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New Labour, Globalization, and the Competition State*

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Abstract

The concept of the Competition State differs from the "Post-Fordist State" of Regulation Theory, which asserts that the contemporary restructuring of the state is aimed at maintaining its generic function of stabilizing the national polity and promoting the domestic economy in the public interest. In contrast, the Competition State focuses on disempowering the state *from within* with regard to a range of key tasks, roles, and activities, in the face of processes of globalization. The state does not merely adapt to exogenous structural constraints; in addition, domestic political actors take a proactive and preemptive lead in this process through both policy entrepreneurship and the rearticulation of domestic political and social coalitions, on both right and left, as alternatives are incrementally eroded. State intervention itself is aimed at not only adjusting to but also sustaining, promoting, and expanding an open global economy in order to capture its perceived potential benefits for those actors and their changing clienteles. Such strategies, while reinforcing the roles and positions of such actors, also can undermine the generic function of the state seen in terms of traditional conceptions of social justice and the public interest. In this context, the New Labour Government in the United Kingdom has adopted a policy agenda which in its most crucial aspects reflects the continuing transformation of the British State into a Competition State — support for market-oriented reforms in international structures of governance, the introduction of embedded financial orthodoxy at home, extension of pro-competitive micro-industrial policies, reform of the constitutional order, the flexibilization of the state apparatus, the creation of a contract-based post-welfare state, and attempts to spread the discourse of "globalization with a human face."

1. Introduction: the Competition State as an Analytical Framework

The main challenge facing governments all over the world is their capacity to adapt to globalization while both maintaining a relatively effective domestic policy programme and recasting coalition-building in the face of new exogenous constraints and opportunities. Within this context, the challenges faced by left-wing and center-left parties and governments are particularly problematic. Such parties have during most of the 20th century relied on expanding the boundaries of the state to provide public goods — regulatory, productive, distributive, and redistributive — in favor of the working class, minorities, and other socially valued groups and causes. Such strategies have depended historically upon the capacity of states to make domestic policy in ways that preserve key spheres of autonomy for policymakers *vis-à-vis* international capital. However, such autonomy is increasingly constrained by globalization. Some theorists of globalization suggest that all states are losing power and coherence (compare McKenzie and Lee, 1991, with Reich, 1991), while others maintain that governments are able to adapt and to transform state structures in ways that alter, but do not fundamentally reduce or undermine, state capacity, not only for neoliberal governments of the right but also for social democratic govemments of the left (compare Hirst and Thompson, 1996, with Garrett, 1998). This article therefore addresses two interlinked questions. First, how do states and state actors adapt to globalization more generally? And second, how is the Labour Party in Britain in particular (analysed under the label "New Labour") seeking to respond to the imperatives of globalization?

A useful tool for analysing this problematic is the theory of the Competition State (Cerny, 1990, chapter 8; Cerny, 1999). Rather than attempting to insulate states from key international market pressures, as state actors in the national industrial/welfare state (IWS) of the Second Industrial Revolution sought to do (Cerny, 1995), such actors in Competition States embrace openness and marketization. They seek to make the domestic economy more prosperous and competitive in international terms while *accepting* the loss of key traditional social and economic state functions which were central to the development of the IWS. Sometimes state actors even compel domestic private sector actors to abandon traditional cartel-like practices, to force them to be free and open to the winds of global market change; there was clearly a salient element of this in Thatcherism in Britain, not to mention the more authoritarian form of marketization in Pinochet's Chile.

As a result of these changes, some consensual, some coercive, the divide between left and right comes to lose many of its traditional landmarks. Social democratic and other left parties begin to search for policies which, while adapting to the new constraints, are intended to promote not neoliberalism red in tooth and claw, but rather a kind of "globalization with a human face." New Labour is a preeminent exemplar of this process. In this article, we identify the broad parameters of the Competition State as an analytical framework and assess the first two years of the Blair Government. We look in particular at its attempt not only to remodel the substance of its public policies but also to redesign the structure of the state apparatus, to reshape the public perception of what the state can and cannot, and what it should and should not, do, and to shift the goalposts of coalition-building in an attempt to capture perceived benefits from the globalization process.

It should be noted from the outset that the theory of the Competition State stands in contrast to the "Post-Fordist State" of Regulation Theory. Regulation Theory asserts that the restructuring of the state as a consequence of globalization — although, like the Competition State, taking the basic form of a flexibilization of the state apparatus and a "hollowing-out" of its policy repertoire — nevertheless effectively permits the state to maintain its "generic function" (Jessop, 1990) of stabilizing the national polity and promoting the domestic economy in the public interest. The state, by restructuring itself, is thereby able to maintain the core of its competence and authority, in turn empowering itself to act as a site of partial *resistance* to capitalist economic globalization by systematically promoting new *domestic* sources of economic growth (New Endogenous Growth Theory [see below]). The Post-Fordist State, sustained by the embedded domestic legitimacy and socio-cultural identity of the national society, can thus retain sufficient overall control of the restructuring process to counteract the most pernicious effects of globalization.

This assessment of the state's ability to maintain its generic function, however, rests fundamentally on two assumptions. The first of these is the nature of capital itself, i.e. that the power of capital derives predominantly from the forces of production *per se*; the rest is superstructure. And the second is that the structure of those forces of production is still determined in critical ways by so-called "economies of agglomeration." In other words, production processes (unlike movements of financial capital, for example) are still essentially "site-specific," i.e. *relatively* immobile or contingent upon their medium-term or long-term distribution in geographical space (particularly with regard to national borders). Together these assumptions mean that the geographical and territorial specificity of the state still gives it relative autonomy in policy terms even where capital becomes more internationalized.

In contrast, the Competition State involves both a restructuring and a further *qualitative* disempowering (but not necessarily the quantitative downsizing) of the state in the face of globalization. By prioritizing the promotion of international competitiveness, the state over time loses its capacity to act, in Oakeshott's (1976) term, as a "civil association" and comes more and more to act merely as a promoter of various "enterprise associations;" the "hollowing-out of the state" leads to the loss not just of its previous interventionist role, but of much of its *raison d'être*. The policy focus of the state shifts from the macro-level of the IWS to a micro-level analogous to the space traditionally occupied by local, provincial, regional or US "state" governments. Indeed the Competition State itself becomes a pivotal agent of the erosion of many of those social and economic functions that capitalist states had taken on in the first two-thirds of the 20th century.

This outcome stems from the interaction of two main variables. In the first place, we can identify an exogenous independent variable — the horizontal restructuring of the global economy (and polity) on at least three levels: cross-cutting market structures and economic networks rooted in internationally mobile capital (multinational firms, strategic alliances, and especially financial markets, etc.); rapidly-diffused and far-reaching technological change (especially communications and information technology) promoting the cross-border interpenetration and price sensitivity of more mobile fractions of capital in particular, seeping down into less mobile fractions too; and, perhaps must crucially, the formation of transnational (and transgovernmental) networks and discourses of power and governance.

This exogenous, cross-cutting process of restructuring sets up a series of fundamental challenges to the vertically organized national state and political economy. More specifically, in contrast to the Post-Fordist perspective, it puts less emphasis on the physical forces of production *per se* and more on both (a) other factors of capital, especially globally mobile finance capital, and (b) the emergence of relatively autonomous, globally aware, transnationally linked elites and other groups in both the state and the private sector (including fractions of labor), who adopt the discourses and practices of globalization in order to pursue their own goals and values on a wider field of action. In other words, the impact of globalization on the policies and policymaking processes of states increasingly involves attempts by governments (and their agents) to capture the perceived benefits of internationally mobile capital for their clienteles and constituents. The Competition State is thus itself a authoritative agent of globalization, embedding that process in its domestic practices as well as its international and transnational linkages.

Furthermore, domestic political and bureaucratic actors, in attempting to address these challenges, are increasingly transforming the domestic political system into a terrain of conflict pervaded with profound policy debates around alternative responses to the exogenous variable, leading to a far-reaching rearticulation of domestic political and social coalitions. Out of this process of domestic rearticulation, a particular range of policy options comes to represent a restructured, loosely knit consensus. First on the right (many of whose "neoliberal" members have always believed deeply in the disarming of the economic state) and then on the left, as traditional alternatives are incrementally eroded. This increasingly familiar consensus involves both (1) an extensive process of deregulation, liberalization, and flexibilization not only of public policy but of the state apparatus itself (especially a shift away from attempts by the state to determine economic outcomes through interventions such as planning, the direct provision of public and social services, or the fine tuning of fiscal and monetary policy) and (2) a refocusing of the state on supporting, maintaining and even promoting transnational and international market processes and governance structures at home — e.g., a moral emphasis on personal responsibility, an economic *and political* acceptance of the correctness of market outcomes, and, paradoxically, an increase in *pro-market* regulation and intervention (elsewhere called Type II Re-regulation: Cerny, 1991; cf. Vogel, 1996). Thus state intervention is turned around, and aimed not only at sustaining the domestic economy but also at promoting its further integration on a streamlined free-market footing into an increasingly open global economy — eventually accepting the imperatives of international competitiveness and consumer choice as having a higher ideological status than domestic social solidarity.

The transformation of the nation-state into a Competition State leads to three apparent paradoxes for the political scientist. In the first place, this process does not lead to a simple decline of the state, but may be seen to necessitate the actual expansion of *de facto* state intervention and regulation. Secondly, state actors and institutions are themselves promoting new forms of complex globalization in the attempt to adapt state action to cope more effectively with what they see as global "realities." Although embedded state forms, contrasting modes of state intervention, and different state/society arrangements persist, such "national models" are feasible in the longer term only where they are seen to constitute relatively (economically) efficient modes of adaptation to globalizing pressures. Failing that, political as well as economic pressures for homogenization are likely to continue to erode these models where they are seen to be economically inefficient in world markets. Finally, these developments challenge the capacity of state institutions to embody the kind of communal solidarity or *Gemeinschaft* which gave the modern nation-state its deeper legitimacy, institutionalized power, and social embeddedness. This further undermines the social and political capacity of the state to resist globalization.

These various pressures and processes, in effect, result in a redefinition of the boundaries of the political. This restructuring of the political arena, in turn, forces parties and governments of the left to redefine their conception of the "social" or of the "public" away from their traditional confines within the "modern" state and to seek to reconstitute their power bases and political projects in ways which capture, rather than attempting to challenge or resist, globalizing pressures. Indeed, the left is both compelled and enticed to attempt to steer, manipulate, and exploit those pressures in ways which not only benefit their traditional constituencies but also attract new middle and upper middle class constituencies into a new consensus based on a rearticulated linkage of social values, on the one hand, and forthright recognition of new "realities," on the other. Thus the Competition State itself drives an expanding process of political globalization, in turn forcing the pace of globalization in economic, social, and cultural spheres too. Indeed, the left-of-center variant of the Competition State, as practiced by New Labour in Britain and the Clinton Democrats in the United States, further expands those globalization processes by *coopting previously hostile social and political forces* into their ambit and broadening the pro-globalization coalition.

In assessing the role and position of the British state in the context of globalization, then, it is crucial first of all to focus on the victory of New Labour in May 1997 and the policy changes the Government has been in the process of designing and implementing for the past two years. Are these changes likely to increase or at least maintain the autonomy and legitimacy of the British state? Or are they more likely to embody a fundamental shift from domestic social democracy to an abdication of state responsibility for economic outcomes in the face of outcomes which increasingly tend to be quasi-authoritatively determined by transnational and/or international market processes and governance structures? In other words, is the Labour Government a genuine force for an effective state-promoted system for managing the transition to a more open (globalizing) world economy? Or does it merely represent a shift in the power of the state towards more systematically enforcing the norms deriving from globalization and reinforcing globalizing trends?

Secondly, it is also important to focus on whether the New Labour Government has succeeded in drawing its traditional constituencies and its new supporters into a broader coalition which not only accepts the need for globalization but is also willing to see globalization processes widened further. Looked at closely, we believe, the experience of the Labour Government so far does seem to have successfully promoted and mobilized the image of "global capitalism with a human face" and to have found both a policy programme and a successful coalition strategy to support those values and goals. But this leads to the most important question. Does this approach constitute a successful version of the Competition State, or is it merely a mirage for both its policy-makers and its supporters, while the British state itself increasingly resembles Hans Anderson's emperor with no clothes?

II. The Rise and Slow Erosion of the Industrial Welfare State

The essence of the postwar national industrial/welfare state (IWS) lay in the capacity which state actors and institutions had gained, especially since the Great Depression, to insulate key elements of economic life from market forces (both domestic and international) — while at the same time promoting other aspects of the market. These mechanisms did not merely mean protecting the poor and helpless from poverty and pursuing welfare goals like full employment or public health, but also regulating business in the public interest, "fine tuning" business cycles to promote economic growth, nurturing "strategic industries" and "national champions," integrating labor movements into corporatist processes to promote wage stability and labor discipline, reducing barriers to international trade, imposing controls on "speculative" international movements of capital, and the like. Many of these interventions could be justified by mainstream (classical and neoclassical) economic theory as well as by socio-political objectives.

Such theory posits that the state should intervene as little as possible beyond maintaining the legal and institutional framework necessary for a working market system (private property rights, sanctity of contracts, etc.) as well as a currency system, national defence, and so forth. Nevertheless, state intervention can also be justified where it attacks or restricts obstacles to efficient market behavior and/or counteracts "market failure." Of course, the scope of such exceptions has been at the core of debates within mainstream economics, especially between monetarist and Keynesian versions, over a range of issues, including: (a) natural monopolies, public goods, or strategic industries, thought unamenable to being run according to market principles or in particular danger from "exogenous shocks," thus requiring direct control and/or regulation; (b) both welfare spending and defence spending, for their demand management roles; (c) market-enforcing regulation, such as anti-monopoly legislation or stock market regulation, for preventing unfair competition and anti-competitive behavior by monopoly firms, cartels, or organizations such as trade unions; and even (d) indicative planning, rationalized as a market-clearing exercise.

This is a powerful package of potential interventions indeed, especially when politically galvanized by a social objective such as full employment, social justice, or increased economic growth. However, all of these forms of interventionism have one thing in common: they take for granted a fundamental division of function, even an incompatibility of kind, between the market, which is seen as the only really dynamic wealth-creating mechanism in capitalist society (despite its susceptibility to "market failures"), on the one hand; and the state, which is seen as a hierarchical and essentially static mechanism, unable to impart a dynamic impetus to production and exchange (except in wartime), on the other. The state is thus seen as characterized by a mode of operation which undermines market discipline and substitutes "arbitrary prices" for "efficiency prices" (see Lindblom, 1977) — at best a necessary evil, at worst inherently parasitic on wealth created through the market.

The welfare state was therefore based on a paradox. It might save the market from its own dysfunctional tendencies, but it carried within itself the potential to undermine the market in turn. In the context of the international recession of the 1970s and early 1980s, these tendencies would come to have dramatic consequences for the economic policies of advanced industrial states generally. The perceived lessons of the recession — the counterproductive disadvantages of stagflation and an "overloaded state" — were widely recognized across the ideological spectrum and have undermined the very legitimacy of a wide range of policy measures previously identified with the success of the IWS. Political decision-makers in advanced capitalist countries since the end of the Long Boom in the 1970s (and even earlier in Britain!) have undergone a fundamental learning process which has altered the norms according to which they operate on both a daily and a long-term basis.

The "overloaded" state was constrained in four areas. In the first place, chronic deficit financing by governments in a slump period was seen (a) to soak up resources which might otherwise be available for investment, (b) to raise the cost of capital, and (c) to channel resources into both consumption (increasing inflationary pressures and import penetration) and non-productive financial outlets. Second, nationalized industry and tripartite wage bargaining (neocorporatism) are blamed for putting further wage-push pressure on inflation, while at the same time preventing rises in productivity and/or the shedding of newly redundant labor (given the increasing obsolescence of much fixed capital and the pressing need for reconversion), thus lowering profitability through rigidities in the labor market.[1] Thirdly, attempts to maintain overall levels of economic activity are seen to lock state interventionism into a "lame duck" syndrome in which the state takes responsibility for ever wider, and increasingly unprofitable, sectors of the economy. And fourthly, all of these rigidities, in an open international economy, have negative consequences for the balance of payments and for the exchange rate. Protectionism as a response to such pressures may invite retaliation and/or simply act as a drag on international trade generally; while devaluation (supposedly automatic in a regime of floating exchange rates, but in fact manipulated in various ways) can have a knock-on effect, exacerbating the other three. Finally, underlying all of these constraints, was the newly rediscovered demon of inflation.

Inflation had, in the context of the IWS, been seen as a necessary evil, up to a point. Government spending for full employment, investment, public and social services, and, perhaps most importantly, macroeconomic demand management, was seen to have both social an economic advantages that far outweighed the negative effects of inflation itself, provided that it did not get out of hand. Continued economic growth was seen as not only compatible with but necessary for expanding investment and profitability, and the IWS was thought to have developed a form of state interventionism that could nurture and promote that growth as well as furthering social justice and the reduction of inequalities. This view went along with a belief that serious inflation could be avoided in the longer term, except perhaps in Third World countries. Indeed, Keynesian economists accepted that there was a tradeoff between inflation and unemployment, the so-called Phillips Curve, which ultimately left up to public policy-makers the decision as to which balance between the goals of price stability and full employment would be the most politically desirable. Therefore the emergence in the 1970s of "stagflation," i.e. the conjunction of economic stagnation and rising unemployment on the one hand with rising (and seemingly uncontrollable) inflation on the other, led to the renascence of more traditional, pre-Keynesian economic theory — monetarism, supply-side economics, and neoliberalism.

The key to understanding the victory of the neoliberal approach, whether Thatcherism in the United Kingdom, Reaganomics in the United States, or a range of other fully fledged or partial experiments, is that approach's focus on the priority of controlling inflation. Indeed, the most important single step involved the collapse of the exchange rate system which had been set up at the end of the Second World War as the core of the Bretton Woods system of international economic cooperation. Differential rates of inflation in different countries were making the system of government-set exchange rates unworkable; it was eventually agreed, if mainly by default (Strange, 1986), to let exchange rates float. In other words, countries with high inflation would see capital, not only short-term "hot money" but also potential longer-term investment capital, flee for countries where the value of the currency was "sounder."

Governments responded to this in three ways. The first was to give priority in macro-economic policy to fighting inflation over employment and welfare policies, and in particular to privilege monetary policy (manipulation of interest rates and the money supply) over fiscal policy. The second was to remove capital controls and deregulate financial markets (in addition to other forms of deregulation). And the third was to adopt more rigorous financial management systems and financially-led programmes of privatization in the public sector. From the beginning, then, the impetus behind the emergence of the Competition State was to adjust the economic policies, practices, and institutions of the state to conform to the anti-inflationary norms of the international financial markets.

In other words, neoliberal states moved away from the "embedded liberalism" of the post-war period towards an "embedded financial orthodoxy" (Cerny, 1994) in order to root out inflation. Of course, such a direction pleased the now firmly neoliberal right, who believed that the austerity of the first phase of embedded financial orthodoxy was an acceptable price to pay in order to set the stage down the road for the wider objective of longer term noninflationary growth. On the left, however, the response was twofold. The first response, especially in Britain, was to revive a belief in increased state intervention, as exemplified by the Labour Party's Alternative Economic Strategy in 1983; however, the second response, especially after the failure of the first, was to accept the bottom line of an anti-inflation strategy and to shift the boundaries of the left in order to support rather than undermine such a strategy. The latter response in Britain developed incrementally, with the first step under the leadership of Neil Kinnock being to ensure top-down control of the party apparatus; the second step an uneven process of reshaping party policies; and the final step the capture of the party by a coalition dedicated to putting the Competition State strategy first, led by Tony Blair but crucially backed up by his main rival Gordon Brown.

By the mid-1990s, the Thatcherite project of a more undiluted neoliberal version of the Competition State had lost both its economic edge and its political cohesion, and with the victory of Bill Clinton — who was pursuing much the same project as Blair and Brown (although in a more complex and constraining institutional context) — in the 1992 American presidential election, the political tide which has recently seen centre-left governments returned to power across Europe had begun. The project by this time was clearly focused on accepting the constraints of the Competition State but, paradoxically, capturing the economic benefits of what was turning into a noninflationary recovery to reshape the center-left coalition itself.

III. The Competition State in Practice: Divergence and Convergence

Although the trend towards Competition State norms and practices can be observed across a wide range of states, there are significant variations in how different Competition States cope with the pressures of adaptation and transformation. There is a dialectic of divergence and convergence at work, rather than a single road to competitiveness. Before the neoliberal model of the 1980s, of course, the original model of the Competition State was the strategic or developmental state which writers like John Zysman (1983) and Chalmers Johnson (1982) associated with France and Japan. This perspective identified the Competition State with strong-state technocratic *dirigisme*, and lives on in the analysis of newly industrializing countries (NICs) in Asia. The difficulty with this approach is that the scope of control that the technocratic patron-state and its client firms can exercise over market outcomes diminishes as the integration of these economies into global markets proceeds. And as more firms and sectors become linked into new patterns of production, financing, and market access, often moving operations offshore, their willingness to follow the script declines. However, even within this category, Japanese administrative guidance and the ties of the *keiretsu* system have remained relatively strong despite a certain amount of liberalization, deregulation, and privatization (Vogel, 1996), whereas in France the forces of neoliberalism have penetrated a range of significant bastions from the main political parties to major sectors of the bureaucracy itself (Schmidt, 1996).

In contrast, the orthodox model of the Competition State today is not the developmental state but the neoliberal state. Thatcherism and Reaganism in the 1980s provided both a political rationale and a power base for the renascence of free-market ideology generally — not just in the United Kingdom and the United States but throughout the world. The flexibility and openness of Anglo-Saxon capital markets, the experience of Anglo-American elites with international and transnational business and their willingness to go multinational, the corporate structure of American and British firms and their (relative) concern with profitability and shareholder returns rather than traditional relationships and market share, the enthusiasm with which American managers have embraced lean management and downsizing, and the relative flexibility of the US and UK labor forces, combined with an "arms-length" state tradition in both countries (Zysman, 1983), have allowed them to become more competitive — what prominent *New York Times* columnist Thomas Friedman (1997) called America's "globalization premium." Liberalization and "reinventing government," however, have not necessarily meant a downsizing of government *per se* (total welfare state spending has remained remarkably resilient due to the growth of transfer payments in a context of higher unemployment: Pierson, 1994), but hierarchical bureaucracies which directly produce public services have been replaced by ones which closely monitor and supervise contracted-out and privatized services according to complex financial criteria and performance indicators, significantly reducing the public sector labor force (Clayton and Pontusson, 1998).

Throughout the debate between the Japanese model and the Anglo-American model, however, the European neocorporatist model, rooted in the postwar settlement and given another (if problematic) dimension through the consolidation of the European Community (now the European Union), has been presented by many European commentators as a middle way. In bringing labor into institutionalized settings, not only for wage bargaining but for other aspects of the social market, in doggedly pursuing conservative monetary policies, in promoting extensive training policies, and in possessing a universal banking system which nurtured and stabilized industry without strategic state interventionism, the European neocorporatist approach (as practiced in varying ways in Germany, Austria, and Sweden in particular) has seemed to its proponents to embody the best aspects of both the Japanese and the Anglo-American models (Garrett, 1998). However, despite the completion of the single market and the signing of the Maastricht Treaty, the signs of what in the early 1980s was called "Eurosclerosis" have reappeared; the European Monetary Union project is widely regarded as deflationary in a context where costs are unevenly spread; and the liberalizing, deregulatory option is increasingly on the political cards again (as it was, for a while, in the 1980s), especially in the context of rapidly rising German unemployment, despite the victory of the German Social Democrats in the 1998 elections.

On one level, then, "national developments" — i.e., differences in models of state/economy relations or state/societal arrangements — as Zysman (1996) writes, "have, then, driven changes in the global economy." At another level, however, states and state actors seek to convince, or pressure, other states and transnational actors, such as multinational corporations or international institutions, to adopt measures which shift the balance of competitive advantage. The search for competitive advantage adds further layers and cross-cutting cleavages to the world economy which increase the complexity and density of networks of interdependence and interpenetration. Finally, genuinely transnational pressures can develop. These may include: multinational corporations or from nationally or locally based firms and other interests (such as trade unions) caught in the crossfire of the search for international; transnational neocorporatist structures of policy bargaining; transgovernmental linkages between bureaucrats, policymakers, and policy communities; and the like. In all of these settings, the state is no longer able to act as a decommodifying hierarchy (i.e., taking economic activities out of the market). It must act more and more as a collective commodifying agent — i.e., putting activities *into* the market) — and even as *a market actor itself*. The challenge of today's Competition State is one of getting the state to do both *more* and *less* at the same time, especially to get more for less in financial terms, as stressed, for example, in the "reinventing government" literature (Osborne and Gaebler, 1992).

In terms of policy transformation, transnational factors have interacted with domestic politics to bring four specific types of policy change to the top of the political agenda. Firstly, an emphasis on the control of inflation and general neoliberal monetarism — hopefully translating into noninflationary growth. This has become the touchstone of state economic management and interventionism, reflected in a wider embedded financial orthodoxy (in this context, two traditional categories, monetary and fiscal policy, have undergone a key change in that the relative priorities between the two have been reversed; tighter monetary policy is pursued alongside looser fiscal policy through tax cuts).[2] Secondly, a shift from macro-economic to micro-economic interventionism, as reflected not only in deregulation and industrial policy, but in new social policy initiatives such as "welfare-to-work" schemes. Thirdly, a shift in the focus of interventionism at the international level away from maintaining a range of "strategic" or "basic" economic activities in order to retain minimal economic self-sufficiency in key sectors, to a policy of flexible response to competitive conditions in a range of diversified and rapidly evolving international marketplaces.[3] Finally, a shift in the focal point of party and governmental politics away from the general maximization of welfare within a nation (full employment and the direct provision of public services) to the promotion of enterprise, innovation, and profitability in both private and public sectors, on the left as well as the right.

These new norms are spreading primarily (a) through exogenous pressure from transnational market structures and outcomes, which increasingly determine which firms and sectors become winners and losers in the international marketplace, and (b) as the result of political emulation (what has been called the "demonstration effect") — i.e., through different modes of *indirect* policy transfer. Increasingly, however, key agents and agencies within the state have also moved up the institutional pecking order in highly significant ways to *enforce* such changes in emphasis directly. Probably the most important of these are Central Banks, whose power has increased not only because of their location at the crossroads of the national financial economy and the global financial marketplace, but also because governments of both left and right have come more and more to accept that such agencies should be independent and free of supposedly "short-termist" political pressures in making key decisions on the setting of interest rates, control of the money supply and regulation of increasingly transnationalized financial institutions and markets.

One of Gordon Brown's first acts as Chancellor of the Exchequer was of course to abdicate the Treasury's control over interest rates to a new Monetary Policy Committee of the Bank of England. The current debate over the role of the newly-created European Central Bank is just the latest installment of this ongoing power shift. The reform and reinforcement of supervisory agencies for securities markets is another dimension, including the merging of existing regulatory structures in Britain into the new Financial Services Agency. Parties and governments of the left have actually sometimes gone farther in pushing these reforms than those of the right, including both the Socialists in France in the mid-1980s (Cerny, 1989) and, of course, the New Labour Government in Britain. In effect, governments of the left are not merely obliged to accept the norms of global finance (through embedded financial orthodoxy), they further have to accept or indeed reinforce the structural autonomy and power of those state agencies which are the guardians of that orthodoxy.

More complex measures, combining old and new, can be found in the areas of industrial policy and related trade policy.[4] By targeting particular sectors, supporting the development of both more flexible manufacturing systems and transnationally viable economies of scale, and assuming certain costs of adjustment, governments can alter some of the conditions which determine competitive advantage. This may involve: encouraging mergers and restructuring; promoting research and development; encouraging private investment and venture capital, while providing or guaranteeing credit-based investment where capital markets fail, often through joint public/private ventures; developing new forms of infrastructure; pursuing a more active labor market policy while removing barriers to mobility; and the like. The examples of Japanese, Swedish, and Austrian industrial policy have been widely analysed in this context. Nevertheless, traditional industrial policy oriented towards larger firms (ostensibly in order to strengthen their positions in the universe of multinational corporations) has everywhere been giving way to what has been called "innovation policy," involving a more contextualized set of incentives to flexible entrepreneurship, market responsiveness, and technological upgrading aimed at small and medium-sized enterprises.

A third category of measures, and potentially the most explosive, is, of course, deregulation. The deregulation approach is based partly on the assumption that national regulations, especially the traditional sort of regulations designed to protect national market actors from market failure, are insufficiently flexible to take into account the rapid shifts in transnational competitive conditions characteristic of the interpenetrated world economy of the late 20th century. However, deregulation must not be seen just as the lifting of old regulations, but also as the formulation of new regulatory structures which are designed to cope with, and even to anticipate, shifts in competitive advantage (Cerny, 1991). Furthermore, these new regulatory structures are designed to *enforce* global market-rational economic and political behavior on rigid and inflexible private sector actors as well as on state actors and agencies. Thus the rapid rise of the Competition State, in an increasingly crowded and heterogeneous world economy, has given rise to a further paradox. As states and state actors have attempted to promote competitiveness in this way, they have — seemingly voluntarily — given up a range of crucial policy instruments. A heated debate rages over whether, for example, capital controls can be reintroduced or whether states are still able to choose to pursue more inflationary policies without disastrous consequences. Political and social development is not merely a question of frictionless rational choices and cost-benefit analyses, but is inherently path-dependent and "sticky," a process where conjunctural shifts can have structural consequences.

The nation-state, of course, is not dead, but its role has changed. In the first place, citizens will probably have to live more and more without the kind of public services and many of the redistributive arrangements characteristic of the national welfare states. The "new public management" seeks not only to reorganize the state along the lines of private industry, but also to replace public provision with private provision (pensions, prisons, etc.) and to replace direct payments for unemployment compensation, income support for the poor, etc., with time-limited, increasingly means-tested or work-related measures (or none at all). In the second place, the principal goal of state actors is increasingly one of minimizing inflation, in order to maintain the confidence of the international business and financial community. In this context, states are less and less able to act as "strategic" or "developmental" states, and are more and more "splintered states" (Machin and Wright, 1985). State actors and different agencies are increasingly intertwined with "transgovernmental networks" — systematic linkages between state actors and agencies overseeing particular jurisdictions and sectors, but cutting across different countries and including a heterogeneous collection of private actors and groups in interlocking policy communities. Furthermore, some of these linkages specifically involve the exchange of ideas rather than authoritative decision-making or power-broking — what have been called "epistemic communities" (Haas, 1992; Stone, 1996). The functions of the state, although central in structural terms, are increasingly residual in terms of the range of policy instruments and outcomes which they entail.

In international terms, states, in pursuing the goal of competitiveness, are increasingly involved in what Stopford and Strange (1991) called "triangular diplomacy," consisting of the complex interaction of state-state, state-firm, and firm-firm negotiations. But this concept must be widened further. Interdependence analysis has focused too exclusively on two-level games and on the state as a "Janus-faced" institutional structure. Although this is an oversimplification, we argue that complex globalization has to be seen as a structure involving (at least) three-level games, with third-level (transnational) games including a range of variants — not only "firm-firm diplomacy," but also transgovernmental networks and policy communities, internationalized market structures, transnational cause groups, and many other linked and interpenetrated markets, hierarchies, and networks. As states and state actors get drawn more and more into the minutiae of cross-cutting and transnational economic relations, their activities become further constrained by the less manageable complexities of complex situations. Thus parties and governments are increasingly in a position where they have to internalize complex cross-cutting external/internal conditions and constraints in their perceptions of the possibilities of domestic action and coalition-building.

In the following section we will deploy the notion of the Competition State as analytical framework which will help us to assess the forms, scope, and limits of the Competition State as it has manifested itself under Tony Blair's New Labour government. There are of course some *caveats*. Given that the present government is only half-way through its first term in office, this empirical section is avowedly speculative and is intended not as a definitive record but more as a guide to further empirical research. Furthermore, some of the policies of the British Competition State are a legacy of 18 years of Conservative Governments, and it is necessary to distinguish that base from the way New Labour has adopted — and adapted — the Competition State approach to its own goals and objectives. Needless to say, a truly rigorous empirical analysis would require at the very least a longitudinal, policy programme approach. In this context, however, we will explore eight key dimensions of the Competition State which we hope will provide an empirical foundation to our argument:

- the recasting of party ideology;
- support for pro-market reforms in international structures of governance;
- the introduction of embedded financial orthodoxy;
- the development of pro-competitive micro-industrial policy;
- reform of the constitutional order;
- the flexibilization of the state apparatus;
- the creation of a post-welfare, contracting state; and
- adoption of the discourse of "globalization with a human face."

IV. New Labour's Portrait of a "Young Country": the Development of a Competition State

> We on the center-left must try to put ourselves at the forefront of those who are trying to manage social change in the global economy. The old left resisted that change. The new right did not want to manage it. We have to manage that change to produce social solidarity and prosperity (Tony Blair, speech, Washington, DC, 6 February 1998).

The Recasting of Party Ideology

When considered from the context of Britain suffering two of the five worst recessions amongst G7 countries in post-war economic history (from 1979-81 and 1990-92), it is not surprising that New Conservative and New Labour governments should have looked to the Competition State model for potential answers to the UK's economic problems. Although they have clearly deployed different strategic devices and policy instruments for coping with the impact of varying forms of globalization, there has been a significant degree of coherence across both administrations in relation to certain key dynamics of both economic projects. Policy initiatives such as: the rejection of Keynsian demand management; the emphasis on promoting economic growth through the introduction of supply-side policies aimed at freeing up markets and expanding choice; privatization; close attention to financial management and control of public expenditure; the defeat of inflation; and ensuring the conditions for stability in the private sector's planning environment, have all become ever present themes in contemporary British economic discourse.

Indeed New Labour's economic project is noteworthy for its similarities to rather than its differences from New Conservatism, particularly in their treatment of the issue of economic decline (see Clarke and Trebilcock, 1997). As we shall see, the key difference between the two projects lies in the Chancellor of the Exchequer, Gordon Brown's attempt to develop an economic package which achieves globalization with a human face. Of course to dwell purely on the global economic discourse for an understanding of the emergence and development of New Labour ideology and practice would be facile. The changes which have occurred to New Labour's policy agenda must also be understood within the context of internal Labour Party revisionism, the nature of which is briefly discussed next.

The revisionism of Neil Kinnock, which developed incrementally after 1983, dealt with the modernization of the internal party machinery and the removal of obstacles within it to policy innovation. This included a period of consolidation following the defeat of the Bennite-left and the strengthening of the power base of the Parliamentary Labour Party (PLP) and its capacity to make policy through the National Executive Committee (NEC). These changes permitted the emergence of a new policy agenda crystallized around Europeanization, nuclear defence, the rejection of a general commitment to nationalization, and a commitment to a market-oriented economy. The publication of *Meet the Challenge, Make the Change* in 1989, which marked the completion of the Policy Review process of 1987-89, symbolized the end of Labour's "socialist myth" of public ownership (see Jones, 1996: ch. 6). By 1990 full employment had ceased to be even a long-term aim for the NEC and Neil Kinnock and his eventual successor John Smith had announced their support for British membership of the European Exchange Rate Mechanism (see Panitch and Leys, 1997: ch. 11). With Smith's succession to the leadership in July 1992, the pace of revisionism slowed with two exceptions. Through the establishment of the principle of "one member, one vote," further curbing the political power of the trade unions within the Party, Smith took Kinnock's revisionism one step further. Moreover, partly as a response to the large number of Scottish devolutionists on the Labour Party frontbench (Geekie and Levy, 1989) and partly due to a further electoral defeat under Kinnock in April 1992, Smith had also been convinced of the need for certain elements of constitutional reform. However, it was not until John Smith's untimely death in May 1994 and the election of Tony Blair to the Labour leadership in July of that year that Labour revisionism took on an almost evangelical zeal. New Labour's electoral project refocused its attention on supplanting the Conservative Party as the "natural party of government." Their ability to be perceived as the party of the economy was crucial to the achievement of this aim. As Panitch and Leys (1997: 242) illustrate:

> This meant that Labour must win acceptance by "business" as a suitable, and if possible a preferred governing party, so that investment would be forthcoming to support the growth on which everything else depends. This in turn meant being "realistic" about the constraints imposed by globalization — the impossibility of "Keynesianism in one country," the need to keep corporate taxation

> and regulatory burdens no higher than elsewhere, and the need to keep British wage levels down to compensate for lower productivity.

Blair and Peter Mandelson took it as a given that varying processes of globalization impose limits on all social and economic policies, and thus for them the only policies worth promoting were those acceptable to the market. At the same time, maintaining social solidarity was also viewed as the key to success in global markets. Hence New Labour's "Big Idea," which would inform the development of the policy agenda in the run-up to the General Election, primarily consisted of its proposals for the creation of a "stakeholder" economy and society. New Labour would subsequently modify the label to the "Third Way" in response to feedback from its focus groups who argued that the "stakeholding idea" resembled a form of corporatism. In sum, the "Third Way" was more easily spun. Later, in an attempt to give the term more intellectual integrity and programmatic expression, the concept was put out for competitive tender. Anthony Giddens (1998) won the contract! Nonetheless, from Blair's speeches and writings from the mid-1990s onwards, it is possible to identify a recasting of New Labour ideology in a way which was commensurable with the dynamics of the Competition State. Within each dynamic we can identify potential and real cleavages within the Labour Party itself which reflect ideological differences between either deregulating or liberalizing reforms, Fabian versus Syndicalist revisionism, or New Labour versus Old Labour opinion.

From A Stakeholder Economy and Society to the Third Way

> The stakeholder economy is the key to preparing our people and business for vast economic and technological change. It is not about giving power to corporations or unions or interest groups. It is about giving you the chances that help you to get on and so help Britain to get on too: a job, a skill, a home, an opportunity — a stake in the success we all want for Britain. (Tony Blair, speech, Derby, 18 January 1996).

Stakeholding, in this sense, is the notion of individuals having a "stake" in the political community analogous to that which individual shareholders have in private corporate enterprises. An individual will own a share of the corporation, but not a share of what the corporation owns. In the context of New Labour ideology, this would mean that the emphasis on, say, welfare provision, would be on the individual's relationship with the state, not on the individual's rights over and against the state. We are told that New Labour policies were designed to help create the wider opportunity structures upon which an efficient stakeholder economy ultimately depends:

- a skills revolution and the creation of a highly trained knowledge-based work force (education reform with a technology focus);
- welfare to work (job creation projects, help for single parents through nursery education, etc.);
- identifying a proper size of government (the need for "value for money");
- managed welfarism;
- long-term organic growth and investment in the business sector (discouragement of inefficient hostile take-overs, disclosure of information on prospective performance and plans, non-executive directors, worker participation, competition policy, etc.); and
- economic stability — stable markets and interest rates (monetary policy controlled by independent central bank).

Many items mapped out on this policy agenda may be viewed as part of an international policy agenda for the center-left which has been forged by Blair, Clinton, and their advisors. On 6 February 1998 Tony Blair and Bill Clinton joined teams of British and US advisors and intellectuals in Washington for a "wonkathon" (after "wonk," a US slang term for a policy expert) with the aim of forging an international consensus on the goals of the center-left for the 21st century. Earlier the same day Blair had addressed the US State Department outlining what he termed the "five clear principles of the center-left," which he argued were common to both New Labour and the Democrats (*The Guardian*, 7 February 1998):

- stable management and economic prudence in order to cope with the global economy;
- a change in the emphasis of government intervention so that it dealt with education, training, and infrastructure and not things like industrial intervention or "tax and spend;"
- reform of the welfare state ("otherwise the right will dismantle it");
- reinventing government, decentralization, opening-up government ("so that what counts is what works"); and
- internationalism in opposition to the right's isolationism.

An ever lengthening list of common policy initiatives has developed between the two states, providing significant evidence of lesson-drawing between Blair and Clinton's advisors. Prominent examples include education (reduction of class sizes), crime (zero-tolerance, anti-truancy drives), and welfare reform (welfare to work, redirecting welfare to the most needy, creation of work incentives). In addition, Gordon Brown became convinced of the need for Bank of England independence after discussions with Alan Greenspan, chairman of the independent US Federal Reserve Board (Central Bank), and Robert Rubin, Clinton's Treasury Secretary. Moreover, Brown's working family tax credit is a direct copy of the American earned income tax credit scheme. These reforms add up to what both New Labour and Democrat spin doctors have termed the "Third Way," which, like so many other soundbites, has come to mean all things to all people. Former architect of the British Social Democratic Party[5] David Marquand has argued that it is simply revised social democracy of the SDP-type. Political journalist Peter Kellner views it as a synonym for mutualism. While Charles Leadbeater, a Blair favorite, has given it more serious consideration (*The Observer*, 10 May 1998). For Leadbeater:

> The Third Way goes beyond the traditional positions of the (Old) New Right, anti-state, pro-market, and the Old Left, pro-public ownership, anti-market, to establish a new approach to public-private partnership ... It needs to set out the core beliefs and values which will sustain the Center-Left's hegemony in Britain and beyond. The central ethic of the Third Way is disarmingly simple: "co-operative self help."

The concept certainly lacks philosophical and indeed political coherence; it is in effect a somewhat clumsy promissory note to construct a hegemonic project around the achievement of globalization with a human face.[6] It aims at taking "the hard edges off capitalism without losing its essential wealth creating drive," for example fostering job market flexibility but also ensuring that those displaced by it are continually retrained so that they remain employable, or shying away from big government but also rejecting the minimalist state favored by some British Tories and the Republican right.[7] The core of the Third Way, however, is not in its necessarily vague ideological expression so much as in the substance of observed public policy innovations in the US and the UK, and especially the links between them through policy transfer. Indeed the core of the Third Way has consisted of the policy agenda of the Competition State; this is where we are most likely to locate empirical instances of policy transfer between the two states. Examples can be found in a wide range of issue-areas: new public management (Dunleavy, 1994 and Stevens, 1995), economic policy (Ikenberry, 1990 or Biersteker, 1992), urban policy (Wolman, 1992), foreign policy (Levy, 1994), and welfare policy (Dolowitz, 1997), among others.[8] Indeed, the close working relationship which has developed in the sphere of foreign policy with regard to initiatives in Iraq, Kosovo, and Northern Ireland is likely to constitute a yet further catalyst to policy transfer.

Foreign Economic Policy: Support for Pro-Market Reforms in International Structures of Governance

Despite the claims to originality of the Third Way, Britain's foreign economic policy *per se* has been relatively low key since the May 1997 election. The UK has kept a low profile at meetings of G7 finance ministers and central bankers. At the Hong Kong meeting in September 1997, Gordon Brown supported calls by central bankers for a period of stable international currencies, and backed measures to stop the Asian financial crisis from spreading. He also used Britain's traditional if eroding influence in the Commonwealth to encourage developing countries to adopt the self-proclaimed "openness and transparency" which has allegedly characterized UK economic policy since the last election. He argued that this would help with debt management as it would create more economic stability. In this arena, the New Labour government has supported further internationalisation, but Britain of course does not have the clout of the United States in terms of imposing that agenda (the "Washington Consensus") on the international economic system. Nevertheless, some more specific initiatives have been forthcoming.

One particular stumbling block has made Britain's role within the G7 rather difficult in recent times and provides a further source of continuity with New Conservatism: the UK's position on European Monetary Union (EMU). Gordon Brown's announcement in November 1997 that "barring some fundamental and unforeseen changes in economic circumstances," not only joining EMU, but "making a decision ... to join has been ruled out for this Parliament," has weakened his position on three fronts. Firstly, Britain will no longer have an equal say at the negotiating table of the Council of Ministers and will not have a vote on the appointment of the new President, Vice-President, or Executive Board of the European Central Bank (ECB) nor on the nature of monetary policy pursued by the ECB in the euro zone. Secondly, the Chancellor's position within the regular meetings of the Economic and Financial Council (Ecofin) will also diminish along with Britain's influence over competition policy, taxation, state aid, and EU budgetary policy. And thirdly, the decision may also be detrimental to the the UK's special relationship with the United States.

Bill Clinton has made no secret of his desire to see Britain at the heart of Europe in general and EMU in particular. In particular, UK membership of the EMU would provide an obstacle to French attempts to use the single currency against the dollar. Brown has of course left the door open to late UK entry to EMU, having argued that "the government believes that, in principle, British membership of a single European currency would be beneficial to Britain and to Europe," possibly in June 2002 in the aftermath of the next General Election. In some ways it is difficult to see what can be gained from the decision when viewed from the perspective of a Competition State, as it involves some loss of policy autonomy in just the kind of issue-areas where the Competition State is most innovative, such as regulatory liberalization and labour market flexibilization. Furthermore, Britain has traditionally tried to balance its European ties with more traditional postcolonial linkages

— what Churchill called "the open sea."

Nevertheless, given the growing predominance of Europe in British trade patterns, competitiveness within Europe is crucial, and nowadays entails far more in the way of political-financial commitments. And with regard to the "open sea," certainly UK entry to EMU won't come soon enough for the United States and for Blair and Brown themselves, who are far more pro-European than either the Conservatives or large sections of the Labour rank-and-file.[9] During his period as EU President in 1998, Blair consistently emphasized Britain's commitment to the EU and his wish for Britain to be a central player in the future history of European integration. However, perhaps as a consequence of Britain's embarrassment at failing to join EMU at the first attempt, New Labour have been slow to set the European policy agenda. Nonetheless, Blair and Brown view the Single European Market as the best strategy for ensuring that the UK improves its competitiveness within the global economy, and remain committed to late entry.

Blair was adept in using the British Presidency of the EU to sell an image of Britain to the US and Asia as a dynamic, thrusting, even "young" economy. His key role within the Asia-Europe Meeting (ASEM) epitomizes this approach. ASEM, a collective forum for EU member states and Asian states to meet and exchange ideas, met for the first time in Bangkok in 1996 to discuss trade, finance, and commerce. It brought together ten Asian countries and all fifteen members of the EU. In his opening speech at ASEM's second meeting, which Blair hosted in London on 4 April 1998, he took the agenda one step further. He emphasized the importance of partnership between Europe and Asia as a method for coping with the challenges of increased globalization and a more open economy. He then outlined a policy package, which included a trust fund, aimed at helping certain Asian economies to deal with the current economic crisis. Blair proposed that ASEM should establish a free trade and investment area with the aim of promoting co-operation in the development of small and medium-sized enterprises (SMEs), human resource development, and technology. In short, he sought to establish ASEM as a mechanism for limiting protectionism and keeping markets open through the creation of a new effective global structure. Whether ASEM will realize Blair's aims remains to be seen.

In the context of foreign economic policy, therefore, New Labour has been at the forefront of supporting developments at all levels, albeit in incremental fashion. Blair and his Government for the most part reflect the Washington Consensus not out of loyalty to the United States, but because the policy agenda of the Competition State is built around exploiting the opportunities thought to be provided by an open global economy. This open global economy, of course, needs to be stabilized and directly or indirectly regulated. However, given that there is no "world government" to take decisions, regulation has to come from three sources: the internal decisions of governments to enforce transnational norms in their domestic practices; the foreign policy decisions of governments to create and reinforce mechanisms and norms of interstate cooperation, especially through intergovernmental regimes; and the regularized practices and formal and informal conventions of *private sector* actors (and their interlocutors within specific governmental agencies) to establish and promote private regimes, market structures, etc., alongside (and in regular interaction with) transnational and transgovernmental policy networks, epistemic communities, and the like. In this sense, New Labour has been mainly pushing on an open door.

The Introduction of Embedded Financial Orthodoxy

However, the first and foremost imperative of the Competition State lies not in the international arena *per se*, but rather is to ensure that the domestic economy is not disadvantaged in terms of investor behavior in international financial markets. In an era of high cross-border capital mobility and price sensitivity like that since the late 1960s, not merely the direct withdrawal of foreign capital but even the mere hesitancy of foreign and domestic holders of mobile capital to invest can cripple competitiveness in the kind of open economy which the Competition State is meant to achieve. In Britain's case, the significance of the financial sector — the so-called "City of London" — has been at the heart of the development of British capitalism for centuries; indeed, British economic power was long based on an open and, for a time, internationally dominant financial sector, prior to the City's decline between World War I and the 1950s (Ingham, 1985).

It has been the aim of most British governments since World War II to reestablish the City's leading world role, and the rapid liberalization of British financial markets in the mid-1980s, the so-called "Big Bang," actually succeeded in reviving the primacy of the City — if not in total market capitalization (compared to New York and Tokyo), then more importantly perhaps in becoming once again by far the world's leading center for trading international securities, foreign exchange, etc. Whereas the liberalization of the Thatcher years set the tone for the markets themselves, however, the evolution of the British financial regulatory structure, and the extension of financial market discipline to the state apparatus itself (a cornerstone of the Competition State), had a more mixed record under the Conservatives. In particular, the Financial Services Act of 1986 proved to be messy and often unworkable, in terms of both regulatory clarity and investor protection (brought home to many individuals who were sold highly inadequate private pensions in the late 1980s). After the election of May 1997, however, it became clear that New Labour's first priority was to complete the Thatcherite revolution by systematically subordinating not just the markets but state and para-state institutions too to the disciplines of financial orthodoxy.

The Chancellor of the Exchequer, Gordon Brown, launched five main initiatives within the financial issue-area after New Labour came to power. Over several years preceding the election, the process of revising party policy focused primarily on a quasi-corporatist critique of British financial markets , referring to the idea of stakeholding in order to challenge a domestic financial system which has, for much of the post-war period, valued short-term profit over long-term growth and preferred income generated in trading and financial activity through what Will Hutton (1995: 21) termed the cult of the "gentlemanly capitalist" over long-term investment. However, since the election, the Government has refocused its programme on reinforcing and extending the neoliberal marketizing trends of the Thatcher period, abandoning stakeholding, at least in the financial issue-area. These initiatives include: greater independence for the Bank of England; the adoption of a code for fiscal stability; a new fiscal framework; the creation of a new finance watchdog; and measures to streamline Bank of England operations in currency markets and make them more transparent. Of course much of this was already underway under the Tories; indeed, it was John Major who first established the counter-inflationary anchor for economic policy between 1990 and 1994 (see Bonefeld and Burnham, 1998).

The Bank of England has now joined the list of Central Banks, headed by the Federal Reserve of the United States and Bundesbank of Germany, charged first and foremost with preserving the real value of money by holding down inflation. While most other Central Banks also set interest rates as their main tool of monetary policy, in the Bank of England's case this must still be done within the framework of government policy, including the target for inflation (*The Guardian*, 17 May 1997). Nevertheless, Central Bank independence was an explicit recognition by Gordon Brown that if inflation rises, or the ratio of public debt to GDP rises, the cost of borrowing will rise further as a consequence of the globalization of financial markets. In theory, an independent Central Bank is less vulnerable to political pressure for the use of interest rates and other tools of monetary policy for domestic political ends *other than* monetary stabilization. Therefore, like similar reforms adopted by the French government in the early 1990s, Brown's action was meant to be seen as a refusal to take risks with inflation; in his own words, "the war on inflation is a Labour war ... Brown's law is that the government will only borrow to invest, public debt will remain stable and the cost effectiveness of public spending must be proved ... [N]obody should doubt my iron resolve for stability and fiscal prudence."[10] It was from this policy statement that Brown's nickname "The Iron Chancellor" was derived (in imitation not only of Bismarck, the original Iron Chancellor, but also of Mrs. Thatcher, the "Iron Lady").

The public financial management systems Brown has set up in the UK in many ways replicate those of the US, although they also have much in common with the New Zealand model, which in many ways pioneered various aspects of a center-left version of the Competition State in the 1980s (Menz, 1999). For example, he has established a Monetary Policy Committee at the center of the BoE which is similar to the model of the Open Markets Committee of the US Federal Reserve System. The main difference lies in the composition of the two committees. Bank insiders have the majority vote on the Monetary Policy Committee, whereas because of the regional structure of the Fed there is stronger direct and indirect input from outsiders on the Open Markets Committee. Nevertheless, in the UK the crucial source for information on conditions in the real economy is still likely to be the four outside members of the committee. As in the US, where the outcome of Open Markets Committee deliberations is immediately signalled to the markets, with detailed minutes published within six weeks, this is now also the case in the UK. The appointment of a second Deputy Governor in the BoE has meant that the Bank's operations will be organized into two areas: one responsible for financial stability, the other for monetary stability.

There are other striking differences between the two systems, however. In the US, although the Federal Reserve governors, like other major executive branch officials, are appointed by the executive and confirmed and screened by the Senate, with the exception of the chairman they are insulated from political interference by fourteen-year terms of office. The UK approach leaves a lot to be desired in terms of both independence and accountability. The three-year tenure of the new independent members will certainly leave those members vulnerable to political manipulation. Moreover, it is difficult to see how the existing forms of scrutiny by the House of Commons Treasury and Civil Service Select Committee will be able to hold the Governor of the Bank of England fully to account — a problem, of course, encountered in all systems with independent Central Banks. There is also a concern that with a fixed inflation target of 2.5 per cent or under, a permanent deflationary bias is built into the economy. However, although this has not been the case in the US under the chairmanship of Alan Greenspan, who is considered a consummate expert in setting interest rates to take note of fiscal and growth trends, it remains a risk — one which has been expressed frequently with regard to the new European Central Bank too.

As one would expect with a reform of this magnitude, Brown has attracted considerable praise and criticism. Will Hutton captures the nature of this debate with some insight (*The Observer*, 18 May 1997):

> To his right, there is general acclaim; to his left, general dismay. After all, it is said, no Keynesian, democrat, or socialist should ever contemplate ceding power over interest rates to unelected central banks whose sole preoccupation is price stability. Brown, warn the

doomsday merchants, has taken leave of his senses; it will cost the government dear ...

If inflation is one percentage point above or below the target rate, the Bank's Governor will have to write an "open letter" explaining the overshoot or shortfall (*The Guardian*, 12 June 1997). Brown clearly wants the Bank to be run along the lines of a public company, in which the shareholders will be the taxpayers and a senior non-executive director will chair meetings in the governor's absence and have the status of a company chair. The Bank will have its own corporate governance code designed to have oversight over remuneration policies and accounting practices, and to ensure the Bank operates in the public interest. Thus far, the Bank has been very careful not to upset the Government with its interest rate decisions, and indeed followed the Fed's lead in loosening monetary policy to cope with the 1997-98 Asian financial meltdown.

Brown's second radical shake-up of the Britain's financial system came on 20 May 1997 when he not only stripped the Bank of England of its watchdog role in regulating banks but also took away the powers of the Treasury to regulate the financial markets[11] and handed both responsibilities to a new all-powerful regulator, the Financial Services Authority (FSA). The organization is based on that of its predecessor, the quasi-self-regulatory Securities and Investment Board (SIB), which had only recently been set up to oversee the financial markets liberalized in the Big Bang (1986). The FSA has been given full statutory powers, up to 2,000 staff, and an estimated annual budget of £150 million to enforce its objectives — to ensure that British financial markets are organized and run according to globally recognized standards, and also to strengthen consumer protection. The latter is an increasingly salient issue for the Competition State as it seeks to involve more and more individuals in the "popular" or "democratic" capitalism of investing in stocks, shares, mutual funds, and the like, thus shifting the burden of raising investment capital even more out of the hands of tax-self-constrained governments. Howard Davies, Deputy Governor of the Bank of England and a former head of the Confederation of British Industry, was appointed to chair the new body.

The move was designed to restore public and international confidence in Britain's financial services industry, which had been undermined by a series of City of London scandals including the collapse of Barings Bank, the closure of the Bank of Credit and Commerce International (BCCI), and the pensions debacle which followed the collapse of media tycoon Robert Maxwell's financial empire after his probable suicide. Gordon Brown informed the Commons that: "Financial services lie at the heart of a modern dynamic economy." It has long been apparent that the regulatory structure introduced by the Financial Services Act 1986 has not been delivering the standard of supervision and investor provision that the industry and the public have a right to expect. Hence the creation of a single "super regulator" to police the financial services industry spelled the end of self-regulation by the finance industry and a move to statutory controls.[12]

Brown's third major initiative was to introduce a code for fiscal stability. In his first budget the Chancellor and his team introduced changes to the framework of monetary policy with the ostensible aim of allowing businesses to plan and invest with greater confidence. The monetary framework also attempted to provide an open, transparent, and accountable approach to economic policy-making which it was hoped would provide for stability in the fiscal policy-making process. The Code for Fiscal Stability builds on this approach and formed part of the government's 1998 Finance Bill. Under the code the Government undertakes to:

- conduct fiscal and debt management policy in accordance with a specific set of principles;
- state explicitly its fiscal policy objectives and operating rules, and justify any changes to them;

- operate debt management policy to achieve a specific primary objective;
- disclose, and quantify where possible, all decisions and circumstances which may have a material impact on the economic and fiscal outlook;
- ensure that best-practice accounting methods are used to construct the public accounts;
- publish a Pre-Budget Report to encourage debate on the proposals under consideration for the Budget;
- publish a Financial Statement and Budget Report to discuss the key budget decisions and the short-term economic and fiscal outlook;
- publish an Economic and Fiscal Strategy Report outlining the Government's long-term goals and strategy for the future;
- publish a specific range of information from its economic and fiscal projections, including estimates of the cyclically-adjusted fiscal position;
- invite the National Audit Office to audit changes in the key assumptions and conventions underpinning the fiscal projections;
- produce a Debt Management Report outlining the Government's debt management plans;
- refer all reports issued under the Code to the House of Commons Treasury Committee; and
- ensure that the public have full access to the reports issued under the Code (HM Treasury 1998: 6-7).

The Code will be given a statutory basis which will require governments to present a Code for Fiscal Stability to Parliament. As Gordon Brown affirms:

> From now on, all governments will need to live up to the tough standards of fiscal practice imposed on them by the code. People and businesses can be assured that the public finances will be managed in a responsible and prudent way. That will help to reinforce economic stability (HM Treasury, 1998).

Brown also introduced fixed three-year budgets for departments. This package of reforms demonstrated Brown's commitment both to fiscal rectitude and the need to introduce modern accounting methods in Whitehall. It some ways it did, however, merely accelerate a range of reforms already begun under the last Conservative Chancellor, Kenneth Clarke.

Finally, Brown's fifth major initiative was to lift the veil of secrecy surrounding the Bank of England's dealings in the currency markets:

> Most governments, including my own, have maintained a veil of secrecy over official forward exchange transactions. This can mean that markets have incomplete and sometimes misleading information about the government's foreign exchange reserves and the scale of intervention that has been undertaken. I want to announce an end to all that. Full information on our outstanding forward position will be published — with a short delay — in a quarterly report. So we are literally opening up the books ("Hong Kong Summit: Brown to open forex books," L. Elliott and A. Brummer, *The Guardian* 22 September 1997).

This was a further reform aimed at improving public accountability which has also included the inception of an outside audit of the Government's budgetary position and publication of the minutes and voting records of the Bank of England's monetary policy committee, which sets interest rates. In sum, what Brown appears to be arguing about macro-economic policy is that short-termism must be resisted at all costs, that stable public finances and policies which encourage investment and raise skill levels are the key to long-term prosperity; however, long-termism must come from the markets themselves and cannot be manufactured by policies which attempt to manipulate the market in a quasi-corporatist direction (such as stakeholding). The first and foremost requirement of the Competition State, financial orthodoxy, is being increasingly embedded not only in legal regulations but also in institutional objectives and practices, thereby committing New Labour to further entrenching such practices.

The Development of Pro-Competitive Micro-Industrial Policy

Macro-economic policy-making is evidently taking a back seat to meso- and micro- economic policy- making, reflecting New Labour's commitment to the goals of the Competition State. Some crucial aspects of this segment of the policy agenda are considered in more detail below and reflect these new patterns of state interventionism.

Trade and Industry

> Labour believes that if we are to ensure success and prosperity for our people, Britain needs a new industrial strategy dedicated to encouraging investment and partnership between government and industry (Policy statement, Labour Party Home Page 1998, http// www.labour.org.uk/views/policy/indexhtml).

Despite such statements, which still reflect New Labour's earlier flirtation with interventionist industrial policy (especially New Endogenous Growth Theory[13]), and just as in the financial policy issue-area, the Blair Government has instead emphasized the advantages of fiscal rectitude and market competitiveness as the keys to industrial development. The only major exceptions to this rule have been regional policy and support for small and medium-sized enterprises (see below), which not only reflect the policy experiences of other countries but also dovetail with New Labour's concern with regional devolution and local government. The 1998 budget demonstrated New Labour's commitment to set tough rules for government spending and borrowing, ensure low inflation, and strengthen the economy so that interest rates are as low as possible to provide a stable environment for business (see Labour Party 1995a and 1995b). This monetary framework was consistent with Brown's *New Industrial Strategy for Britain*, published in 1996. In it he identified six objectives for a New Labour government:

- *to revitalize the private finance initiative to raise investment in infrastructure.*
- *to promote competition in the utilities and pursue tough, efficient regulation in the interests of consumers.*
- *to promote effective/fair competition for the benefit of consumers, by reforming competition law and the agencies that oversee it.*
- *to press for the extension of the European Single Market to new sectors, such as energy, aviation, and telecommunications*
- *to support British businesses in overseas markets by keeping markets open and making better use of the information services provided by the Foreign and Commonwealth Office.*

- *to co-ordinate economic development and inward investment in the regions through regional development agencies in the English regions and strengthening the existing development agencies in Scotland and Wales and through the Scottish Parliament and the Welsh Assembly* (Labour Party 1996a).

Indeed even the portfolios of ministers and parliamentary under secretaries in the Department of Trade and Industry reflect New Labour's concern with the UK's competitiveness within the global economy. Relative neoliberal Ian McCartney was appointed Competitiveness Minister and Sir David Simon, Minister of Trade and Competitiveness in Europe.

Small and Medium-sized Enterprises

On a somewhat more interventionist note, New Labour has also attempted to introduce measures to help small and medium-sized enterprises (SMEs) (Labour Party 1996b). These have included: a statutory right to compensation on late payments from companies above a certain size; the promotion of effective regulation; cutting unnecessary bureaucracy; and assistance with compliance costs. In addition, the Government has promised to give SMEs better information and support, by refocusing the Business Links network in England and Wales and ensuring that SMEs are represented on the board of every government funded organization (e.g. Training and Enterprise Councils [TECs]). However, the most dramatic initiative launched in support of SMEs came with Brown's announcement on 3 November 1998 that he had initiated a review of the UK banking industry under Don Cruickshank, the former regulator of the Telecommunications industry. The aim of the review is to assess what steps can be taken to more effectively serve the needs of business in the economy. The review was a direct response to mounting claims from the Confederation of British Industry, amongst others, that the low level of competition in the banking sector was having a damaging impact on productivity in the UK.

The success of the Community Reinvestment Act in the United States and of other regional and local initiatives in Europe demonstrates the potential for encouraging the development of a two-tier financial and investment structure with special arrangements for small business — i.e., with more corporatist mechanisms available for regional and local venture capital, training, small business start-ups, infrastructure, etc. Brown's 1999 spring budget proved a further boost for SMEs. In Chancellor-speak it was a budget designed to help business "invest, grow, and prosper." His initiatives included a series of tax cuts: employers' National Insurance Contributions were cut by 0.5 percent; the tax rate for small enterprises was cut by 1 penny to 20 pence in the pound (i.e., to 20 percent); and relief of 10 pence per pound was introduced on the profits of small firms with profits below £50,000 per year. This was designed to encourage "risk takers prepared to take the plunge and start their own businesses. These are the very firms we most want to see grow." Brown also announced the creation of a Small Business Service to provide advice and £325 million worth of tax relief to encourage investment in new equipment. The Federation of Small Businesses which represents 130,000 firms in the UK, declared it "a great budget for one million small companies." These measures exemplify the shift of state interventionism down from the macro- and meso -levels of natural monopolies, basic strategic industries, and public services, to the micro-level of small business, entrepreneurship, and the encouragement of businesses to develop and grow to a stage where they will ultimately be competitive on their own in the international marketplace.

Innovation, Research, and Development

Technological innovation and research and development have long been considered to have a "pre-competitive" character, such that collaboration not only between state and business but also between otherwise competing firms constitutes a public good in terms of building up a greater capacity for future competitiveness. However, in terms of spending, in the last two decades the UK's research and development performance has been in relative decline when compared with its competitors. The 1998 Budget marked an attempt by the Blair Government to reverse that trend. Gordon Brown and Margaret Beckett, the President of the Board of Trade,[14] published a joint Treasury-DTI companion consultation document on innovation, research, and development which was intended to stimulate debate, and the results of which informed the publication of a White Paper on Competitiveness.

The DTI and the Treasury set up a number of working groups to establish why the UK's record on investment in research and development has been so poor and to suggest remedial action. They considered: sources of finance for innovation and research and development (R&D); the accounting treatment of R&D; the tax treatment of R&D and intellectual property; the management of individual firms and the relationship between firms; the ability of UK firms to access technology and the relationship between the science and engineering base and industry; and, finally, the relationship between intellectual property and its protection and dissemination. A range of initiatives emerged from this process: tax breaks for firms seconding staff to schools and colleges; an extra £250 million for training teenagers; £25 million to create eight new Institutes of Enterprise in universities; and tax credits for small firms who invest in R&D. It is also noteworthy that the UK was instrumental in setting up the 125 million ecu European Technology Facility to help finance small firms in high technology work, through investment in venture capital funds. In the 1998 and 1999 budgets Gordon Brown announced a range of measures to assist high-tech firms. These included: reforms to Capital Gains Tax (CGT) to encourage longer term investment; a unified Enterprise Investment Scheme and CGT reinvestment relief to stimulate equity finance for smaller high risk companies; consultation on management recruitment for high-tech SMEs; and, the launch of University Challenge, a £50 million venture capital fund to act as seed funding for commercial exploitation of university research (HM DTI and HM Treasury, 1998: 19).

Privatization

The "blue water"[15] between New Conservative and New Labour economic policy has been further narrowed with Gordon Brown's announcement on 11 June 1998 of government intentions to privatize the National Air Traffic Service (which constitutes 51 per cent of the country's air traffic control system), the Tote, the Royal Mint, and the Commonwealth Development Corporation, amongst others, as part of a programme of "public-private partnerships." It was argued that this programme of privatization and asset sales worth a projected £4 billion per year for three years will help to fund higher spending on public infrastructure and buildings. Brown himself has argued that, "in place of short-termism and the neglect of public services, we have a new long-term direction for the renewal of our public services and our country." The significance of this development from the perspective of Labour Party history cannot be overstated.

Reform of the Constitutional Order

It is well documented that constitutions structure economic systems and pattern social relationships and politics (see Jessop et al, 1980; Dearlove 1989; Cerny, 1990). Constitutional reform may partly be understood as an attempt to reform the constitutional order in line with the economic order and, most significantly, to alter preexisting patterns of social relationships and politics in order to allow the state to deal better with complex globalization. One of the most crucial lessons which the New Labour project learned from the Thatcher period was that the Westminister Model of parliamentary government was an obstacle to successful adjustment to the imperatives of globalization (see Marquand, 1988, and Hutton, 1995, for two variations on this theme). The Westminster Model formed the basis of the British political tradition and provided the political orthodoxy of British government. This model also generated the ordering principles to the British political scientists' account of British politics. Hence, such notions as continuity, gradualness, flexibility, and stability became the buzz words of Britain's unwritten constitution.

However, the legitimacy of the Westminster Model rested on the ability of its unwritten checks and balances to effectively control the executive and hold it to account. Historically, both Labour and Conservative statecraft has provided ample evidence of the limits of traditional self-enforcing conventions of executive responsibility and restraint as a constitutional check. In recent times, the Reports of the Nolan Commission on standards of conduct in the House of Commons, the Scott Enquiry into Ministerial conduct during the "Arms-to-Iraq" scandal, political and social debacles over Thatcherite experiments in social engineering such as the Poll Tax (a single-rate head tax on all adults as the only form of local government taxation) and the Child Support Agency (where an attempt to call errant fathers to account for neglected child support payments led to a bureaucratic nightmare and serious injustices), and a host of other constitutional misdemeanors have all in different ways demonstrated the almost daily infringement of constitutional conventions.

The common element among these various issues was the ability of the Government and the Civil Service, the latter tamed by attacks on its independence and ethos of neutrality during the Thatcher years, to avoid serious parliamentary (or indeed public) scrutiny in railroading through seriously flawed measures and engaging in secret activities in contravention of the law. These were more than scandals; they turned into a public examination of the democratic character of British institutions themselves — so much so that no serious academic or political commentator continues to take these conventions seriously. They also pointed to a profound crisis of legitimacy at the heart of the British State which the Blair project has clearly sought to address.

The view of the Labour leadership on constitutional reform has been in flux since Neil Kinnock and his Deputy Leader Roy Hattersley drew up the document *Democratic Socialist Aims and Values* (Labour Party 1988), which aimed at providing an ethical framework for the Labour Party Policy Review. This document revised the party's position on constitutional matters in general and laid the foundations for the launch of a piecemeal constitutional reform programme in January 1991 (Labour Party 1991). Although the programme entitled *Charter of Rights: Guaranteeing Individual Liberty in a Free Society,* did represent a shift in Labour thinking on constitutional matters, it was still temperate in its reformism. It was not until the untimely death of John Smith in May 1994 that Labour's constitutional revisionism grew significantly in both in scope and radicalism. The rewriting of Clause IV of the Party Constitution, which had enshrined the party's commitment to public ownership of the means of production, gave constitutional reform its political moment as a policy instrument for delivering democratic socialism. Today a commitment to democratic modernization is emblazoned across every Labour Party membership card:

> The Labour Party is a democratic socialist party. It believes that by the strength of our common endeavor we achieve more than we achieve alone, so as to create for each of us the means to realize our true potential and for all of us a community in which power, wealth,

> and opportunity are in the hands of the many not the few, where the rights we enjoy reflect the duties we owe, and where we live together, freely, in a spirit of solidarity, tolerance, and respect.

For Tony Blair the constitutional reform project has represented a means for achieving stakeholder politics through constitutional method rather than through economic interventionism. The creation of a Scottish Parliament and Welsh and Northern Irish assemblies, the incorporation of the European Convention on Human and Political Rights into British Law, possible freedom of information legislation, the introduction of a proportional regional list electoral system for elections to the European Parliament, the creation of the Jenkins Independent Commission on the voting system, and reform of the House of Lords, add up to a historic challenge to both the British political tradition and Labour Party orthodoxy (see House of Commons a-k and 1998 a-e). As Blair argues, "These reforms would contribute to the health of our democracy. They would tackle the culture of secrecy, enshrine in British law people's legal rights, give us a reformed Parliament which could operate more effectively as a modern legislature, and allow the people to decide how the Commons was elected (Blair 1996: 86)." The idea of stakeholder politics was thus about creating a new relationship between the government and the people based on trust, freedom, choice, and responsibility, and, for Blair, it was clearly the ideal replacement for public ownership as an instrument of political modernization.

There is already enough evidence to suggest that constitutional reformers should be optimistic about the long-term prospects of radical constitutional change in Britain. Even if Tony Blair's programme doesn't perfectly fit the radicalism of some group agendas (e.g. Liberty or Charter 88), it is likely that existing reforms will spill over and create a spill-around or ripple effect, thus increasing both the radicalism of reform and the scope and intensity of change in the future. Political spill-over consists of a convergence of the expectations and interests of national elites as a response to constitutional change. This may result in a transfer of loyalties (e.g., authority-legitimacy transfers from Westminster to Cardiff, Edinburgh, and Belfast), or, at minimum, in a transformation in the political activities of political elites (e.g., a rise in lobbying activities and a shift of their focus from London to Brussels, Strasbourg, Cardiff, Belfast, and Edinburgh). Technical spill-over refers to a situation in which the attempt to achieve a goal agreed upon at the outset (e.g. freedom of information) becomes possible only if other (unanticipated) co-operative activities are also carried out, for example its harmonization with rights legislation. In this way co-operation in one sector can spill over into co-operation in another, previously unrelated sector. Moreover, once introduced, constitutional reform creates the possibility for further reform because it shifts constitutional change into the realm of the possible, which in turn can inspire political parties and groups to pressure for change. Geographical spill-over can also be identified with reference to the territorial dimension of constitutional reform; the creation of a Scottish Parliament and a Welsh Assembly pave the way for regional assemblies in England (included in Labour's pre-election programme but since put to one side) and an assembly in Northern Ireland although with a North-South, joint Dublin-Westminster dimension too.[16]

The Flexibilization of the State Apparatus: The Rise of the New Governance

Once again it is important to note that certain of the changes in state form which we identify below as (partly) a state-centered response to broader structural changes in the nature of the global economy predate New Labour (e.g. the internal hollowing-out-of-the-state) and have formed an important component of the Competition State in the UK for some time. For Rhodes (1996: 652), governance refers to "self-organizing, interorganizational networks," which he argues compliment (and are increasingly replacing) markets and hierarchies as governing structures for authoritatively allocating resources and exercising control and co-ordination. He defends this definition on the basis that "it throws new light on recent changes in British government, most notably: hollowing-out-the-state, the new public management, and intergovernmental management." Networks are now a pervasive feature of service delivery in Britain and pose a challenge to governability because of their autonomous nature and ability to resist central guidance. As Box 1 illustrates, New Governance signifies a change in the meaning, process, method, and condition by which society is governed.

Rhodes (1997: 1) has argued that traditional approaches to the British State encapsulated in the Westminster Model no longer provide an "accurate" or "comprehensive" account of how Britain is governed. For Rhodes the answer lies in a different "organizing perspective" which he terms "the differentiated polity," which is "characterized by functional and institutional specialization and the fragmentation of politics and policy." This "differentiated polity" is characterized by two processes of the "hollowing out" of the state — internal and external. Internally it refers to the loss of functions upwards to the European Union, downwards to special-purpose bodies and outwards to agencies. Externally this argument is extended beyond Europeanization to include the effects of international interdependencies. For Rhodes, policy networks are central to understanding internal hollowing out, while globalization is central to understanding external hollowing-out.

As Rhodes (1997: 18) reasons, "... globalization posits a world of complex interdependencies characterized by governance without government," not only at the level of the "anarchic" international system (Rosenau and Czempiel, 1992) but also increasingly *within* increasingly cross-cut state boundaries. Rhodes's argument suggests that understanding British governance purely through state-centered narratives is no longer tenable. Indeed, we have gone one step further and suggested that in order to understand domestic governance we must examine the impact of international, transnational, and, where appropriate, global forces on governing structures and processes. However, the extent to which these forces are transforming the nature of governance in Britain remains an empirical question and thus creates the need for an important reflective research programme for closely analysing demonstration effects of increased internationalization in the life of the British polity. The "hollowing-out" of Britain's conventional institutional form thus reveals a further source of pressure from the forces of globalization and a challenge to the Competition State.

(Box 1 about here)

Box 1 — The New Governance

	Traditional Governance	New Governance
Structures	State-centered, bureaucratic, hierarchical, centralized	Minimal state, international policy agendas, decentralization of functions, centralization of key power instruments, "steering, not rowing"[17]
Systems	Central "hands-on" control, detailed oversight exercised through multiple tiers, bureaucratic mechanisms for allocating resources	Entrepreneurial Government, Quangos,[18] New Public Management, market mechanisms for allocating resources, harnessing of public, private, and voluntary sectors — *Key role of networks*
State Form	Industrial-Welfare State	The Competition State
Dominant Culture	Keynesian demand management, welfarism, pursuit of full employment, interventionist state	Neoliberal, managing the network environment and beyond, increasing the productive capacity of the state

The Creation of a Post-Welfare Contract-Based State

The key facet of this dimension of the Competition State has been the reform of the welfare state towards (a) a more financially rigorous ensemble of bureaucratic structures, (b) a downsized labor force, and (c) a shift in welfare policy itself in favor of integrating people into the private sector workforce. Once again the development of the post-welfare, contracting state, pre-dates the Blair government. However, since coming to power New Labour has expanded it through the ending of free higher education and the introduction of "workfare" (an American concept from the 1960s and 1970s) and "learningfare" as part of what is called the New Deal for unemployed 18-24-year-olds. While it is still too early to argue with certainty that this signifies the end of the Welfare State, it is clear that it has dramatically eroded.

Lowe (1993: 14) defines a classic welfare state as "a society in which government is expected to provide, and does provide, for all its citizens, not only social security but also a range of other services at a standard well above the barest minimum." It would be extremely difficult to argue that this definition even vaguely resembles British welfarism today. Social policy has thus been incorporated into the new economic orthodoxy of the Competition State through its emphasis on reducing welfare dependency and removing any potential obstacles to the control of inflation. In Brown's words, this calls for "balanced budgets," "tight control of interest rates," and the need to deal with unemployment through the marketplace and not through government intervention.

"Globalization with a Human Face"

> I want Britain to be one of the really dynamic economies of the twenty-first century. It is sobering to think that just over a century ago we were top of the league of prosperous nations, we were thirteenth in 1979, and today we are eighteenth. Yet our people, by their intelligence, grit, and creativity, are still a people unrivalled anywhere in the world. We must develop their ability and so make ourselves world leaders again (Tony Blair 1996: 57).

The battle for the hearts and minds of the people is a key problem for the Competition State for many of its key reforms rest on changing norms and values and challenging the dependency culture of the post-war settlement (e.g. welfare to work, pensions, student loans). They have also symbolized a move away from the norms of laborism (from collective to individual level bargaining, from public to private ownership) and towards consumerist rather than productionist values. In the same way that Thatcherism operated as a discourse which situated subjects, made sense of their experiences, mobilized support behind particular projects and established the basis for political, intellectual, and moral leadership (see Hall 1985 and Jessop, *et al.*, 1988), so does the discourse of New Labour attempt to sell itself as globalization with a human face. In particular, the policy agenda of New Labour attempts to change individual and group attitudes to entrepreneurship whether through welfare to work, pensions policy, student loans, or central bank reform.

VI. Conclusion: Globalization and the Competition State As Paradoxes

The central paradox of globalization itself — of the displacement of a crucial range of economic, social, and political activities from the national arena to a cross-cutting global/transnational/domestic structured field of action — is that rather than creating one big economy or one big polity, it also divides, fragments, and polarizes. Convergence and divergence are two sides of the same coin. In some ways globalization is not even a single discourse, but a contested concept giving rise to several distinct but intricately intertwined discourses, while national and regional differences belie the homogenous vision as well. Indeed, the power of globalization itself as process, practice, and discourse — and thus as a paradigm — lies in this very complexity. Thus globalization generates not merely passive or automaton-like reactions to structural change, but alters the playing field on which political actors attempt to achieve their objectives of power and, hopefully, the public interest. In this ever-changing game, political and institutional entrepreneurs jockey not merely to adapt, but to control at least parts of the game itself and turn its potential benefits to the advantage of their coalition-building, policy-making, and constituency-attracting activities. Old Labour, caught in the globalization trap, has sought to reassert control of the game by manipulating the lessons of

Thatcherism and hopefully transcending them. Whether they can be successful while also maintaining Labour's traditional emphases on social justice and redistributive community values is more problematic.

In the wider international context, whether the forces of global convergence will lead a complex but stable, pluralistic world based on liberal capitalism and the vestiges of liberal democracy, or whether the forces of divergence and inequality are creating a more volatile world — a world in which New Labour might well end up on the wrong side of the normative fence — remains to be seen.[19] But whatever direction the future takes, however, political strategies and projects will increasingly become multilayered and globally oriented, whether on the right — "globalization" in the sense of pursuing economic efficiency in a liberalized world marketplace — or on the Left — through the regeneration of new, more complex, but genuinely internationalist socialism(?). The post-modern irony of the state is that rather than simply being undermined by inexorable forces of globalization, the Competition State is becoming increasingly both the engine room and the steering mechanism of a political globalization process which will further drive and shape economic, social, and cultural globalization too.

NOTES

1. Garrett (1998), among others, argues not only that social corporatist systems have succeeded in avoiding many of the problems listed here but that social democratic approaches to public and social policy are highly resilient in the face of globalization. In contrast, Clayton and Pontusson (1998) argue that a sharp deceleration of social spending has occurred in most OECD countries since 1980, that welfare states have failed to offset the rise of market-generated inequality and insecurity, and that welfare programmes have become less universalistic.

2. And exchange rate policy, difficult to manage in the era of floating exchange rates and massive international capital flows, is none the less still essential; however, it is increasingly intertwined with monetary and fiscal policy. See Frieden (1991) and Cohen (1996).

3. Hence the pursuit of "competitive advantage" as distinct from "comparative advantage." See Zysman and Tyson (1983).

4. Trade policy has undergone a longer period of normative adjustment; indeed it was the original core element of free-market liberalism in the postwar regime of "embedded liberalism" (Ruggie, 1982), and despite many ups and downs (especially the "new protectionism" of non-tariff barriers in the 1970s and early 1980s) is a major success story of the Competition State. The core issue in the trade issue-area is to avoid reinforcing through protection the existing rigidity of whatever industrial sector or sectors are in question, while at the same time fostering or even imposing adaptation to global competitive conditions in return for temporary protection. The "wiggle room" room for such measures, however, is shrinking; they are now defined (originally by the United States unilaterally, but more and more in international negotiations too) as "structural impediments" to trade and therefore to production. Both neoliberal political discourse on the right and the discourse of "globalization with a human face" on the left are embedding legal constraints on indirect and well as direct protectionism in both domestic and international legal and political systems; for example, the European "single market" has clearly taken this direction, rather than the more corporatist direction of the so-called "Social Chapter." while in the Third World the Structural Adjustment Programmes imposed by the International Monetary Fund and the World Bank have insisted on such domestic changes. Transnational constraints are growing rapidly in trade policy, too, as can be seen in the establishment of the North Atlantic Free Trade Area, the Asia-Pacific Economic Cooperation group, and the World Trade Organization.

5. The Social Democratic Party was a group which split off from center-right wing of the Labour Party in the early 1980s and later merged with the Liberal Party to form the Liberal Democrats.

6. By hegemonic project we refer to the means by which the domination of one class over others is achieved through a combination of political and ideological strategies often forged through the construction of a national popular programme of political, intellectual, and moral

leadership which attempts to transform the "hearts and minds" of the people.

7. Consider the headline "Blair and Clinton seek holy grail in 'wonkathon'" (*The Times*, 8 February 1998).

8. See Evans and Davies (1999) for a detailed discussion of these issues.

9. For a more detailed discussion, see W. Keegan, "In my view: EMU pact all stability and not much growth" (*The Observer*, 2 November 1997.)

10. That this declaration was inspired by the American example is argued in "Notebook: Brown's meeting with American sage sealed his plans for new regime" (*The Guardian*, 7 May 1997).

11. Powers which the Treasury had only recently taken over from the Department of Trade and Industry (DTI).

12. See several articles by A. Brummer, L. Elliott, and various others in *The Guardian*, e.g. 21 May, 13 June, and 19 November 1997.

13. New Endogenous Growth Theory argues that economic growth in the high-tech age is actually more rooted in domestic developments than in the global environment, and that therefore the capacity of the state to promote growth *at home* is actually still very strong in an age of globalization. This view has been assimilated into Regulation Theory and Post-Fordism. A major consequence of this for political theory is that the neoliberal nostrums of globalization can *and should* be resisted in favour of home-grown solutions. The theory is based on the view that the kind of cutting-edge technological developments that create real comparative advantages in high technology sectors (and their downstream linkage sectors too) require the nurturing of connections and synergies between firms analogous to those found in certain traditional craft-based industries (e.g., Piore and Sabel, 1984), i.e. the "Silicon Valley" model. These industrial clusters and their downstream counterparts form so-called "architectures of supply" (see Zysman, 1996) that in turn feed back and through the domestic economy in general, fostering virtuous circles of innovation — whereas technological change in the global economy tends to be parasitic, spreading through copying and incremental refinement rather than through genuine innovation (as with Japanese consumer electronics and computer industries in the 1980s).

    In the NEGT context, therefore, the state has a crucial and institutionally unique role to play in creating the appropriate conditions for such self-reinforcing structures to develop — especially in its ability through improved, more targeted and refined forms of state interventionism to promote the development of domestically rooted technological innovation in terms of both industrial processes *and* products among nationally based firms. Indeed, the very embeddedness of national states in national social structures enables state actors to pursue such strategies effectively not merely through direct instruments of economic policy and regulation but also because of their social and political *legitimacy* in a global economic environment which is still fundamentally anarchic.

    New Labour, and especially Gordon Brown, flirted seriously with New Growth Theory in the mid-1990s, before the 1997 election (Labour Party, 1996a and 1996b). Some aspects of this approach are still central to certain levels of the New Labour government's economic policies in the form of regional policy, research and development policy, and pro-competitive micro-industrial policies; nevertheless, at national level, the imperatives of embedded financial orthodoxy have been reprioritized since the election, as we argue in this section.

The main economic critique of NEGT is based on the analysis that while some important synergies in terms of pure *innovation* can be promoted in this way, nevertheless the *diffusion* of technology throughout the global economy is so rapid and all-permeating that any comparative advantages are quickly diluted; therefore state industrial policies based on NEGT are ultimately counterproductive, i.e. they are just as open to propping up "lame ducks" as more traditional forms of subsidies and protectionism — as well as being prone to misuse by special interests and cronyism at meso- and micro-levels.

14. The formal title of the official who used to be called the Secretary of State for Trade and Industry — actually the revival of a title used before the Board of Trade was merged with the Department of Industry in the 1960s.

15. The concept of "clear blue water" was introduced by Conservative former Secretary of State for Defence Michael Portillo to symbolize what he saw as the all-important ideological distance between the pure neoliberal policies of Thatcherite Conservatism and traditional "tax-and-spend" Labour Party policy.

16. See Evans (1999) for a detailed discussion of these issues.

17. The phrase "steering, not rowing" is the centerpiece of the concept of "reinventing government" (Osborne and Gaebler, 1992).

18. Quasi-Autonomous, Non-Governmental Organizations (appointed bodies made up of lay members, i.e. not public officials or civil servants *per se*, charged with managing public sector agencies).

19. See Fukuyama (1992) and Cerny (2000).

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