Keeping the Tories at bay

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Sadly for New Labour, and indeed for anyone who cares about the future of progressive politics in the UK, we are back to a state of affairs from which, for the last decade at least, we have been relatively free. We are back into an election cycle dominated by the poor performance of the UK economy.

Prior to 1997, the normal driver of electoral politics in the post-war UK was the state of the economy. As James Carville once famously told Bill Clinton, 'it's the economy, stupid'. The normal pattern was that, if the economy was doing well, the party currently in office stayed in office; and if the economy was doing badly, the party in office did badly too. Indeed, the more individual voters felt personally impacted by exposure to unemployment or to its threat, the more likely were they to turn to some new political formation in order to avoid the loss of their job and the diminution of their income.

The UK economy is currently doing *very* badly, and the number of voters directly impacted by exposure to unemployment or to its threat is at a twenty-year high; so if the normal pattern of electoral politics in the post-war UK holds, the chances of New Labour keeping the Tories at bay look, at best, extraordinarily long and at worst, next to impossible.

But in part, whether Gordon Brown's government receives an electoral drubbing depends on how the present parlous condition of the UK economy is packaged and sold. If the financial crisis and the resulting recession is packaged and sold as a set of problems that were *internally* generated, then responsibility for them will visibly lie in New Labour's hands, and electorally the party will be toast.

If however, the financial crisis and the resulting recession can be packaged and sold as a set of problems that were *externally generated* and internally inflicted, then New Labour will have the political space to parade the claim that, but for the quality of Brown and Darling's economic management, the pain inflicted would have been significantly worse. If New Labour can sell that argument to a sceptical public, its electoral majority may yet survive. We can expect the entire party leadership to try, but in truth they will find it a very hard sell.

Truth and half truth

Why? Because the claim is only half true.

It is half true. There is no doubt that the causes of the financial crisis which swept the global economy, and impacted so heavily on the UK, were American in origin. The roots of the September 2008 financial meltdown lay across the Atlantic: in the dismantling of the regulatory wall dividing the US housing market from the rest of the US financial system; in the securitisation of progressively weaker and weaker US mortgage packages; and in the ever greater export of those toxic assets by reckless and greedy US financial institutions (for the argument in detail, see Coates, 2010a, 230-72; and Coates, 2010b). Wall Street made this mess – that cannot and should not be denied – and European political leaders, including Gordon Brown, have been called upon to clean up much of its global impact. Indeed Gordon Brown has been a leading voice in that clean-up operation, and has won much international praise for his leadership in doing so (Brown, 2008; Parker, 2009).

But New Labour's electoral problem in 2010 is that the claim is *only* half true. The crisis may be external in origin, but the UK's particular exposure to it is not. The particular exposure of UK workers and consumers to the recessionary consequences of the generalised drying up of the supply of credit is entirely home-grown. It is New Labour's fault. The fact that the UK economy was hit so hard by a financial crisis, and the fact that its rate of recovery relative to that of leading continental European economies is so modest, cannot be blamed on the US alone.

Financial deregulation in the UK as well as in the US caused this crisis; and New Labour in power was a major architect and supporter of that deregulation. Indeed it should be remembered that Northern Rock fell here *before* its equivalents in the United States – Countrywide Financial and Washington Mutual – followed suit. The crisis may have originated on the other side of the Atlantic, but it manifested itself here first.

The explosion of house prices, the lowering of mortgage standards, and the increasing dependence of generalised prosperity on the availability of unchecked volumes of bank-provided credit – all these things were not simply imported from the United States. They were generated within the UK as key elements in the growth strategy that Gordon Brown advocated and oversaw in his ten-year occupancy of No. 11. They were also key elements that were recognised as serious weaknesses in that strategy – by certain of his critics at least – *before* the crisis broke (see, for example, Coates, 2005, 166-84; Elliott and Atkinson, 2007).

The financial crisis that began in September 2008 has done more, therefore, than show the fragility and global danger of US-style deregulated finance capitalism. It has also blown a huge hole in New Labour's claim to have found a new economic paradigm for progressive politics. So if New Labour is to win a fourth term in 2010, long as those odds now are, it will need both to plug the hole and to present itself – re-plugged as it were – as the one party capable of avoiding a repetition of this disaster in the future.

That is a very tall order indeed. Doing it will at least require this: (1) an honest assessment of the scale of the present damage; (2) a clear understanding of the contribution of New Labour policies to that damage; (3) a strong emphasis on the inappropriateness of the Tory solutions being offered to it; and (4) a willingness to recast its own policies in a more progressive direction.

The present damage

One thing is clear. The immediate condition of the UK economy is truly awful.

Unemployment, projected to peak at 2.8 million in 2010 (BBC News, 2009d), is at a fifteen year high – at a level that has already wiped out entirely the job gains made under New Labour; and that is just the official story. The true level of unemployment, under-employment, and entrenched unemployment among particularly disadvantaged categories, is higher still (1).

The economy's contraction in 2009 – losing 4.5 per cent of GDP – was the steepest recession since the 1930s, and the first that the UK has experienced since the second quarter of 1992. The economy in 2010 may be officially out of recession, but if it is, its projected growth rate is dismal – dismal compared to levels during the first decade of New Labour in power, and dismal when compared to rates of recovery elsewhere. Certainly there is no equivalent in the UK of China's rapid bounce back to 10 per cent growth rates. At a projected 1.4 per cent for 2010, there is not even a UK equivalent to Germany's projected 1.7 per cent (Flood, 2009); and even that UK projection may be over-optimistic. Certainly the NIESR study of the UK economy completed at the depth of the recession – in April 2009 – did not anticipate a return to pre-recession levels of GDP until 2012 (BBC News, 2009a).

The UK housing market remains depressed, repossessions are at a fifteen-year high (Osborne, 2010b), and a significant number of UK home owners are still trapped behind negative equity (2). Maybe not for long however, as double-digit house price increases are forecast again for 2010 (Osborne, 2010a), a level and rate of increase of house prices that will continue to exclude from home ownership whole swathes of low-paid workers (3); and the UK continues to have huge swathes of low paid workers.

Indeed income inequality after more than a decade of New Labour's 'socialism by stealth' (on this, see Coates, 2005, 76-9) is now higher than at any time since the 1970s. The January 2010 report by the National Equality Panel found the richest 10 per cent of UK income earners to be 'now 100 times better off than the poorest' (Gentleman and Mulholland, 2010). A parallel study by the housing charity Shelter reported a million UK householders using their credit cards to pay mortgages or rents in 2009 – one household in every sixteen! (BBC News, 2010b). Things are suddenly not well in consumer Britain.

But how can they be? For New Labour goes into this election with the UK trade deficit still uncorrected, with personal debt levels (though reduced by recession) still at historic highs, and with real and looming problems on the public accounts. The trade deficit in the third quarter of 2009 stood at £7.1 billion, 2.2 per cent of GDP – down slightly from its peak of £12.9 billion (3.9 per cent of GDP) in the final quarter of 2007, but still significantly in imbalance (Fender, 2010, 19).

Personal debt in the UK crossed the trillion pound mark in 2006, as consumer spending soared on holidays, eating out, clothing, alcohol and – of course – housing (4). It fell back slightly in the last quarter of 2009, but still stood at £1.457 trillion a year after the start of the financial crisis, with experts predicting a 'perfect storm' of personal bankruptcies to come as unemployment quickened (Inman and Osborne, 2009; BBC News 2009c). By December 2009, GDP per head in the UK had fallen back in real terms to a level *lower* than before the last general election: at £22,700 in 2009, lower by £300 if measured at current prices than it had been the last time that New Labour renewed its electoral mandate (Oxford Economics, 2009).

To this cocktail of debt on the economy's oversees accounts and growing private insolvency in the suburbs, the recession has also added the lethal injection of large-scale public borrowing. Predictably, given the economic circumstances, current tax revenues are down and public spending is up – both consequences of New Labour's attempt to soften the recession's impact – creating such a shortfall (the public sector deficit is heading towards 12.5 per cent of GDP, its highest level since World War II) as to have already turned election victory in 2010 into the ultimate poison chalice.

Whoever wins, severe cuts in public services can be expected, with all the unpopularity and industrial strife that those cuts will necessarily bring. In fact, that unpopularity and strife is already underway, triggered by New Labour's attempts to get ahead of that particular curve by holding down public sector wages and restricting higher education spending. This pathetic and belated attempt by New Labour to restore a degree of fiscal discipline has already sent shock waves through the two remaining rock-solid bases of electoral support the party possesses – manual workers in the public sector and semi-professionals in the education and welfare bureaucracies – impairing still further its fragile hold on power, and acting as a curtain-raiser for struggles to come.

New Labour's responsibility

None of this is entirely accidental. True, the collapse of financial confidence did take everyone by surprise. Only months before the fall of Lehman brothers, the big global economic issue dominating public debate on both sides of the Atlantic was the spike in commodity prices – oil and food – caused by an upsurge in global demand (particularly from China) (see, for example, Hopkins, 2008).

But the tsunami-like impact of that financial collapse, once underway, was predictable and should have been foreseen, because it spoke to developments in the underlying structure of the UK economy of which New Labour ministers were aware, but which they made no effective policy moves to reverse. The underlying development which the impact of the financial crisis threw into sharp relief was the enhanced weight of financial institutions in the UK economic formation (5). That weight of finance – now so publicly regretted by one of its main architects, Peter Mandelson (see Stewart and Martin, 2009) – occurred on New Labour's watch, and was the direct consequence of New Labour policy: both policy that it took and policy that it did not.

Remarkably for a party with a record of commitment to the management of capitalism, New Labour in power continued processes of financial deregulation that Thatcherism began, and passed control of monetary policy over to the Bank of England itself. Under Gordon Brown's leadership from the Treasury, the Blair governments of New Labour's first decade retreated from the kind of active industrial policy that Old Labour had championed and that Thatcherism had terminated: in the process denuding themselves of policy instruments – from public ownership to planning agreements – vital to the strategic planning of balanced growth that Peter Mandelson now finds so attractive in the Sarkozy government (Hillinger, 2009).

In its place, New Labour chose to champion the interests and autonomy of the City of London against any attempt to regulate it from Frankfurt, and chose to stay out of the eurozone, preferring to remain off-shore and to act as a bridge between Europe and America (6). Those same New Labour governments also denuded themselves, quite consciously and as a defining dimension of their newness, of any sustained industrial and social support from a strongly embedded trade union and co-operative movement. Gordon Brown is now talking of making the principles of co-operation the centrepiece of the Party's upcoming election manifesto. How regrettable it is for all of us that the two leading figures in the current New Labour constellation should be showing signs of coming to their senses only so late in the day (Wintour, 2010).

For when one thing is disproportionately heavy in the make-up of a national economy, it means that other things are disproportionately light. Finance is heavy because manufacturing is not. Capital is heavy because labour is not. When John Major left office, the proportion of GNP being provided by UK-based manufacturing institutions was just over 20 per cent. By 2007 it was a mere 12.4 per cent. In 1997 16 per cent of all jobs were in manufacturing. Now that figure is less than 10 per cent. Yet worse, when Margaret Thatcher came to power, one worker in two was a member of a trade union. Now that figure is just over one worker in four (7).

As UK-based manufacturing shrank and the labour movement weakened, City interests flourished and inequality grew. New Labour made its Faustian bargain with the City, forgetting as it did so that when supping with the devil it is wise to use a long spoon. For City interests and national interests rarely coincide, and have not on this occasion. I am with Will Hutton on this:

> The City of London is now too big and too risky for a country our size … For years it has crowded out exporters and manufacturers. Money has flowed into the City forcing the pound up to crazy levels, and making it harder for exporters to compete, while at the same time generating credit flows that have made property, construction and financial services the routes to quick profits … In the past economists and politicians talked of 'crowding out' as something the state did to the plucky private sector. Now there is a new phenomenon. The City has crowded out manufacturing and companies doing business overseas – making it harder for them to win orders and diverting resources and talented people into financial services. (Hutton, 2009)

The inappropriateness of Conservative solutions

So what do we need? We need a new growth model. We need a fundamental change of direction. Tinkering at the edges will not be enough. Tighter banking regulation and the taxing away of excessive bonuses, vital as both currently are, will not bring financial institutions back into a healthy relationship with the rest of the UK economy unless the rest of that economy is itself healthy. A growth strategy based on high levels of consumer debt (and the spending of income not yet earned) will not be replaced by one based on the spending of existing wages unless those wages are higher and more secure than is currently the case.

Achieving economic strength from a position of weakness will be extraordinarily difficult, and of one thing we can be certain: financially-led private market forces will not deliver the transition unaided. If such a transition is still possible at all, targeted public policy will be vital to its design and achievement. A complete rupture will be required with orthodoxies that privilege financial deregulation and unmanaged free trade.

Progressive lessons about long term state-led economic planning will need to be taken from the few economies – long ago Japan, then South Korea, now China – that did manage to lift themselves from a low growth trajectory to a higher one.

Full advantage will need to be taken of UK membership of a dynamic European Union. The attempt to protect a special space for the UK (and the City) on the edge of that Union will need to be abandoned. Playing poodle to a neo-liberal America will need to be replaced by full participation in the European social model.

Of one other thing therefore we can be entirely certain. The direction in which public policy needs to move, and the direction in which the Conservatives if elected will choose to move it, are diametrically opposed. A Conservative government built on a loose coalition of eurosceptics, enthusiastic deregulators and advocates of privatisation will not take the UK into a new period of sustained recovery. On the contrary, they will simply make everything worse.

Giving full regulatory control to the Governor of the Bank of England, as George

Osborne currently contends, would reinforce City dominance over UK public policy: it would not diminish it. Calling for tight fiscal discipline and restricted public spending would wreak havoc on the welfare state and shift the burden of economic adjustment onto the very sections of the society – the poor and under-privileged – least able to bear it. And pulling the UK away from – or even entirely out of – the European Union would reduce still further the UK voice in the collective regulation of financial institutions now so globally vital.

The Tories like to claim that British society is broken. Well, it would be after a decade of a compassionate Conservatism whose economic policy was Thatcherite and European policy isolationist. No, if this crisis is not to be wasted, it has to be used to turn UK public policy firmly to the left. The key uncertainty we face is not what the Tories will or will not do, should they be returned to power. It is whether the Labour Party is capable of making that turn and if it does, of whether anyone brought up in New Labour Britain will take it at its word.

Can reformed Labour save the day?

Given the present team in charge, probably not: but given what else is on the table it is presumably worth a shot. After all, New Labour came into power in 1997 committed to the creation of a high investment, high productivity, high wage domestic economy. The commitment needs to be renewed, and re-calibrated for the requirements of a world now more fully aware than once it was of the environmental and social costs of unregulated globalisation.

It is a bit rich, of course, for New Labour ministers long in power suddenly to be offering themselves as agents of change, but the economic and social consequences of the financial meltdown have been so severe that they do provide the cover, as well as the need, for a profound change of strategy. What else, after all, was Mandelson's *Going for Growth* initiative in January but a none too discrete admission that the days of living off, and under the shadow of, the City need to be put behind us (8).

If New Labour is to do its own version of the Tories in 1992 and squeak back for a fourth term, they will only do it – and the squeaking will only be worthwhile – if a return to power is accompanied by a renewal of mission.

That renewal will require a reassertion of 'Old Labour' commitments to fairness and equality – Roy Hattersley is right to argue that (Hattersley, 2009). (Gordon Brown's rejection of equality of outcome in favour of equality of opportunity, so trumpeted in 1997, rings very hollow now – see Brown, 1998; and Hattersley, 2001). It will need a rethink of Gordon Brown's fundamental belief in the 'need to stand four square behind free trade, open markets, flexible economies and investment in people as the only way forward' (Brown, 2008) – so it will probably require a change of leader. And it will certainly require a change of policy, along at least the following lines:

- the immediate development of a publicly-owned industrial bank, charged with facilitating balanced regional growth by small and medium sized companies;
- the rapid and extensive public provision of social housing, to ease rental and mortgage burdens on working and middle class families;
- an active extension of individual *and* collective worker rights, to build a rising wage floor and a new social contract underneath industrial growth;

- the creation of a strong 'green' Department of Trade and Industry, as a new super-ministry to balance the power of the Treasury;
- enhanced public investment in key infrastructure projects, from transport to higher education;
- the resetting of competition policy as 'job creation and innovation policy', with competitive bidding for public funds by private firms willing to generate either/ both;
- full membership of the Eurozone, and the resetting of the UK's trade deficit with the EU as a regional imbalance within the European Union.

Realignments of this scale are extraordinarily difficult to effect. Recreating industrial strength is a huge challenge. Restoring trade union rights after thirty years of erosion will be an enormous struggle. Admitting that a new direction is needed will be politically costly. But the great thing about driving into cul-de-sacs is that you can get out of them only by reversing direction. The weaknesses at the core of the Anglo-Saxon model can no longer be ignored. The case for a more managed capitalism has to be made again: made to the electorate, made to the next generation of Labour politicians, and made regardless of its immediate impact on the fate of New Labour in power.

New Labour's 'third way' prided itself on offering the UK a new route to progressive politics – massaging the private sector with deregulation and reduced corporate taxation, containing labour rights while providing child care and enhanced maternity rights, expanding the welfare state while intensifying the work process within it, tackling poverty primarily by moving people from welfare to work, and redistributing income, if at all, only by stealth.

The third way was certainly new, and bits of it were definitely progressive: but its fundamentals were not. There is nothing progressive about a strategy built on the deregulation of capital and the re-regulation of labour. Trickle-down economics is for the Right, not the Left. It has no place in progressive politics, not even if the party doing the trickling down is a party with progressive ambitions.

We must put the third way behind us, and find another.

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Notes

1. Even before the recession broke, researchers at Sheffield Hallam University estimated that Britain had three times the number of jobless as stated in official returns. There seems no reason to expect that margin of error to have declined significantly of late. Certainly as recently as July 2009, a BBC survey found two thirds of the UK population knowing someone who had lost their job in the recession, and four in ten of the people questioned

feared that their job might soon be lost (BBC News, 2009b). The proportion of 18-24 year olds not in employment, education or training is currently 18 per cent (Blanchflower, 2009).

2. The figure was thought to be as high as one in seven in July 2008 (Elliott, 2008).
3. The proportion of areas where house prices were beyond the reach of first-time buyers on average earnings has varied as house prices have risen and then fall back. Only 6 per cent of areas in the UK had prices low enough at the peak of the housing boom in 2007; it is now thought to be nearer 40 per cent (BBC News, 2010a).
4. Debts on mortgages, overdrafts and credit cards exceeded the value of GDP for the first time in August 2007 (Elliott, 2007).
5. Martin Wolf has recently characterised the UK under New Labour as 'a "mono-crop" economy with finance itself acting as the "crop"' (Wolf, 2009). He has a point.
6. Labour ministers were still doing this as late as September 2009, watering down EU proposals on hedge fund regulation and opposing salary caps for bankers.
7. 55 per cent in 1979; 28.4 per cent in 2006.
8. 'For long term stability and shared prosperity, the growth of the UK economy after the banking crisis will need to be environmentally sustainable, *more balanced* and resilient to economic shocks, and shared widely across both regions and individuals' – Department for Business, Innovation and Skills, 2010, 53, emphasis added.