

## **New Labour and the continuation of Thatcherite policy.**

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### **Abstract**

*The aim of this paper is to analyse the extent to which new Labour, on entering office in 1997, continued the policies put in place by previous Thatcherite governments. In economic policy, significant coherence is evident between the Thatcherite and new Labour approaches but this is less so within the welfare sphere, where subtle yet evident social democratic shifts returned the party back to the left of the political spectrum. Whilst largely in agreement with Martin Smith that the third way appeared to offer numerous faces, the analogy of 'hydra-headed' seems to have negative connotations. Instead, due to the belief that the party did not have malicious intentions or the aim to mislead, it is advocated that what the third way offered, was a "chameleonic approach".*



## Introduction

The aim of this paper is to analyse the extent to which new Labour adopted Thatcherite policies during their modernisation process, and then subsequently continued them after their 1997 General Election victory. It is important to highlight at this early stage, the definition of ‘Thatcherism’ adhered to throughout this paper. As Heffernan argues, there are numerous explanations including ‘(1) a short hand description of what the Thatcher-led Conservative governments did at any one time; (2) a popular political movement; (3) a policy style; (4) a form of leadership; or... (5) an ideological project, a vehicle which advanced a post-social democratic neo-liberal political agenda’ (2001: 17-18). ‘Thatcherism’ therefore not only describes the leadership style of Thatcher herself, but also the influence of her policies under subsequent Conservative governments. The background chapter will highlight the main reasons behind new Labour’s decision to modernise, including an overview of some of the competing theories which already exist on the topic. Some authors for example, believe that the Labour party modernised for electoral reasons, arguing that if they did not do so, the party would remain in the political wilderness for decades to come. On the other hand, some believe that modernisation was in response to ‘New Times’ brought about by globalisation. The paper is then broken down into two main sections which are split into two chapters. Section one will discuss new Labour’s approach to macro-economic policies, focussing on the decision to grant independence to the Bank of England and the commitment to low inflation. The second chapter in section one looks in detail at the pro-business, pro-competition approach and the continuation of the private finance initiative introduced by the Conservative party. Section two will focus on welfare policies, including the commitment to ‘welfare-to-work’ and ‘making work pay’ strategies. The decision to analyse both economic and welfare policies is due to the fact that the Labour party aimed to link the two areas. The introduction of ‘welfare to work’ and the ‘New Deal’ for example, attempted to reduce unemployment levels as the party could no longer ensure low unemployment levels due to their shift in economic policy, which now favoured a commitment to controlling levels of inflation. A comparative analysis will be conducted throughout into the extent to which the policy adopted was a continuation of that put in place by previous Conservative governments. As the third way played a vital role in new Labour’s approach, its credibility as an alternative ideology within British politics during this period will also be analysed.

Due to the Labour party’s electoral misjudgement to move left on the political spectrum after their defeat in the 1979 general election, the party lost the 1983 election with their greatest



ever margin, securing only 27.6 percent of the vote. Though the subsequent 1987 campaign showed improvement, it could not lead the party to electoral success and this failure subsequently led to the 'Policy Review' (Powell 1999: 6). The Policy Review under Kinnock began the modernisation process which ultimately led to the creation of new Labour. 'These more fundamental changes in policy and presentation gave Labour a lead in the opinion polls in the period leading to the 1992 General Election, but it unexpectedly lost at the ballot box, resulting in a 'defeat from the jaws of victory' (Heffernan and Marqusee 1998 cited in Powell 1999: 6). Labour faced defeat in eight general elections between 1951 and 1992 and had become renowned for its incompetence across all areas. Failures included '[t]he Winter of Discontent, the IMF crisis, 'lame duck' nationalised industries and punitive direct taxation' (Larkin 2001: 51). The electorate was also put off by internal divisions; including the breakaway of the Social Democratic Party in 1983 (Smith and Spear 1992: 6), which took some of Labour's key voters with it. Stephen Meredith looks in detail at divisions within the Labour party in the 1970s arguing that:

divisions over the questions of European membership and industrial relations and trade union reform, diverging revisionist attitudes to the problems and future direction of social democratic political economy in the 1970s witnessed the emergence and increasing marginalization of a distinct 'liberal' revisionist strand of the parliamentary Labour right (2005: 253).

In order to appeal to the electorate, the party needed to distance itself from the successive defeats and policy failures of previous Labour governments. The death of Smith and the subsequent takeover by Blair as party leader in 1994, finally led to the necessary break from the past (Powell 1999: 7). Blair's strategic creation of 'new Labour', 'was to symbolize the transformation of the old party so as to win over the electorate and reassure the Conservative media' (Faucher-King and Le Galès 2010: 89).

In order to modernise the party, the inevitable shift was to the right on the political spectrum, moving it away from the party's previous commitments. Blair's reforms to Clause IV were seen 'as the defining moment of his 'New Labour' project' (Kenny and Smith 1997: 110). Clear breaks from the past were most notable in the economic sphere, whilst social democratic elements remained with regard to welfare. There are many different theories relating to the motivations behind new Labour's modernisation but the main two will be



covered below. Firstly, the modernisation can be seen as a reflection of ‘new times’ and the subsequent transformation in the economic and social environment. As Hay and Watson argue ‘it was Labour’s refusal to adapt to popular perceptions of new economic ‘realities’ – a refusal made manifest in its continued commitment to Keynesianism in the late 1970s (Artis and Cobham 1991; Fforde 1983; Thain and Wright 1995: 19) and its later flirtations with protectionist dirigisme in the early 1980s – that first rendered, and subsequently served to keep, Labour ‘unelectable’ (1999: 149). Whilst some believed that ‘new times’ were the result of globalisation, others argued that recent changes were in fact due to Thatcherism and the shift from social democracy to neo-liberalism. The second theory surrounding the modernisation of the Labour party believes that its main purpose was electoral expediency. Either way, the shift to the right deeply frustrated traditional Labour voters who felt betrayed by the social democratic faction of the party.

The ‘New Times’ theory did not begin with new Labour and in fact dates back to 1988 at a seminar organised by Marxism Today (Hall and Jacques 1989: 11). The dominant argument was that ‘the world has changed, not just incrementally but qualitatively, that Britain and other advanced capitalist societies are increasingly characterised by diversity, differentiation and fragmentation, rather than homogeneity, standardisation and the economies and organisations of scale which characterised modern mass society’ (Hall and Jacques 1989: 11). Thatcher’s rejection of the post-war social democratic consensus and Keynesianism, and the replacement of these with a neo-liberal agenda dramatically changed the political playing field and was seen to represent ‘a profoundly reactionary settlement for New Times’ (Hall and Jacques 1989: 16). Whilst Thatcher offered a right wing response to such change, it was argued at the time that ‘[t]he crisis of the Left is its failure to find a role in the new times’ (Hall and Jacques 1989: 448). In order to provide a left-wing response, new Labour would have to deal with the agenda put in place by the Thatcher governments. The political playing field had therefore been altered not just by new times but also by the approaches adopted by the Thatcher government in response. It was Labour’s acceptance of this which led the party to accept the terms of a ‘post-Thatcher, yet nonetheless Thatcherite, settlement’ (Hay 1999: 59). This approach was criticised because new Labour offered no left wing alternative to ‘new times’ and simply continued the neo-liberal response. Blair used the globalisation narrative to support his argument that new Labour’s response was a ‘third way’. ‘The driving force behind the ideas associated with the Third Way is globalisation because no country is



immune from the massive change that globalisation brings' (Blair 1999 cited in Newman 2001: 48). Globalisation was therefore presented as the reasoning behind the renewal of the social democratic model. 'Labour's old values, Blair argues remain the same – community, inclusion, fairness and social justice. But the world has changed so much that the old policy instruments of the Left for achieving such ends – Keynesianism, public ownership, planning are no longer relevant' (Driver and Martell 1998: 41). A detailed analysis of this shift away from Keynesian economics as a result of globalisation will be covered in section one.

In response to the case put forward for modernisation due to globalisation and the shift from 'old times' to 'new', Colin Hay argues that there seems little evidence of the processes which caused the transition from one to the next (1999: 10). Whilst accepting that we now live in a more global society, Hay largely dismisses the globalisation and 'new times' theories as excuses to pursue a much needed modernisation agenda within the Labour party. He states that 'changes in the patterns of global economic production, distribution, ownership and competition in recent years, however considerable, do not of themselves necessitate the defensive and reactionary 'politics of catch up' to which Labour would seem to have restricted itself' (Hay 1999: 59). Hay also believes that the modernisation thesis due to globalisation is fundamentally flawed due to the assumptions it makes about the economic intellectual capacity of the electorate. By justifying their modernisation and their new economic policies, including the rejection of Keynesianism, as a reflection of voter preferences in 'new times', new Labour assumes 'a rather sophisticated electorate, apparently well versed in (one must assume neo-classical) economics' (Hay 1999: 61). It seemed on the whole that the 'new means' that proved effective in facing the new times were inherently Thatcherite.

Others argue that new Labour's modernisation and shift to the right had less to do with globalisation and 'new times' than it did electoral expediency (Leys 1997: 17). Many links have been drawn between the movement of new Labour and Anthony Downs' theory on the median voter. As Downs states, not only do parties move towards the median voter, but they also 'tend to maintain ideological positions that are consistent over time unless they suffer drastic defeats, in which case they change their ideologies to resemble that of the party which defeated them' (1957: 300). This could explain why Labour not only shifted towards the median voter, but their policies were seen to resemble those put in place by previous Conservative governments who had won four consecutive elections. By the 1980s,



individuals were less likely to consider themselves to be working class and therefore saw little need to align themselves with the party considered to represent the interests of working class people (Smith and Spear 1992: 15). The traditional working class seemed considerably smaller than it had in the past and the Conservative party was able to appeal to the new working class. The Conservative party's success in gaining working class votes combined with their subsequently long tenure in office, showed Blair that in order to stand a chance at the next general election he would need to win back, not only the support of the working class who had voted Conservative in the 1980s, but also gain the votes of 'middle England' (Crewe 2001: 70). However, simply recognising this change in the composition and positioning of the electorate on the political spectrum was not enough, the Labour party needed to research exactly what these voters' preferences were and draw up a manifesto that would appeal to them. 'By 1997...Labour had developed a highly sophisticated repertoire of techniques for assessing public opinion (particularly that of 'floating voters' in the marginal electoral battleground of middle England) and for revising policy in the light of such assessments' (Hay 1999: 96). As Hay comments '[a] more Downsian strategy could scarcely be imagined' (Hay 1999: 96). Market research specialists such as Phillip Gould played a key part in the process, advising Labour on the use of techniques such as focus groups in order to target their policies towards electoral preferences (Hay 1999: 96). The Labour party altered their policies due to their belief that it was the only way to become electable again. There were however other options that the party could have pursued. As Hay states:

advocates of, and commentators sympathetic to, Labour's 'modernisation', have tended not to consider the full range of alternative strategies available to the party in reconstituting its appeal to the electorate. In suggesting that the Policy Review was shaped profoundly by the need to win back lost voters, the implicit assumption was made that the only way in which this could be achieved was through a strategy of accommodation to the new-found preferences of the electorate – preferences, it should be noted, which saw the Conservatives re-elected in 1983 and 1987 with sizeable majorities (1999: 66).

The topic of Labour's modernisation has attracted much debate and one of the key contributors, as seen, is Colin Hay. Hay argues that there is nothing new about new Labour and in reality it merely offers a continuation of Thatcherism. Other authors such as Coates and Rubenstein believe that new Labour is not a continuation of Thatcherism, but of previous Labour governments. Rubenstein highlights the frequent disappointment felt by traditional Labour supporters and party members as a result of their refusal to pursue a more radical



social democratic agenda (2000: 166). Coates supports this argument believing that what makes new Labour a continuation of previous Labour governments, is the fact that when in power they face ‘forms of resistance to any radicalism in their programme, resistance to which they have regularly succumbed’ (2001: 301). Radical ideas in opposition are therefore abandoned when the party obtains office, something Coates describes as ‘the regular backsliding of previous Labour governments from their opening set of radical electoral promises’ (Coates 2001: 301-302). Whilst true that certain of the policy visions of old Labour remained in place, particularly in the area of welfare, such theories seem to overlook the stark differences in economic policy. ‘Keynesian demand management to maintain full employment has been replaced by tough anti-inflammatory fiscal and monetary policy. On the supply side, nationalisation and government planning have given way to flexible labour markets; welfare to work and ‘education, education, education’’ (Driver and Martell 1998: 160). Giddens offers a different perspective, instead believing that new Labour offered a ‘third way’ marking a clear break from both old Labour and Thatcherism. According to Giddens, ‘New Times and Old Left don’t and can’t belong together’ (2000: 28) and therefore what the third way offered was a renewal of social democracy. According to Blair and Giddens, what marked the third way as a truly new concept was its aim ‘to combine social solidarity with a dynamic economy’ (Giddens 2000: 5).

Theorists such as Driver and Martell believe this to be a slightly extravagant view, instead concluding with the persuasive argument that the ‘third way’ is a combination of old-style social democracy and neo-liberalism (Driver and Martell 2002: 84). Elements from the left are combined with features of the right and it was this combination which was believed to offer a novel approach (Driver and Martell 2002: 84). Driver and Martell conclude that the third way should be considered ‘post Thatcherite’ (Driver and Martell 2002: 105). The third way however, seemed to offer no decisive ideological stance and instead altered its appearance in an attempt to be a ‘catch all’ party. This argument is supported by Smith, who describes the third way as ‘hydra-headed’ (2004: 224). ‘The project is difficult to define, because it is full of contradictions and it presents a ‘head’ to suit the occasion’ (Smith 2004: 224). This critique has also been voiced by theorists such as Alan Ryan who believed that all that the third way actually offered was a ‘neither/nor’ approach (Ryan 1999: 67-80 cited in Holmes 2009: 174). Whilst a persuasive argument, the negative connotations surrounding the ‘hydra-headed’ analogy imply malicious intent on behalf of new Labour, which was not the



case. ‘Contradictory’ also seems too harsh a word. It seems more accurate to describe the third way as a “chameleonic approach” which offered a discourse, a way to ‘package politics’ and change its guise to suit its surroundings. The third way was coherent to the extent that it worked towards key goals, most notably pursuing a dynamic economy alongside social justice. Interestingly this theory has been developed previously by Cathy Gormley-Heenan to describe the political leadership during the Northern Ireland peace process. The term ‘chameleonic’ is said to suggest ‘behaviour that changes in response to certain stimuli or situations’ (Gormley-Heenan 2006: 90). ‘Chameleonic leadership’ is defined as ‘an inconstant form of political leadership which shifted according to the opinions of others and the climate in which it existed, just as a chameleon can change its colour to blend with its background, or in response to other chameleons’ (Gormley-Heenan 2006: 90). Such an approach seems to offer a highly relevant and credible way to describe new Labour’s third way. What therefore emerged under the party was a ‘chameleonic party discourse’. Regardless of opinion surrounding motives behind the modernisation, few would disagree that Blair’s new Labour victory in 1997 was quite remarkable. The party secured a parliamentary majority of 179 seats in the House of Commons (Coates and Lawler 2000: 16). This huge majority allowed new Labour to pursue their political goals, as legislation would be passed quickly. It is these policies which will be analysed below.

## **1. The Economy**

### **1.1. Independence to the Bank of England**

Previous Labour governments were committed to the belief that achieving high-on full employment was the best way to ensure economic growth. Keynesian demand management was seen as the most efficient strategy to enforce this, as ‘government intervention through fiscal policy and public spending could stimulate demand and thereby create jobs and generate economic growth’ (Bevir 2005: 107). However, the 1970s witnessed the downfall of Keynesian policies which were soon ‘associated with chronic inflation and even with rising unemployment and stagnant growth’ (Bevir 2005: 107). Labour governments had been committed to public ownership, planning and Keynesianism in order to pursue their goal of furthering ‘equality and working class interests, redistributing wealth and income where disparities grew too wide and using capitalism’s wealth to help the poor’ (Driver and Martell 1998: 46). However it was this stance and their failure to ‘adapt to popular perceptions of new economic ‘realities’...that first rendered, and subsequently served to keep, Labour





‘unelectable’ (Hay and Watson 1999: 149). The Thatcher government exploited the perceived economic incompetence of the Labour party and on entering office in 1979, ‘rejected the Keynesian approach and, instead, followed a monetarist approach’ (Hudson and Lowe 2004: 41). Rather than attempting to manipulate aggregate demand, this approach focused on controlling the money supply through the maintenance of low inflation. Low inflation replaced full employment as the prioritised method to ensure economic growth and ‘[i]t was about operating on the supply side rather than the demand side of the economy’ (Hudson and Lowe 2004: 41). On entering office in 1997, new Labour therefore largely continued a Thatcherite approach. ‘Labour’s modernized macroeconomics appears to have been guided by assumptions that there is simply no alternative to the new neo-liberal orthodoxy’ (Hay and Watson 1999: 150). Whether the new neo-liberal orthodoxy was the result of Thatcherism or of globalisation is debateable, but it was in response that new Labour radically altered their economic policy prior to entering office in 1997. The first policy U-turn occurred almost immediately on the party entering office in 1997, with the surprise move (dominated by Blair and Brown) to grant operational independence to the Bank of England. The policy will now be analysed to evaluate the extent to which new Labour continued the Thatcherite approach and the success of the policy will also be covered.

Whilst the initiative itself was not in place under previous Conservative governments, the motive behind the decision was identical to the Conservative commitment to the New Right approach that ‘economic growth depended less on high rates of unemployment and demand than it did on stable economic conditions characterised by low levels of inflation’ (Bevir 2005: 107). Granting independence to the Bank of England saw the creation of a Monetary Policy Committee (MPC), consisting of nine Bank of England insiders and outsiders (Smith 2005: 161) with the task of ‘hitting the government’s inflation target of 2.5% per year’ (Glyn and Wood 2001: 51). Interest rates were therefore fixed ‘in accord with long term economic priorities as opposed to short-term political advantage’ (Bevir 2005: 113). This shift from a commitment to low unemployment to a commitment to low inflation made an evident break from the policies of previous Labour governments, and moved towards policies synonymous with Thatcher’s commitment to supply side intervention and low inflation. This decision was hoped to convince investors that new Labour would not repeat previous mistakes. The policy reduced ‘the capacity of government to steer economic policy by institutionalising constraints



upon its freedom of action – what Burnham has called the strategy of ‘depoliticisation’ (2001 cited in Shaw 2007: 162).

New Labour presented their U-turn on policy, towards a neo-liberal consensus, as unavoidable due to the realities of new times resulting from globalisation. ‘The perception that we live in a globalised world is the key to New Labour’s loss of faith in Keynesian macro-economics’ (Driver and Martell 1998: 42). Numerous other Western European social democratic parties, including the Labour parties in Australia and New Zealand, had also all recognised that there was little alternative to neo-liberalism (Hay 1999: 136). Even in opposition in 1997, Brown claimed that ‘[p]olicies for economic management must now recognise that in a global economy there is no long-run trade off between growth and inflation. In fact, low inflation is a precondition for economic growth’ (1997 cited in Stephens 2001: 186). Those who followed the globalisation explanation believed ‘capital is increasingly mobile, and because demand increasingly depends on factors beyond a state’s borders, governments no longer can manage demand; instead they must ensure that the economy is attractive to international investors’ (Bevir 2005: 106). It therefore becomes crucial to keep taxation, spending and inflation ‘at levels which are comparable with those of competitor countries’ (Driver and Martell 1998: 42). The modernised economic stance made a clear break away from commitments to ‘Keynesian demand management to a more anti-inflationary macro-economic stance’ (Driver and Martell 1998: 44), accepting that what Thatcher had put in place was necessary. Giddens stated that ‘[t]he aim of macroeconomic policy is to keep inflation low, limit government borrowing, and use active supply-side measures to foster growth and high levels of unemployment’ (2000: 73). The third way was presented as a way to pursue social democratic commitments in the new times, by updating ‘the means by which they seek to realise their ideals’ (Bevir 2005: 106). It was said to offer a middle road between the Thatcherite prioritisation of low inflation and old Labour’s commitment to state activism. The credibility of a ‘new’ ideological approach which consists of a combination of other existent ideologies seems debateable. The decision to grant operational independence to the Bank of England was not only a commitment to low inflation as seen under the Conservative governments, but it was also a strategic move. Where in the past the government was held accountable for its economic failures, inflationary policy was now deemed largely out of their hands, allowing blame to be shifted to the Bank itself. As Larry Elliot stated in the *Guardian*, ‘Labour doesn’t want to take the big decisions: it wants



them taken off its hands so that it can concentrate on micro-changes and be blame free when things go wrong' (1997 cited in Hay 1999: 137).

The decision to present globalisation as the main cause of their shift in economic policy was inevitable. However as Hay and Watson argue, in reality '[g]lobalisation acts as a convenient post hoc rationalisation for a logic of tax-cutting which the Labour Party had already internalized' (1999: 155). New Labour emphasised the 'unavoidable' nature of their policy U-turn and 'chose to present as inevitable what in fact was contingent by deploying a 'particular political discourse of globalisation'' (Watson and Hay 2003: 290 cited in Shaw 2007: 163). However, such a dramatic shift in economic policy would appeal to the Labour electorate far more if portrayed as an unavoidable shift due to global circumstances, than as an acceptance that Conservative policies proved efficient in new times, whilst previous Labour policies were outdated. In reality as Hutton argues, 'new Labour had felt compelled to junk Keynes wholesale, and accept the new right consensus that budget deficit manipulation only disturbs the natural rhythms of the economy, and because all government debt eventually becomes monetised, is necessarily inflationary' (2003b: 116). 'On the fundamentals, New Labour has accepted that Old Labour was wrong and Mrs Thatcher was right' (Driver and Martell 1998: 73). Thatcherite policies had ultimately been successful and so new Labour had little choice but to follow. As a result it is frequently argued that 'New Labour has pursued a politics of catch-up in order to compete with the electoral successes of the Conservatives' (Bevir 2005: 106).

In response to the claims of U-turns on previous Labour commitments, authors such as Clift and Tomlinson argue that the rejection of old Labour's Keynesian commitments has been hugely exaggerated. They believe that in reality, previous Labour governments were not as committed to Keynesianism as is implied. The example of the Labour governments in the 1970s is used, as the 1976 IMF crisis saw the party 'eschewing Keynesian policies in the face of inflation and budget problems. Only after the 1976 IMF stamp of approval was given to its policies, and credibility restored, was it able to pursue a mild Keynesian expansion' (Burk and Cairncross 1992; Grieve Smith 2001; Tomlinson 2004 cited in Clift and Tomlinson 2006: 67). Whilst it may be true that Labour governments in the past had, at times, made moves away from Keynesian commitments, it would be hard to deny the radical U-turn on previous policy commitments. 'Where, in 1992, Labour's principal economic goals were to raise investment in the domestic economy, to boost productivity and to reduce long-term



unemployment, its primary aims had, by 1997, become the control of inflation and the promotion of macro-economic stability' (Hay 1999: 127).

A further argument in response to the suggested convergence between the Thatcherite commitments and those of new Labour is that actually important differences can be noted between the two. The most significant is the competing views concerning the impact of state intervention. Thatcher was committed to 'rolling back the state' and wanted to limit its role because 'state intervention created more problems than it solved' (Hudson and Lowe 2004: 40). As a result, she believed that once the market is stable, the state should withdraw from the economy because 'the market would secure an efficient supply-side and so enable British industry to compete successfully in the global economy' (Bevir 2005: 107). On the contrary, new Labour rejected this approach arguing that 'the other facets of our new times – the rise of new technologies – requires government to act so as to transform the supply-side of the economy in such a way as to enhance international competitiveness' (Bevir 2005: 108). Therefore whilst the policy itself reflects a continuation of the commitment of previous Conservative governments to low inflation, differences do exist, but lie more in policy detail than overall ideological substance.

The decision to grant independence to the Bank of England was seen by some as a huge success. In the first term, the main success was that the economy had not fallen into its more inflation-prone stance which was usually the case. This was seen to be due to the MPC's 'almost immediate grasp of the task in hand' (Smith 2005: 162). Success continued into the second term as whilst France, Germany, Italy and other European economies were faced with slow growth, Britain was continuing to grow. 'Interest rates, which had been falling even before the 9/11 attacks, were reduced to just 4%, their lowest since 1963, in their aftermath. When confidence was further threatened by the uncertainty generated by the invasion of Iraq in 2003, the bank cut rates again to just 3.5%, their lowest since 1955' (Smith 2005: 163). Others view this success as 'merely a by-product of low worldwide inflation and a small gain in return for the loss of political control of monetary policy' (Smith 2005: 164). Further critics believe that the Bank was not monetarist enough, highlighting 'the rough trebling of house prices in the UK since the mid-1990s, the rise in the household debt burden from 100 to 140% of annual disposable income – equivalent to £1,100 billion – and strong increases in money and credit over the period of independence, as indications that monetary policy had been too lax' (Smith 2005: 164).



With hindsight the success of Labour's approach is increasingly doubted and it is argued to have contributed significantly to the economic crisis of 2008. As Stephen Martell states 'cracks were appearing in this legacy even as Labour celebrated its ten years in power — and these cracks are widening with every day the country plunges deeper into recession' (2009). The main argument is that new Labour was irresponsible with its finances and spent money that it did not have, particularly on the public sector. 'As unemployment fell and economic growth surged ahead, public spending jumped from around 36 per cent of GDP in 2000-01 to around 41 per cent in 2005-6. But spending was outpacing growth' (Martell 2009). Whilst the economy continued to grow due to new Labour's macro-economic approach combined with the decision to grant independence to the Bank of England, 'in the end it grew too fast' (Martell 2009). Therefore instead of the success stories favoured by new Labour, the party are faced with accounts of 'boom and bust'.

It can therefore be seen that on the whole, new Labour continued the economic commitments of previous Thatcherite governments throughout their tenure in office, due to the belief that they were to be most effective in the global era. Social democratic elements did remain but were most visible in social policy, which will be covered in the second section of this paper. By pursuing the above policies and rejecting Keynesianism due to 'new economic realities', Labour had to sacrifice 'an active role for the state in industrial policy; and its commitment to restore an indigenous investment ethic to British capitalism' (Hay 1998; Watson and Hay 1998 cited in Hay and Watson 1999: 150). It is the acceptance that the government could no longer have an active role in industrial policy which led to new Labour accepting the private finance initiative of previous Conservative governments.

## **1.2. The Private Finance Initiative (PFI)**

As well as being regarded as the party of economic incompetence, Labour had also been tagged with a pro-trade union and anti-business label. As part of the new 'modernisation' agenda, new Labour leaders recognised the need to move away from old Labour's approach and towards a pro-business stance. In order to show their commitment and favourable approach, on entering office in 1997, new Labour agreed to continue the private finance initiative (PFI) that had been introduced by the Conservative party. 'Private sector involvement in public services had long been anathema to most in the Labour party, yet on



entering office new Labour enthusiastically picked up and expanded the policy' (McAnulla 2006: 125). 'As a Treasury official closely involved with the PFI told Keegan, 'it was a way of demonstrating they [New Labour] could do business with the City'' (Keegan 2003: 269 cited in Shaw, 2007: 91). Although renamed as 'public private partnerships' (PPP), the idea was synonymous with the private finance initiative of the Conservative government. The policy will now be analysed to examine the reasons behind its implementation, its success and the extent to which it continued what had been implemented by previous Thatcherite governments.

The PFI was first introduced in 1992 by the Major Government with the aim of 'increasing the involvement of the private sector in the provision of public services' (House of Commons Research Paper 2001: 10) and attempted to create a closer relationship between the two. The basic principle behind the PFI, was that 'the private sector invests in public-sector capital projects, such as building and managing new schools, hospitals, prisons and roads, and the government then effectively rents the new facility from the private-sector provider' (Driver and Martell 2002: 44). Although the Conservative government had privatised many industries, the PFI was different because 'the public sector retains a substantial role in PFI projects, either as the main purchaser of services or as an essential enabler of the project' (House of Commons Research Paper 2001: 10). This did not stop the Labour party critically linking the two, accusing the PFI of being 'a form of stealth privatisation that exposed the Conservatives' determination to run-down the public sector and its position on the extreme right' (Hewitt 1993 cited in Hindmoor 2004: 153). Although the Labour party initially 'denounced the PFI as 'totally unacceptable'' (Shaw 2007: 82) on entering office they embraced the policy and it was soon described by the party as 'the key element' in its 'strategy for delivering modern, high quality public services'' (HM Treasury 2000: 6 cited in Shaw 2007: 80).

New Labour adopted numerous strategies to prove that they were now a pro-business party, including 'cuts in corporation tax; reducing the tax burden on business in an effort to make it more internationally competitive; and deregulation, reducing the legislative restrictions on employer practices' (McAnulla 2006: 124). Such tactics were adopted due to the belief that in the new global era, it was crucial to make the business sector competitive and attractive in the global marketplace. Many reasons are put forward as to why new Labour turned against its



previous commitments to the public sector and the trade unions and embraced the PFI policy. Firstly, it is argued that its implementation suited the fiscal rules of the Blair Government, ‘the so-called ‘golden rule’ that over the economic cycle current spending must be covered by revenue and not borrowing at the pledge that net debt should not exceed 40 per cent of the gross domestic product’ (Shaw 2007: 90). Secondly, the policy was adopted for electoral appeal in order to distance the Labour party from its previous reputation as the ‘tax and spend’ party (Shaw 2007: 91). Lastly, it is argued that on a practical level, new Labour adopted the policy because of an acceptance that the privatisation agenda of Thatcher had produced effective results.

They had seen enough of the public sector at work to see that schools and hospitals went over the budget, over time, and were not fit for that purpose. They had learnt from Mrs Thatcher that privatisation and contracting out produced better results (Keegan 2003: 269 cited in Shaw 2007: 93).

Although the Labour party had initially criticised the PFI for being a watered down version of privatisation, they were soon defending themselves against a similar claim. In response to such allegations, ‘Labour modernizers claim that these partnerships are not privatisation because the public services themselves remain available on the same universal and free terms’ (Driver and Martell 2002: 44). In order to distance the policy from that of the Conservative government, new Labour attempted to present it as a ‘third way’. ‘According to ‘New Ambitions for Our Country’ (DSS 1998: 19), the third way ‘is about combining public and private provision in a new partnership for the new age’’ (Powell 2000: 50). From this third way perspective, the PPP ‘offered an alternative to the (new right) private provision of public services and the (old left) public sector monopoly’ (Driver and Martell 2002: 45). However whilst trying to present the PPP as a new and unique concept, in reality ‘[m]any of the public policy instruments and reforms, such as the public-private-partnerships or ‘reinventing government’, now seen as being at the heart of New Labour’s third way, were features of previous Conservative administrations from which the third way is meant to be distinguished’ (Driver and Martell 2002: 80).

The shift to the right, away from old Labour, brought about by the acceptance of the PFI was evident and is highlighted by Falconer and McLaughlin who state that:



A clear distinguishing feature of 'New Labour', as opposed to 'Old Labour', is the nature of its posture toward the private sector. A political party which once held firmly to the view that the State should play a leading role in the workings of the nation's economy now promotes the belief that very little can be achieved in government without the active support of business (2000: 122).

This view is supported by Burchardt and Hills who state that '[t]he apparent closeness that New Labour has to prominent figures in the world of business suggests an acceptance of and by the private sector unimaginable 15 years ago' (1999: 29). In 1983, the Labour party had plans to return the industries that had been privatised by Thatcher back to public ownership. However, in a 'step-wise fashion', Labour moved 'from opposition to the private sector itself, through an anti-privatisation stance, to an acceptance of a role for private provision of welfare, and then even some private finance' (Burchardt and Hills 1999: 41). New Labour's shift in favour of neo-liberal economic policy was criticised heavily by trade unions, who felt betrayed because the party that used to represent their interests, had subsequently established 'pro-business credentials' (McAnulla 2006: 125). 'The expansion of public-private partnerships (PPPs) in the public services has been a prominent cause of the sharp deterioration in the relationship between public service trade unions and the government, during the Labour government's second term in office' (Bach and Givan 2005: 118). As reported by BBC News:

Leader of the GMB union John Edmonds said that while everyone agreed public services needed to be improved, "only a fool could believe that will be achieved by running our schools and hospitals in the same way the private sector has been running Railtrack and Marks & Spencer" (2001).

Despite the hostile reaction of the unions, investment continued to increase. '[T]he forecast for investment through PFI is £3 billion in 1998/99, more than seven times as high as the amount invested under the Conservatives in 1995/96' (Burchardt and Hills 1999: 47). The success of the PFI/PPP is a hotly contested issue. Alan Milburn, a Blairite inevitably in favour of the policy, stated that the PFI was 'helping deliver the biggest hospital building programme the country has ever seen with dozens of new hospital developments already open, as are hundreds of new and refurbished schools, alongside scores of fire and police stations, courts and prisons' (2006: 13). Others in favour of the policy believed that the PFI





‘has made possible a scale of public sector investments – new hospitals, schools, prisons and many other facilities – that otherwise would not have been economically and financially feasible’ (Shaw 2007: 83). Key figures supported such claims as ‘[a]ccording to the National Audit Office whereas just 27 per cent of projects built under the old regime were delivered on budget, 78 per cent of PFI projects came in at cost. 76 per cent have been delivered on time under PFI compared to just 30 per cent using traditional methods of procurement’ (Milburn 2006: 14). Whilst the figures seem impressive, criticism was raised for a variety of reasons. Firstly, critics highlighted the varying level of transaction costs, as expertise required in certain areas, such as finance and law, often proved incredibly expensive (Shaw 2007: 85). Further criticism surrounded the inflexible nature of the system. ‘[B]y tying itself into 30-year contracts with specific PFI providers, the ability of the NHS to respond flexibly and efficiently both to changed patterns of healthcare needs and technologically different ways of meeting those needs has been curtailed’ (Shaw 2007: 86). ‘Changes in needs, technologies and treatments may, for instance, reduce demand for large acute PFI hospitals but the public sector will be contractually bound to a pre-set schedule of payments, reducing its ability to shift funds into other forms of health care (Dawson 2001; Mayston 2002 cited in Shaw 2007: 86).

Whilst the National Audit Office regarded the PFI value for money because projects were completed ‘with much greater time and cost certainty than had been the case under previous conventional procurement’ (Simons 2006: 48 cited in Shaw 2007: 89), judgments surrounding its ‘operational performance’ were mixed (Shaw 2007: 89). Whilst effective in the projects regarding roads and prisons, it was far less effective in projects regarding schools and hospitals, with a particularly poor performance in the NHS (Shaw 2007: 89). ‘PFI hospitals have meant fewer beds, fewer staff, fewer operating theatres and higher overall costs’ (Hutton 2003a: 156). NHS chief executives raised these issues in a report to the Government in June 2004, as well as highlighting the ‘insufficient flexibility to meet changing health needs’ (The Guardian 2004 cited in Shaw 2007: 89). Therefore success seemed dependent on the nature of the project. One interesting point to note is that whilst criticising previous Conservative governments for their short-term outlook in economic decision making, the result of the PFI/PPP scheme was that ‘[i]n effect future generations will incur long-term obligations for annual PFI payments – involving calls on tax revenues – for facilities which will primarily benefit the present generation’ (Shaw 2007: 91-92).



According to a recent analysis undertaken by the Conservative party, ‘the 544 PFI projects agreed under Labour will cost every working family in the country an average of nearly £15,000 each, even though the original building cost stands at just over £3,000’ (Prince 2010). Such figures raise serious doubts as to whether the services provided were worth the future payback.

Whilst the modernised economic approach of new Labour had clear benefits for the business sector, the same cannot be said for other areas. ‘While high street consumption, the housing market and the service sector grew strongly, manufacturing – or at least parts of manufacturing suffered’ (Driver and Martell 2006: 71). Manufacturing, the ‘clear loser’,...continued to suffer from the high value of the pound, making exports expensive’ (McAnulla 2006: 125). ‘After successive quarterly falls in output in mid-2001 as the world economy slowed, UK manufacturing slipped into recession’ (Driver and Martell 2006: 71). This marked another similarity to Thatcherism, which also favoured ‘the interests of financial capital over industrial capital’ (McAnulla 2006: 125).

From a macro-economic and business standpoint, in order to modernise the party so it was better suited to ‘new times’, it can be seen that new Labour made a clear break from many previous Labour commitments. Whether due to Thatcherism or globalisation, the ‘new times’ were something the party had to confront and in order to do so new Labour embraced the Thatcherite commitment to low inflation, as well as the prominent role which business must now play in the global economy. The decision to grant independence to the Bank of England and the continuation of the PFI was due to the third way’s commitment to ensuring economic prosperity and continuing the Thatcherite approach was seen as the best means to do so. Whilst accepting that the Thatcherite approach to economic policy was to be the most effective, the third way aimed to marry economic efficiency with social justice. In order to do so, social democratic elements were maintained within the welfare sphere and this will be discussed in greater detail in the second section of this paper. This attempt to link economic and social policy was made evident in Labour’s business manifesto which stated:

This Manifesto sets out how a new Labour government will work with business. It outlines our policies to back Britain’s businesses and help them to compete and deliver growth, good profits, rising living standards and more jobs (The Labour Party 2003).



It can therefore be seen that through the promotion of a competitive business market and help to the business sector as a whole, new Labour believed that they would be able to raise the living standards within the country due to the creation of more jobs. The welfare policies of the new Labour government will now be analysed in order to observe similarities and differences between their stance and the Thatcherite agenda.

## **2. Welfare**

### **2.1. Welfare-to-work – The New Deal**

During the eighteen years of Conservative government, the welfare state underwent significant change. The Conservatives had been committed to ‘rolling back the State, promoting choice and consumerism, encouraging the mixed economy of welfare and reducing welfare dependency’ (Johnson 1990; Wilding 1992, 1997 cited in Powell 1999: 3-4). Committed to New Right ideology, the Thatcher government believed that the state had been doing too much and that ‘it should do less by shifting responsibility for welfare back onto private individuals and families’ (Driver and Martell 1998: 84). Welfare expenditure was seen as a drain on the economy and as a result, ‘the Conservatives cut benefits and put pressure on claimants to take up job opportunities that came along’ (McAnulla 2006: 128). This marked a serious contrast to the welfare policies of old Labour who were committed to the belief that ‘[s]ocial justice is to be achieved primarily through the benefits system’ (Powell 1999: 14), a factor which will be examined in more depth in the next chapter. New Labour was ultimately faced with two choices: either continue the old Labour approach, or make radical U-turns on previous commitments and align themselves with the stance of the Conservative party. In the end what they claimed to offer was a ‘third way’, a transcendence of the right and left. Central to this was their ‘welfare-to-work’ programme, the first pieces of which were in place within two years of Blair becoming leader. ‘In the 1997 manifesto the welfare-to-work policy for 250,000 young people was one of the party’s five ‘election pledges’’ (Driver and Martell 1998: 108). The key programme implemented to achieve this was the ‘New Deal’. This programme will be analysed below to see whether it offered a unique approach to welfare, or if in fact it was simply a continuation of the Thatcherite agenda. The success of the programme will then be analysed, as well as the reasoning behind its implementation.



In order to defend their new approach to welfare, new Labour again highlighted the changes caused by globalisation. The extent to which globalisation had been used as a ‘cover-up’ in order to reduce hostile reactions from committed social democrats is again raised by critics. ‘Many believe that new times display as many continuities with the past as they do the breaks’ (Driver and Martell 1998: 45). However, the party remained committed to the need for their welfare policy to respond to such change, just as their economic policy had done. Central to the third way was the concept of linking economic efficiency and social justice and one element of this was the recognition of the need in the new global economy of flexible and skilled workers. ‘Globalisation has placed a premium on workers with the skills and knowledge to adapt to advancing technology. People without skills find it very hard to compete’ (Blair 1999). As Brown stated ‘in a world in which capital, raw materials and ideas are increasingly mobile, it is the skills and ability of the workforce which define the ability of a national economy to compete’ (1994: 21 cited in Bevir 2005: 111). Therefore new Labour believed that they could ensure an efficient and effective economy by supplying a welfare system committed to education and training, creating a skilled workforce, flexible enough to compete in the global marketplace. ‘In the context of greater global competition and economic insecurity at the end of the 20th century, Labour is constructing a two-part division of welfare based on “rebuilding the system around work and security”’ (Hewitt 1999: 169). New Labour therefore shifted their emphasis towards an ‘Anglo-American model, extolling the virtues of flexible labour markets and building welfare around the needs of a flexible labour workforce, with training and education to deal with job insecurity’ (Driver and Martell 1998: 50). It could be argued that the changes to the welfare system actually reflected the acknowledgement of the party leaders that in order to stand a chance in the 1997 general election, the party needed to modernise. The leadership was aware that they needed to move away from their previous ‘tax and spend’ image and appeal to ‘middle England’. Therefore to convince the electorate of the shift, new Labour promised to move ‘away from passive support for jobless claimants towards active efforts to improve their chances of securing employment within a more prudently managed and stable economy’ (Purdy 2000: 185).

The main policy of the ‘welfare-to-work’ agenda, as mentioned, was the New Deal, initially aimed at the young unemployed. Under this scheme ‘[w]elfare claimants are offered four options: work experience, voluntary experience, further education or training’ (McAnulla 2006: 128). ‘Young people who reject New Deal offers without ‘good cause’ lose the whole



of their benefit for two weeks' (Purdy 2000: 187). This was in order to address the idea of 'rights' and 'responsibilities' and was largely similar to 'new right concerns that many welfare claimants must be urged or forced to alter their behaviour to take personal responsibility for their situation' (McAnulla 2006: 129). Although the young unemployed were initially prioritised, the scheme soon expanded to include 'the older long-term unemployed, lone parents, the disabled [and] the self-employed' (Taylor 2005: 197). The New Deal was central to the third way, attempting an alternative between the old Labour and Thatcherite approach by 'not dismantling welfare, leaving it as a low-grade safety net for the destitute; nor keeping it unreformed and underperforming; but reforming it on the basis of a new contract between citizen and State' (Powell 1999: 13). Blair referred to this approach as 'compassion with a hard edge' (1997: 10 cited in Dwyer 2000: 87). Ultimately, the third way offered a 'common sense' approach that appealed to the majority of those anywhere remotely central on the political spectrum. Few voters would disagree with a policy which required individuals to acquire work when they could, instead of surviving off state-funded benefits. The extent to which this can be part of a solid ideological approach is hotly contested. Instead the third way seems to select elements from both the left and right and is more accurately described as a coherent discourse in which numerous ideologies were combined, rather than an ideological alternative in itself.

However, some commentators are far less convinced that the third way offered any real alternative to previous Conservative commitments. The 'endorsement of conditionality' whereby benefits will be withdrawn should participants of the scheme fail to comply, drew evident similarities with the ideology of the New Right (Dwyer 2000: 90). The New Deal scheme had clear similarities with the Job Seeker's Allowance under previous Conservative governments. Seamus Milne and Richard Thomas state that 'the sanction regime for the under 25s who refuse to take part in the [so-called] New Deal programme is essentially the same as that introduced as part of the Tory government's Job Seekers' Allowance last year' (1997 cited in Hay 1999: 122). Under this scheme, those reliant on welfare would 'lose 40% of their benefit indefinitely if they refused to accept one of the welfare-workfare options presented to them' (Hay 1999: 121). The similarities between the New Deal and the Conservative's 'Project Work' programme, is also striking. As Gray describes, Project Work was 'the first post-war compulsory work programme in the UK, involving 13 weeks' compulsory work for benefit plus £10 for people who have been on the dole two years.



Labour will now continue the Project Work scheme with only minor modifications' (1998: 4). It seems that in reality, new Labour adopted the policy, rebranded it, and presented it as a 'third way'. In some ways, the policy went even further than the Conservative policy, because claimants would not lose 40 percent, but would lose all of their benefits if they failed to comply! Hewitt marks this as a clear break from old Labour, which was committed to 'the traditional role of social security in redistributing provisions to the out of work poor and other groups in need' (1999: 150). Dwyer states that '[i]n borrowing heavily from both New Right and new communitarian perspectives, New Labour's approach to welfare may be novel in terms of party policy but it cannot be seen as a distinctly new 'Third Way'' (2000: 90). The overseas influence on the third way, particularly of the US should also be noted, as the '[t]he 'welfare-to-work' scheme echoed the 'workfare' policy established by the Clinton government and the two were identical in their commitment to welfare recipients having to work in return of benefits' (McAnulla 2006: 128).

Other authors, such as Powell, disagree that the New Deal scheme is a dramatic U-turn on previous policy, highlighting the fact that combining work and welfare is nothing new and draws parallels between the New Deal scheme and the New Poor Law of 1834 (1999: 16). The 'conditionality' aspect however, seems a feature usually consistent with the right and whilst such a scheme may have been in place under previous Labour governments, the 'ends' were different, as old Labour aimed for equality of outcome, whilst new Labour was more committed to equality of opportunity. The egalitarian aspect commonly found in previous Labour policy was still present, but was more committed to providing individuals with the ability to help themselves, rather than the government providing help. It was this commitment to helping individuals to start on a level playing field which separated new Labour's policies from those of the Thatcher governments and this will be covered in the next chapter along with the provision of benefits.

The success of the New Deal is hotly debated and authors such as Simon Briscoe argue that 'very little information is available about the value of the schemes, in other words how people's lives have been changed by them' (2005 cited in Taylor 2005: 197). 'The government claimed that the New Deal had assisted around 1.2 million people into paid work between 1998 and 2004, including 535,000 young people and 200,000 unemployed adults' (Taylor 2005: 197). However, Taylor believes that in reality these figures are 'seriously misleading' and in actual fact, '[u]p to the end of 2004 it has been estimated that only



130,000 people actually moved directly from participation in the government's programme into unsubsidised employment at the end of the process' (Taylor 2005: 197). Driver and Martell highlight the fact that 'about 25 per cent of those who enter employment through the New Deal for Young People do not last thirteen weeks' (2002: 195). 'There is also a very high (over 80 per cent) drop-out rate from the full-time education and training option' (Driver and Martell 2002: 193). Such options were seen by Conservative critics as 'expensive and unnecessary training programmes' and they believed that the government should put more pressure on individuals to find work (Willetts 1998 cited in Driver and Martell 2002: 193). Others such as Sunley et. al, are able to highlight the failure of the policy in certain geographical areas, stating that 'the impact of the New Deal for Young People has varied significantly as between different local labour market areas across Britain, and in particular has been noticeably less effective in many inner urban and depressed industrial labour markets' (2001: 505). The policy therefore failed in areas where its success was most needed, a problem which is omitted from 'official discussions of the New Deal, and indeed in many ways it has been pushed firmly under a rhetorical carpet of 'national success'' (Sunley et. al 2001: 506). Criticism also came from those who questioned the ability of welfare-to-work to accomplish social inclusion in an evidently unequal labour market, as well as from those who believed that it discounted 'the value of community and voluntary activities and the unpaid work of reproduction and cares carried out in the home, still mainly by women' (Bauman 1998; Hirsch 1999; Jordan 1998; Levitas 1998 cited in Lister 2002: 141). The financial misjudgement of the party was noted by Gray as early as 1998 who stated that, '[t]he chosen funding mechanism, the windfall tax on privatised utilities, will only last for three years. But long term unemployment will continue, not least because the 'New Deal' will create few genuinely new or permanent jobs' (1998: 4).

Gray also analysed the differences between the new Labour and Thatcherite welfare approach, believing the difference between them to be 'subtle yet significant' (Gray 1998: 4). The Conservative approach towards the unemployed is described by Gray as 'maximum deterrence, least cost' (Gray 1998: 4). 'The Tories' policy was to try to deter people from claiming benefit (Finn, op. cit.)—but without spending much money on them. New Labour's approach to workfare is different' (Gray 1998 : 4). This is due to the extensive cost of the New Deal policy. It can therefore be seen that in reality, whilst new Labour insisted that the New Deal offered a 'third way', in reality the idea of linking rights and responsibilities was



witnessed previously under both Thatcher and Major. What was new, was the commitment to ‘equality of opportunity’, as it broke away from new right commitments as well as the commitment to ‘equality of outcome’ under old Labour. Although new Labour embraced the Thatcherite commitment to ‘conditionality’, due to its appeal to middle England at this time, the party also offered a more sympathetic and interventionist element to the approach, not just demanding people seek employment, but making it clear that they were committed to helping individuals to do so. Another aspect which distinguished the new Labour approach, as mentioned, was that the New Deal was to be financed ‘by a £5bn windfall tax on the privatised utilities’ (Stephens 2001: 194). However, clear similarities can be noted as both the New Deal and the Job Seeker’s Allowance showed an ideological commitment to a harsher standpoint on the provision of welfare, in which individuals must take more responsibility for their actions. In reality new Labour had little choice but to offer this approach due to the opinion of the electorate at this time, who took an increasingly negative attitude to benefit recipients. However, after the 1997 general election the subtle yet evident social democratic shift of new Labour welfare policies became evident and will be discussed further in the following chapter.

### **3. Making work pay – The minimum wage and the Working Families Tax Credit**

The welfare state was created in 1945 under Clement Attlee and since then Labour manifestos have been committed to expansive social policy (Driver and Martell 2006: 88). ‘Labour’s social democrats believed that welfare should be provided by the state, paid for out of taxation and administered as a public service. It should not be left to the market’ (Driver and Martell 2006: 86). However, as mentioned previously ‘[f]or Thatcher, guaranteeing welfare was a matter for individuals and their families not the state’ (Hudson and Lowe 2004: 41). Her beliefs were in line with new right ideology which argued that ‘spiralling welfare expenditure is both unsustainable and limits the competitiveness of the domestic economy in global markets’ (Marsland 1996 cited in O’Brien 2002: 404). In response to the Conservative approach, ‘the defence of the welfare state and the promise of extra funding for social benefits and services were the centre pieces of the 1983 and 1987 Labour election manifestos’ (Driver and Martell 1998: 85). Even in 1992, the Labour party manifesto promised to ‘restore the value of child benefit, raise the basic pension and reintroduce the link between pensions and earning that the Conservatives had abandoned in 1981’ (Purdy 2000:





183). This approach however attracted headlines warning of ‘Labour’s tax bombshell’ (Purdy 2000: 183).

Therefore in 1997, whilst Blair expressed his admiration for the Attlee administration’s success describing it as ‘the greatest peacetime government this century’ (Driver and Martell 1998: 74), he subsequently stated that the country was now faced with new times and that the country needed ‘a new settlement on welfare for a new age, where opportunity and responsibility go together’ (Driver and Martell 1998: 74). New Labour’s manifesto in 1997 largely accepted the Thatcherite belief that welfare was a drain on the state and that as a result of globalisation the party’s approach to welfare must be modernised. As mentioned previously, the Labour party attempted to combine economic and welfare commitments and the New Deal was the benchmark policy to do so. Whilst the policy enforced the idea that rights existed alongside responsibilities and where individuals could work, they should work, the party was equally concerned ‘that some jobs were so poorly paid that people may even end up with less money than they would receive from benefits’ (McAnulla 2006: 129). To confront the problem, the party committed themselves to a ‘make work pay’ strategy. The two main features of this were firstly, the introduction of a minimum wage and secondly, the Working Family Tax Credit (WFTC) which was ‘the introduction of tax credits paid to working families on lower wages’ (Driver and Martell 2006: 98). A Childcare Tax Benefit was also introduced as part of the WFTC. These initiatives will now be analysed, as well as the party’s standpoint on welfare as a whole, in order to determine the extent to which they followed a Thatcherite agenda. The success of the initiatives will also be analysed.

The third way according to Giddens, ‘looks for a new relationship between the individual and the community’, with the motto ‘no rights without responsibilities’ (1998: 65). This was due to the belief of modernisers within the party that ‘many of those in receipt of social security can help themselves’ (Driver and Martell 1998: 87). This belief largely followed the ‘anti-dependency’ approach to benefits that had been witnessed under the Thatcher government. In order to defend what appeared to be a harsher standpoint on welfare, Blair assured traditional voters that ‘old ends’ were being pursued, but that ‘new means’ were needed to achieve them. Critics on the other hand believed that ‘old ends have gone out of the window as well as old means’ (Driver and Martell 1998: 160). New Labour committed itself to individual stakeholding, which ‘is a perspective on welfare and the role of the individual in society which emphasises equality of opportunity...and inclusion rather than a more egalitarian



distribution of wealth or income in society' (Driver and Martell 1998: 57). Blair 'made it clear that redistribution is no longer about reducing the privileges of the rich in favour of the poor, through the taxation and benefit systems, but is instead about 'redistributing opportunity' through education, training and paid employment' (Lister 1998: 216-217). Both he and Brown emphasised the shift in commitment from equality of outcome to equality of opportunity (Lister 1998: 216-217) It is this shift away from the commitment to egalitarian values which has been criticised by those on the Left of the party (Driver and Martell 2002: 195). 'To G.A. Cohen it was Old Labour's belief in egalitarianism and community regulated on the basis of need which set it apart ideologically' (Driver and Martell 1998: 160).

In distancing themselves from old Labour, critics argued that the party now offered a 'catch-all idea of social justice' (Driver and Martell 1998: 160). It has also been criticised for offering a 'common sense' approach that inevitably appeals to all. This point is supported by Powell regarding the third way commitment to 'social justice', who states that 'with the exception of Hayek (1976), who regards social justice as a mirage or an entirely empty and meaningless term (Plant et al, 1980, pp 50-62; George and Wielding, 1985, p.25; Lund, 2002, pp 4-6), everyone is in favour of (their view) of social justice and against social injustice' (2002: 19). Whilst some Thatcherites were strongly against the term 'social justice' believing it to imply redistribution from those who earned it, to those who possibly had not, the approach on welfare as a whole was purposely vague in order to appeal to a broad section of society. Examples include statements such as 'if you put in a fair day's work, the government will ensure that you are able to support yourself and your family' (Labour Party 2001 cited in Powell 2002: 24). Such pledges fuelled arguments which claimed that in reality the third way offered a discourse but not an alternative ideology.

To this point much leaning has been towards a conclusion supporting the argument that new Labour simply provided a continuation of Thatcherism, with the conditionality placed on welfare, and most notably in the economic sphere. However when studied in greater depth, the welfare approach of new Labour was not as radically different to previous Labour governments as authors such as Hay suggest. Anderson supports Hay when stating that 'the hardcore of [neo-liberal] government policies remain...but are now carefully surrounded with subsidiary concession and softer rhetoric' (2005: 5 cited in McAnulla 2006: 56). It would seem fair to argue that on entering office, the Labour party accepted the Thatcherite approach that the provision of benefits could act as a disincentive to work and on the whole were seen



to promise to stick to, even advance, previous Conservative policy. It would however, seem wrong to conclude that new Labour ditched social democratic commitments wholesale, and as academics such as McAnulla observe, '[w]hile new Labour has continued the Conservative trend to shake up the welfare system to discourage 'dependency', it has also reinforced aspects of the postwar welfare settlement by boosting certain universal benefits' (2006: 130). Conservative aspects were adhered to, but only alongside more social democratic elements which ultimately led to an increase in public spending. 'Just one year into its term in office, the government announced plans to increase spending on the welfare state by £110 billion over three years, with much of it going on health and education as well as on social expenditure' (Dearlove and Saunders 2000: 595). 'Although New Labour is not opposed to the unequal distribution of personal income and wealth that occurs as a result of the operation of a market economy, they believe that it is important to ensure that all citizens have a fair chance of competing for such rewards' (Page 2007: 31). By offering a combination of two existing approaches, the third way cannot be described as a new, alternative ideology. However, it does deserve credit as an effective discourse to present such a combination of already existent ideologies.

Changes implemented to the Conservative 'Family Credit', which in October 1999 was replaced with the WFTC also distanced the party from Thatcherism. The aim of the policy was to 'make work pay for families, tackling the main obstacles to work: the unemployment trap, the poverty trap and lack of affordable childcare' (HM Treasury 1998: 3). Commonalities between the two programmes were evident, and included the provision that 'both required recipients to work for at least 16 hours per week to be eligible, with an extra credit given to those working more than 30 hours [and] earnings above a threshold reduced the credit by a certain proportion' (Brewer and Browne 2006: 3). There were however significant differences, particularly regarding the level of generosity and the means of payment. Under the WFTC, 'credits were higher, particularly for those with younger children. Families could earn more before the credit began to be withdrawn (£90 per week rather than £70) [and] [t]he rate at which the credit was withdrawn was lower (55% rather than 70%)' (Brewer and Browne 2006: 3). These conditions inevitably led to an increase in welfare expenditure, a feature synonymous with that of past Labour governments, and Conservative ones too! Therefore, whilst the manifesto of 1997 committed the party to a



Thatcherite approach, once in power the party slowly withdrew the neo-liberal elements in favour of a more generous and sympathetic social democratic approach.

The success of the WFTC is difficult to measure due to the numerous other factors affecting the level of employment amongst lone parents. '[T]he tax and transfer system affecting low-income families with children had experienced almost continual change since April 1999...including a cut in the basic rate of income tax from 23% to 22%' (Brewer and Browne 2006: 5-6). The introduction of a minimum wage which may increase labour supply but reduce demand and the New Deal, when extended to include lone parents, may have contributed to individuals choosing to take up jobs. Therefore whilst it is argued that '[t]he increased generosity of the in-work credit system seems to have induced lone mothers to increase their participation in the labour market by around 5ppts between 1999 and 2002' (Brewer and Browne 2006: 15), this may be distorted due to the impact of the other factors. The most significant point to note is the subtle yet evident shift to a more socially democratic approach to welfare that had been adopted by new Labour after winning office. The policy therefore seemed to be introduced for electoral appeal, as once in office the party gradually introduced policies which returned it back to its social democratic roots. Further changes included the replacement of 'the Married Couple's Tax Allowance, worth £200 a year, by a new Children's Tax Credit, worth £416 a year, with effect from April 2001. As a result, parents who in 1997 were receiving £11 a week for their first child, will in 2001 be receiving £23 a week' (Purdy 2000: 191). The policy took an even greater leftward shift in 2003 as the WFTC was split into Child Tax Credit and Working Tax Credit. 'Child Tax Credit is paid to families with children regardless of whether the parents work' and whilst the Working Tax Credit largely mirrors the WFTC, by providing 'in-work credits to people on low-incomes through the wage packet (including, where appropriate, part of childcare costs)... unlike the WFTC, the Working Tax Credit is not just restricted to those with children' (BBC News 2007). By this point, whilst the policy as a whole resembled that introduced by Thatcher, the features of it had changed significantly.

The introduction of a minimum wage also seemed to distinguish the new Labour government from Thatcherism as it increased the governmental intervention in society, something Thatcher strongly opposed. The policy seemed strange given the new pro-business, pro-competition economic approach, but was part of the third way commitment to combining economic efficiency and social justice. The minimum wage ultimately represented an



‘extension of government authority, as it was the first reform that intervened directly in the wage setting negotiations between employers and employees’ (Larssen et al. 2006: 643). Whilst this move would be presumed to be well received by the unions, especially due to their sentiments of betrayal resulting from the party’s pro-business approach, this was not the case. Rodney Bickerstaffe, General Secretary of Unison, in a Special Report to the BBC stated that ‘[w]orking people deserve more. The government could do better, the country can afford more and £3.60 should be seen as a starting block not a finishing line’ (1999). Despite adopting a pro-business stance in economic policy, new laws meant that firms could be fined as much as £5000 per worker who was being paid below the national minimum wage (BBC News 1999). Smith’s description of new Labour as ‘hydra-headed’ seems particularly persuasive, as by attempting to provide economic prosperity alongside social welfare, the party changed its stance when necessary in order to appeal to businesses on one hand or trade unions and workers on the other. This created inevitable tensions on both sides and raised doubts about the practicality of the third way.

As witnessed with the WFTC, social democratic elements became increasingly apparent as the minimum wage gradually increased. By 2006, the minimum wage had increased to £5.35 an hour and was causing increasing dissent amongst business leaders, including Director of HR Policy at CBI, Susan Anderson who stated that ‘[c]ontinuing heavy increases are simply not sustainable’ (BBC News 2006). Ultimately all of these policies were enforced to encourage those on benefits into employment by removing the disincentives preventing them from doing so. The ‘ends’ were therefore the same as those of the Thatcher government however; there were underlying differences in motivations behind the approaches. Under the Thatcher government the main focus was on ensuring economic prosperity and there was little concern about whether work paid well or the transition from welfare to work. Whilst economic prosperity was also a key element under new Labour, the party was also committed to making sure that the benefits of working were substantial in order to encourage paid work. Educational opportunities were also provided in order to develop skills and reduce the problem of social exclusion, believed to be caused by high levels of unemployment and benefit claimant levels. The level of governmental intervention and the commitment to the employee as well as the employer marked a significant difference between new Labour and the Thatcherite approach.



## Conclusion

After analysing the policies of new Labour and the third way, it seems that whilst the numerous theories which have been developed on the topic contribute significantly to our understanding, too many of these attempt to fit new Labour and the third way into a Thatcherite or an old Labour mould. The most influential approaches are instead those which suggest that in reality the third way offered a combination of both neo-liberal and social democratic elements. The ‘hydra-headed’ interpretation of the third way by Smith offers a particularly persuasive argument, but this conclusion seems to imply negative connotations and offers a more negative description than is deserved. In reality the Labour party did not adopt the approach with the main intention to mislead the public, even if supporters at times felt betrayed by the U-turns on previous commitments. It seems fairer to describe the third way as a ‘chameleonic approach’ which changed its appearance to suit different situations. This was vital when trying to appeal to a broad section of society.

Section one analysed the economic approach under new Labour and it can be seen that policies previously implemented by Thatcherite governments were largely adhered to. As a result of the new challenges being faced due to globalisation, the party recognised it had little choice but to continue a neo-liberal agenda. The impact of globalisation is a contended issue which has been stressed throughout. Whilst some believe that the party was restricted to neo-liberal approaches due to global factors outside of its control, others such as Leys felt that in reality, the party shifted policy for electoral reasons and without doing so, would have been unable to capture ‘middle England’, which accounted for a significant section of society at this time. The decision to abandon Keynesian economics in favour of supply side intervention and to grant independence to the Bank of England, highlighted a clear break from previous Labour commitments and aligned new Labour with Thatcherite economic policy. The same was seen with the continuation of the PFI, as the party broke away from its anti-business image to one of pro-business, pro-competition. The decision to grant independence to the Bank of England also enabled the party to distance itself from economic failures as blame could be passed onto the Bank itself. Through such policies, new Labour was committed to ensuring that business and the economy could prosper and Blair attended meetings with business leaders and emphasised how the level of taxation was now far less of a burden under new Labour than in the past.



Section two with regard to welfare policy, shows that whilst the party adopted policies of previous Thatcher governments, which focussed on the concept of rights and responsibilities and conditionality, subtle but significant social democratic elements became evident. Whilst the New Deal policy was implemented to persuade those on benefits to seek employment, withdrawing benefits if this was not adhered to, the party was also committed to helping individuals in the process. This interventionist approach marked a clear difference between the Thatcherite and new Labour standpoints. In contrast to section one, section two therefore shows the party's social democratic commitment to supporting workers by introducing a minimum wage and other tax credits. Through such policies, new Labour hoped to attract support from trade union members and emphasise its commitment to the wellbeing of the individual worker.

The chameleonic approach allowed the party to alter its appearance to suit its surroundings, much as a chameleon is able to change colour to suit its environmental setting. It is due to the numerous ideological standpoints that the third way is unable to qualify as a truly alternative 'ideology'. In reality what the third way offered was a coherent discourse, a way of 'packaging politics' and putting a new Labour spin on previously developed ideological commitments of both old Labour and Thatcherism. The third way was coherent as a discourse to the extent that it had the clear vision of providing economic efficiency alongside social justice. The problem lay less in coherence than in the practicality of trying to combine economic efficiency and social justice. This style of presentational politics has become increasingly important due to an ever dominant media and rapid developments in the technological field, including the Internet and satellite television. New Labour was also governing in an era with an ever increasing middle-class and it is highly unlikely that the party would have won three successive general elections had it failed to modernise. With hindsight, it seems hard to disagree that whilst the policies enacted may have sometimes fallen short, the third way discourse was successful in marketing the party to both distance itself from a vast array of previous failures and offer an approach towards governing Britain which lasted for over ten years. The third way, by not committing to a singular ideological approach, was therefore flexible and able to adapt to its surroundings. Interestingly, current Prime Minister David Cameron has been seen to offer a remarkably similar 'third way' approach whilst in power. In a similar way to new Labour, Cameron seeks to distance the Conservative party from previous failures without committing the party to a solitary

ideological standpoint. This suggests that in new times, whether caused by external global factors or influential British governments and public opinion, there is little alternative but to offer, not an ideological approach, but a ‘chameleonic discourse’ through which to present the party.

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