

Changes in the Perception of British Capitalism Since the 1980s

Andrew Gamble

The British economy and the British state have gone through some important changes in the last twenty years. In the 1970s the British economy was widely perceived to be one of the weakest in Europe, plagued by strikes and labour unrest, high unemployment and high inflation, fiscal crisis, stagnant output, low productivity and low investment. Some on the left called this a crisis of capitalism, while others preferred to call it a crisis of British capitalism.

In the 1980s the Thatcherite remedy for the ills of British capitalism was applied. The effect of these reforms was perceived as reinforcing some of the distinctive institutional features of British capitalism which made it more like American capitalism than capitalism in the rest of Europe, and still less like the capitalisms of East Asia. The models of capitalism literature strongly suggested that the neo-liberal, free market Anglo-American model of capitalism was less capable of delivering economic growth and social cohesion than the corporatist, managed-market Rhenish model of European capitalism (Albert 1991).

In the 1990s however the Anglo-American model has appeared to deliver better economic performance than either the Rhenish or East Asian model, and has seemed more in tune with the new trends in the global economy and with the international neo-liberal consensus which has stressed the benefits of open markets, deregulation, privatisation, macrostability, low taxation, and flexible labour markets. In this context the British economy has come to seem relatively strong, sterling has appreciated, and British capitalism has begun to look like a possible model which others should imitate, rather than a dreadful warning which others should heed.

This shift in perception is apparent in other ways also. In 1979 the Thatcher Government put in its manifesto a pledge to reverse Britain's decline. It was determined that there should be a sharp break in the way in which the economy was managed. In 1997 when Labour finally ended eighteen years of Conservative government there was no sense that it intended to initiate a similar sharp change of direction. On the contrary it guaranteed to maintain all the essential elements of the Conservative's economic policy regime, including its spending plans for the first two years of the new Parliament. Labour still diagnosed a problem of underinvestment, particularly in education and training, but it planned to address this

through changing budget priorities, rather than through any radical reshaping of economic institutions or economic governance.

What accounts for these shifts in perception of British capitalism and its relative strengths and weaknesses? I shall argue that while there have been real changes in the last twenty years, much of the shift is also due to changes in the dominant forms of economic discourse. Decline has given way to globalisation, and as a result Britain's problems, weaknesses, strengths and opportunities have been re-assessed.

Decline is a discourse founded on the notion of British exceptionalism, of a British *Sonderweg*, the idea that there are specific peculiarities of British capitalism which mark it out from other national capitalisms and that these peculiarities can be woven together in an overarching narrative about the absolute decline of British power and the relative decline of the British economy in the twentieth century (Coates 1994; Gamble 1994a). The decline debate has a strong comparative element - British capitalism is compared and contrasted as a model of national capitalism with other models. The underlying concept is national economic development and the role of nation-states in either promoting or retarding development.

Globalisation as a discourse has a different focus from decline. It puts the emphasis on the politics of the global economy and capitalism as a world system. Nation-states are still important sites of decision-making but they belong to a wider transnational network of economic and political relationships and have to be understood in that context. The fundamental reality is the global economy rather than the nation-state. From this perspective it is long-term changes in the structure of the global economy in the last twenty which have changed the perception of British capitalism, rather than internal developments (Cerny 1990).

In this chapter I shall first summarise the discourses on decline and globalisation and then analyse their contribution to the political economy of New Labour.

1. Decline

The decline debate has existed in some form throughout the century, but it entered a new and important phase in the 1970s. The first generalised recession in the world economy since 1945 exposed the weaknesses of the British economy and the failure of the modernisation programmes of the 1960s to meet the high expectations placed in them. This failure produced a crisis of the policy regime and intensified the discussion of decline, which now more than ever concentrated on the special features which accounted for the poor performance of the British economy, tracing its roots to specific institutional features of British capitalism.

The institutional features which were considered most important in explaining why Britain performed so poorly compared to other leading economies were the organisation of labour and capital; the nature of the state; and the place of Britain

in the world economy. On all of these Britain's position was portrayed as either backward, when compared to other advanced capitalist economies, and as ripe for reform. On the substance of reform, however, there was disagreement. The most obvious line of disagreement ran between centre-left and neo-liberal accounts, reflecting different perceptions of the character of British capitalism, and giving rise to distinct political projects in the 1970s and 1980s.

The first area for reform was the state of industrial relations in Britain and the inability either to establish the kind of corporatist institutions familiar in other parts of Europe or to reimpose managerial authority, appeared to make many sectors of the British economy ungovernable, and to present enormous obstacles either to macro economic policies aimed at stability or to policies at the level of the firm aimed at reorganising the production process to raise productivity. An influential argument on the left pointed out that while in the nineteenth century Britain had pioneered new forms of capitalist organisation, in the twentieth century it had only adapted slowly to the dominant forms of accumulation and regulation pioneered in other countries, particularly the United States. Britain's "incomplete Fordism" meant that it moved some way to new forms of economic governance, but not far enough (Overbeek 1990; Jessop et al 1988). The role of the state was expanded but the institutional structures of both companies and trade unions were not reformed. Both management and unions in many key industrial sectors in Britain continued to favour the craft and voluntaristic traditions. The kind of investment in research and development and in human capital which became the hallmark of successful Fordist systems driving towards high productivity, high wages and high consumption occurred more patchily in Britain. The greatest failing in the way British industry was organised was seen to be the comparatively low level of long-term investment compared with industry in other countries. Some blamed this primarily on the trade unions and their restrictive practices and readiness to endorse strike action; others blamed management, its culture, ethos, and training. What was generally agreed was that a major restructuring of British industry needed to be achieved in order to allow the British economy to achieve the same kind of levels of productivity and growth as its European partners.

The second area singled out for reform was the organisation of the state. One line of thought emphasised that the British state had become overloaded and that this contributed to the ungovernability which so many observers noted in the 1970s. Another drew attention to the anomaly of Britain's status as the only major country which still had a constitution many of whose features were pre-modern (Nairn 1983). As the last ancien regime in Europe Britain lacked the kind of democratic, egalitarian open civil society which was regarded as the foundation of the success of many other countries in the twentieth century. The British state was organised to resist modernisation rather than to encourage it, and to preserve a highly elitist, closed society. The neo-liberal solution was to reduce the scale and scope of the state and set markets free by removing the obstacles to their functioning, whether these were bureaucratic interference or trade union restrictive

practices. The centre-left diagnosis was that a different kind of state, a developmental state, needed to be created which would possess the kind of organisational capacities enabling it to intervene to promote economic change and development. The problem from this perspective was that the state lacked the kind of infrastructural power in Britain which many other states took for granted. When it attempted to pursue strategies of modernisation, the ability to carry through the policies and secure the co-operation and compliance of all the various groups needed to successfully implement them was lacking.

The third institutional area for reform was Britain's place in the world economy. This occasioned fierce debate throughout the twentieth century and was inextricably entwined with Britain's commercial empire on the one hand, and its colonial empire on the other. The failure of these two to coincide gave rise to conflicting assessments of Britain's national interest. By the 1970s the colonial empire had almost vanished and the commercial empire had been transformed, but the legacies in the shape of the size and importance of the British financial sector in the City of London, the importance attached to sterling, and the pervasive external orientation of key parts of the British state continued to shape British policy and to affect the debate on whether Britain should pursue union with the rest of Europe or not. The nature of Britain's links with the global economy were regarded on the centre-left as one of the essential obstacles to the pursuit of sensible political and economic modernisation. It helped ossify Britain's institutions in their imperial form, at the same time it perpetuated the damaging split between finance and industry, which encouraged a commercial rather than a productionist ethos, concerned with short term profit taking rather than long term investment.

One influential view became crystallised in the theory of imperial overstretch (Kennedy 1988). In seeking to sustain its far-flung empire the British state assumed burdens it found increasingly difficult to carry, and persistently involved putting grandeur before growth. From the neo-liberal perspective the problem was not that Britain was linked to the global economy but that governments since the 1920s had imposed restrictions on the nature of those links. Only by sweeping away all obstacles to the free movement of goods and capital would Britain be able to realise its comparative advantages in global markets, which might well not be found in traditional manufacturing industries but in services of many different kinds.

2. The Triumph of Thatcherism

The stalemate of the 1970s was broken by the advent of the Thatcher government. The neo-liberal diagnosis of the causes of Britain's decline moved centre-stage. The experiments to introduce forms of corporatism into Britain and to modernise the British economy by making it more like the successful Fordist economies of the EU were abandoned. Instead the Thatcher government sought to restore some

traditional aspects of the British economy, in particular the institutions of free market capitalism.

Many of the policies of the Thatcher government were controversial and divisive. But there is wide agreement that it transformed the way in which British capitalism was perceived. At first it appeared that the government was heading for disaster, and that its tough free market medicine combined with the second oil price shock might tip the economy into a downward cycle from which it could not recover. But despite very steep falls in investment, output, and employment the economy did bottom out in 1982 and then began a recovery which by 1986 had become a boom. At this point the economic policies of the Thatcher government were proclaimed as an economic miracle, and ministers boasted that the decline had been definitively reversed and that Britain was now on the road to a high productivity, high growth and low inflation economy. The key was seen to be a set of policies aimed at increasing the openness of the British economy, weakening the trade unions and strengthening management, and rolling back the state by reducing direct taxes and public expenditure, privatising state industries and deregulating the private sector (Gamble 1994b).

The impact of Thatcherism on the debate on decline was profound. Among many Marxist commentators the programme was perceived as a determined and largely successful attempt to reverse the gains which the Labour movement had made in the post-war settlement (Miliband 1989), destroying the political foundations of the full-employment, Keynesian welfare state, which had been analysed by Kalecki (Kalecki 1943). Under the Keynesian welfare state the disciplines of bankruptcy and unemployment which had been the foundations of the laissez-faire economy of the nineteenth century were greatly weakened by the decision to give government the responsibility for promoting full employment. In this new political world the trade unions were involved as governing institutions alongside the government and the employers (Middlemas 1979). The economy was still a capitalist economy in terms of the distribution of ownership rights, but the balance of power had been shifted in favour of labour, and created a new set of parameters within which all governments were obliged to work. In tearing up this settlement the Thatcher government was seen to be seeking to restore the disciplines of bankruptcy and unemployment in order to destroy the political power of organised labour, and to allow the owners of capital to exercise their prerogatives once again in a much more untrammelled way.

This view of Thatcherism was substantially shared by public choice and New Right analysts. Mancur Olson had characterised the problem of long established democratic polities like the UK as their tendency to institutional sclerosis (Olson 1982). The multiplication of special interests infesting the policy process meant that powerful obstacles existed to the reform of institutions. The grip of special interests on such a polity could only be loosened by an external shock, generally a war or a revolution. But it was also conceded that an internal shock could be administered which might break the cycle. The unintended severity of the

recession in 1980-81 (which at one time looked like destroying the Thatcher government) ultimately worked to its advantage, because it administered the shock which weakened the special interests, particularly the trade unions, and created the political space for the recreation of the conditions for a liberal economic order, from which the trade unions and their political allies could be excluded (Maynard 1988). From a New Right perspective what the Thatcher years accomplished was the removal of the trade union veto over British economic policy, and this not only encouraged a more dynamic and entrepreneurial economy, but it also made possible a drastic reduction of taxation on the rich, and a determined effort if not to cut, at least to contain public spending. Subsidies to uncompetitive sectors were abandoned, and a huge shakeout of labour and restructuring of the British economy away from traditional industry towards services was encouraged. Fears of deindustrialisation were dismissed.

Marxist and New Right analysts both tended to agree that the significance of Thatcherism lay in its attempt to restore a traditional kind of capitalist economy in Britain, although there were differences as how successful this attempt was. Some of the greatest doubts came from the ranks of the New Right, who pointed to the failure to reduce significantly the size of the welfare state, and to the levels of direct state intervention which still remained. A different assessment came from Keynesians and the centre-left who, while acknowledging some benefits from the economic restructuring that had taken place, argued that much of the economic success of the Thatcher years was illusory and had been gained only by transforming the British economy into a low-wage, low-skill, low technology economy (Green 1989; Michie 1992). British strength in many service sectors, particular finance, had been confirmed, but there had been a retreat from attempting to create advanced industrial sectors which could compete globally. The structural deficiencies in training and skills, in research and development, in infrastructure and in investment were the direct result of the uncritical reliance on market forces. In the British context setting markets free did nothing to remedy traditional British weaknesses. It made them worse by destroying so much of the capacity from which new industries might be built, and also by reinforcing the short-term bias of so many British companies. From the centre-left perspective the Thatcher years were primarily destructive - the government failed to create the conditions for long-term prosperity and stability.

The Thatcher years ended in the overheating of the economy after 1987, a renewed acceleration of inflation, and a plunge into recession with sharply increased unemployment. But the economic recovery under the Major Government, facilitated by the forced exit from the ERM in 1992, confirmed that the economic success of the 1980s was lasting, and that the British economy was noticeably stronger than in the 1970s. It was able to hold its own with other EU economies and in some respects outperform them. This change in the fundamentals of the British economy - on productivity, on inflation, on employment - appeared to sug-

gest that British capitalism was no longer one of the problem economies, and that the decline had indeed been halted.

This interpretation was contested by an influential centre-left analysis of Britain's problems advanced by Will Hutton in the 1990s (Hutton 1995). Hutton wove together all the strands of the centre-left analysis of the institutional peculiarities and failings of the British economy, in particular tying together the unreformed and anti-democratic features of the British state with the failure to modernise the institutions of economic governance. Hutton proposed some far-reaching institutional reforms to change the institutional logic of the British model of capitalism away from its free market roots towards the governed market economies of Europe. He helped popularise the idea of stakeholder capitalism - giving individuals real stakes in the political economy by reforming the central institutions of British capitalism, through policies on employment, pensions, wealth redistribution, constitutional reform, company law reform. and education and training. For a short while New Labour seemed attracted by the idea of using stakeholder capitalism as its main organising narrative (Kelly et al 1997).

Despite the cogency and popularity of Hutton's analysis, however, this was not the programme on which New Labour fought and won the election. The Labour leadership chose instead to embrace the neo-liberal consensus on economic management which had been forged under the Conservatives, rather than to challenge it as Hutton had urged. This shift was made easier by the sea change in attitudes towards markets and the role of government in the economy which had taken place since the 1970s. The emergence of New Labour was the crucial political change which helped legitimate and develop this new consensus and established the new boundaries for public debate and policy. The Labour government elected in 1997 not only accepted most of these parameters, but in some areas pushed the policy further. The commitment to monetary and fiscal orthodoxy and the adherence to tight spending limits and no increases in direct taxation, was combined with plans for further privatisation and deregulation. The ambitious programme proposed by Hutton for fundamental reform of British capitalism, amounting to a major change in its main principles of operation, did not find favour.

With the advent of this neo-liberal consensus the debate on British exceptionalism has not come to an end, but it has taken a new twist. The old themes - the peculiarities of class and economic organisation, the ancien regime state and Britain's place in the world - which so fuelled the decline debate and defined what was special about British capitalism have faded. In their place is a concern with what makes Britain and British capitalism distinctive. By a curious twist the argument about models of capitalism, which in the debate on decline drew attention to the shortcomings of British social and economic organisation, has been turned into a celebration of what is strong and positive about British institutional arrangements. The idea that British capitalism might be a model which should be copied by other countries would have been a bizarre idea in the 1970s. It was still fairly bizarre in

the 1980s and 1990s. But both the Thatcher and the Blair governments proclaimed it.

3. Globalisation

The reason for the fading of the discourse on decline is because of the increased prominence of the discourse on globalisation in the 1980s and 1990s. More than anything this has helped change the perception of British capitalism, and how it needs to be reformed. The discourse of globalisation is different from the discourse on decline because it is focused on the politics of the global economy rather than the politics of national capitalisms. Globalisation is not a new phenomenon. A global economy has existed since the sixteenth century (Wallerstein 1974), characterised by two key features - a constant drive towards economic interdependence and economic integration, and the fragmentation of political authority. The politics of the global economy have been centred around three contrasting ideas of how order can be maintained in it - cosmopolitan order, imperial order and territorial order. They give rise to different political projects and arguments, and appear in different combinations. Their relative importance also changes in different periods, in determining how different national capitalisms are perceived.

Cosmopolitan order is the vision of the world system as a global economy, a single economic space characterised by economic interdependence and free flows of capital, goods, people, and culture. The global market consisting of a myriad of individual exchanges is its main structural principle. National and international politics should therefore be concerned with removing the obstacles to free exchange throughout the global economy.

Imperial order by contrast emphasises the mismatch between the increasing trend towards the unity of the world in terms of its economy, its environment, and its security, and the continuing fragmentation of its political authority into competing nation-states. Order in such a world requires the emergence of an authority which can discharge state functions for the world system as a whole. If there is to be order in the world system, one state or group of states must assume a hegemonic role, and construct a formal or informal world empire, providing leadership in the formulation of rules to govern the world economy as well as co-ordinating international action to promote security.

Territorial order is firmly rooted in the standpoint of the nation-state, and the Westphalian principle of national sovereignty. Order is constructed not around an interdependent global economy but around an international system of nation-states. Strong nation-states with clearly defined borders and authority within them, is the basic requirement for the creation of order and legitimacy.

Whereas decline as discourse is closely linked to conceptions of territorial and imperial order, globalisation gives priority to the conception of cosmopolitan order. In the 1980s and 1990s it predicted the weakening of the nation-state, the end of

national economic management, and the emergence of a new international consensus about how the global economy should be managed, which was seen as bypassing the nation-state. In terms of British politics, however, its novelty is considerable less than sometimes claimed. The British for the last two centuries have been strongly attached to the idea of cosmopolitan order. The open seas policy and the priority given to free trade, the international currency status of sterling, and foreign investment have been strong continuities in British policy. The British economy as many observers have noted has been shaped by its early integration into the global economy and the form which it took, particularly the emphasis on commercial and financial services (Ingham 1984; Rubinstein 1993). The perception of British capitalism was formed by the deep involvement of British companies in the global economy. The British conception of capitalism tended to be global rather than national.

The conceptions of imperial and territorial order were still important however in British politics. The emergence of Britain as the hegemon in the nineteenth century with the largest informal empire gave rise to the Social Imperialism of the early twentieth century and to discourses which sought ways of preserving the dominant military and economic position which Britain had obtained. Similarly the idea of territorial order did furnish in the twentieth century a politics of the national economy, particularly evident in the emergence of the Keynesian welfare state.

The impact of the discourse of globalisation on British politics needs to be understood in the light of the overall development of the global economy and the phases through which it has passed. The liberal era of free trade and *laissez-faire* in the nineteenth century gave way in the twentieth to an era of national protectionism and imperialism. National protectionism was at its strongest in the period from the first world war through to the 1950s and was still a powerful force into the 1970s, and arguably did not finally end until the dismantling of Soviet communism in 1991. During this period the conceptions of imperial and territorial order dominated the politics of the global economy. The idea of cosmopolitan order was in retreat but never entirely displaced and with the emergence of the new globalisation era which can roughly be dated from the collapse of the Bretton Woods international monetary arrangements in 1971, it has regained its old ascendancy.

This change can be traced back to the 1970s, to the change of direction initiated by the Labour Government in the management of the economy, which was consolidated and taken further under the Thatcher Government after 1979. If there is a symbolic moment for this change it is the decision by the Thatcher Government shortly after coming into office to scrap all exchange controls. This opening of the British economy was justified as a response to globalisation. To keep their economies competitive governments, it was argued, were obliged to abandon policies of tax and spend, and instead plan to reduce taxes, deregulate private companies and increase labour market flexibility in order to attract foreign direct investment and provide incentives. The task of government was conceived as removing the obsta-

cles to successful performance of British companies and sectors in the global economy, investing in skills and training, but otherwise seeking to reduce the size and scale of the public sector.

The justification for adopting such policies was said to be the necessity of keeping the confidence of the financial markets. The penalty of not doing so was illustrated by the sterling crisis of 1976, which required IMF intervention to calm the markets. Financial market confidence depended on sound and prudent monetary policies but also on attitudes towards economic policy which embraced the policies deemed necessary to promote flexibility and competitiveness. The logic of this new policy regime which the Thatcher government endorsed was that the economy should be exposed to the maximum global competition possible and that all businesses and jobs not viable in the new global economy should be phased out.

The groundwork for this policy was prepared by the set of remarkable New Right thinktanks - the IEA, the Adam Smith Institute, and the Centre for Policy Studies - which together set out to change the political climate and provided the strategic thinking as well as detailed policy advice for the Thatcher project. One of the strengths of the New Right was that it was not in the least narrow but covered a wide spectrum of conservative, liberal and libertarian thought. All strands were united in their determination to confront and destroy the intellectual and institutional foundations of social democratic and collectivist thought and policy (Denham 1996).

This neo-liberal policy as it developed was bitterly fought. One of the flashpoints in the 1980s was the consequences of its application for the industrial base of the economy. The House of Lords Select Committee on Overseas Trade held hearings in the 1980s at which leading government ministers, including Nigel Lawson and Norman Tebbit gave evidence and declared themselves quite unconcerned about the sharp rundown in manufacturing investment and employment that had occurred at the beginning of the 1980s, arguing that jobs in services were just as important and valuable as jobs in manufacturing. The industrialists on the House of Lords Select Committee were not impressed. They argued that deindustrialisation at the pace Britain was then experiencing it set in place a potentially dangerous downward spiral which could lead Britain to a position where its exports were insufficient to pay for the imports of food and raw materials its economy required (House of Lords 1985).

The warnings of the industrialists, however, were brushed aside. Nothing was done to stem the destruction of the old industrial base, and the policy far from ending in disaster was rewarded by an improved productivity performance, falling inflation, and falling unemployment. This was not quite the economic miracle which the Conservative government claimed, but it was far from the economic collapse some of the critics had predicted. As a result of the changes of the 1980s, whether by design or good fortune, the longrun performance of the economy

markedly improved, and the map of British capitalism was substantially redrawn. Three changes in particular should be noted.

Firstly, as already indicated, a large part of the traditional manufacturing and industrial base of the UK economy was liquidated. Many traditional industries - coal, shipbuilding, steel - virtually ceased to exist. In others, like cars, all major British-owned manufacturers were eliminated. There was a huge reduction in manufacturing jobs. An industrial sector did survive, and in some cases, like steel, productivity increased so much that with a fraction of the workforce the industry by the 1990s was producing more than it had been producing in the 1970s. But there was no mistaking the structural transformation which had occurred. The same change, the switch from manufacturing to services was not confined to Britain, but it was noticeable that the speed of change was faster in Britain than elsewhere. No other country experienced such a sharp drop in the proportion of its labour force employed in manufacturing.

Secondly, there was a major shift in the boundaries of the public and the private in Britain. The privatisation programme became one of the flagships of Thatcherism, because it fulfilled so many different ideological objectives - creating popular capitalism by extending share ownership, shrinking the state by reducing the size of the public sector, increasing public revenue without raising taxation or borrowing, and attacking one of the main citadels of the social democratic policy regime established after 1945. By the end of the Conservatives' eighteen years in office most of the major industries in the public sector had been privatised, and the Labour government elected in 1997, far from seeking to reverse the process, announced that it intended to take it further. In the field of welfare the Thatcher government made much less impact, and although many services were restructured, and experiments with internal markets and outsourcing were introduced, the total government spending going into the welfare state was not significantly reduced (Pierson 1994). Nevertheless the number of people working in the public sector was drastically reduced, and there was a systematic denigration of the value of the public sector and of public service.

Thirdly, there was a substantial restructuring of labour markets. The tentative efforts to construct corporatist institutions in Britain were entirely abandoned by the Thatcher government, and the trade unions were frozen out of government. But the Thatcher government went much further in launching a carefully planned and determined assault upon the legal privileges of trade unions which had been enshrined in law since the 1906 Trade Disputes Act, and had underpinned the tradition of voluntary collective bargaining (Marsh 1992). By removing these legal privileges the government exposed the unions once more to the full force of the common law. Few employers made use of the new laws, but together with the very high levels of unemployment through the 1980s it helped create a climate which allowed a series of crushing defeats to be inflicted on the trade union movement, from which it never recovered. Membership dropped sharply, so did the ability of trade unions to resist changes in working practices or to push for higher wages.

The balance between labour and capital was shifted decisively in favour of the latter. Strikes declined to negligible proportions, and when job expansion came it tended to be in part-time, casual non-unionised occupations. The British labour movement which had had one of the highest densities in Europe and had been one of the best organised and most influential union movements, lost power and status in the 1980s.

4. New Labour

A Labour government had initiated the turn to the neo-liberal strategy in the 1970s, but as the party and the movement were then organised, it is unclear how far and how fast Labour would have pushed along that road if the party had remained in government. Margaret Thatcher's wing of the Conservative party was much more in tune with the new policy regime and began to act accordingly. In response Labour swung rapidly to the left and the alternative economic strategy (the AES), several versions of which had surfaced and been discussed through the 1970s, came to the fore. The common thread in all the variants of the AES was an attempt to preserve a Keynesian welfare state in the face of the pressures of international competitiveness and global financial markets. It favoured measures like import controls and exchange controls to reduce the openness of the British economy rather than to increase it. It emphasised national sovereignty and the importance of maintaining control over all the decisions that could affect jobs and investment in the British national economy (Wickham-Jones 1996). For this reason, proponents of the AES were very hostile to the European Community and advocated withdrawal. A commitment to withdraw was included in the Labour party's election manifesto in 1983. The main reason for this (ironical in terms of the way the domestic political debate was subsequently to develop) was that the European Community was viewed as a capitalist club, a bastion of neo-liberal thinking, committed to free trade and free markets, and therefore bound to outlaw any attempt by a British Labour government to reflate its economy to create full employment and to decrease its reliance on foreign trade.

In retrospect the AES does not appear a particularly extreme policy. There was nothing noticeably socialist about it, and it would have been fairly unremarkable in different circumstances, such as the early post-war years. It was the last throes of the national protectionism which the Labour party had embraced in the 1930s during the Great Depression, and which had been reinforced and extended in the war-time economy and post-war reconstruction. Labour's deepest assumptions about the economy were forged in this period - the superiority of the public sector over the private; the intrinsic value of public expenditure; the need for high progressive taxation to redistribute wealth and income; the importance of an active fiscal and monetary policy to promote full employment; and the need for planning to achieve economic growth and prosperity.

All these ideas were turned on their head after 1983. By the time of the emergence of New Labour with Tony Blair's accession to the leadership in 1994 Labour had accepted all the essentials of the neo-liberal policy regime and the results of the Thatcher project even while trying to distance itself from many of the results of Thatcherite economic policies and suggesting that Labour could manage the economy in a way which would ensure greater security and a fairer distribution of resources. The key mechanism by which this change in the party was achieved was the Labour Party's policy review initiated under Neil Kinnock's leadership after the party's third successive election defeat in 1987. One of the important outcomes of this review as far as the party's conception of British capitalism was concerned, was the acceptance of the arguments for an open global economy as the setting for thinking about British economy policy and Labour's strategy. Criticism of the Conservatives shifted onto different ground. Their failure was identified as the failure to deliver a successful strategy to promote long-term competitiveness of British companies and British workers in the global economy (Smith & Spear 1992).

Just as the Conservatives were greatly aided in developing their neo-liberal project in the 1970s by the New Right thinktanks, so Labour was aided in the 1990s by a new set of left-leaning thinktanks - particularly IPPR and Demos and the Fabians. Much of the IPPR's work was detailed and technical, but some of its major reports such as the Social Justice Commission and the Commission on British Business were very important in helping to shift thinking within the Labour party and to shift perceptions of Labour outside, particularly in the business community. Demos from the moment it was founded in 1993 was much more ambitious than the IPPR in seeking to challenge the whole framework in which policy was discussed in the UK, and like the IEA to think the unthinkable. Unlike the IEA however which was grounded in the texts of classical liberalism and sought to rediscover their insights and apply their precept, Demos took a delight in abandoning the past, arguing that there needed to be a break with traditional left/right categories and with most of the assumptions which had framed twentieth century political debate.

Labour's acceptance of neo-liberalism occurred at a time when the electorate was becoming thoroughly disillusioned with many of the results of neo-liberal policies. The costs of the Thatcher project in the 1990s were weighing more heavily than the benefits. This change in the popular perception of the kind of capitalism that had been established in the 1980s was one of the factors which made Labour electable again. Labour's stress on fairness and partnership were well received, and inclined many voters to believe that Labour could both be trusted to manage the economy in a way which would not endanger prosperity, and at the same time do something to tackle insecurity, inequality, and underinvestment. The leadership remained very cautious in its promises, especially during the 1997 election campaign, but this did not stop a climate of expectation forming around New Labour, that it would make a significant improvement to peoples' lives, and that it would

be different from Thatcherism. The leadership was aware of this, which was one of its motivations in proposing that New Labour represented a Third Way between the planning and interventionism of previous Labour Governments and the market liberalism of Thatcherism. Whether the Third Way had real substance, and whether New Labour could meet the expectations of its supporters with its new policies and win re-election were uncertain.

The change in the direction of policy was clear when the party returned to government in May 1997. Just as the Thatcher Government had signalled its intentions by abolishing all remaining exchange controls, so the Labour government signalled its overriding commitment to promote macroeconomic stability by giving operational independence to the Bank of England, handing over control of monetary policy to its monetary policy committee. The Chancellor indicated that the energies of the government would be devoted to making people employable in a global economy rather than providing jobs in a national economy.

The shift New Labour made appears as a sharp break if it is evaluated in the light of the long debate on decline. Labour appeared to give up any semblance of a radical critique of the workings of British capitalism. Such a critique was still on offer, and in a modern, relevant, contemporary form, most noticeably in the writings of Will Hutton. The turn away from this critique was another sign of the increasing ascendancy of the politics of the global economy over the politics of national capitalisms. That did not mean that New Labour had broken all links with its past, but it did suggest that in future the problems of British capitalism and ways of resolving them would be viewed from the standpoint of the global economy.

References

- Albert, Michel (1991): *Capitalisme contre Capitalisme*, Paris: Le Seuil
- Cerny, Philip (1990): *The Changing Architecture of Capitalism*, London: Sage
- Coates, David (1994): *The Question of UK Decline*, London: Harvester Wheatsheaf
- Denham, Andrew (1996): *Think Tanks of the New Right*, London: Dartmouth 1996
- Gamble, Andrew (1994a): *Britain in Decline*, London: Macmillan
- Gamble, Andrew (1994b): *The Free Economy and the Strong State*, London: Macmillan
- Green, Francis (ed) (1989): *The Restructuring of the UK Economy*, London: Harvester Wheatsheaf
- House of Lords (1985): *Select Committee on Overseas Trade*, Session 1984/5
- Hutton, Will (1995): *The State We're In*, London: Cape
- Ingham, Geoffrey (1984): *Capitalism Divided*, London: Macmillan
- Jessop, Bob; Bonnett, Kevin; Bromley, Simon & Ling, Tom (1988): *Thatcherism; a tale of two nations*, Cambridge: Polity
- Kalecki, Michael (1943): "Political Aspects of Full Employment", in: *Political Quarterly* 14, 322-331
- Kelly, Gavin; Kelly, Dominic & Gamble, Andrew (eds) (1997): *Stakeholder Capitalism*, London: Macmillan
- Kennedy, Paul (1988): *The Rise and Fall of the Great Powers*, London: Unwin Hyman
- Marsh, David (1992): *The New Politics of British Trade Unionism*, London: Macmillan
- Maynard, Geoffrey (1988): *The Economy Under Mrs. Thatcher*, Oxford: Blackwell
- Michie, Jonathan (1992): *The Economic Legacy, 1979-1992*, London: Academic Press
- Middlemas, Keith (1979): *The Politics of Industrial Society*, London: Deutsch
- Miliband, Ralph (1989): *Divided Societies*, Oxford: Oxford University Press
- Nairn, Tom (1983): *The Breakup of Britain*, London: Verso

- Olson, Mancour (1982): *The Rise and Decline of Nations*, New Haven: Yale University Press
- Overbeek, Henk (1990): *Global Capitalism and National Decline*, London: Unwin Hyman
- Pierson, Paul (1994): *Dismantling the Welfare State? Reagan, Thatcher and the Politics of Retrenchment*, Cambridge: Cambridge University Press
- Rubinstein, William D. (1993): *Capitalism, Culture, and Decline in Britain*, London: Routledge
- Smith, Martin & Spear, Joanna (eds) (1992): *The Changing Labour Party*, London: Routledge
- Wallerstein, Immanuel (1974): *The Modern World System*, New York: Academic Press
- Wickham-Jones, Mark (1996): *Economic Strategy and the Labour Party*, London: Macmillan