

Blair, the Third Way and European Social Democracy: a new political consensus?

Introduction

Tony Blair came to power in 1997 on a wave of optimism. The slogan 'New Labour, New Britain' translated as a desire to reform both the party and the country. In strategic and policy terms, these ideas were underpinned by the political philosophy of the Third Way (Giddens, 1998; Blair, 1998), adapted from the New Democrats in the United States (e.g. Reich, 1992; DLC/PPI, 1996). Blair's victory in 1997 furthermore coincided with the electoral success of centre-left parties across Europe (added to the Clinton presidency in the US), creating what optimists saw as a new 'social democratic moment'.

Labour's success has been popularly portrayed as a triumph of political strategy, and the political content of the project has been downplayed. The term 'Third Way' was – in turn – 'widely derided as vacuous' (Fielding, 2003: 81); characterised as thinly-veiled neo-liberalism (McKibbin, 2000; Callinicos, 2001);¹ and, relativised as just one of several *Third Ways* in European social democracy (Merkel, 2000). The project, in addition, appeared to stall on the international plane, where – despite the development of intensive contacts through *progressive governance* networks in the late 1990s and early 2000s (e.g. Policy Network) – few common policies could be agreed. The term 'Third Way' therefore slipped into obscurity until even proponents of the *New Labour* project no longer referred to it by name.

The following paper is not: a) claiming that New Labour invented the 'Third Way' concept; b) seeking to defend Labour policy in government; or, c) debating whether this approach is intrinsically social democratic. What is more, it deliberately avoids tackling

¹ Callinicos (2001) argues that the Third Way is a political programme morphed onto the dominant neo-liberal international economic theory.

areas where policy has been less consistent e.g. law and order, and foreign policy.² In these cases, tactical considerations, (perceived) national interests and unforeseen events have trumped a coherent policy programme. This study also avoids discussion of the historical associations and discursive context of the Third Way, given its belief that 'it was the content that mattered and not the term itself' (Halpern and Mikosz, 1998).

Using Blair's (1998) original Fabian pamphlet and the Blair-Schröder paper (1999) as starting points, this paper argues that (contrary to popular belief) Labour's Third Way has provided a coherent political philosophy that has been enacted in government. Its central aims have been to promote the *primacy of the economy*, and to concentrate spending priorities on *social investment* within the context of an *active welfare state*. The paper demonstrates that the Third Way under Blair and Brown manifested itself in a consistent approach in a number of key policy areas, and also that the resulting policy innovations successfully shifted the centre of gravity of political debate in the UK. These ideas have furthermore been increasingly accepted by social democratic parties across Europe.

Defining Blair's Third Way

The Third Way movement was developed by the centre-left in the US, and then the UK, as a response to new challenges. For the Labour Party successive defeats in the polls led many in the party to question the relevance of their old values. This led to the revision of the party's policy platform, its strategy and organisational structures that took place under the leaderships of Neil Kinnock (1983-92), John Smith (1992-94), and Tony Blair (1994-2007) (Sassoon, 1997; Mandelson, 2002; Fielding, 2003). These changes were not only provoked by strategic trauma, but also by a wider set of developments. Macro-level drivers included the rapid advances in technology, related social developments that led to the emergence of a more individualised electorate in terms of life-styles (Giddens, 1991) and values (Inglehart, 1997), and the internationalisation of national economies and trade (often categorised as 'economic globalisation'). A new generation of Labour leaders, hungry for success and reflecting on attitude shifts in society, recognised that the party should be more pragmatic (less dogmatic) in its outlook – *ends were more important than*

² Labour's Third Way was ambiguous in its approach towards justice and home affairs and foreign policy despite promising early signs (e.g. 'tough on crime and tough on the causes of crime' (Blair, 1998: 14), 'ethical foreign policy' (Cook, 1997)).

means. According to Blair (1998: 4): 'a critical dimension of the Third Way is that policies flow from values, not vice versa'. This provided the genesis of the Third Way as the Labour Party looked for practical responses to several key strategic and policy dilemmas.

The main strategic challenge for the Labour Party was to come to terms with 'post-Thatcherite politics' (Driver and Martell, 2006). The success of the Conservative Party under Margaret Thatcher was not only a tactical problem for Labour. The impact of Conservative policy on Britain had altered the terms of the political debate. One effect of the Conservative reforms was the acceleration of the process of individualism and value-change alluded to above. A second consequence was that the Conservative Party seemed to win the political debate on a number of issues, leading to general consensus opposed to the idea of 'big government' (high taxes, large bureaucracies, 'inefficient' nationalised industries etc.) and resentful of tax-payers' money being re-distributed to what were seen as welfare 'scroungers' (Roy and Clarke, 2006). These shifting public attitudes hit the Labour Party hard, tarred with the brush of high taxation, increasing public debt, and a public sector undermined by trade union action (witnessed in its previous period in office, 1974-79). Individualism, voter dealignment and the shrinkage of Labour's support-base in the blue-collar working class, further demonstrated the desperate need of a *big tent* strategy that could appeal to the new centre-ground of British politics. On a strategic level, the party's revisionists saw the Third Way as both breaking free from the shackles of Labour's past and redressing the deficiencies of the Conservative government (Blair, 1996 and 1998; Mandelson, 2002).

Political life in post-Thatcherite Britain also presented the Labour Party with two critical policy challenges. First of all, irrespective of the electorate's continuing suspicion of big government, any administration had to face intense pressure on public spending resulting from an ageing population and the increasing cost healthcare. This made it more important than ever to improve employment rates in the UK to offset the dependency ratio. Thus, both for strategic reasons (to demonstrate its economic competence) and policy reasons the primacy of the economy became the *raison d'être* of 'New Labour'.³ In real terms, this meant making sure that government did not get in the way of business (and, as far as possible, implementing business-friendly policies) and committing to a balanced budget (see below). A second key area of interest was the role of the state in the

economy and in public services. This was a key area where new means seemed to justify the ends. In the early 1990s, Labour was opposed to a 'commercialised contract system' in the NHS, rejected 'Conservative plans to privatise British Rail' and wished to 'end the de-regulation of the buses' (Labour Party, 1992). A few years later the symbolic Clause IV commitment to nationalisation had gone and Blair (1998: 3) could argue that 'the promotion of equal opportunities does not imply dull uniformity in welfare provision and public services'. New Labour, like the New Democrats in the US, saw the government as 'society's servant, not its master' (DLC/PPI, 1996). The state was an enabling force that 'should not row, but steer' (Blair and Schröder, 1999: 164).

The legacy of Thatcherism also presented the Labour Party with a major opportunity. If the party could convince the electorate that they were committed to sound economic management (restrained public spending and taxation), the public would support greater investment in public services. Polls showed that voters recognised the deterioration and under-funding of key public services (especially the National Health Service, NHS) under the Conservative governments. Despite major programmatic revisions, the Labour Party could demonstrate its commitment to core values – social democratic *ends* – by providing public investment to enable *equality of opportunity*. The party could also play on the apparent heartlessness of the Conservative approach. For Blair (1998: 1):

'it is a third way because it moves decisively beyond an Old Left preoccupied by state control, high taxation, and producer interests; and a New Right treating public investment, and often the very notions of 'society' and collective endeavour, as evils to be undone.'

At a conceptual level, the Third Way in the UK shared the ideals of the New Democrats in the US, as expressed in 'The New Progressive Declaration': 'equality of opportunity' (through public investment), 'mutual responsibility' (citizens' duty to contribute their *fair share*), and 'self-government' (injecting competition into public services and expanding choice) (DLC/PPI, 1996). Unlike the Clinton Democrats, however, Labour was able to convert much of this programme into government policy (given its large parliamentary majority and the weakness of the Conservative Party after the mid-1990s). These ideals manifested themselves into four concrete objectives for the Labour Party:

³ The prioritisation of the national economy did, of course, follow the New Democrat logic that 'it's the economy stupid!'

1. The *primacy of the economy*: a successful economy as the precondition for *social justice* and public support.

As globalisation and technological change had led to a situation where the 'ability of national governments to fine-tune the economy in order to secure growth and jobs has been exaggerated' (Blair and Schröder, 1999: 162), 'New Labour's partnership with business is critical to national prosperity' (Blair, 1998: 8). The Blair-Schröder paper (1999: 166-72) set out in explicit terms the 'new supply-side agenda for the left' for a 'robust and competitive market framework'. In sum, the Third Way should promote business-friendly policies and withdraw the state from areas where the private sector worked best.

2. Keeping *public spending within 'sustainable limits'*.

The Blair-Schröder paper (1999: 164, 171) argued that 'sound public finances should be a badge of pride for modern social democrats', and stated unambiguously that 'public expenditure as a proportion of national income has more or less reached the limits of acceptability'. For Labour, the idea of *prudent* public spending fitted with both the tactical and programmatic aspirations of the party, providing the political and economic capital for later social investment.

3. *Social investment* in key areas to increase *equality of opportunity* and *social capital*.

The next logical step in Third Way thinking was investment in social capital that would ensure government resources were best utilised in both an economic and a social sense: 'The real test for society is how effectively this expenditure is used and how much it enables people to help themselves... The top priority must be investment in human and social capital' (Blair and Schröder, 1999: 161, 169). By investing in key areas like education and health, a Labour government could enhance equality of opportunity and alleviate poverty and *social exclusion*, whilst at the same time enriching the skills pool at the disposal of the national economy.⁴ In this context, it was argued that the most efficient providers of services – whether public or private – should be used.

4. An *active welfare state* (Giddens, 1998) where citizens have rights *and* responsibilities.⁵

⁴ The object was to create a virtuous circle characterised by Gordon Brown's interpretation of 'post-neoclassical endogenous growth theory'. While there are a number of variants of this theory, Brown identified investment in skills and infrastructure as the key elements in his approach (Freeman, 2000).

⁵ Blair (1998: 4) argued that the 'rights we enjoy reflect the duties we owe'.

Blair (1995) criticised what he described as the 'do your own thing' attitude of the Old Left that had led to a dependency culture and the 'get what you can' individualism of the New Right that had resulted in social exclusion. Citizens had a right to state provision that ensured *equality of opportunity* and a decent standard of living (for those who worked or could not support themselves e.g. children and the elderly), but had the duty to contribute to the state in return. In terms of the welfare state, Labour's Third Way sought 'to transform the safety net of entitlements into a spring board for personal responsibility' (Blair and Schröder, 1999: 173), where the benefits system was re-ordered around employment ('welfare to work').

Third Way Policy in Government

The genius behind the New Labour/ Third Way project was to marry together strategic considerations with a coherent body of policy. The success of Labour at the polls was in no small part due to the synergies between these two components. The rejection of the *Old Left* and *New Right* was tactically employed to steal the centre-ground from an ailing (and 'uncaring') Conservative Party, and allowed the party to reject previous Labour policy (as out-of-touch with the modern world). In short, they promised to maintain economic orthodoxy whilst redressing the deficiencies of Thatcherism (in particular, a lack of investment in the country's infrastructure/ public services). Whereas the policy programme of the Blair governments has been studied in great detail elsewhere (e.g. Driver and Martell, 2006; Shaw, 2007), the following section highlights the four main areas where the Third Way policy was clearly visible.

1. *Economic Performance*: 'Our first task was to deliver a platform of stability based on low inflation and sound public finances' (Brown, 1999: 49).

During Labour's first term in office (1997-2001), the party followed the spending plans of the outgoing (Conservative) Major Government. The new government, buoyed by an upturn in the economy (healthy growth rates and falling unemployment) in fact managed to make a significant dent in the national debt (see Figure 1). The aim of the Labour Party was to place the economy first as a precondition for achieving greater social justice through public investment. Chancellor Brown's *golden rule*, to 'only borrow to invest' over the period of the economic cycle (HM Treasury, 1999: 2) was by and large maintained.

The second aspect to the prioritisation of economic matters was the adoption of a business-friendly approach. Domestically, this involved cuts in the rate of corporation tax (33p to 30p), small business tax (23p to 19p) and capital gains tax for long term business assets (40p to 10p) (see Brown, 2006). Internationally, the Labour's Third Way is positive about the promotion of free trade within the global economy. Although the room for manoeuvre is limited within the European Union (where external trade is *communitised*), the UK under Blair and Brown has firmly supported the attack on public subsidies within the EU (Internal Market) by the European Commission. New Labour's apparent preference for business interests has inevitably led to tensions with the party's traditional partners (and founders), the trade unions. But, partially satiated by the large increases in public spending, organised labour has yet to mount a serious challenge (i.e. by cutting funding to the Labour Party) to the Third Way's close relations with industry.⁶

2. *Increased spending on key public services*: 'On the basis of economic strength and stability we are providing the resources to achieve high quality services for all' (Blair, 2002: 11).

After coming to power in 1997, the Labour Party effected a modest growth in public spending in their first term in key areas targeted for social investment by the Third Way (e.g. health and education). However, these increases were not (initially) significantly higher than the rates achieved during the Major governments (see Figure 2). For New Labour the priority was clear: 'tough and disciplined measures to ensure financial prudence and economic stability first... investment only once the fruits of stability have been achieved' (Mandelson, 2002: xv). In 2001, by which time the economy was clearly on a stable footing (Figure 1) and Chancellor Brown had established a reputation for fiscal *prudence* – Labour had the confidence and fiscal resources to substantially increase spending in these areas. Figure 2 shows public spending overall increasing in real terms by an average of 4.8% per year between 2001 and 2005, whilst health spending grew by 8.2% per year, education spending by 5.4%, and transport (which was relatively neglected during the first term) by 8.5%.⁷

⁶ The trade unions, chastened under the Thatcher governments in the 1980s, furthermore have no serious political alternative to their support for the Labour Party.

⁷ Boosting investment in these core services tied in with the Third Way ideal of 'promoting equality of opportunity for all groups' in society, and guaranteeing 'equality of life chances' for every child (Labour Party, 2005: 27-8, 75).

Public sector investment was linked to public sector reform. In more detail, the first principle of this investment programme was 'a new deal for public service staff' (Blair, 2002: 17). Much of the new investment was designed to deal with the perceived understaffing in the NHS and education sector. Tens of thousands of new doctors, nurses and teachers were thus recruited through the provision of 'better pay and conditions' (Blair, 2002: 26). In return public sector workers would often have to commit to more flexible working hours and reassessment of the effectiveness of their work. The second principle of public sector reform was 'national standards' (Blair, 2002: 17). Increased public spending was accompanied by numerous performance targets used to assess the success of this investment relating to, for example, the length of hospital waiting lists, pass rates for school exams, and the size of school classes.

Added to quantitative increases in spending were qualitative changes in the nature of provision. According to the 2001 manifesto, 'where private-sector providers can support public endeavour, we should use them. A spirit of enterprise should apply as much to public service as to business' (Labour Party, 2001: 17). In an effort to improve efficiency, the private sector was increasingly brought in to the provision of public services through Public-Private Partnerships (PPPs). These schemes were, in particular, used to finance capital-intensive programmes such as the Private Finance Initiatives (PFIs) for the building of new schools and hospitals. Though the long-term financial logic private sector involvement has sometimes been questioned (e.g. House of Commons Committee of Public Accounts, 2007), the Labour government's faith in efficacy of the private sector (and private sector principles) for the public sector remains strong.

3. *Action against poverty*: 'our ten-year goal is to halve child poverty... within two years, no pensioner need live on less than £100 per week' (Labour Party, 2001: 24).

Although the main focus of the Third Way is to ensure equality of opportunity, it also incorporated the idea of eradicating poverty for the most vulnerable members of society. The *social exclusion* of young people in particular is seen as a powerful barrier to the fulfilment of potential. New Labour sees work as the main route out of poverty and numerous measures have been implemented to improve incentives to take on low-paid jobs (see below). Under Blair and Brown public money has also been used to deal directly with the problem of poverty directly, and government structures have been re-designed to assist with this objective e.g. the creation of the Social Exclusion Unit. The

eradication of child poverty has been a central goal of the Labour governments. Whilst their UK governments goal of eliminating child poverty by 2020 seems highly optimistic and recent studies that show the UK still ranks poorly in this area compared to other industrialised countries (UNICEF, 2007), child poverty was more than halved in absolute terms between 1997 and 2005 (DWP, 2007).⁸ This has been achieved through the growth in employment (Figure 1), and supported by – for example – by increases in child benefit and the extension of maternity pay. Similarly, older people have seen a growth in standard pension rates – a Minimum Income Guarantee alongside other measures such as the reduction of VAT on fuel and Winter Fuel Payments. Using the same measures, pensioner poverty decreased by over 75% to 700,000 between 1997 and 2005 (DWP, 2007).

4. *Welfare-to-work*: 'The best form of welfare is work' (Brown, 1999: 52).

Action against poverty has been strongly linked to changes in the benefits and tax system to make work pay. The creation of a minimum wage and of a system of tax credits e.g. Child Tax Credit, Working Tax Credit, was designed to remove the *poverty trap* by offering a minimum guaranteed 'take-home pay' for those willing to accept low-paid work (Labour Party, 2001: 26-7). The government has focused on improving employment rates in key target groups such as 'mothers'. In this instance, policies have implemented to ensure better childcare provision (e.g. the SURESTART programme) and broaden the provision of flexible working hours to cater for mothers returning to work. In addition to the added incentives to accept work, Labour has introduced stiffer requirements for job seekers – to actively look for work – in order to receive unemployment benefit ('jobseekers allowance'). Since the Third Way's mantra is that any job is better than none (Blair and Schröder, 1999: 174), the Labour government has been an active proponent of labour market flexibility. Although basic minimum standards have been introduced (e.g. the minimum wage, the European Working Time directive), New Labour had no intention of repealing trade union legislation enacted under the Conservative governments. The third string to Third Way welfare-to-work policy has been the commitment to training and guidance for the unemployed through the 'New Deal'. The New Deal is a traditional social democratic demand-side programme, investing in skills and training, initially funded (on Gordon Brown's insistence) by a £5billion 'windfall tax' on recently privatised utilities.

⁸ The measurement of child poverty relates to an income below 60% of the median.

Brown and Cameron □ A New Consensus?

Clearly Gordon Brown can be seen as the architect of much of New Labour's domestic policy, and the differences between Blairites and Brownites should not be overstressed. Divisions have stemmed mostly from personal rivalry and Brown's natural caution over policy innovations (in contrast to Blairite efforts to implement bold reforms – sometimes seemingly for their own sake!). Whilst Labour's policy programme will substantially remain the same, the new Brown government hopes to focus more attention on unfulfilled aspects of the Third Way Agenda: greater self-government through the decentralisation of power and citizen choice. With reference to public services this involves two key principles – 'devolution of power to the front-line' and 'greater choice' (Blair, 2002: 17) – that were only sporadically achieved under Blair. For example, top-performing some hospitals were given Foundation Trust status and General Practitioners' surgeries were transformed into semi-autonomous primary care units. But these gains in decentralisation were negated by the pervasive nature of the multitude of central government targets and reform objectives. Though Brown's new agenda claims to be seek a decentralisation of power, this is quite paradoxical given the Chancellor's reputation as the guiding force behind the target culture. Despite the recent decisions to trim executive power over the legislature (e.g. over taking the country to war), it remains to be seen whether the Brown government will achieve a coherent and consistent devolution of powers to local government and front-line services.

Perhaps more interestingly than the agenda of the new Brown government, is the approach of the Conservatives under David Cameron (leader since December 2005), who – against the wishes of many in the party – has adopted much of Labour's Third Way policy programme.⁹ Spending on public services is not now seen as incompatible with a successful economy. In terms of the Third Way, it has been argued that the 'most sizeable New Labour achievement is to have changed completely the terms of the debate about public service investment and reform... [and] about poverty and social exclusion' (Mandelson, 2002: ix, xxi). David Cameron and George Osborne have committed the

⁹ Peter Mandelson recently commented that Blair's greatest achievement was Cameron, meaning that he (Blair) had shifted the terms of the political debate in the UK.

Conservative Party to maintaining the current rate of increases in spending on public services and to no major tax cuts in the medium term. The debate is thus no longer about how much money should be devoted to public services, but over how that money should most effectively be spent (Osborne, 2006). The Conservative leadership has, for example, argued that Blair's ideas on 'choice' were right, but that he was wrong 'to impose them from Whitehall' (BBC, 2007).¹⁰ In fact, during the Labour Party deputy leadership election in 2007, the Conservative Party made an explicit attempt to tar Brown and the deputy leadership contenders with the Old Left brush, maintaining that they would be the ones to see through the Blair reforms. Given the reality of the (actually) quite small differences between Brown and Blair, this amounts to the development of a consensus in the UK on the role of the state and public services (even if minor differences exist over methods of delivery).

A Progressive Consensus in Europe?

Equally interesting is the growing prominence of Third Way-type agendas in European social democracy. Though it would be wrong to attribute these changes to direct policy transfer from Labour (or from the US Democrats), the party's political success and the UK's economic success has certainly made these policies more attractive. The Third Way agenda is especially appealing for on the European continent given the relatively high levels of public spending, public debt and unemployment in the other large European countries (Figure 3, below). European social democratic parties that have come to power have frequently adopted policy programmes that resemble the British Third Way, even though their unique set of institutional constraints and national social-economic starting points (see Figure 3) have often placed them on different trajectories (Paterson and Sloam, 2006).

Let us take the German Social Democratic Party (SPD) and the French Socialist Party (PS) as our two examples. The former has been in power since 1998 and the latter was in government between 1997 and 2002.¹¹ Schröder was initially a key figure in the

¹⁰ Furthermore, the Conservative Party's most recent policy reviews have been tilted towards policy areas like 'social justice' and 'public services'.

¹¹ It is important that we compare parties in government given the changes in policy-strategic concerns along the opposition-government paradigm (Paterson, 1981).

international modern social democratic/ Third Way network that met for its founding meetings in 1999. The Blair-Schröder paper (1999) was published at a time when the 'Neue Mitte' (New Centre) of Gerhard Schröder (the German Chancellor, 1998-2005) was in the ascendancy in the SPD (Hombach, 2000). The paper, crafted by Peter Mandelson (Blair's right-hand man and a founding father of *New Labour*) and Bodo Hombach (Schröder's right-hand man, who helped devise the *Neue Mitte* concept), whilst fairly uncontroversial in the Labour Party precipitated a summer of internal turmoil in the SPD (Sloam, 2004). SPD politicians balked at the apparent cap placed on social policy (by the argument that public spending as a proportion of nation income could not increase) and the business-oriented commitment to labour market flexibility. At this time, the *Neue Mitte* agenda was defeated in the SPD – institutional constraints and prevented the imposition of a new approach – and it appeared that the party would take a different policy path to Labour in the UK. Yet the defeat of the *Neue Mitte* only proved to be a hiatus, as many of the ideas initially put forward in 1999 were implemented as part of the SPD-led government's 'Agenda 2010' reform programme from 2003 to 2005. *Agenda 2010* represented a serious effort to rein in public finances (e.g. freezing pension rates) and introduce welfare-to-work employment policies (i.e. the so-called 'Hartz reforms') (see Streeck and Trampusch, 2005). In the face of the resource crunch in German public finances (see Figure 3) and the (perceived) constraints of economic globalisation, Schröder warned that Germany (and his own party) must 'modernise or die' (The Guardian, 2003).¹²

The political costs of these reforms were nevertheless very high for the SPD. The introduction of penalties for those not accepting jobs, through the notorious *Hartz reforms*, was largely responsible for the haemorrhaging of support amongst the party's traditional constituency. It also indirectly assisted the emergence of a new (hostile) electoral coalition on the hard left of the spectrum ('Die Linke'). In 2005, the party was, thus, keen to reassure its supporters that it would 'preserve the welfare state' (whose 'main role remains that of social levelling') (SPD, 2005: 9). Despite the political costs, the SPD programme demonstrated clear convergence with the Labour Third Way (Paterson and Sloam, 2006) – from the commitment to place 'equality of opportunity' at the heart of its 'Politics of the Centre' (SPD, 2002: 10), to support for an 'active state... that helps people to lead an independent life' (SPD, 2005: 9), to the central argument that

¹² For a good discussion of the instrumentalisation of the term 'globalisation' by Third Way social

'economic prosperity and social justice are not contradictions' (SPD, 2005: 8). Though, as junior partner in the current (Christian Democrat-Social Democrat) 'Grand Coalition', has been nervous about advertising its policies as *revisionist* (given the increased competition on the left of the political spectrum), the adoption of Third Way-type policy platform is likely to be confirmed in the SPD's new Basic Programme (SPD, 2007)

The French Socialist Party has a (deserved) reputation as a more left-wing party. The PS-led government under Prime Minister Lionel Jospin (1997-2002), though implementing some more leftist policies (e.g. the '35-hour-week') nevertheless also sought to cap public spending and deregulate some areas of the labour market and the economy. In fact, Jospin's formulation of '*réalisme de gauche*' (leftist realism) (Clift, 2001) indicated that the party was at least trying (despite its socialist rhetoric) to adapt to the realities of the modern world. Jospin's 2002 Presidential manifesto sought to balance its emphasis on 'inequalities in income' with 'equality of opportunity': ending poverty with special regard to housing whilst promoting social investment through (particularly) education (Jospin, 2002: 3, 15-7, 25). Tellingly, the PS-led government managed to increase social investment through a 'leftist savings policy' (Merkel, 2000) that channelled more resources to social democratic priority areas without adding to overall levels of public spending. Therefore, the PS in government also converged towards a Third Way-type approach – even if it maintained a more '*dirigiste*' (statist) belief in the role of the state. In other words, the *Parti Socialiste* continued to proclaim a more traditional social democratic outlook – for instance, viewing the benefits system only in terms of citizens' rights and the state's responsibilities. The general approach was characterised by Jospin's dictum 'Yes to the market economy, no to the market society' (PS, 1999). This balanced modern social democratic agenda was not, however, sustainable outside government given the natural '*federating tendencies*' (Knapp and Wright, 2001) of the PS (with factions rallied around potential presidential candidates), the extreme competition on the left of the political spectrum (greatening the demand for socialist rhetoric) and the nature of the France's *two-round* electoral system (increasing the need to appeal to core voters before the first round of voting). Jospin was, thus, suffered a humiliating defeat in the first round of the 2002 French presidential elections for promoting a programme that was seen as too centrist. Conversely, Ségolène Royal (in her bid for the 2007 presidency)

democrats, see Watson and Hay (2003).

found her popularity sink amongst the public at large when she was forced to unite the party's diverse factions around a more traditional leftist programme (Royal, 2007).

In the context of larger more regulated welfare states, the SPD and PS in government have – contrary to the Labour Party – been encouraged to bring in liberal economic reforms without the capacity to increase overall public spending. European integration has also played an important part here – the completion of the Single Market and the stability-based ethos of the European Central Bank have further constrained government policy. The impact of globalisation is less tangible, but the (perceived) threat of tax competition and 'outsourcing' has also affected the social democratic mindset. From the perspective of the post-Thatcherite UK, the Labour Party has been able to pursue a more traditionally social democratic agenda (i.e. increased spending in public services). Blair (2002: 16) boasted that 'Britain is the only European country where public spending as a proportion of national income in education and health will rise this year and next', but recognised that – from a lower starting point – the UK was actually trying to close 'the gap with average European levels of funding'. These social democratic parties – moving along different trajectories - have thus converged towards similar political-economic-social models. Though this might at first seem counter-intuitive – for tactical reasons, Labour has *spun* its policies to the right whilst the SPD and PS have *spun* to the left¹³ - the real story has been the development of a new social democratic consensus in Europe. The major problem for the SPD and the PS has been the political cost of new programmes. *Agenda 2010* resulted in the emergence of a new electoral threat on the left in Germany, whilst Jospin's denial that his programme was 'socialist' contributed to the PS' electoral disaster in 2002. Labour, on the other hand, has proved more effective in packaging its new policy programme into a politically acceptable formula.

Conclusion: a new narrative?

This paper argues for a new narrative for the analysis of the Labour Party and the Third Way policy programme pursued under Tony Blair and Gordon Brown. The three main strands of this new narrative are that:

- 1) Labour's Third Way has represented a (more or less) coherent political programme (in both strategic and policy terms).

¹³ The gap between rhetoric and policy (especially in government) has been particularly marked in the PS as a consequence of the fragmentation of the Left in France e.g. the number of leftist challengers for the Presidency in 2002 and 2007.

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Paper Presented to "Britain After Blair" Conference, Chicago, IL, 29 August 2007

- 2) This policy programme has substantively shifted the centre of gravity of the political debate in the UK.
- 3) The Third Way has had significant resonance in the development of European social democracy.

The development of this new narrative should enable a more convincing explanation of where the Labour Party has succeeded and failed to meet its policy objectives, and the future development of the European centre-left.

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Figure 1 (source: OECD, 2007; HM Treasury, 2007)

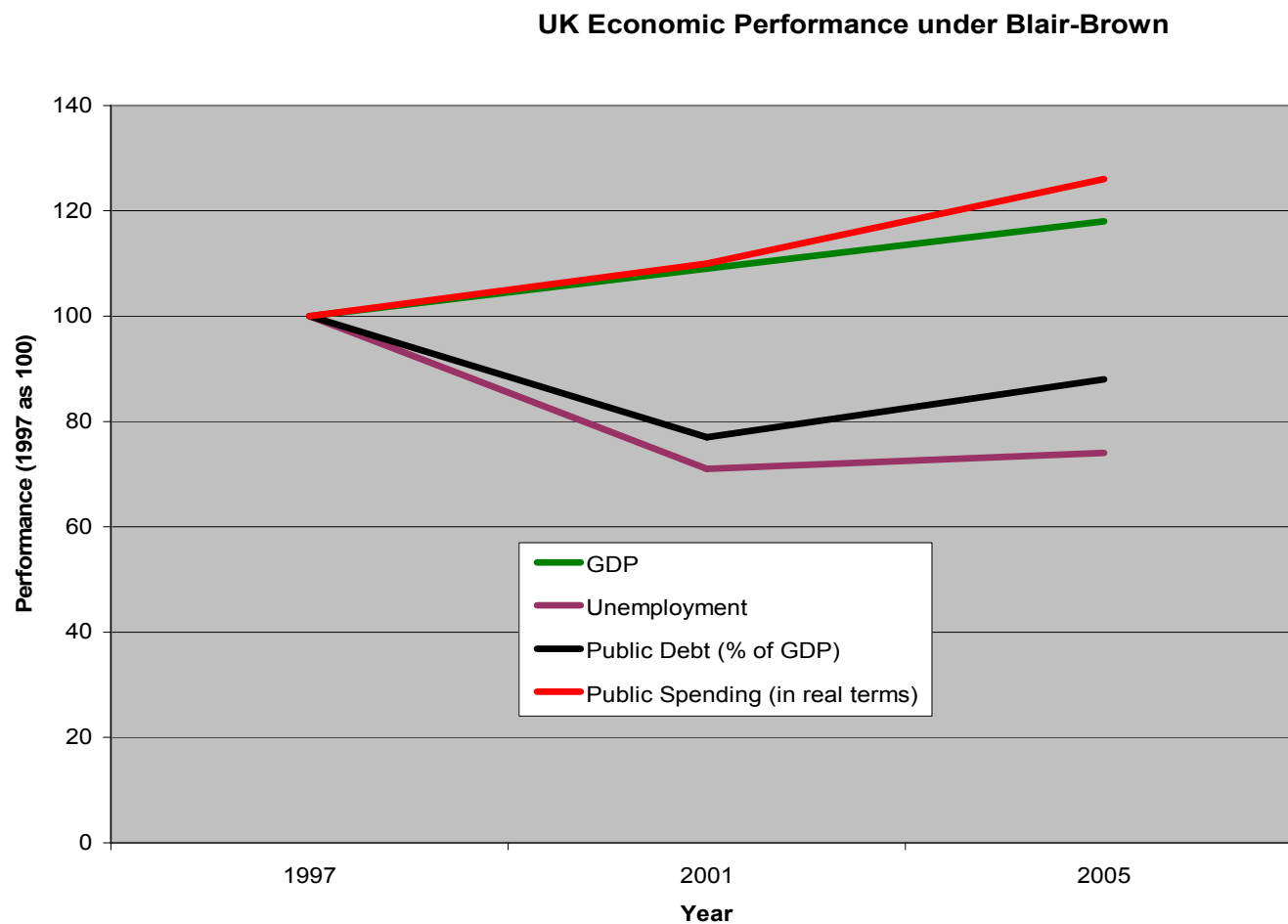


Figure 2 (source: HM Treasury, 2007)

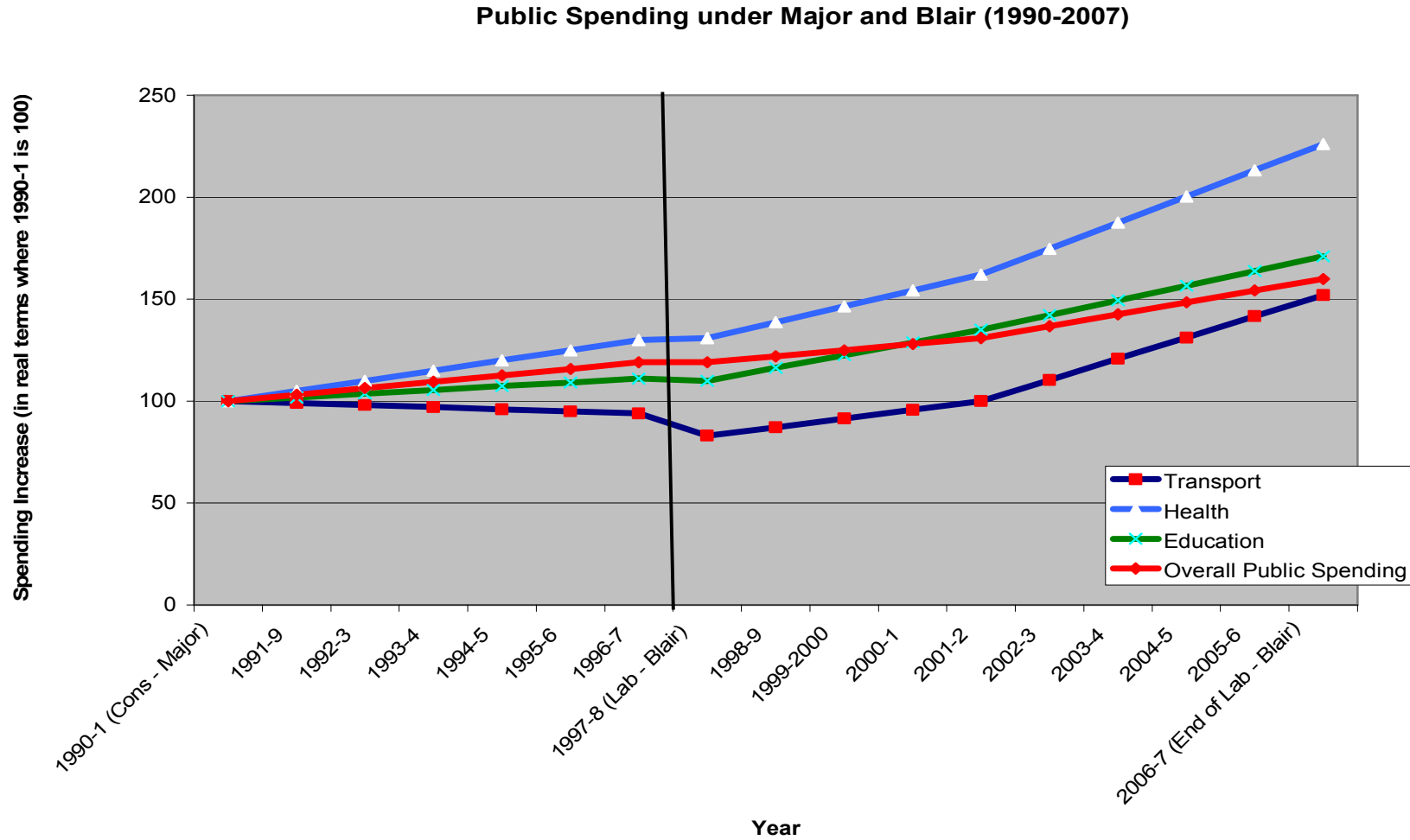


Figure 3 (Source: OECD, 2007)

Economic Performance of Large EU States: 1997, 2004

