

From Thatcherism to New Labour: Neo-Liberalism, Workfarism, and Labour Market Regulation¹

Bob Jessop
Professor, Department of Sociology
Lancaster University

Copyright

This online paper may be cited or briefly quoted in line with the usual academic conventions. You may also download it for your own personal use. This paper must not be published elsewhere (e.g. mailing lists, bulletin boards etc.) without the author's explicit permission. But please note that

- if you copy this paper you must include this copyright note
- this paper must not be used for commercial purposes or gain in any way,
- you should observe the conventions of academic citation in a version of the following form:
Bob Jessop, 'From Thatcherism to New Labour: Neo-Liberalism, Workfarism, and Labour Market Regulation', published by the Department of Sociology, Lancaster University at: <http://www.comp.lancs.ac.uk/sociology/soc131rj.pdf>

1. Introduction

For some, the landslide victory of the Labour Party in 1997 held the promise of a reversal of the socio-economic transformation of Britain which had been effected by nearly eighteen years of Conservative government. Great Britain had become the exemplar of European neo-liberalism, and the return of the social democrats seemed to announce at least a partial end to that development. It did not take long for the Blair government to disappoint these hopes. In many ways, rather than repealing the changes of the Thatcher years, Labour took the neo-liberal transformation of Britain yet a step further.

Blair's self-described 'New Labour' government is openly committed to a radical and modernizing reform of the British state apparatus and its economic and social policies. It is also actively promoting its version of neo-liberalism in Europe and the wider world. Often presented as the 'Third Way', New Labour strategy could

also be described as the 'American Way';² and, indeed, the consolidation of a Blairite neo-liberalism in Britain could become a Trojan Horse through which a transatlantic neo-liberal project penetrates further into the European Union. For, while Blair is keen for Britain to opt out from some EU institutions and policies of a neo-corporatist or neo-statist character, he does not hesitate to lecture fellow social democrats on the economic effectiveness and moral superiority of New Labour's programme and America's enterprise culture. Likewise, Blunkett, then Secretary of State for Education, trumpeted the success of the British presidency in "replacing the old agenda by putting jobs, skills and employability at the heart of Europe' (DfEE, 1998). This is also reflected in British pressure for a minimalist social chapter, resistance to French and German proposals on job creation, and pleas for recognition of its "New Deal" for the unemployed as a model policy for Europe (Gray 1998: 6). Similar objectives at home and abroad were shared by the Thatcher and Major governments for at least ten years before New Labour's landslide election victory in 1997. But there are some interesting discontinuities as well as significant continuities with Conservative neo-liberalism, which, while insufficient to fully justify the label 'Third Way', do mean that New Labour is developing its own distinctive version of neo-liberalism. Elsewhere I have described the latter as 'Thatcherism with a Christian Socialist face' (Jessop 1998).

This chapter will consider how far and in what respects the distinctive features of this approach represent either major departures from the overall neo-liberal project and/or minor supporting and flanking measures to make that project more sustainable in the long run. The continuities and discontinuities are illustrated mainly from the field of labour market policy but I also refer to other reforms in the welfare state. In addressing these questions, I draw on and extend my earlier arguments about the shift from the Keynesian Welfare National State (or KWNS) to the Schumpeterian Workfare Post-National Regime (or SWPR) (see chapter 2).

2. From Thatcherism to New Labour

Neo-liberalism varies in its form and objectives. At its most ambitious, in trying to effect a transition from authoritarian state socialism to liberal market capitalism following the collapse of the Soviet Bloc in 1989-90, it involves a radical experiment in *system transformation*. Just such an experiment was promoted by the Reagan and Thatcher governments and some key international institutions under neo-liberal influence (e.g., the IMF, the World Bank, and OECD) with some rather equivocal (or, perhaps, cynically opportunistic) support from 'nomenklatura capitalists' in the post-socialist societies. At its weakest, neo-liberalism involves little more than an *ad hoc* set of *policy adjustments* within modes of regulation and welfare regimes in capitalist societies that remain basically (neo-) statist, (neo-) corporatist, or otherwise non-liberal in character. This weak form of neo-liberalism can be identified in some continental European societies in the 1980s and early 1990s. Nonetheless, given the political, intellectual, and moral climate during this period and its domination, if not hegemonization, by the transatlantic neo-liberal power bloc, it was often misinterpreted (enthusiastically or despairingly) as proof of a general neo-liberal turn in capitalist formations. In between system transformation and policy adjustment comes a *neo-liberal regime shift*, i.e., a fairly comprehensive shift of economic and political regime within an already capitalist social formation that entails fundamental restructuring and strategic re-orientation compared with the previous regime. Just such a regime shift occurred under Thatcher and Reagan in the 1980s as well as in the two anglophone economies in the Southern hemisphere, Australia and New Zealand. Given our focus on Europe, however, this chapter focuses on the neo-liberal regime shift in Britain.

A major step forward in this shift was initiated in 1979 with the election of the first Thatcher government. It is true that the first elements of this neo-liberal turn had been gradually initiated in the guise of (partly externally imposed and purportedly reluctantly accepted) economic and social policy

adjustments during the last three years of the previous Labour government (see Leys 1989; Artis and Cobham 1991; Holmes 1985); and it is also true that it took a further three years before the new Thatcher regime was fully consolidated and began to embark on its radical neo-liberal programme to 'modernize' the economy, state, and civil society and to promote an enterprise culture (for a periodization of Thatcherism and a discussion of its relative discontinuity with 'old Labour', see Jessop et al., 1988, Jessop et al., 1990). Nonetheless 1979 marked an important symbolic defeat for the post-war mode of economic regulation, its institutionalized class compromise between capital and labour, and its associated forms of crisis management. And in this sense it greatly facilitated further development and consolidation of neo-liberalism.

Consolidated Thatcherism (including here the Major government, which could be interpreted as 'Thatcherism with a grey face') combined a distinctive 'two nations' authoritarian populist hegemonic project, a centralizing 'strong state' project, and a neo-liberal accumulation strategy. It is crucial to distinguish these three aspects of Thatcherism not only because they developed unevenly in the Thatcher-Major years; but also, and more importantly for our purposes, because the so-called 'break' with Thatcherism initiated by New Labour's Third Way affects Thatcherism's hegemonic more than its state project³ and leaves its neo-liberal accumulation strategy more or less intact. Thus, whilst New Labour certainly retains an authoritarian populist approach in many areas, it has equally clearly moved towards a more socially inclusive hegemonic project. This addresses the limitations of the possessive individualism favoured by neo-liberalism and recognizes the need to re-embed market forces into a broader, more cohesive social order. It aims to remoralize the neo-liberal accumulation strategy around a populist 'one nation' hegemonic project that will reduce social exclusion without undermining the economic well-being of 'Middle England', whose members have delivered Blair two general election victories despite a loss of support in Old Labour's heartlands.⁴ This project clearly reflects Blair's strong Christian socialist leanings and

marked antipathy to collectivism and corporatism.⁵ In this context social inclusion is to be secured primarily through labour market attachment and the economic regeneration of marginalized communities; and individual, family, and child poverty are to be alleviated mainly by a series of 'stealthy' (rather than proudly proclaimed) redistributive measures that ideally involve redirecting revenues within what would still remain rigid fisco-financial parameters. In this sense the emphasis on communitarian themes and policies could prove little more than a flanking measure to ameliorate the effects of a neo-liberal accumulation strategy (see Bieling in this volume). For, in this latter regard, New Labour has largely followed in the tracks of the neo-liberal regime shift it inherited, as can be seen by examining the main elements of neo-liberalism as pursued in the Thatcher-Major years.

The principal elements of consolidated Thatcherism's neo-liberal accumulation strategy comprised: (a) *liberalization*, promoting free market (as opposed to monopolistic or state monopolistic) forms of competition as the most efficient basis for market forces; (b) *deregulation*, giving economic agents greater freedom from state control and legal restrictions; (c) *privatization*, reducing the public sector's share in the direct or indirect provision of goods and services to business and community alike; (d) *(re-)commodification* of the residual public sector, to promote the role of market forces, either directly or through market proxies; (e) *internationalization*, encouraging the mobility of capital and labour, stimulating global market forces, and importing more advanced processes and products into Britain as a means of economic modernization; and (f) *reduced direct taxes* to expand the scope for the operation of market forces through enhanced investor and consumer choice (see chapter two).

These six mutually reinforcing neo-liberal policies formed the micro-economic basis of its supply-side strategy as the complement to Thatcherism's macro-economic counter-inflationary strategy based on monetary and financial restraint. They also shaped the broader structural and strategic shift from a flawed Atlantic Fordism and Keynesian Welfare

National State towards an ill-defined post-Fordist mode of growth and half-hearted Schumpeterian Workfare Post-National Regime. The path beyond the post-war Fordist mode of growth was understood during the Thatcher-Major period primarily in terms of a shift from industrialism to post-industrialism, flexibility rather than rigidity in the social relations of production, and an increased role for small and medium firms in job creation. This was believed to require state action to promote enterprise, innovation, and competitiveness, to subordinate a broad range of social policies to the demands of greater labour market flexibility, and to lower overall social expenditure *qua* cost of international production. In pursuing these objectives, however, Thatcherism fell well short of realizing a Schumpeterian workfare postnational regime. For its economic policy was more Ricardian than Schumpeterian, social policy was more concerned with cost-cutting than promoting economic regeneration, and, despite the transfer of economic and social policy functions to public agencies and/or private-public partnerships that by-passed elected local authorities, there were still strong 'nationalizing' tendencies reflected in micro-management by the central state.

It is tempting to attribute New Labour's electoral victory in 1997 to a cunning combination of 'an organizational fix and floating signifiers'. For its organizational reforms enabled the leadership to distance New Labour from its past and to assert control over its future; and its resort to soundbites and malleable 'big ideas' enabled it to leave its strategic line and detailed political programme undefined as far as the electorate was concerned.⁶ Following its election, the New Labour government seems to have been content, at a minimum, to administer much of Thatcherism's legacy in regard to the six main planks of neo-liberalism, as if considering their effects to date as so many economically or politically irreversible *faits accomplis*. It also committed itself to further liberalization and de-regulation in many areas; to the privatization or, at least, corporatization,⁷ of most of what remains of the state-owned sector; and to the extension of market forces into what remains of the public and social services at national, regional, and local level as well as to the spread of market forces into the provision of such services

elsewhere in Europe and the rest of the world. Its policy on this last point reflects its firm attachment to the internationalization of the British economy, as evidenced in its welcome to inward investment, its active promotion of the international interests of British-based (but not always British-owned) financial, commercial, and industrial capital, and its support for the Washington Consensus on the benefits of free trade in services on a world scale. Indeed, New Labour has warmly embraced the logic of neo-liberal globalization as a whole, proudly proclaiming to all and sundry at home and abroad its inevitability, desirability, and truly global benefits. Finally, it also accepted the income tax rates and spending plans of the last Conservative government as the basis for its own first period of office⁸ not just for prudential electoral reasons but also on more principled grounds, re-affirming during the 2001 election campaign its commitment to maintaining the current top rate of income tax. This explains why New Labour prioritizes attempts to reduce unemployment in order to cut the social assistance bill and to raise tax revenues, to discover areas where cuts can be made to free resources for its social agenda, and to introduce social policies that 'would make a difference at little or no cost' (Blair 1996, cited in Panitch and Leys 1997: 252).

Nonetheless neo-liberalism has been modified compared to the Thatcher and Major years. This has enabled New Labour to contrast some of its key policies with those of the 18 years of 'Thatcherite misrule' and has even led some commentators to claim that it has rejected neo-liberalism. Against such self-serving and/or ill-judged interpretations, however, some basic points about neo-liberalism need to be recognized. For it is an evolving economic and political project that has already passed through several stages, that can be adjusted as its effects unfold in different fields and on different scales, and that has to be adapted to changing economic, political, and social circumstances. In particular, as the neo-liberal regime shift comes to be consolidated, significant changes in the state's role should be anticipated. The transition period was marked by a concern with *rolling back* the exceptional forms of state intervention linked to attempts at crisis-management in the previous regime (Atlantic Fordism) as well as the more normal forms of intervention associated with the Keynesian Welfare

National State; and by a concern with *rolling forward* the institutional architecture for a new regime, securing the balance of forces needed for this, and establishing the new forms of state intervention deemed appropriate to that regime should it be successfully consolidated. This period has been followed by the first steps on the road to a *routinization of neo-liberalism*. Thus more emphasis has been given to securing the operation of the emerging neo-liberal regime through normal politics, to developing supporting policies across a wide range of policy fields, and to providing flanking mechanisms to compensate for its negative economic, political, and social consequences. All of these measures are being pursued, of course, in a context marked by continuing political worries about state unity and territorial unity, political legitimacy, and re-election as well as more general concerns with the future of social cohesion (on these aspects of political practice, see Poulantzas 1973 and Jessop 1990).

Some of the discontinuities with the Thatcher-Major years are related to New Labour's aim to adapt neo-liberalism to new exigencies on a global, European, and national scale. In particular its economic strategy reflects a further intensification of the dominant neo-liberal mode of globalization and the increasing equation of post-Fordism with the alleged transition to the so-called 'knowledge-based economy'. Thus, within the framework of a strong commitment to expanding the European single market and maintaining the dominant position of the City of London, New Labour is developing a strategy for a *knowledge-driven economy*. This was first clearly articulated in the Department of Trade and Industry's White Paper, *Our Competitive Edge: Building the Knowledge-Driven Economy* (DTI 1998), in which more formal neo-liberal arguments about competitiveness inherited from the Thatcher-Major years were combined with more substantive claims about the importance of information and communication technologies, the information economy, the culture industries, the knowledge base, and human capital as the crucial foundations for competitiveness in an irreversibly globalizing economy. This is consistent with the fact that, whilst manufacturing continues its relative decline, the UK has become the world's second biggest services exporter after the USA – overtaking Germany and France

– on the basis of an explosive growth in such creative industries as fashion, film, pop music, and advertising as well as continued strength in financial services, computing, and information technology.⁹ At least discursively, then, the 1998 White Paper marks a shift from a more Ricardian to a more Schumpeterian approach to competitiveness. In this sense, New Labour is less concerned to manage the transition from rigid labour markets to flexible labour markets in response to the crisis of Fordism – a task already largely achieved under Thatcherism – than to create a neo-liberal (rather than neo-statist or neo-corporatist) framework conducive to a 'knowledge-driven' globalizing economy. Its accumulation strategy in this regard can be seen, in the language of transnational historical materialism, as a new 'comprehensive concept of control' that seeks to reconcile and realign the interests of financial capital and a knowledge-intensive productive capital.

Likewise, New Labour's social strategy reflects not only the continuing desire to subordinate social policy to the alleged economic imperatives of global competition but also to address the marked increase in social polarization and exclusion that has accompanied the neo-liberal project as pursued by the Thatcher-Major governments. This is especially important given the markedly uneven development of the British economy during the Thatcher-Major years -- with overheating in London and the South more generally and, in the North, de-industrialization and relative economic stagnation. This is reflected in a series of flanking measures to improve the efficiency of flexible labour markets as well as to temper the social costs of labour market reforms and other neo-liberal economic measures. These were nonetheless limited by cost constraints in the first two to three years of the New Labour government and by worries that they might create political space for opposition to the New Labour project. Initially more impressive in their rhetoric, aims, and institutional design than they in their often niggardly and mean-spirited implementation, therefore, they have recently become the centre-piece of the second New Labour government.

The primacy of neo-liberalism in this changing policy mix can be discerned in many aspects of New Labour strategy. Thus it continued to move consistently

towards neo-liberalism in its economic policies from its disastrous 1984 general election defeat to its landslide 1997 general election victory (see especially, on a wide range of policies, Hay 1999). We can also note the subsequent trend for the neo-liberal and the disciplinary bias of many of its economic and social policies to increase from their initial policy formulation through local experimentation to full-scale implementation (e.g., in the field of labour market policy, see Dolowitz 1997; Haughton et al., 2000). This impression of neo-liberal primacy is reinforced when one contrasts the constancy and conviction that marks the pursuit of neo-liberalism both rhetorically and practically with the oscillation and hesitation in those aspects of New Labour discourse and actions that seem to run counter to neo-liberalism.¹⁰ Moreover, whilst it toughs out opposition from party members, trade unions, and new social movements, New Labour has always proved highly sensitive to business criticism about its alleged neglect and/or backsliding regarding the market mechanism. Business is also over-represented in scores of official review and advisory bodies and is being given an increasing role in the creeping privatization of public and social services. Initially this could have been dismissed as a pragmatic desire to win the *trust* of business on the grounds that this would make it electable and help to secure a period of economic stability and growth that would provide the resources to reform the welfare state. But it now appears that New Labour has embraced the City agenda and neo-liberalism more generally and pays less attention even to regional chambers of the CBI, Chambers of Commerce, and other representatives of the domestic economy, let alone the trade unions. Indeed, it appears to have replaced the Conservatives as 'the party of the City, the big transnational corporations and the Foreign Office – the overseas lobby' (Ramsay 1998: 115).

3. The Neo-Liberal Approach to Labour Market Reform

Five main features characterize the Thatcher legacy on labour markets: (a) de-industrialization, with a consequent weakening of the strongest and most militant trade unions; (b) legislation directed at trade unions' capacity to engage in strike action and collective bargaining, and to represent their members in other

respects; (c) a general de-legitimization of corporatism and tripartism as means of co-making and co-implementing economic, social, and political policy; (d) the flexibilization and de-regulation of labour markets; and (e) the development of neo-liberal 'welfare-to-work' strategies. The first of these features is a *fait accompli* that had already fundamentally changed the social basis of the Party and its links with the trade union movement well before 1997. Blair has also long ago warmly embraced the second feature. Indeed, he created political capital for himself with the power bloc and the wider electorate through his sustained attacks on the economic and political power of trade unions as well as on Clause Four of the Labour Party constitution, which committed it to the nationalization of the commanding heights of the British economy. Moreover, although the first Blair government did introduce some measures favourable to unions (e.g., in the field of union recognition and family-friendly employment policies), major concessions were made to business regarding their content, scope of application, and timing of implementation. Third, not only does New Labour continue to reject corporatism and tripartism, it is also just as enchanted as the Thatcherite with entrepreneurs, business leaders, and the business community more generally. Thus the business elite continues to have privileged access to the Labour Party and the Labour Government, has a leading role in policy advice and policy evaluation, and has secured key positions in an increasing range of public-private partnerships. New Labour's continuation, elaboration, and consolidation of the fourth and fifth legacies of Thatcherism are the main focus of the remainder of this chapter.

The Thatcher-Major years witnessed a growing turn to neo-liberal workfare with Major himself being the first to float the idea of 'workfare' to replace welfare before he became Prime Minister. The shift towards 'soft' workfare can be dated from the introduction in 1986 of the Restart Programme (itself modelled on US experience) which *invited* the unemployed to search for work and accept job or training opportunities in return for benefits. The turn to 'hard' workfare was initiated with the Social Security Act 1989, which *forced* individuals not only to look for employment but to accept private sector jobs in return for continued state aid (Dolowitz 1997: 4). Under this Act it was no longer necessary that 'suitable' employment be offered, only employment; and it was no longer considered a

'good cause' for refusing an offer if that employment involved part-time, low-waged, or seasonal work and/or if the hours were excessive. Not only was this hard workfare approach tougher than in the rest of Europe, it was even tougher in its demands to accept any job and more punitive in its application than the US model on which it was based (Dolowitz 1997: 12).

This approach was taken further with the publication of the *Jobseeker's Allowance* scheme (1994) and the subsequent passage of the 1995 Jobseeker's Act, which combined unemployment and income support into a new Jobseeker's benefit and further tightened the qualifications for access to benefit. This approach was extended yet again a year later with the introduction of the Project Work pilot schemes, which are US-style workfare programmes that offer the long-term unemployed 13 weeks' intensive training in job finding and work preparation. After this period, individuals without regular employment must participate for three months in work experience projects; those who refuse to participate or do not complete the programme lose benefit progressively. Far from rejecting the tough demands of these schemes, New Labour welcomed them. Indeed, Blair vetoed proposals from the Labour Party to scrap the Jobseeker's Allowance and advocated workfare in series of 'tough love' speeches on rights and responsibilities. Likewise, Gordon Brown indicated his intention as shadow chancellor to extend the Jobseeker's scheme to 18-24 year olds. It is hardly surprising, then, that the Jobseeker's Allowance remains the cornerstone of labour market policy in New Labour's welfare-to-work policies.

Blair had pledged that his government would be a 'Welfare to Work Government'. He also claimed that 'the greatest challenge for any democratic government is to refashion our institutions to bring [the] workless class back into society and into useful work'.¹¹ This point was echoed by Brown, the Chancellor, who signalled New Labour's intention to 'rebuild the welfare state around the work ethic' (*Guardian* 26.7.97). And by Peter Mandelson, the flawed *eminence grise* behind New Labour strategy for many years, who argued that 'a permanently excluded underclass actually hinders flexibility' (Mandelson 1997: 17). A key feature of this reorientation towards workfare is the recognition that a permanent underclass (or

surplus population) of individuals who are unemployable and/or have opted for a life of welfare dependency increases inflationary pressures as labour markets tighten. Thus it is a deliberate aim of New Labour policy to force the unemployed - including lone parents, the disabled, and those who had taken early retirement on benefits - into the labour market at entry-level, low-wage jobs in order to expand the labour pool and reduce wage-inflationary pressures (for details of this rationale, see Layard et al., 1991, and, for current policy, Layard 1998).¹² It follows that unemployment is no longer seen in terms of a *shortage of jobs* and hence of a need to manage aggregate demand in order to secure *full employment* but is interpreted instead in workfarist terms as the product of a *shortfall in job-readiness* that is reflected in a lack of *full employability*. This means in turn that the appropriate response to unemployment should no longer be short-term job creation until demand management reflate the economy but, rather, policies to force the unemployed into work (with employers subsidized by the state and/or their employees receiving top-up social security benefits as necessary) in order to reinforce the *work ethic*, reduce welfare dependency, and generate social security savings and/or tax revenues that can be applied to more worthwhile social ends.

In this context it was little surprise that the first New Labour budget (July 1997) made its 'New Deal' for the unemployed its largest single new public spending commitment, with a £5.2bn budget financed from a windfall tax on the profits of the utilities privatized during the Thatcher-Major years. This initiative built on the earlier Project Work and Job Seeker's Allowance approaches but modified these (US-inspired) policies in the light of later developments in American workfare programmes. The New Deal is a typical neo-liberal programme and is intended to eliminate welfare dependency. It is an active labour market attachment programme that emphasizes rapid integration into the private labour market with sanctions for non-compliance; it also emphasizes low cost, privatized delivery with performance-related rewards for the intermediaries who seek to 'attach' the unemployed to work or training. It provides a central plank in the government's efforts to improve the pathways into work of specific target groups, such as young workers, the disabled, lone parents, the long-term unemployed aged 25-49, partners of the unemployed, and those aged 50 years or more. The aim in each

case is to integrate those without work into the labour market on the grounds that opportunities for employment are the best form of welfare support.

The New Deal for young people (defined as 18-24 years old) who have been in receipt of Jobseeker's Allowance for 6 months is emblematic here. It is also reckoned to absorb 70 per cent of the total projected spending on the New Deal programmes (Robinson 2000: 19).¹³ The young unemployed are offered four routes from welfare into work: (subsidized) private employment (including, in approved case, self-employment), full-time education for those with basic skills needs, activities with an environmental task force, or voluntary sector employment. To stay at home on full benefit is not an option. Before starting on one of these routes, young people enter the 'gateway', i.e., they receive counselling and are given tailor-made plans suited to their particular needs and circumstances. The options are not regarded with equal favour: the highest preference is for unsubsidized employment, then subsidized employment, then education courses, and then environmental task force or voluntary service (with these last two options often serving as a deterrent to non-participation). Participation in the scheme is compulsory and non-participation leads to increasing levels of benefit withdrawal. Employment Service regulations require most claimants to be contactable for a minimum of 40 hours per week and to be available for work, if offered, in less than 24 hours. The unemployed must sign a Jobseeker's Agreement and are subject to a Jobseeker's Direction, i.e., a requirement that they undertake specific actions to improve employability. A range of providers in each locality can operate these gateway services, either individually or in partnership. Local partners can include central, regional, and local government; businesses; trade unions; and voluntary, community organizations. Nonetheless an increasing role in provision has gone to private business, both because of New Labour's ideological preference and because payment in arrears combined with tough auditing and administrative requirements make it hard for non-commercial bodies to take a lead role.

Within the context of New Labour's 'welfare-to-work' strategy, a recent innovation is the establishment of Employment Zones. Whilst formally separate from the New

Deals, they are part of the same overall concern to improve employability. They are supposed to work through capacity building at the individual and institutional level in areas with high levels of economic inactivity and/or registered unemployment. Thus they blend local workfarism with labour market policy and their delivery involves a 'Third Way combination of pluralistic governance and local partnerships, galvanized by inter-locality competition and national performance targets' (Haughton et al., 2000: 670). Their rationale is to cut the unemployable surplus population so that inflationary pressures are reduced and resources freed for other social programmes. Consistent with the general pattern of welfare-to-work programmes under the Conservative and New Labour governments, however, 'there appears to be a shift within Employment Zones from innovation-based local partnerships, practicing progressive and sustainable welfare reform through experimentation, to a workfarist local regime of labour market discipline and regulation' (Jones and Gray 2001: 5).

In addition to its labour market attachment policies, New Labour has developed an anti-poverty strategy to address the widely acknowledged fact that, far from having reduced inequality through the so-called 'trickle down' effect, the neo-liberal reforms of the Thatcher/Major years seriously aggravated it. Thus, in contrast to the Thatcherite view that economic growth would solve any residual problems of social exclusion, New Labour sees social exclusion and the existence of an underclass as obstacles to economic growth (cf. Cochrane 1999: 199). This distinctive feature of New Labour policy has been well expressed in the following statement:

In place of the indifferences and neglect of the Conservative years, when unemployment was simply the price that had to be paid for controlling inflation and when the prevailing governmental response to the existence of poverty was one of denial, Labour has launched a raft of new policies and initiatives in this area while setting itself exacting poverty-alleviation targets' (Haughton et al., 2000: 670).

The background to this change of approach can be deduced from the following data. Whereas average real income increased by 44 per cent from 1979 to 1996/7 and the real income of the top 10 per cent rose by 70 per cent, the real income of the poorest 10 per cent fell by 9 per cent. Couples with children account for the largest group in poverty (22 per cent of the total) with the result that more than 1 in 3 children were in poverty in 1996/7 compared with 1 in 10 in 1979. There was also a change in the geography of poverty, with the gap between affluent and poor wards increasing between the 1981 and 1991 censuses, so that the very poorest were more concentrated in areas of acute need (Benington and Donnison 1999: 64). In response to such problems, Blair announced in March 1999 a 20-year programme to eradicate child poverty as a central part of New Labour's overall strategy to alleviate all forms of poverty and to reduce social exclusion. This was necessitated by the rise in workless households, especially those containing children, over the last 30 years. Thus 17 percent of households were workless in Spring 1999 (just over 1 in 6) when the scheme was announced; these households contained 4m adults and 2.6m children (13 per cent and 18 per cent of the respective populations). These proportions were roughly three times larger than those found in the 1970s and four times those in the late 1960s at the height of the Fordist boom. Unsurprisingly, 90 per cent of these households were poor and, as working poverty had also increased, around one in three children was now living in a 'relatively poor' household (Dickens et al., 2000: 109-110). New Labour's assault on child poverty is based on the principles of a 'modern' (sic) welfare state rather than the old Beveridgean model with its assumption of lifetime employment for the male head of household. Among the most distinctive features of the New Labour approach are a requirement that lone mothers seek employment once their youngest child becomes four years old (again, this is an innovation borrowed from the USA). It has also introduced a programme of childcare support (promizing to create 50,000 extra childcare places) as well as other policies intended to 'make work pay' for those with dependent children. The overall package of measures includes the National Minimum Wage, a raising of the threshold at which employees pay National Insurance contributions, a reduced rate of 10 percent for the first tranche of taxable pay, the Working Families Tax Credit (WFTC), a Child Care Tax Credit for low income households where all

parents are in work, and a range of other plans to integrate the tax and benefit system.

It is important to note the financial cost of these transfer payments for the working poor. In the current fiscal year of 2001-2, for example, New Labour's forecast spending on the New Deal programmes is just £900m; in the same year, it will spend an extra £6,000m on increased benefits and tax credits aimed at low-income families. This suggests that

[a] strategy appears to be emerging, by design or by accident, of trying to use job-search-focused programmes to move people into regular employment in a relatively cost-effective way and then to subsidize households, especially with children, so that their net incomes can rise above the poverty line. Most of this expenditure could be classified as good, old-fashioned fiscal redistribution to the poor. Even the precise instruments are not new, as the UK introduced its first income supplement for poor families in 1973. ... So there is less new about the New Deals than appears at first sight, and they may turn out to be less important than the Labour government's programme of fiscal redistribution in improving the lifetime incomes of disadvantaged households [and thereby reversing the dramatic increase in income inequality of the 1980s and 1990s, my comment, BJ]' (Robinson 2000: 25).

The incoming Labour government established a Social Exclusion Unit (SEU) in the Cabinet Office, with a brief to 'develop integrated and sustainable approaches to the problems of the worst housing estates, including crime, drugs, unemployment, community breakdown, and bad schools etc' (Mandelson 1997). The main focus of the SEU in its first years, however, has been education and crime rather than social security. Overall responsibility for the latter has remained with the Treasury, which has, indeed, increased its control over welfare strategy policy more generally (Deakin and Parry 2000). The effort to eradicate social exclusion is based on a wide range of experimental poverty programmes that typically involve tightly focused partnership- and area-based initiatives. Symptomatic of these are the 'New Deal for Communities' which comprises 17

such programme; six multiple action zones to pursue 'joined up government' action across the fields of health, education, and employment in six inner city areas; and 250 Sure Start education schemes for children in poor families. These policies are being pursued within a broader framework of policies to target social welfare on poor families – the most important of which is the family tax credit guarantee for the working poor. But none of this detracts from the impression that New Labour scores highly on 'work for those who can' and poorly on 'security for those who cannot'.

Another supplement to the 'welfare-into-work' programme are commitments to educational reform at all levels from nursery education through universities to lifelong learning programmes as well as a range of programmes to promote a knowledge-driven and service-based economy. But these policies, too, are neo-liberal in inspiration, rhetoric, content, and implementation. In the education field, for example, they are associated with increasing use of market proxies, inter-provider competition, and, even, for failing schools, privatization; and they use market incentives to modify educational and career choices and to induce institutional restructuring at all levels from primary schools to advanced research.

The most likely result of the welfare-to-work scheme in its present form is an increased crowding in low-wage job markets, exerting downward pressure on pay amongst the working poor, and further destabilizing contingent employment. Given the uneven geography of unemployment, this policy approach inevitably works out differently in areas of high and low labour market demand. In the former, welfare-to-work reforms may well help channel some people into work more effectively. In areas of demand deficit, however, the reforms will at best take people off the unemployment register and engage them in some form of useful job preparation activity. At worst, moreover, given the strong coercive element in some programmes, pushing people off benefits into work creates a downward spiral of job insecurity and low pay that harms all those seeking a footing in this precarious segment of the labour market (Haughton et al., 2000: 671).

4. Is 'New Labour' Neo-Liberal?

New Labour has followed willingly in the footsteps of Thatcherism in promoting a shift from a Keynesian welfare national state to a Schumpeterian workfare post-national regime. Having pioneered Keynesian demand management under Attlee, the Labour Party under Blair now advocates full employability achieved through micro-government rather than full employment achieved through macro-economic management; and, having set up the post-war welfare state, it now sees welfare dependency and welfare statism as problems to be eliminated through a mandatory neo-liberal programme of workfarism and the introduction of market forces and business practices into delivery of income support and public services. In both respects it has embraced the general neo-liberal strategic line developed during the Thatcher-Major years and, in particular, the increasingly hard 'welfare-to-work' programme that has been developed in the USA under the Reagan, Bush senior, and Clinton presidencies. Thus, whilst Blair is on record as admiring many of the achievements of Thatcherism, he has also enthusiastically contributed to an emerging Transatlantic dialogue with the Clinton Administration to advocate the 'Third Way'. In line with this emerging bipartisan Anglo-American neo-liberalism, New Labour has intensified the strategy it inherited of promoting workfare and putting systematic downward pressure on public spending on universal welfare benefits – most notably in pensions, housing provision, long-term disability insurance, long-term health care, and higher education – as well as making welfare benefits more selective (or 'targeted' in the jargon of neo-liberalism). However, whereas the Conservatives would have used the savings generated by these measures to cut taxes, New Labour is attempting to use them to effect a longer-term and covert redistribution of welfare spending to the very poor through carefully-targeted means-tested benefits. This is intended to limit the most serious forms and effects of social exclusion – to promote both economic efficiency and social justice – without upsetting the crucial swing voters of Middle England.

Given the arguments and analysis above, to what extent can we describe the New Labour government as moving Britain along a neo-liberal path towards a Schumpeterian workfare post-national regime? First, New Labour certainly adopts

a Schumpeterian rhetoric, stressing innovation for global competitiveness, the need for an enterprise culture, the promotion of a knowledge-driven economy, and the development of a lifetime 'learning society'. Indeed, as Rustin has recently noted:

'the fundamental assumption of the Blair project is that unless Britain can reach the standard of performance of its global competitors, in virtually every aspect of life, there is no hope of achieving lasting improvements in well-being. "Getting competitive" is the name of its game. This frame of thinking is shaping most fields of government policy' (Rustin 1998: 7).

However, just like the preceding Conservative governments, New Labour rejects the levels of taxation and public expenditure needed to pursue a consistent Schumpeterian strategy. Instead it is more inclined towards a neo-Ricardian strategy, i.e., one that is oriented to weak competition based on deregulating enterprise and reducing relative unit labour costs in the interests of allocative efficiency rather than one that is oriented to greater dynamic efficiency based on developing strong competition around enhanced structural or systemic competitiveness (Cox 1995: 218; Messner 1997). In this respect it believes that it is following the American road to economic prosperity rather than one of the various Continental European or East Asian roads. But Blair and his colleagues do not seem to recognize that many conditions for US success, if such it be, cannot be repeated elsewhere. There can be only one world debtor running massive trade deficits among leading capitalist economies; only one economy able to print the most liquid international currency to finance its debts; only one major economy able to exploit a global brain drain to sustain its technological prowess despite decrepit public education; only one economy able to impose its definitions of intellectual property and other standards to benefit its own producers; and so forth. Political conditions in America and Europe are also quite different despite the latter's growing Americanization in political as well as popular culture.

Second, it is obvious that New Labour is committed to a workfare strategy in which social policy is subordinated to the twin requirements of labour market

flexibility and of maintaining downward pressure on the social wage *qua* cost of international production. This involves both more and less than an active labour market policy – which is widely acknowledged as a common trend across the advanced capitalist economies. For it inflects that policy in a neo-liberal rather than neo-corporatist or neo-statist manner and is therefore more likely to promote ‘flexploitation’ than ‘flexicurity’. The former term usefully refers to ‘the anti-worker aspects of flexibility’ (Gray 1998: 3).¹⁴ The latter term, although anglophone, was coined by the Dutch in 1995 to refer to the rebalancing (through neo-corporatist bargaining and social pacts) of increased labour market flexibilization on the one hand and social and employment security on the other (Wilthagen 1998).¹⁵ In contrast to the preceding Conservative governments, however, New Labour’s approach to workfare is more a ‘One Nation’ inclusionary than a ‘Two Nations’ exclusionary strategy. This shift in approach has a dual motivation. For not only does New Labour believe in an American-style ‘welfare-to-work’ strategy that uses welfare as a springboard into the labour market rather than as a safety net for the unemployed - it also hopes that this will gradually reduce public expenditure, releasing funds for other social priorities including education, health and alleviating child poverty. This second motivation is well expressed in a statement by Mandelson, which followed the sentence quoted above on the extent to which the underclass needed to be eliminated as a fetter on flexibility:

[But] flexibility on its own is not enough to promote competitiveness. It is the job of government to play its part in guaranteeing “flexibility plus” -- plus higher skills and higher standards in our schools and colleges; plus partnership with business to raise investment in infrastructure, science and research; plus an imaginative welfare-to-work programme to put the long-term unemployed back to work; plus minimum standards of fair treatment at the workplace; plus new leadership in Europe in place of drift and disengagement from our largest markets’ (Mandelson 1997: 17).

There is little hard evidence as yet, however, that New Labour’s economic and social policies are having the promised beneficial effect in boosting the enterprise culture and competitiveness as opposed to getting people off the unemployment register and reducing welfare spending. Much of the beneficial effect of New

Labour policies is more plausibly attributed to the favourable international economic situation (including the continued overvaluation of sterling with its downward pressure on wages and prices) that prevailed in its first four years in office and to the more traditional macro-economic measures that it has been following. In the future, the much-expanded commitment to fisco-financial redistribution by stealth will further enhance this. The most comprehensive estimates of the impact of changes to the tax and benefit system in the first three New Labour budgets, in combination with the national minimum wage, suggest that the worst off quintile of households will gain by around 8% on average whereas the best off quintile will gain by around 0.5% (Immervoll et al., 1999). The second term of office should see further improvements in this regard. However, as Glyn and Wood note, since the bottom quintile receive more than 80% of their post-tax income in the form of benefits and these are indexed to inflation rather than earnings, around one half of the so-called 'redistribution' achieved by Labour's budgets and other measures (such as the minimum wage) simply prevents the poorest falling *even further* behind as benefits rise more slowly than earnings (Glyn and Wood 2001).

The post-national character of New Labour's strategy is ambiguous. On the one hand, there is a clear commitment to devolution (witness the Welsh and Scottish Assemblies, plans for regional assemblies in England, and, beginning with London, the introduction of city mayors). And, albeit more for political than economic motives, New Labour also has a more pro-European stance to put alongside the pro-Americanism or pro-Atlanticism it has inherited from the Thatcher/Major years. But this pro-EU stance is more concerned with the creation of a single market that might benefit UK-based (if not always British-owned) international financial and service firms than it is with developing a strong social Europe or a federal European state. New Labour supports a strong European approach to the single market, security issues, the environment, and labour immigration; but it opposes a uniform European approach to labour markets, trade unionism, social welfare, and social inclusion. Its decision to delay participation in the single European currency system also suggests continuing caution about the

European project. In this sense there is more rhetoric than reality behind New Labour's commitment to give Britain a leading role in Europe.

Finally, there has been much New Labour talk about extending citizenship, implementing communitarian values, building a stakeholding society, promoting public-private partnerships, and pioneering a 'Third Way' between laissez-faire market capitalism and top-down national economic planning and bureaucratic welfarism. Indeed, a key theme of the current modernization debate is that joined-up government and citizen-centred services require a greater degree of both vertical and horizontal integration – that is, closer co-ordination between different tiers of government (local, regional, national and European) and different spheres of society (public, private, voluntary, and the grassroots community) (Benington and Donnison 1999: 61). Nonetheless, there is still a strong role for the state in Blair's 'New Britain'. This is particularly clear in the enhanced disciplinary role of the state - whether in regard to promoting the enterprise culture among the unemployed, the constant monitoring and disciplining of individual hospitals, schools, universities, local authorities, government offices, privatized utilities and so on, the pursuit of a 'zero tolerance' strategy towards hooliganism, or the increasingly authoritarian response to asylum seekers, refugees, and economic migrants.

Endnotes

¹ In writing this paper I have benefited greatly from discussions and collaboration with Martin Jones, Jamie Peck, and Nik Theodore, on whose publications I have also freely drawn (see references).

² I owe this point to Theodore and Peck (1999: 486).

³ Thus, whilst New Labour has developed strong centralizing instincts, a penchant for centralized micro-management of local social and economic policy initiatives, and a

frenetic desire to discipline the Labour Party and control the wider political agenda, it has also conceded – albeit reluctantly – some (at least potentially democratic) constitutional reforms at national, regional, and urban levels. Even in these regards, however, decentralization has been marred by 'control freakery'.

⁴ On the rationale behind this strategy, see Benington and Donnison 1999: 68-9.

⁵ Gordon Brown shares Blair's ethical socialism and commitment to the work ethic but, as can be seen from his expensive programme of redistribution by stealth, is less hostile to an active role for the state. Against this social conscience, however, must be set Brown's passionate and unfathomable support for the Private Finance Initiative, an expensive means of purchasing capital goods on annual rental from profit-making enterprises.

⁶ Extensive effort went into re-assuring the City of London, however, that the economy was safe in New Labour's hands.

⁷ Corporatization refers to the transformation of publicly accountable state-owned enterprises into corporate entities operating according to commercial criteria and protected by a cloak of commercial confidentiality, even if they continue to receive state funding. A recent example is the transformation of the Royal Post Office into Consignia. The most controversial new privatization under Labour is that of the National Air Traffic Services but there has been a creeping privatization of many social and public services, including health, education, and pensions.

⁸ In practice, New Labour broke with these plans in regard to health and education for a mixture of reasons to do with restructuring and electoral calculation.

⁹ Since 1970, the annual average growth rates for services and manufacturing have been 2.6 and 0.7 per cent respectively. Services now account for around two thirds of total economic output.

¹⁰ At different times New Labour has invoked 'the stakeholding society', 'the giving society', 'communitarianism', 'social citizenship', 'social capital', 'partnership', and, of course, 'the Third Way' to distinguish its approach from Thatcherite neo-liberalism. But these are rarely followed through in practical terms in case they threaten the neo-liberal project. Instead New Labour has proceeded to implement its social programme through 'stealth' rather than by mobilizing the socially excluded behind a radical hegemonic project. On New Labour discourse more generally, see Fairclough (2000).

¹¹ Speech at the Aylesbury Estate, Southwark, 2 June 1997.

¹² This has been dismissed as a forlorn hope on the grounds that wage-pressures are not really significant in the low-wage sector of the labour market (Haughton et al., 2000: 671).

¹³ This is equivalent to £2,240m and compares with 15% of the total spend devoted to the New Deal for 25-49 year olds, 1% for the over-50s, 6% for lone parents, 6% for the disabled, and 2% for the partners of unemployed people (Robinson 2000: 19).

¹⁴ For arguments that welfare-to-work as practised in the UK will not necessarily lead to social inclusion, see, among others, Cook et al., 2001; Glyn and Wood 2001; Haughton et al., 2000; Hyde et al., 1999; Jones and Gray 2001; Peck and Theodore 2000.

¹⁵ For a more general review of 'flexicurity'-type active labour market arrangements in Europe that are non-liberal in form, see Schmid 1998).

References

Artis, M. and Cobham, D., eds (1991) *Labour's Economic Policies, 1974-79*, Manchester: Manchester University Press.

Benington, J. and Donnison, D. (1999) 'New Labour and Social Exclusion: the Search for a Third Way – or just Gilding the Ghetto again?', in H. Dean and

- R. Woods, eds, *Social Policy Review 11*, London: Social Policy Association, 45-70.
- Cochrane, A. (1999) 'New Labour, New Urban Policy?', in H. Dean and R. Woods, eds, *Social Policy Review 11*, London: Social Policy Association, 184-204.
- Cook, J., Roche, M., Williams, C.C., and Windebank, J. (2001) 'The Evolution of Active Welfare Policies as a Solution to Social Exclusion in Britain', *Journal of European Area Studies*, 9 (1), 13-26.
- Cox, K.R. (1995) 'Globalization, Competition and the Politics of Local Economic Development', *Urban Studies*, 32 (2) 213-224.
- Deakin, N. and Parry, R. (2000) *The Treasury and Social Policy: the Contest for Control of Welfare Strategy*, Basingstoke: Macmillan.
- DTI (1998) *Our Competitive Edge: Building the Knowledge-Driven Economy*, <http://www2.dti.gov.uk/comp/competitive/main.htm>, accessed 10 January 1999.
- Dickens, R., Gregg, P., and Wadsworth, J. (2000) 'New Labour and the Labour Market', *Oxford Review of Economic Policy*, 16 (1), 95-113.
- Dolowitz, D.P. (1997) 'Reflections on the UK Workfare System', *Review of Policy Issues*, 3 (1), 3-15.
- Fairclough, N. (2000) *New Labour, New Language?*, London: Routledge.
- Glyn, A. and Wood, S. (2001) 'New Labour's Economic Policy: How Social-Democratic is the Blair Government?', in A. Glyn, ed., *Social Democracy in Neoliberal Times*, Oxford: Oxford University Press.
- Gray, A. (1998) 'New Labour – New Labour Discipline', *Capital and Class*, 65, 1-8.
- Grover, C. and Stewart, J. (1999) "'Market Workfare": Social Security and Competitiveness in the 1990s', *Journal of Social Policy*, 28 (1), 73-96.
- Grover, C. and Stewart, J. (2000) 'Modernizing Social Security? Labour and its Welfare-to-Work Strategy', *Social Policy and Administration*, 34 (3), 235-252.
- Houghton, G., Jones, M., Peck, J., Tickell, A., and While, A. (2000) 'Labour Market policy as Flexible Welfare: Prototype Employment Zones and the New Workfarism', *Regional Studies*, 34 (7), 669-680.
- Hay, C. (1999) *The Political Economy of New Labour. Labouring under False Pretences?* Manchester: Manchester University Press.

- Holmes, M.R. (1985) *The Labour Government, 1974-79: Political Aims and Economic Reality*, Basingstoke: Macmillan.
- Hyde, M., Dixon, J., and Joyner, M. (1999) "'Work for those than can, security for those that cannot": the United Kingdom's New Social Security Reform Agenda', *International Social Security Review*, 52 (4), 69-86.
- Immervoll, H., Mitton, L., O'Donoghue, C., and Sutherland, H. (1999) 'Budgeting for Fairness? The Distributional Effects of Three Labour budgets', Cambridge: Cambridge University Department of Applied Economics, <http://www.econ.cam.ac.uk/dae/mu/cathal/32.htm>, accessed 10th April 2001.
- Jessop, B. (1990) *State Theory: Putting the Capitalist State in its Place*, Cambridge: Polity.
- Jessop, B. (1998) 'Die Erfahrungen mit New Labour – Eine Politik für den Postfordismus?', in C. Görg and R. Roth, eds., *Kein Staat zu machen. Zur kritischen Sozialwissenschaft*, Münster: Westfälisches Dampfboot, 71-94.
- Jessop, B., Bonnett, K., Bromley, S., and Ling, T. (1988) *Thatcherism: a Tale of Two Nations*, Cambridge: Polity
- Jessop, B. Bonnett, K., and Bromley, S. (1990) 'Farewell to Thatcherism? Neo-Liberalism vs New Times', *New Left Review*, 179, 81-102.
- Jones, M. and Gray, A. (2001) 'Social Capital, or Local Workfarism? Reflections on Employment Zones', *Local Economy*, 16 (1), 2-10.
- Layard, R. (1998) *Tackling Unemployment*, Basingstoke: Macmillan.
- Layard, R., Nickell, S., and Jackman, R. (1991) *Unemployment: Macroeconomic Performance and the Labour Market*, Oxford: Oxford University Press.
- Leys, C. (1989) *Politics in Britain: from Labourism to Thatcherism*, London: Verso.
- Mandelson, P. (1997) 'Extract from a speech by the Minister without Portfolio, on 14 August, at the Fabian Society', <http://www.cabinet-office.gov.uk/seu/index/more.html#extract> from a speech by the minister, accessed 4 March 1998.
- Messner, D. (1997) *The Network Society*, London: Cass.
- Panitch, L. and Leys, C. (1997) *The End of Parliamentary Socialism: from New Left to New Labour*, London: Verso.

- Peck, J. and Theodore, N. (2000) 'Beyond "Employability"', *Cambridge Journal of Economics*, 24 (4), 729-749.
- Poulantzas, N. (1973) *Political Power and Social Classes*, London: New Left Books.
- Ramsay, R. (1998) *Prawn Cocktail Party: the Hidden Power behind New Labour*, London: Vision Books.
- Robinson, P. (2000) 'Active Labour-Market Policies: a Case of Evidence-Based Policy-Making?', *Oxford Economic Policy Review*, 16 (1), 13-26.
- Rustin, M. (1998) 'The New Labour project', *Soundings* 8, 7-14.
- Schmid, G. (1998) 'Transitional Labour Markets: A New European Employment Strategy', Berlin: Wissenschaftszentrum Berlin, Working Paper FS I 98-206.
- Theodore, N. and Peck, J. (1999) 'Welfare-to-Work: National Problems, Local Solutions?', *Critical Social Policy*, 19 (4), 485-510.
- Wilthagen, Tom (1998) 'Flexicurity: a new Paradigm for Labour Market Policy Reform?', Berlin: Wissenschaftszentrum Berlin, Working Paper FS I 98-202.