after the longest recession in UK twentieth-century economic history: the one that ran from 1990 to 1994. On the surface, the economic legacy inherited by New Labour in 1997 looked uncharacteristically benign.

But the longer-term economic legacy was very different. Surface appearances here, as elsewhere, were in fact profoundly misleading: and in 1997 the UK electorate really knew it, which was why John Major's government was not able to benefit that year from any "feel good" factor triggered by economic growth. Because over a thirty-five year period from 1962, the UK economy had slipped from being the world's second most successful capitalist economy to being the eighteenth. It had fallen from being one of Western Europe's high-wage economies to being, apart from Ireland, *the* economy in northern Europe in which wages were generally low. An economy that had once been the workshop of the world had, from 1983, become a net importer of manufactured goods on an annual basis: something that, apart from in wartime, it had not been for two centuries. Centers of economic excellence remained, of course—in the financial sector, in aerospace, and in pharmaceuticals—all ironically, given Thatcherism's antipathy to state spending, centers of economic excellence for which the state itself was a major consumer of the products on offer. But otherwise the economy that New Labour inherited in 1997 was characterized by a series of *performance gaps* when compared to the achievements and dominant characteristics of its major competitors: an investment gap, a skills gap, a productivity gap, a living standards gap, even a social capital gap.

The economy that the New Labour Government inherited in 1997 was, in comparative terms, a low-wage, long-hours, low investment and low growth one. It was one sustained by a labor force which, on average and in general, actually possessed lower skills and enjoyed fewer rights at work than was then commonplace in Western Europe as a whole. In 1997 UK-based workers were actually putting in 175 more hours of work each year than their German equivalents, and a staggering 186 hours more than their Swedish ones. 186 hours is nearly five working weeks: five weeks of extra leisure and consumption! Indeed, and for that reason among others, the UK economy in the late 1990s was being increasingly used by foreign investors—particularly American and Japanese investors—as simply an assembly point, as a space in which to build goods that were designed elsewhere, and which were then sold on into a more prosperous and corporatist Europe: *New Labour inherited, that is, what was widely labeled at the time as an off-shore screwdriver and warehouse economy, one largely in the second tier of economies within the ever-expanding European Union.*

Socially, as befits such an economy, an appearance of generalized and rising affluence served in 1997 to obscure an underlying crisis in UK society more generally that the Thatcher years had only intensified. Over a thirty-year period, it is true, the old depressed northern working class—the traditional image of the UK labor movement—had largely vanished. The UK had de-industrialized more rapidly than any other leading capitalist nation: its cotton workers and its miners had been replaced by workers in light engineering, by white collar workers in large private companies and, in the UK case, by a huge expansion in public-sector employment: teachers, social workers, nurses and administrators. There were 750,000 miners in the UK in 1959. In 1997 there were less than 15,000; and in the process a new and largely prosperous middle class had indeed consolidated itself. The UK had its own suburban revolution in the 1970s and 1980s to mirror the American one.

And like the U.S., as the UK suburbs had prospered, the cities had not. *New Labour inherited in 1997 a depleted urban housing stock, an under-resourced transport system, and significant concentrations of poverty in those urban areas.* In 1994 one child in three lived in officially-defined poverty in the UK. That proportion had more than tripled in twenty years, and went hand-in-hand with significant levels of generalized illiteracy and innumeracy in the bottom sections of the social order. On the government's own figures, more than seven million adults had problems with basic reading and almost twice that number had problems with math, in a labor force in 1997 of twenty-nine million. Private affluence, that is, but also public squalor, and depleted social capital. By 1997 too, three generations of immigration from the new Commonwealth had combined with native racism to concentrate much of that poverty—and the associated unemployment and poor levels of social provision—into the urban ghettos of the decaying northern towns and cities into which those immigrants had been obliged to settle. Go as an American tourist to London, Cambridge or Stratford, stay in the center, and you see one England: part of that belt of European prosperity that stretched, and still stretches, in a banana shape wedge from London through Brussels to northern Italy. But go out of London, drive through the English North West, and a very different, and a distinctly second-world sort of England awaits you. It certainly did in 1979. *By 1997 New Labour inherited a divided society: divided socially, regionally, ethnically and in terms of its income and wealth—a society divided into what Will Hutton called the 40:30:30 society—40 percent prosperous and secure, 30 percent getting by but financially stretched and in job terms insecure, and 30 percent in real and deepening poverty.* In fact, in 1997 income distribution in the UK was more unequal than at any time since official records began: and those records had been in existence for more than a century by then.

Culturally, all this was filtered through the legacy of Thatcherism. From 1979 the UK had experienced its own Reagan Revolution. The iron lady had reset public debate in a neoliberal direction: rolling back the state; privatizing state industries where she could and introducing internal markets where she could not; and extolling the virtues of free markets, self-reliance and individual social mobility, in a quintessentially American manner. That Thatcherite revolution had shaped the thinking of political and cultural elites in the UK and given immense self-confidence to the middle-class Conservatives working in the private sector; but it too had run into buffers by 1997. New Labour inherited an electorate in which strong residues of social democratic, as distinct from neoliberal, thought still prevailed; and it inherited a labor force, significant sections of which still worked in the public welfare sector. Teachers in the UK were and remain the Labour Party's most solid electoral supporters. Margaret Thatcher never took more than 43 percent of the popular vote; and no Tory government, even hers, ever dared to privatize the health service, or indeed even to privatize higher education. *Economically and socially, that is, New Labour came to power heavily constrained, but less constrained than it knew: culturally and politically, though it came to power with its old values under pressure, it still enjoyed a significant degree of wriggle room¹ that it was actually slow to exploit.*

¹This term has now become academically respectable. See B. Clift and J. Tomlinson, "Fiscal policy and capital mobility: the construction of economic policy rectitude in Britain and France," *New Political Economy* 9,4 (December 2004): 531

The legacy brought

For one of the tragedies of New Labour—at least a tragedy visible with hindsight—is that the width of that wriggle room was seriously underestimated by Tony Blair and his colleagues in 1997; and for very good reason. For they came to power with legacies of their own, legacies that left them, at one and the same time, electorally cautious and programmatically very, very conservative.

The incoming New Labour team were *electorally cautious* for two reasons: they approached the 1997 election after four election defeats in a row, and with the salutary disappointment of 1992—when their predecessors in the leadership effectively ran a victory rally ahead of the election, so confident were they of victory—with that salutary disappointment before them, and fresh in their mind. The New Labour team did not expect to lose in 1997, but they anticipated a very close result. They did not expect—no one did—that the result would be the landslide that it was. As Tony Benn put it at the time, in 1997 the New Labour leaders “went to the beach to have a paddle and were hit by a tidal wave.” This was tsunami politics with a vengeance. New Labour also came into power knowing that no Labour Government had ever won a full second term. The Blair government entered power expecting to lose it again, and quickly. The Party had won a landslide, but its leaders feared that votes won so easily could be lost with equal speed. Electorally that meant that both before and after 1997, New Labour policymakers targeted, not their core supporters, but rather the Conservative floating voter and, to win that floating vote, positioned themselves programmatically to the right of their core base. New Labour won in 1997 by promising to be better Conservatives than the Conservatives themselves, and once in power set out to prove it. The first Blair government had its own post-Thatcherite agenda, but its key focus was on the concerns and electoral proclivities of floating Thatcherite voters.

In consequence and *programmatically*, New Labour entered office in a *conservative* frame of mind because that is how Blair and his team had chosen to play the policy game after 1992. They had seen the string of 1980s defeats—the wasted years—and deduced from that that Old Labour policies had to be shed. They had seen the 1992 election defeat—and blamed that on the “tax and spend” reputation of the Labour Party that the Tories had so effectively exploited in their 1992 election campaign—and deduced from that the need to shed that reputation. In consequence New Labour went into power emphasizing their “newness,” but defining that newness less against their Conservative opponents than against the record of their own Party’s immediate past. They came to power stressing their fiscal conservatism, and their newfound ease with the forces of private capitalism. They came to power as Neil Kinnock said later, having put a “huge distance in reality and in public perception” between themselves and Old Labour. Programmatically that distance involved the New Labour leadership shedding virtually every policy weapon and radical commitment of Labour Governments and Labour Oppositions in the past. The policy weapons went. The radical commitments went. There was to be no public ownership, no planning agreements, no import controls, no extensive state aid to industry, no State bank to direct investment to private industry, no special deals with the trade unions, no increases in direct taxation—indeed no increases in public spending in the first two years of a Labour Government greater than the Conservatives themselves had already planned. There would be no pulling out of Europe, as the Labour Party manifesto of 1983 had proposed; and no unilateral nuclear disarmament.

ment. Out of the window went any commitment to greater income equality, or any extension of industrial democracy. What came in instead was New Labour's much vaunted and Clinton-inspired "third way."

New Labour's "third way" is a very serious thing: a set of policies, and an underlying understanding of how the world works, which has been very carefully put together. This is serious intellectual politics, to a quite remarkable degree. Its UK architects—largely, as far as I can tell, Blair and Brown themselves, and the circles around them—drew heavily on the new thinking about globalization. Anthony Giddens was clearly a key player here. They drew heavily on new growth theory in economics. Gordon Brown once famously declared his belief in something called "post-Keynesian neo-classical endogenous growth theory," and was roundly teased for his pains, but all the economists reading this will have some general sense of what he was talking about. The New Labour leadership drew heavily on the new communitarian writings of people like Etzioni, and on the new thinking on the importance of social capital from Robert Putnam and the like. And, indeed, when in power, they drew heavily on the many investigations, reports and data sets whose gathering they themselves initiated. New Labour's "third way" was, and is, an orientation and a program which is seriously informed both intellectually and empirically. It is deadly serious politics; and that marks it out, in my view, from most Labour Party orientations and programs of the past. New Labour can be criticized for many things: but I don't think that it can be accused, as Labour Governments could in the past, of excessive amounts of superficiality, inconsistency, U-turning, or tacking to every temporary wind. On the contrary, New Labour ministers have stuck to their guns for two parliaments now: long enough indeed for us to see exactly what they are about, and to be able to determine whether what they are about actually works.

This clarity has been at its sharpest in New Labour's economics, in the policies emerging from Gordon Brown's finance ministry, the UK Treasury. New Labour entered office in 1997 committed not simply to better rates of economic growth than the Tories. It entered office actually committed in 1997 to raising the "trend rate of growth of the economy," in other words, to pulling the UK up the international league table of competitive performance, and to do so by making a sharp break from what was the reality, as distinct from the rhetoric, of the Thatcher growth strategy: namely that the UK economy was one whose growth depended, as it did in the Thatcher years, on the maintenance of low wages and long hours of work. Tony Blair was very clear on that when addressing the Trades Union Congress in September 1997: that there was "the Tory way -inequality, insecurity and low wages for the many, very high rewards for the few ...," which he absolutely rejected; and there was New Labour's way: a government committed to fairness at work ... based on a hard-headed analysis of how to build a high wage, high skills, high investment and high employment economy: hard-headed analysis and then total determination to achieve it.

New Labour, that is, came into office convinced that, given globalization and the new dot.com technologies, the old relationship between state and market was not on. As Gordon Brown put it on more than one occasion, "crude free market dogma" (the Thatcher version), failed to meet the requirements of the moment because it "did not encourage long term relations and commitments" and because it gave "no incentive for people to invest in the future." Likewise, the "Old Labour language-tax, spend and borrow, nationalization, state planning, isolationism, full-time jobs for men while women stay at

home" was "equally inappropriate" to a world which now required state initiatives that sought not to replace private market forces but rather to work in partnership with them. The job of the modern state, in the New Labour lexicon from its earliest articulations, was to *coordinate investment in knowledge, skills and infrastructure*. It was to act—in Gordon Brown's telling phrase—as "the *lubricant in the engine of the ... economy*, oiling its wheels and allowing it to run faster and more smoothly without the damage and regular break-downs we have seen so often in the recent past." Armed with the new growth theory, the New Labour leadership entered office full of confidence: they had the confidence fully to embrace free trade (and to reject protectionism or competitive devaluation) as adequate responses to intensified international competition. They had the confidence to eschew public ownership and to embrace the growth potential of only lightly state-regulated private enterprise. They were determined to focus macroeconomic policy on the creation of stability by prioritizing the control of inflation and the containment of public spending. They focused their industrial policy on the encouragement of small business, the attraction of foreign direct investment, and the strengthening of investment in research and development. And they put educational reform at the heart of that industrial policy—they make re-skilling their central labor market concern, and "Education, Education, Education" their central mantra—while they combined retention of the Thatcherite industrial relations changes with new initiatives on the minimum wage and the movement of people from welfare to work. In other words, they were Clintonesque.

As a result, New Labour entered office in 1997 determined to privilege policies to encourage progress in four areas: *investment in industry*, through tight and disciplined tax policies geared to "keeping inflation low and as stable as possible"; *investment in infrastructure*, through the extension of public-private partnerships in areas as diverse as training, education, defense, transport housing and regional policy; *investment in employment opportunities*, through active labor-market policies to move people from welfare to work; and *investment in people*, with life-long learning initiatives, better industrial training and higher school standards. That way, they believed, would enable them to find a third, and a superior, way between the various models of capitalism on offer around them: combining the efficiency and dynamism of the American model with the social cohesion and basic justice of the European one, while avoiding the social inequalities of American free-market capitalism and the labor-market inflexibilities of Germany and Sweden. A new third way model! In the light of all that, it is not really surprising that May 1997 was such an exciting time to be on the Center-Left in the UK. For after eighteen years of Conservative rule, we at last had again a government that was intellectually powerful, economically ambitious and socially progressive, and a government, moreover, that unexpectedly found itself in possession of the largest parliamentary majority of any UK government in modern history. "We were still a young country," Blair told us with a future to win; and lots of us, in the euphoria of the moment, were tempted to believe him.

The policy pursued

The key thing to grasp, as we try to determine if that future is currently being won, is that in the broadest sense New Labour did exactly what it promised to do, and—on its economic and social agenda at least—very little else. You couldn't spot the invasion of Iraq from the detail of the 1997 election manifesto. Obviously the events of 9/11 and the strange linkage to Iraq that followed were all entirely unanticipable in 1997: but go back and read that 1997 election document now, and the main lines of what was to transpire economically and socially are there for all to see. Not the detail, of course, not entirely anyway, but the main lines of march certainly, and to a quite remarkable degree.

1. *Monetary Stability and Fiscal Prudence.* The Treasury immediately handed over control of interest rates to the Bank of England, creating a division of labor not entirely dissimilar to that between the Executive and the Federal Reserve in the United States, though with the UK Government still setting the inflation target; and then Gordon Brown held public spending back for two years to meet that target, to pare down the National Debt, and to leave rates of income tax unchanged. That fiscal prudence was enshrined in two new Treasury rules that still operate today: *the golden rule* that over the economic cycle the government would borrow only to invest and that current spending would be met from taxation; and *the sustainable investment rule*—that, as a proportion of national income, public debt would be held at a prudent and stable level over the economic cycle. That didn't stop generous funding for the public services in New Labour's second term, but it did delay that spending until growth was assured and inflation heavily contained.

2. *Manufacturing an Economic Strategy.* That pursuit of monetary stability and fiscal prudence was presented as the backdrop to policies designed to trigger economic growth from the private sector (particularly from the small business sector) and to strengthen the economy's science base: to that end Gordon Brown introduced a string of measures, over a number of budgets, that cumulatively eased the level of taxation on businesses, scrapped many of the regulations constraining the small-business sector, offered help with venture capital, marketing and networking, protected small businesses against late payments, and encouraged new business start-ups. Later indeed the Chancellor launched a ten-year strategy to double public funding of basic R&D by 2008, and so on. All this was part of his perennial campaign to bridge the productivity gap between UK-based companies and those in the United States, Japan and Germany; all this was part of a sustained attempt to strengthen the dot.com side of the "new economy" (this from 1997) and, more recently, to strengthen UK-based manufacturing as a whole. New Labour by 2004 was packaging its business-friendly program as a set of seven pillars designed to reinforce entrepreneurship and to trigger sustained manufacturing growth.²

²The seven pillars areas follows. "Pillar 1: Macro-economic stability.... Pillar 2: Investment ... changes to the tax system which encourage entrepreneurship; assistance to investment in certain regions and by small companies; and encouragement of inward investment. Pillar 3: Science and Innovation ... the recently introduced R&D tax credit for large firms, and the continued expansion

3. *Enhancing the Quantity and Quality of Publicly-Provided Welfare Services.* The one area in which that pursuit of enhanced productivity has been easiest for New Labour, and where policy of late has been both most visible and most contentious, has been within the public sector itself. Policy on two fronts: (1) To achieve new levels of investment in the depleted rail and road system, schools, hospitals and prisons, and to achieve them without raising taxes and public borrowing, Gordon Brown has turned to the private sector—in a series of joint ventures (the so called “Private Finance Initiative” inherited from the Conservatives) in which private firms build schools and hospitals and the government leases them back. (2) Then, to balance the increase in funds to education and welfare services, New Labour has also created a set of what are called “Public Service Agreements,” effectively productivity deals and output targets that link the flow of funds to increased efficiency in the public sector, so intensifying the work process there.

4. *Welfare to Work.* From 1997 New Labour also made a series of powerful moves in the labor market, with again Gordon Brown as the key architect and advocate of policy changes here. From his first budget, within six weeks of being in office, the Chancellor launched his New Deal—his American-style welfare-to-work program aimed initially at the young unemployed. In 1997 the young British unemployed were offered four choices in return for continued unemployment benefits: four—subsidized work with an employer, a voluntary organization or an environmental task force, or basic literacy training, but no longer a fifth option—no longer full benefits while remaining idle at home. New Labour ministers were and remain convinced that the pathway out of most modern forms of poverty is through paid work; and they have increasingly over time extended those offers—and those terms—to all unemployed workers, regardless of age and gender: incrementally extending the degree of compulsion as they have done so. The result is not yet a full-blown workfare state of the Wisconsin variety, but something akin to it is definitely on the way.

5. *Reskilling the Labour Force.* What has accompanied that active labor-market policy, and softened its potentially draconian side effects, has been a series of moves to strengthen education and training in the UK. New Labour has tried, and is still trying, to trigger a skills revolution. It did so initially by giving everyone a voucher to be spent on re-skilling courses—the so-called “Individual Learning Accounts”—and by setting up a second-chance university aimed at enhancing industrial skills, the so-called University for Industry. It also tried to reactivate the UK system of apprenticeships, by using the trade unions as conduits for new training schemes. More recently the emphasis has shifted to the raising of basic levels of literacy and numeracy, and the focus of policy has been directed back at the schools. But for all the variation of detail, the general line of march remains unchanged. Education policy has genuinely replaced industrial policy for New Labour in the UK, as ministers have set higher and higher educational targets for first elementary schools and then secondary schools, and published league tables of

of investment in the science base.... Pillar 4: Best Practice.... we earmarked an extra £20m for best practice activity. Pillar 5: Raising Skills and Education Levels.... Pillar 6: Modern Infrastructure.... we have set out a 10-year plan to modernize the transport network at a cost of £181 million strategy to increase broadband penetration. Pillar 7: The Right Market Framework competition framework.... free and fair trade... .sensible minimum standards in the workplace. Actionto reform the planning system to meet business concerns.

performance, closed failing schools, and encouraged joint private-public investment in new capital equipment in the education sector.

6. *Altering the Balance of Rights and Responsibilities.* The New Labour Government has also been willing to give workers more than skills. It has given them new individual rights at work, particularly of late: initially a guaranteed minimum wage, and more recently slightly improved rights, longer paid maternity leave, unpaid paternity leave, and the right to request flexible working hours—these latter all designed to make the combination of work and childcare easier, to alter what ministers increasingly refer to as “the work-life balance.” What the Government has been less enthusiastic about—and here, of course, is one of New Labour’s huge breaks from Old Labour—is the granting to workers of more collective rights, rights as members of trade unions. New Labour did amend the Thatcherite anti-union labor codes just once, and just slightly: to allow union recognition when 50 percent of the workforce indicated such a preference, and to make illegal the dismissal of striking workers for at least the first six weeks of those strikes. But that was all—just six weeks (it is now up to twelve!) but no unalloyed right to strike, and all the other European legislative initiatives (like the Working Time Directive) implemented only in the most parsimonious of manners. All this because of New Labour’s determination, in Tony Blair’s often cited words, to leave the UK with what it inherited from the Conservatives: namely “the most lightly regulated labor market of any leading economy in the world.” Indeed much of New Labour’s lack of enthusiasm for greater European integration—the bit of the lack of enthusiasm that hasn’t rested in the desire for monetary independence—has rested here, in a share lack of enthusiasm (by both Blair *and* Brown) for the enhanced labor codes of the European Union.

Two other things about this six-fold policy package, before its exposition is complete: its subterranean radicalism, and the divisions within its delivery.

The radicalism first: all this new-growth, theory-inspired economic policy has been combined, particularly through Gordon Brown’s influence, with what many commentators have called policies of “redistribution by stealth”—a strand of subterranean radical policy designed to correct major social injustices without frightening away foreign and domestic investors. Every budget has quietly redistributed the tax burden inch-by-inch away from working adults with children: first through the introduction of a working family tax credit of a recognizably American kind, that effectively raised the minimum wage for workers with children, and then through a new child tax credit that did the same. The Brown budgets did not provide much help for low-paid workers without children—not until very recently anyway—but they systematically and incrementally provided help for low-paid workers with children, and help for retired workers surviving on state pensions alone. This has been and remains a government that is publicly committed to halving the number of children in poverty in the UK by 2010, and to the eradication of child poverty there entirely by 2020. It is also a government that has lately worked hard to bring UK aid spending up towards the European average, and one that from the outset worked to ease the burden of debt carried by the poorest of Third World countries. It is also a government that has really woken up to the difficulties of combining child care and paid work for both parents in a family, and will go to the country in May promising what it calls “wrap-around schooling”: school buildings open from 8:00 a.m. to 6:00 p.m., all year round, providing day care for children during out of school hours.

All this radicalism and social sensitivity has then given New Labour in power a certain Janus-face quality. Seen from one side, this is a progressive government serious about domestic poverty, family pressures and global injustice. Seen from the other side, this is a government that is incipiently authoritarian: at the very least bullying the unemployed off the welfare roles, at the worst driving teachers and nurses to work longer and more intensively in some desperate effort to raise public-sector productivity performances. That authoritarian face has then been reinforced by policies on crime, law and order, freedom of information and now migration, that Tony Blair himself has largely orchestrated, and which I will not take you through here: but the cumulative impact has certainly been enough to leave traditional Labour supporters, as they now go to the polls, literally all over the place: sequentially hot and cold on the adequacy of the New Labour record or, more likely, increasingly cold on the Blair record (not least because of Iraq), but selectively (and I mean selectively) warm on the Brown one.

And to put it that way is to underscore the other general feature of this policy package, and one of which many people must already be aware: that the New Labour attempt to raise the UK's trend rate of growth is being developed and delivered by a government that is increasingly divided at its very core by clashes of personal ambition and by differences of goal and philosophy. The clash of ambitions is clear: between the Prime Minister and his Chancellor. These days the New Labour government is really, in parliamentary terms, two armed camps: camps that are reluctantly obliged to hang together lest they hang separately, and camps that are increasingly estranged by Tony Blair's repeated refusal to stand down in favor of his Chancellor, and by Gordon Brown's increasingly public distress at that refusal. The difference in philosophy between those two camps is less clear, and may indeed run less deep, but certainly the Blair supporters and the Brown supporters have disagreed publicly, and continue to disagree publicly, about the extent to which publicly provided welfare services in the UK can safely be shared with private providers without undermining their universalistic character. The extent to which private finance and private management teams should compete with public finance and public servants in the provision of welfare services in the UK is currently a political minefield within the Labour Government itself. For his part, Tony Blair is as keen a pro-marketeer as he ever was: indeed there are times these days when he seems positively neo-Thatcherite in his enthusiasm for private sector presence and models within the publicly-provided welfare services. His Chancellor is more prone to sound Old Labour on all this, more prone to discuss the dangers of such an approach—particularly in relation to the National Health Service—but even he, the Chancellor, regularly defends PFI and PSA initiatives before skeptical trade union and party audiences; and even he is currently locked in battle with civil service unions whose members face redundancy or redeployment because of his determination to raise the productivity of public-sector service provision. So we have a determined government, for sure; occasionally a progressive one; but increasingly a divided one: the question that remains is whether, divided or not, it is also an effective one.

III

Well, is it? Is New Labour working

As ever, the answer is both yes and no. Yes it is working in a surface sense, working well enough very probably to allow Labour to win re-election on a diminished majority. But in a deeper sense, it does not seem to me to be working at all. It may yet. New Labour policies may indeed be moving the UK in broadly the right direction, but so far at least they have made precious little impact on the legacy that New Labour inherited, particularly on those dimensions of that legacy that it entered office most determined to change.

So superficially yes: *Economically*, the UK is currently enjoying its fiftieth unbroken quarter of economic growth, which is an all time record. Living standards since 1997 in the UK have risen steadily, and faster than in the 1990s. Unemployment is down to 4.7 percent: in fact from 2001 to 2005, 1.5 million new jobs were created in the UK economy, more than off-setting the million that were lost. In job creation at least, the economic record of the UK under New Labour stands comparison to that of the United States, and overall is more impressive than that of Western Europe taken as a whole. *Politically* New Labour managed to repeat its 1997 electoral landslide in 2001, something no Labour Party had ever done before, and is set fair, I think, to win a third term—if probably with a significantly reduced majority—when (or rather if, as anticipated) it goes to the country again in May 2005.

So with all this achieved, why carp? Why not just operate on this day-to-day level, and applaud success.

Let's go back to the legacies to see why.

What New Labour has not achieved is any significant increase in the trend rate of growth of the UK economy as a whole. What it has done is to carry on, and to quicken slightly, the trajectory of incremental expansion that it inherited from the Conservatives. New Labour in power didn't waste that trajectory. That much at least is good. But nor thus far has it changed its fundamentals. Indeed New Labour policy has made a number of those economic fundamentals slightly worse. Two in particular of the underpinnings of UK prosperity actually weakened under New Labour, and to a frightening degree. The level of personal debt sustaining consumer spending soared dramatically after 1997; it now stands at a staggering \$85,000 per family in the UK. New Labour's prosperity is built on tick, on spending now money that has to be earned later. And if that were not fragility enough, the low interest rates enabling that bridging to be done stand threatened by the scale of the UK's overseas debts. These are now at record levels. Like the U.S., the UK does not pay its way in the world. In 2004 the UK's balance-of-payments deficit, at £53.2 billion in the first eleven months alone, represented a shortfall approaching 3 percent of UK GDP. This is a rake's progress on an unprecedented scale, and one that cannot indefinitely continue.

At its core, it is a rake's progress that reflects the continuing inability of New Labour to generate a manufacturing miracle in the still de-industrializing UK. The imbalance between production and consumption of manufactured goods inherited in 1997 has actually grown worse under New Labour. The government's own Department of Trade and Industry continues to bewail the under-investment, and low R&D performance, of

UK-based industry, and the persisting lack of skills of large sections of the UK labor force: but New Labour has found, as governments before it also found, that with the UK employing class it can bring the horse to water but it cannot make it drink. Indeed its capacity as a government to trigger competitive improvements from the UK manufacturing base is actually diminishing over time, as Gordon Brown has now so reduced levels of corporate taxation as to increasingly denude himself of any effective policy weapons with which to micro-manage industrial change. UK manufacturing output remains stuck, in 2005, at its 2001 level.

In consequence the UK economy remains, as it was in 1997, the home of a generally poorly paid, overworked, low skilled and highly stressed labor force. The figures on this are everywhere. The average pay of manufacturing workers in the UK is still significantly lower than that of their European, American and Japanese equivalents. Four million of the seven million workers in the European Union whose average working week exceeds the forty-eight-hour maximum set by the European Working Time Directive, four million of those seven million workers who are putting in the long hours are doing so in the UK. In fact the average UK worker in 2003 put in a remarkable seven hours and twenty-four minutes of unpaid overtime each week! Remarkable hours, and remarkable stress: a third of all UK teachers, for example, took time off for job-related stress in 2003 alone: an 11 percent increase in absenteeism over a five year period. New Labour may not be working, but Labour voters certainly are: very very hard indeed!

All that can be claimed, I think, is that the government has belatedly woken up to some of the social consequences of this high stress, low-investment economy. Ministers have done nothing about income inequalities at the top level. UK-based CEOs still pay themselves the highest rates in Europe: the typical CEO package in 2001 in UK was 28 percent higher than the year before, and 33 percent higher than the next big European payer that year, the French. That brought no effective government response. Instead New Labour has worked away at the bottom, easing the lot of the really poor, but overall inequality remains largely undisturbed. And though now ministers are promising wrap-around schooling, so that hard-pressed parents can work even longer, the actual reality of child care availability in the UK is that, in the main cities in particular, it is still staggeringly expensive. The latest figures that I have seen report the typical cost of child care in the capital in 2003 as \$370 a week, though it is not uncommon for parents to pay as much as \$150 a *day* for child care, and that on top of escalating costs for housing and transport.

For New Labour is currently presiding over a housing crisis of monumental proportions. As we speak, in 94 percent of all the towns and cities in the UK, accordingly to a survey by the major building society published early in 2005, people of average income could not afford to buy any housing at all, and were in consequence obliged to rent. A deposit on a starter home in 1997 averaged \$9000 in the UK. Today it averages \$50,400, for a labor force whose average gross pay is still less than \$40,000 a year. As a result, there are now literally hundreds of towns and cities in New Labour Britain in which housing is beyond the reach of the vast majority of the public servants whose labor is vital to the maintenance of basic services there: 496 towns and cities (out of the top 634) in which house-ownership is beyond the reach of a nurse on average pay, 400 in which it is beyond the reach of a police officer on average pay, 390 in which it is beyond the reach of a teacher on average pay, even 251 in which house ownership is beyond the

reach of an average firefighter. And the government's recent panicky response, to suddenly build 60,000 new homes in the southeast, can then only bring transport systems there to an even greater bottleneck, and intensify the already striking north-south divide. New Labour inherited an unequal society of depleted social capital. It currently presides over one that not only remains scarred by deep inequalities, but also one that is increasingly *gridlocked* by the interlocking costs of housing, transport and child care.

IV

When we ask why, then the other side of the legacy kicks in: the legacy brought by New Labour to power. The UK is increasingly gridlocked, trapped between a shrinking manufacturing base and an overheated housing market, because of the paucity of policy weapons that New Labour brought to its task. It came to power shorn by its own decisions of the full range of industrial policy weapons available in the past. It came to power highly critical of European managed markets that had generated higher growth and social provision than those available in Thatcherite Britain; and it came to power committed (indeed enthusiastic) about the possibilities of economic growth through a free-trade-based global order. That enthusiasm was misplaced, those criticisms were misdirected, and those policy weapons had been discarded in error.

For there is no third way solution to the accumulated legacies of long-term under-development, certainly not in the Third World and arguably not in the First. There may be no solution at all. Maybe it is the case that once economies have fallen behind, they have to stay behind. But let us hope not. What we do know is that they will stay behind if all they are subject to are third way growth strategies based on investment in human capital. Re-skilling may be an essential ingredient in a successful growth strategy, but it is not a substitute for one. Strategies of progressive competitiveness of the third way kind do not work in the long term for anyone. They particularly don't work as strategies of economic catch-up, of the kind required by a New Labour government in search of a higher growth trajectory for a UK economy that was underperforming.

Let me explain why.

- Third way "investment in human capital" growth strategies don't work for anyone in the long term: all that happens, as every government in the advanced world tries to attract mobile industrial capital by re-skilling its labor force and improving its numeracy and literacy levels, all that happens is that everyone has to run faster just to stand still. It's like a treadmill, with the speed progressively raised. All the runners do is speed up to remain in the same place, and to avoid slipping backwards. The only winner is the treadmill itself, as teachers crack under the pressure, students continue to underperform, and wages and benefits continue to tumble—in a race to the bottom that is actually being driven by the weight of competition from Asian labor forces that are paid a pittance of ours.

- Third way "investment in human capital" growth strategies particularly don't work as a catch-up strategy for industrial economies in decline, like the UK one inherited by New Labour in 1997: for in a global market free-for-all, logics of cumulative causation kick in early and then stay dominant—the

strong get stronger and the weak get weaker, as unregulated capital flows enable UK-based financial institutions to invest abroad, thereby widening the performance gaps still further. Whistling in the wind is no substitute for effective policy, and whistling in the wind is what New Labour ministers are increasingly having to do as UK capital continues to shift abroad

The issue facing the Democratic Left across the advanced capitalist world, and certainly facing it in the UK where it currently enjoys the levers of power, is whether there is a *fourth* way that can achieve an industrial renaissance that third way policies so far have not; and if there is, whether New Labour third way policies can be recalibrated in that general direction. To my mind, finding that elusive “fourth way is the vital task facing all progressive forces in advanced capitalism in the first decades of the new century. If those elements were obvious, strong left-wing coalitions would already have emerged to demand them. In the case of the Labour Party, at least, they have not. Those elements have yet to be found. But to my mind they will and must include, at the very least, a more active industrial policy, a less stealth-like redistribution of income and power, and the repositioning of the UK into the very heart of the EU project (and into the defense of the European welfare capitalist model) that Gordon Brown so visibly dislikes. Trade policy, membership in the Euro, a more active European regional policy, publicly provided venture capital, and higher levels of personal taxation: all these things—now off the agenda—will need to be brought back onto it if Labour’s third term is not to be wasted, if New Labour’s third way is to be recalibrated into a fourth.

The housing crisis, and the deepening transport difficulties, are triggering that recalibration to some degree, in the UK at least. New Labour is now trying to build a set of starter homes. A majority of people polled in the UK now do favor the renationalization of the rail system. There is a constituency for change, out there, opening up, growing daily in front of New Labour. The tragedy we face in the UK, from a progressive point of view at least, is that, as in 1997, New Labour may be too cautious to exploit that radical space, and so once more let the momentum for change fade.

Right now, the main blockage to that radical pick-up, within the Labour Party, would appear to be Tony Blair himself. The imperfect alternative would appear to be his Chancellor, Gordon Brown. And here is the political paradox at the heart of the current New Labour tragedy: to the degree that Gordon Brown is a genuine and more radical alternative in policy terms to Tony Blair, the Blairites will resist him the harder; and to the degree that he is not—to the degree that he, like Blair, is in truth an embedded third wayer, who is just better at sugarcoating his conservative message than his leader—then if they fail to block him, Gordon Brown will fulfill his personal ambition only then to disappoint the ambitions of the rest of us. In the UK, the future does lie indeed with Labour, electorally and in the medium term at least. but the danger is that it may be a wasted future, as wasted in its way as were the wasted years of Thatcherism that preceded it. My own personal fear is that, when the New Labour governments are examined with the hindsight of history, they will turn out to have scored high on intention and on coherence, but low on delivery and on impact. I genuinely hope that that fear is misplaced, that this time I am wrong, but so far I fear that sadly that I am not.

Further Reading

The full argument underlying this paper can be read in D. Coates, *Prolonged Labour: The Slow Birth of New Labour Britain* (Basingstoke UK: Palgrave Macmillan, 2005); and the associated critique of New Labour's foreign policy can be found in D. Coates and J. Krieger, *Blair's War* (Cambridge UK: Polity Press, 2004). The main source on the legacy inherited by New Labour is W. Hutton, *The State We're In* (London: Cape 1994); and the best guide to early New Labour remains the works by S. Driver and L. Martell: *New Labour: Politics after Thatcherism* (Cambridge UK: Polity Press, 1998); and *Blair's Britain* (Cambridge UK: Polity Press, 2002). For a balanced assessment of New Labour's record during its first two terms in office, see P. Toynbee and D. Walker, *Better or Worse? Has Labour Delivered?* (London: Bloomsbury, 2005). On the limits of third way growth theory, see the final chapter of D. Coates, *Models of Capitalism: Growth and Stagnation in the Modern Era* (Cambridge UK: Polity Press, 2000).