



Beyond New Labour: the future of social democracy in Britain

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This speech was given by Roger Liddle at the London School of Economics on 14 September to mark the launch of the book “Beyond New Labour: the future of social democracy in Britain”, edited by Patrick Diamond and Roger Liddle.

I want to talk today about the book I edited with Patrick Diamond “Beyond New Labour”.

Our common starting point is a lot of admiration and gratitude for what New Labour has achieved. A new “Anglo-Social” model has been developed in which Britain is better able to compete with the rest of the world, while ensuring a more equal and fair society through a dynamic “social investment” state. We are much less of a neo-liberal outlier among Europe’s varied social models than we were in 1997. Britain's relative stability has provided an effective platform to project British culture as the UK is increasingly seen as a hub of scientific, technological and creative excellence. This is a substantial legacy to bequeath the country.

Writing the book was hard. We were determined not to write a book of intellectual apologia, still less political propaganda. We tried to be tough with ourselves. We commissioned contributors noted for their independence of mind. The outcome is far from perfect, but we wanted to frame the key questions, even if we weren't always sure of the right answers.

Our book argues that New Labour has fallen short in four areas. To move "beyond" New Labour, social democrats need to develop:

- A more sophisticated **critique of the market**;
- A more coherent response to the **rise of individualism** in our societies;
- Greater clarity about Labour's approach to **equality**;
- A redefinition of the **role of the state**.

I can't talk about all of this today. What I want to focus on is the argument that social democrats need to rethink the role of the state and how this relates both to the consequences of the global economic crisis and the current debate about the future of public expenditure.

We deliberately decided that the focus of the book would be the big structural challenges facing Britain, not the day to day issues of politics. Our central argument is that these challenges can only be met by social democrats through the construction of a reformed "developmental" state with far stronger, more focused strategic capabilities. That implies a very different approach to governing to the one Labour has chosen.

Some may argue that this focus on the role of the state is the wrong question to ask when globalisation is in crisis and markets have conspicuously failed to provide stability: because isn't it self-evident we need a stronger state? However there are three credible views of the role of the state, not just two. One is the laissez faire, minimalist view: clearly flawed, but one that is still dear to the right. Another is to argue unequivocally for the idea of the big state as a guarantor of equity. But the third view is of a state with a strong strategic capacity that doesn't try to run everything itself.

New Labour dallied with ideas of an "enabling" or "empowering" state. To us this comes across as more minimalist third way than the situation now requires: to caricature, the answer to the global crisis must be more than a training scheme. A strategic capacity demands market- ordering, not just market-accepting. What does this mean?

First, open markets are the best available means of stimulating innovation and efficiency and these benefits are strengthened by globalisation. New technology and new consumer demands however constantly create new patterns of "winners" and "losers". Those with the right skills stand to succeed, while there is a continued loss of "good working class jobs" as companies invest in new markets, outsource and de-localise. Well before the crisis, the confidence that economic growth automatically leads to a broad based prosperity had been eroded. This polarisation between winners and losers needs to be more actively recognised and addressed.

Secondly, social democrats have long recognised that markets are a good servant but a bad master: but in the benign period created by the wave of globalisation that has gathered force since the mid-1990s, our beliefs seemed out of sync with the times. We did foresee that an even more fatal weakness of globalisation was not the economic dynamism it unleashed, but the fact that increased economic interdependence was not matched by new forms of global governance. But given the intellectual hegemony

of the belief in “efficient markets”, no compelling impulse to act had achieved sufficient consensus before it proved too late.

Thirdly, the global financial crisis has dramatically resurrected the social democratic case for an “active state”. There are of course dangers here. We should not be dusting down the interventionist policies of Labour’s 1945 Manifesto, still less that of February 1974: *they* failed. Nor is this the time to return to a protectionist, anti European, anti global, “socialism in one country” model. The need is not for social democracy to turn its back on the dynamic strengths of economic openness, but liberated from past neo-liberal constraints, to recognise with greater intellectual and political confidence that the market’s limits, potential for failure and resulting inequalities need to be better managed in the public interest.

Fourthly, public policy towards industry has to change. Until 2008 it concentrated on supporting the right framework conditions for growth such as skills, competition, infrastructure, and research. But this is no longer enough, - and to be fair the government recognises this - given the huge problems of economic opportunity in the UK despite all the progress New Labour has made: the long tail of disastrous underperformance in our education system and continued inadequacy of skills; stubbornly high levels of worklessness and poor labour market integration of certain ethnic minorities; regional problems of economic decline in old industrial areas with too often an overdependence on a low wage service economy and young talented people drifting away.

This means a new impetus for the development of sectoral policies, regional specialisation, and lead technologies and a more explicit recognition of the need for long term government planning in transport and energy to tackle climate change.

A new era of industrial activism must avoid the “lame duck” bail-outs of the 1970s. Essentially the effect of these was to freeze the old industrial structures of the time, in

the vain hope that restructuring could be agreed that would raise performance. Instead we need to move from supply side policies that *enable* - to public policies that are *developmental* - recognising the vital role that only government can play.

But fifthly and more profoundly, the task for modern social democracy is to design a new model of welfare capitalism. There is widespread moral revulsion against the excesses of financial capitalism: its arrogance and disdain for any form of public accountability; its grossness of reward totally unrelated to any concept of genuine enterprise and long term wealth creation.

British social democracy needs to find the appetite for remedies that promote responsible business behaviour. From the 1980s UK public policy was designed to liberate the City of London to outdo the US financial markets at their own game. One year after the collapse of Lehmans, some may sense a return to "business as usual", but the city would be better to see itself in my view, as the financial centre of a properly regulated EU Single Market. This involves the abandonment of "race to the bottom" regulatory competition; and sensible European regulation. As for business as a whole, we need more transparency over top pay; openminded thinking about workplace empowerment to improve lagging productivity; competition rules that discourage merger and takeover fever; and the inclusion of "stakeholder" obligations in company law reforms.

The new paradigm should be one of multi-level governance, where through political action at national, European and international level, as well as the regional and local, government has the necessary strategic capacity to act in order to shape the positive forces of globalisation. In the book we argue that British Labour's special attachment to a Westminster model of nation state social democracy - where society is hopefully transformed by winning absolute majorities in the House of Commons through a "first past the post" electoral system - is a significant barrier to acceptance of this new paradigm.

So to summarise, the new circumstances demand that modern social democrats should decisively reject traditional neo-liberal hostility towards the state. But a more critical approach to the market should not mean that the “big state is back”. They should embrace Albert Hirschman's view that the best way for progressives to secure support for collective action in the public interest is to acknowledge that state intervention can have unintended consequences, and that there are limits to the scope of state power as Keynes argued in the 1920s. Labour does not exist to promote and protect the state, but to ensure that the state advances the collective and public interest rather than the vested interests of elites.

There has always been a tension about the role of the state in social democratic thinking. Is the state's role to shape citizens or to give citizens equally the power to shape themselves?

The origins of the Labour Party were strongly “voluntarist”: they relied on the “self-help” of friendly societies and trade unions, cooperatives and chapels. These institutions represented the ideals of collective action – a communitarian acknowledgement of our interdependence as individuals - but without reliance on the state. Yet in the middle of the last century the idea of collectivism became identified with the state.

New Labour was never very clear what it thought of this. At some important points, it acted in David Marquand's terminology as a “democratic republican”: in pushing through Scottish and Welsh devolution; in entrenching citizens' rights and up to a point challenging the sovereignty of Parliament through the Human Rights Act.

But in public services, its approach was at best confused. Example: foundation hospitals were supposed to gain significant independence, but ministers still took it upon themselves in 2007 to instruct every hospital to undertake a “deep clean” in

order to combat the MRSA infection, whether or not local circumstances required it. Example: local authorities were rewarded with extra central government grants if they met performance targets, but compensated on the other if they fell further behind on certain measures of deprivation.

There has been a lot of talk of the “new localism”, the need for “double devolution” and community participation. But largely it has remained at the level of rhetoric because no one was willing to resolve the underlying intellectual confusions.

With the prospects for a future of tight public spending constraint, these debates must now come to a head. To my mind there remains a strong and clear dividing line between the parties. Against the ideological Tory state retrenchers, social democrats should see themselves as progressive state reformers - with a clear mission to refashion the state for tougher times. This should be the Labour mission for the next decade.

Social democrats must not allow our politics to be defined by whether the quantum of public spending is rising or falling. Understandably this is difficult, given that the big success story of British social democracy in the last twelve years has been the rescue, revival, and rehabilitation of public services. The danger for British social democrats is that we turn the remarkable one-off period of catch-up in public service provision over which Labour has presided into some kind of eternal doctrine: that social democracy is about high growth in public spending and this is the sine qua non of anything else significant we seek to do. To do this would be to repeat a mistake that the left has too often made before: to confuse “means” with “ends”.

This was the story of Labour’s commitment to public ownership. Nationalisation of the basic industries was one of the great achievements of the Attlee Government: this policy was in my view right for its times, though today we recognise that public interest objectives can in many cases just as well be achieved by effective regulation of

privately run utilities. But because nationalisation was the right thing in the 1940s, many members of the Labour Party came to equate their socialism with the extension of public ownership. This belief had disastrous consequences for the Party's unity and electability in the decades that followed. Similarly, we must not two generations later make the same mistake over public expenditure.

But is this not a challenge to the high priest of Labour's revisionists, Tony Crosland, who pointed out in the *Future of Socialism* that the Labour Party by its attachment to public ownership had confused ends with means, when the real "end" of social democracy is greater equality which in his view could be achieved through using the proceeds of higher economic growth to expand public spending? Three points remain relevant today to what Tony Crosland had to say in the 1950s.

First, his argument was predicated on an assumption of economic growth. As a result of the global economic crisis, the British economy – like other developed economies – has suffered a sharp decline in output. "The party's over" as Crosland graphically put it himself in 1975 (two decades after his *The Future of Socialism* had been written) when the impact of the oil crisis on the British economy could no longer be postponed. While today it makes total sense to keep increasing public expenditure in the teeth of recession, as the Government is doing, once recovery is soundly based, we have to plan now to reduce the deficit and bring down public debt in a manageable way.

Secondly, by the time of Crosland's death, he had come to recognise that public expenditure did not in itself guarantee a more equal society. With the expansion of higher education and increasing sophistication about what makes for good health, the middle class were major beneficiaries of an enlarged welfare state. Around the same time, political scientists developed theories of "state failure" to match economists' identification of "market failure". Whatever one thinks of these theories, there is clearly a danger of state activities being captured by producer vested interest and of

bureaucratic waste and inefficiency as a result of lack of contestability in service provision.

So as part of our reform of the state agenda we need a much sharper focus on both equity and what spending pays off best in terms of hard results. I see a key challenge as how in social policy the government increases social investment in the development and full utilisation of human capital – a key issue for gender equality as well – as we face a long period of long public spending constraint. Conversely we need to think of ways we can advance a modern equality agenda without spending public money at all.

Thirdly, Crosland always recognised that rising personal consumption had an important part to play in fostering greater social equality. And indeed one of the reasons why the old class barriers have declined in British society is that smart clothes, holidays, leisure pursuits, eating out are no longer the preserve of a privileged moneyed elite. But the logic of democratic consumption is that it puts limits – though not an absolute bar - on our ability to argue the social justice case for higher taxes on the hard working majority as the principal means to pay down public debt. Social democrats who still rail against modern society's obsession with "shopping" undervalue the role that material consumption has played in bringing nearer the 1950s ideal of "classlessness".

There is of course a rich intellectual critique of the consumer society to which social democrats need to pay more attention, for example in the work of Robert E Lane and Avner Offer. Consumers are confronted with information overload that makes it difficult for them to navigate modern markets. They can become locked into a "hedonistic treadmill" attempting to keep up with the consumption patterns that they regard as societal norms but which in reality deny them genuine choice. In turn failure to keep up, or the perception of such failure, contributes to low self-esteem and a

multitude of socio-psychological problems that go with it such as obesity, drink and drugs and relationship problems.

Addressing such issues fits in with broader challenges facing social democracy: can it be liberalised and become more pluralist; sensitive to the politics of personal behaviour and the variety and complexity of social values and norms; as well as recognising the desire of people to experience greater choice and control in their lives.

The rise of individualism is a complex phenomenon and cannot simply be dismissed as a rise in selfishness. There has been a major change since the 1970s in the values of the affluent and “post-material” society. Whereas before then, in a male breadwinner world, the basic parameters of people’s lives were determined by their job, their social class, the community in which they lived and married, and possibly their religion, individuals increasingly see their own lives as an autobiography they write for themselves. There is far greater mobility and fewer jobs for life. Women have made great strides to gender equality. There is far greater fluidity in social relations as fewer people are prepared to stick together in unsatisfactory relationships. There is more tolerance of homosexuality and much greater openness about unconventional ways of living. The left welcomes these developments: indeed the Labour Governments of the 1960s and 1970s as well as New Labour since 1997 have played a notable role in transforming public attitudes and advancing personal freedom.

It is important to recognise the rise of individualism has gone along with the emergence of new forms of interdependence – new types of network and community engagement. However, the perceived decline of neighbourhood solidarity, particularly in once traditional working class communities, has heightened public fears of crime, even when the statistics indicate that crime rates are falling. The collapse of the “male breadwinner” model of the welfare state and the rise in one parent households has triggered debates about the “family” which social democrats find uncomfortable, despite our determination to tackle child poverty. The negative consequences of

individualism, including the growth of costly social problems such as drug and alcohol abuse, obesity and mental illness, raise difficult issues of “rights and responsibilities”. New Labour liked the phrase and applied it, but social democracy needs a better thought through, more consistent application of the concept, defining where the state should intervene directly to change private behaviour.

High levels of public spending are a necessary condition of decent public services and a civilised society. But we need to become: “effective state” social democrats, not “big state” social democrats.

Certainly this implies a strong public service reform agenda of greater diversity of provision, less central control and more contestability, but I make one qualification. Choice can be useful as a tool of change and reform but I do not regard it as an overriding social democratic “core” value. Rather public complaints of “lack of choice” represent a legitimate reaction against supposedly universal public services that in practice vary greatly in both the quality and equality of their outcomes. In the real world of inequities in the way in which public services distribute opportunity, as against some non-existent universalist ideal, creating more choice can expose issues that should be top priorities for social democrats.

The challenge for the future social democratic project beyond New Labour will be to resolve an enduring dilemma in a new form: ensuring that the plight of the worst off resonates with the middle-class majority, securing a fairer distribution of income and wealth, as well as equitable access to institutions and public services. Social democrats must do so in a world that is more diverse and atomised, where the ties that bind individuals and communities together are no longer taken for granted, and where governments are viewed with scepticism rather than trust.

Labour's challenge is continuing to project itself as a vibrant, dynamic change agent. The party exists to transform society, far more than simply tidying up the worst excesses of globalisation, and tinkering at the edges.

We do not agree with the challenge David Marquand makes in his brilliant provocative essay that social democracy and progressivism should be consigned to the dustbin of history. We are optimists. It is our belief that a "next generation" social democratic project for Britain is needed: not a reversion to traditionalism; nor a further revisionist project on the Crosland model that argues for changed means to realise a constant, unchanging set of ends; but an openness to radical overhaul of both ends and means to produce a more liberal and pluralist social democracy. We have to refresh the goals of "democratic equality" and "individual self fulfilment" for modern times and recognise and accept the tensions within the more liberal, pluralist model we favour.

The next generation of Labour leaders have one great advantage in fashioning this new model. Unlike any other previous Labour Government they can draw on the success of the New Labour project, confident that the centre-left is able to win the battle of ideas and govern competently in the name of a more equal and just society.

Roger Liddle is chair of Policy Network. He has also been appointed chair of the UK government's New Industry, New Jobs, Universities and Skills advisory panel, which reports directly to the Secretary of State for Business, Innovation & Skills.