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Chapter 4: The United Kingdom's Social Model: From Labour's New Deal to the Economic Crisis and the Coalition

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After thirteen years in office the British Labour Party lost the general election on 6 May 2010.[1] The outcome surprised few: it came after a prolonged economic crisis alongside a plethora of difficulties for the administration. The election delivered no overall victor, however, and a coalition government of Conservatives and centrist Liberal Democrats replaced Labour, promising to tackle the economic crisis through a program of sweeping cuts in public spending. In this chapter we discuss how Labour shaped the social model before the crisis. We go on to analyze how the resultant configuration of institutions and policies influenced both the trajectory of the economic downturn and successive responses to the crisis by Labour and then by the Coalition. Labour's overall approach combined neo-liberal elements, especially in terms of a weak regulatory framework for financial institutions, alongside a strong commitment to welfare provision, in the form of the National Health Service (NHS). We argue that such an approach heightened the vulnerability of the United Kingdom to the initial economic shock as the downturn developed into a major fiscal crisis. After initially attempting to sustain economic activity, the Labour government came to accept the need for some retrenchment. Since 2010, the Coalition has markedly intensified that the scope and speed of that retrenchment in a so-called austerity program. The specific institutional configuration of the social model, however, continues to influence the development both of economic policy and of economic outcomes in the United Kingdom.

Over the last twenty-five years, academics have highlighted various factors to explain economic and political developments in the United Kingdom. Those identified include the ideological nature of successive Conservatives governments, the importance of electoral support, and the role played by powerful business interests (see Gamble, 1988; Hall 1988; Jessop et al, 1988).More recent scholarship from the Varieties of Capitalism perspective has

[1] Thanks to Richard Jobson, Paul Pierson, Fiona Ross and, especially, Andy Martin: responsibility is ours.

highlighted the liberal market economy character of the British economy as a significant determinant of its economic and political relationships (see Hall and Soskice, 2001). From a comparative perspective, Bermeo and Pontusson's discussion of policy responses to the 2008-9 economic crisis covers similar issues to those in earlier work including ideological, electoral, and institutional elements as well as existing policy legacies (2012, 15-16). Our discussion highlights that similar factors shaped developments concerning the social model up to, during, and after the economic crisis. But a number of features of the British case demand emphasis. Nearly two decades of ideologically strident Conservative governments moulded the social model's trajectory in the United Kingdom. In office between 1997 and 2010, however, Labour developed a distinct program, which contained significant contrasts with that of its predecessor administrations. Nor did Labour's approach reflect the kind of measures commonly associated with a liberal market economy. Rather Labour offered a package in which market-based elements were combined with an ambitious commitment to social provision (on institutional tenacity see Pierson, 1994). Not only was this package distinct, it played a significant part in the unfolding of the economic crisis during 2008-9. Moreover, the institutional configuration developed by Labour continues to shape the Coalition's more ideological approach after the change of government in 2010. We begin the chapter with an outline of Labour's approach to the social model in opposition during the 1990s and continue with a discussion of its development under Labour in office after 1997. We detail specific initiatives launched by New Labour and consider their impact on the labour market. We go on to examine the impact of the economic crisis on the social model in the United Kingdom. But we also illustrate how the configuration of the social model shaped that crisis. In our conclusion we draw the strands of our analysis together with observations about Labour's attempt to redefine the social model and the impact of the crisis and as well as the Coalition's response to the economic downturn.

1. From Thatcherism to New Labour

The initiatives launched by Conservative governments between 1979 and 1997 (especially those led by Margaret Thatcher before 1990) had a major impact on the social model in the United Kingdom. Successive legislative acts, the abolition of quasi-corporatist institutions, and a confrontation in 1984-85 with the once powerful National Union of Mineworkers all contributed to a significant reduction in union power (Marsh, 1992). Other factors, some linked to the Conservatives' strategy, shaped these developments including the rising unemployment that accompanied the government's frequently deflationary macroeconomic policy and a renewed assertiveness on the part of management (including utilisation of the new legal framework). Membership of trade unions in the United Kingdom peaked in 1979 at over 13 million. Thereafter, it fell every year bar one to a level of just under eight million in 1997 (Achur, 2010, 23). The density of trade union membership declined from 48.8 per cent in 1979 to 30.9 per cent in 1997 (OECD, 2011). In terms of welfare and social policy, the NHS remained in place. However, Conservative governments looked to means tested targeted benefits and, as poverty and income inequality increased, so the relevant Gini coefficients rose dramatically in the United Kingdom, by more than in most other advanced industrial countries (Stewart et al, 2009, 1-5). Regarding skills formation, the Thatcher government replaced the quasi corporatist MSC with employer-dominated Training and Enterprise Councils and emphasised voluntarism in terms of employer participation (King, 1993; King 1995). As Conservative prime minister between 1990 and 1997 John Major did little to shift this trajectory (Stephens, 1996; Jay, 1994). The UK's ignominious exit from the European Exchange Rate Mechanism in September 1992 defined his administration's economic policy.

In opposition during the 1980s, the British Labour party had become increasingly bogged down in a fratricidal conflict between those wedded to an old-fashioned Keynesian social democratic orthodoxy and those who demanded a more interventionist strategy based around sweeping public ownership. Neither approach appeared relevant to the United Kingdom or to appeal much to the electorate. In the late-1980s, after three general election defeats in a row, Labour leader Neil Kinnock had intensified his attempts to modernise the party's outlook. He focused Labour directly towards a conception of the European social model, adopting an economic strategy that owed much to continental arrangements. Heavily oriented to the supply side, it articulated a series of state interventions as the means of correcting perceived market failures. Most notably firms did not invest in research and development because of fears that other firms would appropriate the returns.   They did not train their workforces because of concerns that skilled workers would be vulnerable to poaching from other companies (King and Wickham-Jones, 1998). Regulation was offered as the solution. Labour's orientation towards its own version of the European social model was highlighted when the party adopted the slogan, "Business where appropriate: government where necessary" (Labour party, 1990, 6). It was a deliberate echo of the German social democrats' (SPD's) classic slogan, "as much competition as possible, as much planning as necessary". Especially important around this time was the visit by Jacques Delors, then president of the European Commission, to the annual meeting of organised labour, the Trade Union Congress, at Bournemouth in September 1988 (Beavis, 1988). Delors' call for the European project to include a social dimension and collective bargaining was embraced by the British trade unions. Given the hitherto implacable hostility exhibited by many towards European arrangements, it was a remarkable *volte face*.

Perhaps most noteworthy was the party's attitude towards employer-union relations and wage setting, an area long dominated by the labour movement's belief in free collective bargaining. Though the party persisted in rejecting any hint of a formal incomes policy, Labour did note the success of particular European arrangements in containing inflation through coordinated and synchronised pay bargaining. Before the 1992 general election, the party drew up semi-secret plans to initiate a similar framework for collective bargaining in the United Kingdom (Butler and Kavanagh, 1992, 50). The initiative seemed to be at odds with the erosion of national and sectoral pay bargaining that had occurred in the 1980s. The theoretical impetus came from the influential paper by Lars Calmfors and John Driffill (1988), which suggested that economies with either strongly centralised or fully decentralised wage bargaining systems would perform well – but not those countries which lay between the two extremes. David Soskice (1990) offered a British adaptation that emphasised the importance of coordinated institutional solutions to collective action problems.

Kinnock's reformed Labour did not win the April 1992 general election. In the aftermath of the UK's ejection from the ERM, however, the terrain of British politics changed dramatically in favor of Labour, immediately reversing the party's standing in opinion polls. In 1994, newly elected as leader, Tony Blair intensified the modernisation program, recasting the party as 'New Labour' and persuading it to ditch Clause IV, its historic commitment to sweeping public ownership (Wickham-Jones, 1997). In his 1995 Mais lecture, painting a bleak picture of the options open to any reforming administration, Blair insisted that low inflation must be the prime objective of economic policy. Labour went on to accept existing rates of personal taxation and to endorse the spending programs mapped out by the Conservative government. In marked contrast with his predecessors, Blair did not look towards Europe as the basis for his party's program. Drawing a frequent distinction between what he termed the Anglo-Saxon economic model and that of Germany and Japan, Blair explicitly distanced himself from the latter. Both Blair and Gordon Brown, Labour's shadow chancellor of the exchequer, asserted that the continent suffered from Eurosclerosis, institutional rigidities that inhibited growth. Blair explicitly rejected the notion that he would countenance labour market inflexibilities.

In November 1995, Brown insisted that in future benefits for the young unemployed would be conditional (King and Wickham-Jones, 1999). Brown's plan, called the New Deal, as well as Welfare to Work, offered four options to those aged between 18 and 24 years old who had been out of work for six months. There would be penalties for those who refused to participate. Theoretically, the initiative aimed to reduce the NAIRU (non-accelerating-inflation rate of unemployment) – that rate of unemployment consistent with stable inflation. A publication from the Institute for Public Policy Research argued that the number of long term unemployed was likely to increase the NAIRU: 'the more the long-term unemployed are recycled into work, the lower can the NAIRU be' (Corry and Holtham, 1995, p. 30: Holtham and Mayhew, 1996). The most significant external influence came not from Europe but from Clinton administration's welfare program in the United States, a point reinforced more generally by Blair's positive attitude towards America. In terms of skills formation, in March 1996, Labour ditched the proposal that there should be a levy on business to fund training (King and Wickham-Jones, 1998). The idea of synchronising pay settlements, encapsulated in the National Economic Assessment, was dropped. The party indicated that the state should not be directly involved in relations between employers and workforces. Indeed, Blair's leadership of Labour was marked by a desire to place distance between the party and its affiliated trade unions.

Labour remained committed to a minimum wage but it now did not offer a precise level (based on a formula), stated that it would establish an independent low pay commission and promised full consultations with business. The rate would be lower for younger workers. The theoretical underpinning for the minimum wage was bolstered by *Myth and Measurement* written by the American economists David Card and Alan Krueger (1995). Monopsonistic employers were able to pay workers less than the marginal productivity of their labour. A minimum wage would prevent such an outcome without leading to increased unemployment. Indeed Ed Balls (1994), then a researcher for Gordon Brown, argued that it was likely to have the opposite effect as employers "hire more people to make up some of the lost profit".

2. New Labour and the Social Model

After its landslide victory in May 1997, New Labour won further elections under Tony Blair in June 2001 and, with a reduced majority, in May 2005. In June 2007, after much speculation and internal political conflict, Tony Blair resigned to be replaced by Gordon Brown (chancellor of the exchequer since 1997). During these three terms, the party launched a number of initiatives concerning the social model. Before that and immediately on entering office, Labour altered the economic policy framework in a fundamental fashion. On 6 May 1997, Brown handed over operational independence for the conduct of monetary policy to the Bank of England. The logic was straightforward: by ceding control over the setting of interest rates, Brown wanted to establish a credible reputation with financial markets as a trustworthy, honest and moderate actor. Markets need not fear the manipulation of interest rates for political gain in a suboptimal fashion: ministers no longer had the capacity to do so (Wickham-Jones, 2002). Another economic decision, made some time later, which had profound consequences was that taken in 2003 not to join the European Economic and Monetary Union.

Welfare State Reforms

The Blair government's initial approach to the NHS was constrained by its acceptance of the Conservatives' public spending plans (Shaw, 2007; Bosanquet 2007). After a couple of years, this ceiling was lifted to be replaced by dramatic increases in funding accompanied by some structural reforms in provision. In January 2000, aware that provision was a major source of public concern, Tony Blair promised, pretty much out of the blue, during a television interview to match average health funding in European countries (around 8 per cent of GDP) by 2006 (Watt, 2000; Glennester, 2005, 286). Subsequently, a number of Brown's budgets, particularly those of 2002 and 2004, increased the resources allocated to health (though the extent of real increases was offset by higher than average inflation in the health sector and by wage increases). Levels of health expenditure just about doubled in real terms from some £60 billion in 1999/00 to around £120 billion in 2008/09. The average annual real increase (before the economic crisis) was 6.3 per cent (Chote et al, 2010, 10). Both in terms of its absolute level and share of GDP, by the end of Labour's period in office, levels of spending on the NHS were historically unprecedented. In 1997, according to the OECD, spending on health was at 6.6 per cent of GDP; by 2009 it was at 9.8 per cent (partly reflecting the recession). By 2010, spending was above the European average.

The government reformed the allocative mechanisms for provision of health: it increased patient options, introduced greater competition between different providers within the service, and enhanced the role of the private sector. After 2001, Blair mapped out a public service reform discourse emphasizing individual choice. Some initiatives echoed the reforms previously undertaken by the Conservative and criticised then by Labour. In a measure that proved divisive within the party, Labour established foundation hospitals which enjoyed greater freedom in their planning and wider incentives for their activities. There was a pronounced regional aspect to these measures: they had far more impact in England than the devolved parts of the United Kingdom. The Private Finance Initiative (PFI) under which much hospital (and other public sector) construction took place was also controversial: critics suggested it piled up future debts (predominantly in the form of cash liabilities) while leaving risks with public authorities.

Higher expenditure on the NHS was accompanied by increased public spending elsewhere. Public expenditure as a proportion of GDP increased from 36.9 per cent in 2000-01 to 41.1 per cent in 2007-08 (it had been around the same level in 1997). Tax increases funded some of this expansion but public debt also rose. By 2003, in contrast to the tight controls Labour had exerted on public finances between 1997 and 1999, the state of government finances had deteriorated, and Labour was borrowing to support the increases in spending (Smith, 2005, 173). Spending on education shot up dramatically in real terms, from below £50 billion in

1999/00 to nearly £75 billion in 2007/08. It rose as a proportion of GDP to over 5 per cent (an average annual real increase of 4.3 per cent – Chote et al, 2010, 10). Brown boosted not only current spending but the resources allocated to public investment, which had fallen under Conservative governments. After 2001, such spending increased steadily (albeit from a relatively low level), reaching a peak of nearly 3.5 percent of national income at the end of the decade (as GDP fell sharply). Overall, public spending as a proportion of national produce rose by more than other countries: spending on public services increased by much more than it had under the Conservatives between 1979 and 1997 (4.4 per cent in real terms as against 0.7 per cent, Chote et al, 2010, 1). Such increases appear to be odds with aspects of the discourse that Blair frequently articulated. His 1999 joint statement with the German chancellor Gerhard Schröder (2000, 164) noted, 'Public expenditure as a proportion of national income has more or less reached the limit of acceptability.'

Reflecting an electoral imperative, Labour was wary of putting up taxes. In 1997, the party promised not to increase the basic or top rates of income tax. The pledge was repeated in 2001 and 2005. Initially, revenue increases focused on a windfall tax on privatised utilities and on "stealth" taxes, so-called because they did not have an immediate impact on pay packets. In 2002 Brown increased national insurance contributions (thus coming close to breaking his promise on income tax, given the similarity between the two charges) specifically to fund increased health spending. Much of the subsequent increase in public expenditure was financed by borrowing.

As developed in opposition, Labour's initiative to tackle youth unemployment, the New Deal, concerned measures to help those out of work prepare for the labour market (Stewart, 2005). The program was later institutionalised and extended in a range of New Deals to cover other groups struggling to find employment. Under what was termed the gateway, it helped prepare people for the labour market through interviews and advice. Employers were offered subsidies to take on the long term unemployed. Given the threat that a failure to comply would prompt penalties, those out of work were put under pressure to participate. Brown followed this up with an attempt to integrate the tax and benefits system more fully, so improving incentives for individuals to take jobs and enhancing protection for those whose work exposed them to poverty levels of pay. Launched in 1998, the Working Families Tax Credit (WFTC) became, in effect, an integral part of the New Deal: by offering supplementary payments to those taking low paid work, it aimed to eliminate the poverty trap whereby people might be better off (or not much worse off) on benefits. In effect the government subsidised low pay with a supplementary top up.

Other measures built on the WFTC, encouraging entry into the labour market. In March 1999, Blair offered a detailed critique of child poverty and subsequently the government proposed to halve the rate of it by 2010. In marked contrast to the 1997 document, Labour's 2001 manifesto revealed a concern with deprivation (Stewart, 2009, 11). Labour broadened the WFTC into a Working Tax Credit and a Child Tax Credit, improved maternity leave provisions, and, under the Surestart program, offered help with childcare provision. At the same time, however, policies tightened eligibility requirements for those unable to work (for example, on disability benefit or with caring commitments) and stiffened penalties for those who did not comply. During its first year Labour had signalled a tough line by implementing a previously announced cut in benefit for lone parents. The government's discourse explicitly suggested that, by damaging incentives to work, over-generous welfare provision engendered dependency among recipients. While Labour frequently extended such a neoliberal and conservative rhetoric over welfare, such as in the harsh tone surrounding the New Deals, many of its interventions were redistributive in their practical orientation (Taylor, 2007, 221). Government figures indicated that on average changes to the tax-benefit system between 1996-7 and 2003-4 made a family with children around £800 better off per annum in real terms, with those in the poorest fifth of the population enjoying a gain nearly four times that figure (Blair, 2005). Many initiatives involved the targeting of specific groups and by 2007 six million families received tax credits of one form or another (Sinclair 2007, 188). Labour also, as promised, introduced a minimum wage and signed up to the European social charter.

Employment relations under New Labour

Blair rejected any hint that his government might strengthen the power of organised labour, (Taylor, 2001; Taylor 2005 and Taylor 2007). He did not hide his view that unions had been responsible for some of the difficulties encountered by the British economy: Frequently at pains to reassure business about his intentions, his rhetoric towards them was often patronising and dismissive. There would be no repeal of the labyrinth of laws passed by the Thatcher governments during the 1980s. That said, Labour did, especially during its first term of office, pass some legislation of relevance to workers, most notably the 1999 Employment Rights Act which enshrined in law an individual's right to join a union under certain conditions and introduced provisions whereby unions could claim recognition from employers for bargaining purposes. The government also offered greater protection against unfair dismissal. The legislation's passage involved considerable negotiation and hard-fighting on the part of the unions and their few allies within Labour. In 2004, a second piece of legislation made some minor modifications. Although modest in scope, the introduction of such measures reflected the sense that New Labour's rhetoric could be more neoliberal than its policy.

New Labour's legislation did little, either in the workplace or in the political arena, however, to strengthen trade unions, either in terms of representation or of power. A 2004 report indicated that two thirds of workplaces did not recognise unions (Moran et al, 2011: 99). By 2010, only 46 per cent of employees were covered by collective agreements (a slight decline over the previous decade): 64.5 per cent in the public sector and 16.5 per cent in the private sector (Achur, 2010: 13; Blanchflower et al, 2007: 11). Trade union density continued to fall: for public sector employees, between 1995 and 2010, it fell by 5.0 percentage points to 56.3 per cent; for the private sector, over the same period, it fell by 7.2 percentage points to 14.2 per cent. Overall, it was down to 26.5 per cent. Trade union membership in the private sector fell to 2.5 million in 2010, from 3.4 million in 1995 (Achur, 2010, 4). Since the early 1990s, collective pay bargaining had been confined to the company, or even to the establishment level (multi-employer industry wide bargaining had pretty much disappeared during Margaret Thatcher's governments). Accordingly, employment relations in the United Kingdom had become less inclusive and more prone to generate inequality. New Labour did not reverse this development.

Gordon Brown's hostility towards tripartism and consensus building structures was as implacable as that of Blair. In his 1999 Mais lecture, he commented scathingly about 'vested interests cooking up compromises in smoke filled rooms' (Brown, 2001, 126). At the end of the lecture, Brown turned to responsibility in pay setting: he offered no indication that he believed it should be developed through some sort of institutionalized partnership. A few tripartite bodies such as the Arbitration and Conciliation Service, and the Health and Safety at Work Executive remained but their role was marginal and they suffered budget cuts (Taylor, 2007, 228).

While Labour signed up to the Social Chapter, the government did not endorse continental models of social partnership. Arrangements, it believed, should be bilateral and localised. Occasional ad hoc discussions took place between government, unions and employers but Labour blocked for some time, with tactical support from the German social democrats, the European Union directive on information and consultation (Taylor, 2001, 262). When it was finally adopted most employers regarded it as a trivial matter. Significantly, neither the TUC nor many unions took much interest in it. Most preferred to focus on maintaining, where it existed, collective bargaining. The number of workplaces without some form of consultation rose to 62 per cent by 2006 (Purcell and Hall, 2011). The government opposed the European Union directive on working time though it too was eventually accepted, albeit with a voluntary opt-out. Between 1997 and 2007, Robert Taylor concludes that the United Kingdom was the only country in the European Union to reject "the use of institutional partnerships or social dialogues between the state, capital and labour at national, regional or company level" (Taylor, 2007, 220).

Such an approach led to tensions between Labour and the unions. A few (the Fire Brigades Union and the Rail Maritime and Transport Workers) disaffiliated and broke their formal links to the party. There were some struggles over public service reform (and the changes to employment practices as workers were transferred from the state to the private sector, not least as part of PFI schemes). In 2004, at Warwick, the party and unions mapped out an agenda for a third Labour term in office. Whether the agreement either amounted to a reassertion of union influence or was honored in full by the government is questionable.

Nevertheless most unions remained wedded to achieving their goals through a political route based on a close relationship with the Labour party. There was little enthusiasm for works councils or other forms of codetermination. The labour movements' historic antipathy to such arrangements, which it had long claimed threatened to emasculate workers, persisted.

Skills formation

Both of the measures that Labour designed in opposition to enhance skills formation - individual learning accounts and establishment of a University for Industry - failed and were dropped (the former partly because of fraud; the latter, according to Dan Corry, 'while a great slogan never amounted to much', 2011, s127). Instead, Labour focused on a range of initiatives, targeting not just those returning to work but many already in employment. Launched in 2006, the Train to Gain program initially provided subsidies to employers who trained workers without Level 2 qualifications to that level. Subsequently it was extended to offer a broader range of subsidies. At times, Labour's skills policy, particularly the justification for giving massive public subsidies to employers, was confused as ministers offered a range of reasons which (at least in public statements) mixed economic efficiency objectives with distributional ones. The notion that subsidizing employers to award low level vocational qualifications would improve a worker's labour market prospects underpinned the redistributive dimension. But individual rates of return to low level vocational qualifications were frequently modest. The standard efficiency justification for training subsidies is that of market failure. While employers may make privately optimal decisions, the aggregate of these choices will be socially sub-optimal because of the likelihood that employees (once trained) will move to another employer. As a result of this collective action problem, firms taking account of this probability will not invest sufficiently in skills formation. However, Labour's official pronouncements justified subsidies on at least two other grounds. The first was that employers were not even making privately optimal decisions. The second raised the possibility that, even if there was sufficient training for present purposes, employers should invest in skills for future production needs. Such supposed needs were linked to the perceived need for more skill-intensive, higher value added products. This was part of the high skills vision espoused by New Labour as the only feasible strategy for competing in a globalised economy. The emphasis placed on skills in underpinning such a strategy appeared to rest on the assumption that more and higher quality skills would lead to higher quality production. Critics claimed that the approach would lead to an under-utilisation of skills. They argued that a more active industrial strategy was needed to improve production in the United Kingdom. In 2001, the government replaced the Training and Enterprise Councils with a Learning and Skills Council which had numerous local branches (Owen, 2001, 219). It was not an especially successful initiative and, soon after becoming prime minister, Gordon Brown abolished the Council. Meanwhile skills policy was delivered by a series of sector skills councils, supervised initially by the Sector Skills Development Agency, and subsequently by the Commission for Employment and Skills. However, designing measures that enhanced skills formation without alienating employers or simply subsidising low wages was not straightforward.

Labour’s thinking about training shifted as the party placed more emphasis on generic skills than it had in the early 1990s. Accordingly, Blair’s government expanded higher education and other post compulsory provision, arguing that the qualifications acquired at tertiary level would prove valuable in the labour market, regardless of their link to specific jobs. David Soskice (1992) had provided a theoretical underpinning, arguing argued that the United Kingdom did not have the necessary institutional configuration necessary for a dirigiste framework of more vocational, work-based training. As a necessary pre-condition for this change of emphasisLabour encouraged individuals to stay on at school through an Educational Maintenance Allowance,. However, changes in the location and type of skills produced did not necessarily solve the problem of their under-utilisation.

Overall, a number of factors shaped Labour’s approach to the social model between 1997 and 2010. The government paid considerable attention to the Thatcherite legacy that it inherited and to the perceived popular preferences of the electorate which, while pro-NHS, were also held to be extremely moderate (Hay, 1999). Many of Labour’s measures reflected the liberal market character of the British economy and the government took great care in its relations with business (especially with media corporations). But the extent of many initiatives, for example the spending on the NHS and the interventions of the New Deal, went well beyond what might have been expected on this basis. Labour’s program did not conform to a particular ideal type – either as a liberal market based one or as a specific welfare regime. Instead, certain core features underpinning the distinctiveness of Labour's social model can be identified. First, in designing policy interventions, Blair's governments put an original emphasis on duties and responsibilities. Second, such obligations were enforced by penalties which gave some measures a manifestly illiberal character. Aspects of the program were contractual and arguably intolerant in their character. Third, the government focused on work as the central means by which poverty would be tackled. Brown (2006, 80 and 113) argued "simply compensating people for their poverty through benefits is not enough.… We must give people the chance to work, if they can." On another occasion he was equally forthright, "The best form of welfare is work."

The central objective of New Labour's social model in many ways was the development of a flexible labour market. Senior figures within Labour and commentators differed as to what defined "flexibility". But repeatedly the government launched initiatives to increase labour market flexibility in some form or other. In 2001, Blair (2001) told the Confederation of British Industry (CBI) that "we have one of the most flexible labour markets of any major economy." He went on, "According to the OECD, the UK has among the least regulated product and labour markets of any industrialised country." He promised: "It will stay that way." Blair's joint statement with Gerhard Schröder (2000, 168) put considerable emphasis upon flexibility, going so far as to suggest that "flexible markets are a modern social democratic aim." Brown (2008) echoed such claims, telling the Scottish CBI that the United Kingdom had "the most flexible labour market in Europe". In 2002, he argued, "In the past the Labour party – like the rest of Europe – has not been very good at facing up to issues relating to flexibility. Indeed flexibility was often a term of abuse… Yet flexibility is, in reality, the ability to respond to change with speed." He was blunt: "It is the necessary precondition of success" (Brown, 2006, 42). Prosperity and the alleviation of poverty demanded growth. That, in turn, demanded flexibility. Flexibility led to increased productivity. Human capital formation (through improved skills) was an important dimension of labour market flexibility: it enhanced the capacity for individuals to move from job to job, improving their position within the labour market. Flexibility also required incentives to persuade individuals to take work and so ensure a steady supply of labour. State interventions, such as the New Deals, needed to be tailored to such a framework. Workers would be protected, Blair argued in a 2007 Manchester speech, neither through power in the workplace nor through trade union membership generally but through the position they enjoyed in the labour market as a result of their enhanced human capital. Immigration helped sustain the model with high levels of ready trained skilled workers entering the labour market alongside plentiful numbers of unskilled workers prepared to take low wages (for often unattractive work). As such, flexibility had a number of different dimensions including financial (workers accepting lower wage rates), temporal (adjusting the hours of work and shifts), numerical (changing the numbers in employment) and functional (no restrictive practises) as well as mobility (Brown, 2006, 49-50). A flexible labour market was one in which employment was not strongly regulated, in which it was easy to take workers on (and if necessary get rid of them), and in which people moved around freely from job to job in different localities. In the next section we examine how these policies shaped labour market outcomes.

3. Employment and Income Distribution

Between 1997 and 2007, the British economy grew at, by historical and comparative standards, an impressive rate (though the recovery from the ERM debacle of 1992 had begun before Labour's election to office). From the mid-1990s until 2007 the average annual growth rate was 3.3 per cent, close to the growth in productive capacity. By 2007 Brown (2007) claimed to have delivered "the longest period of economic stability and sustained growth in our country's history". Repeatedly he argued that the British economy would never return to cycles of boom and bust. To make clear where blame for past performance should be placed, he often referred to "Tory boom and bust" (e.g., Brown, 2000).

New Labour and the labour market

At 75 per cent by 2008, the employment rate in the United Kingdom was high, whilst unemployment, having fallen to levels lower than in France, Germany or the United States, was at a historically low level (see Gregg and Wadsworth, 2010, 1). Many of the jobs created were either in the public sector or with firms which relied heavily on public sector contracts. Public sector employment rose from around 5.5 million in 2000 to nearly 6.3 million in

2009,with a leap at the end of the period as a result of banking nationalisations(Office for National Statistics, 2012)). The NAIRU also fell and compared well with the equivalent measure in comparator countries. Table 1 relates the OECD's estimates of the rise and fall of the UK's NAIRU since 1971 to the measured unemployment rate.

Table 1: The NAIRU and measured unemployment in the United Kingdom, percent

	NAIRU	Measured unemployment
1971	4.5	4.1
1976	5.3	5.3
1981	8.4	9.6
1986	9.9	11.3
1991	8.9	8.8
1996	7.8	8.1
2001	5.8	5.1
2006	5.7	5.5
2011	6.9	8.1

Source: StatExtracts, http//stats.oecd.org/Index.aspx

To assess the importance of New Labour's initiatives in shaping this outcome, we need the relevant economic theory, starting with Nickell's 1990 account. Defined as that level of unemployment consistent with stable inflation, there is dispute about the relative roles of the demand and supply sides in governing the NAIRU. Economists such as Nickell contend that the NAIRU is determined by the supply side (broadly defined as the institutions of the labour market) and by real wage resistance. According to this view demand management policies can drive measured unemployment above or below the NAIRU but cannot alter it. Other economists argue that the demand side can have a long run influence via a process of hysteresis.

Nickell describes a three-dimensional trade-off between unemployment, the stability of inflation, and the current account of the balance of payments. There is always a negative trade off between unemployment and the other two variables: a fall in unemployment either threatens the stability of inflation or the health of the balance of payments (or both). How malign or benign the trade-off is depends on the state of a country's supply side. The configuration of labour market institutions, including the legal framework and cultural norms, will shape the relationship between these variables. Nickell argues that the demand side can have no influence on the trade-off: demand management simply locates a point on it. There is one position where the level of unemployment is consistent, not just with stable inflation, but also with balanced trade. This location is the internationalized NAIRU or equilibrium rate of unemployment. In countries with a malign trade off it is high; in those with a benign trade off it is low. In Nickell's analysis, any government that is dissatisfied with the trade-off (and the rate of unemployment) can improve it only by identifying those elements of the supply side which are causing the problems and taking necessary actions to alter them.

Matters become more complicated if we entertain the possibility that the demand side might affect the NAIRU. Imagine that measured unemployment is equal to the equilibrium rate of unemployment. There is an exogenous shock to demand which drives up measured unemployment. A "classical" analysis, deploying expectations augmented Phillips curves, would suggest that after a period of adjustment the economy would find itself back at the original equilibrium rate. By contrast, those who believe in long-lasting hysteresis argue that the equilibrium rate might recalibrate and adjust to the new, higher measured rate. The possibility of hysteresis is one reason why empirical investigations of the precise reasons for the fall of the NAIRU are inconclusive. Another problem in estimating the impact of reforms to the supply side concerns the difficulty involved in finding "proxies" for complex institutional variables in econometric analysis. There is general agreement that reduced union power and lower replacement ratios played an important role in the reduction of the NAIRU under Conservative administrations with mismatch acting as a partially countervailing force. It also seems clear that the NAIRU fell by more than the equilibrium rate, the difference being accounted for by exchange rate policy. This outcome can be explained as follows. If measured unemployment falls, thus putting pressure on the rate of inflation, this impact can be offset by a rise in the exchange rate. From 1986, Conservative governments followed such a strategy, ensuring that measured unemployment could be brought down without any apparent upward pressure on inflation. There are consequences for the current account of the balance of payments, which was in deficit under the Conservatives from 1985 onwards. The deficit was sustained by offsetting capital inflows.

Until the 2008 recession, the NAIRU continued to fall, though not by much. This modest decrease is consistent with the observation that, as far as employment relations were concerned, the Labour government largely maintained its predecessors' stance without launching dramatic new initiatives, whilst it pursued a rigorous social security policy via the New Deal. Brown's 1999 Mais lecture was couched directly in such terms, arguing that alongside structural reforms, "The more our welfare to work reforms allow the long term unemployed to re-enter the active labour market, the more it will be possible to reduce unemployment without increasing inflationary pressure" (Brown, 2001, 133). Elsewhere, noting the importance of labour market flexibility for reducing the NAIRU, he bemoaned the fact that the United Kingdom did not compare well to the United States (Brown, 2006, 49).

What impact did the various New Deals have? Evaluations have found that they were generally effective at moving people out of social security into work. Why did such measures not further reduce the NAIRU? One possible explanation concerns the composition of unemployment. Whenever governments use subsidies to find people jobs, there will be displacement or substitution effects. These effects mean that for any group of people who obtain work through the subsidy, there is another group, not eligible for it, which lose or fail to obtain work that they might otherwise have found. One justification for subsidies is that, even if this happens, there will be a change in the composition of unemployment. The essence of the New Deals is that people are "forced" back into work after some period in receipt of benefits. This suggests that, even if aggregate unemployment is not reduced, there will be a fall in its average duration. Conventionally, macroeconomists argue that the longer a person is unemployed the less bidding pressure that person can exert on the labour market and the less downward pressure on the real wage. If average duration can be reduced, this should exert downward pressure on the NAIRU. Average duration did fall under New Labour and this probably contributed to the continued fall in the NAIRU. However, the impact was probably moderated because the employment impact of the New Deals was concentrated in the very lower reaches of the labour market whilst a lack of upward mobility, or partial labour market segmentation, inhibited any impact on the labour market as a whole.

The New Deals' impact was further limited because some participants would have found work anyway and some of those helped were subsequently made redundant and exited the labour market: according to one estimate 40 per cent were on benefit again within six months (Toynbee and Walker, 2010, 203). Many went into temporary jobs. Its coercive element may have resulted in some leaving the labour market altogether. The original New Deal was far cheaper than had been anticipated: many participants entered the labour market directly as a result of the gateway process without a subsidised placement or training element. But critics claimed that it remained expensive: in some groups targeted by Labour, unemployment had already been falling in the last days of John Major's government. Moreover, unemployment among those targeted in the New Deals did not fall by much more than among other groups. When it did fall, the government's record regarding particular groups within the labour market was mixed. A 2005 report in 2005 estimated that 20 per cent of those between 16 and 24 were not in education, work or training (Taylor, 2007, 237).

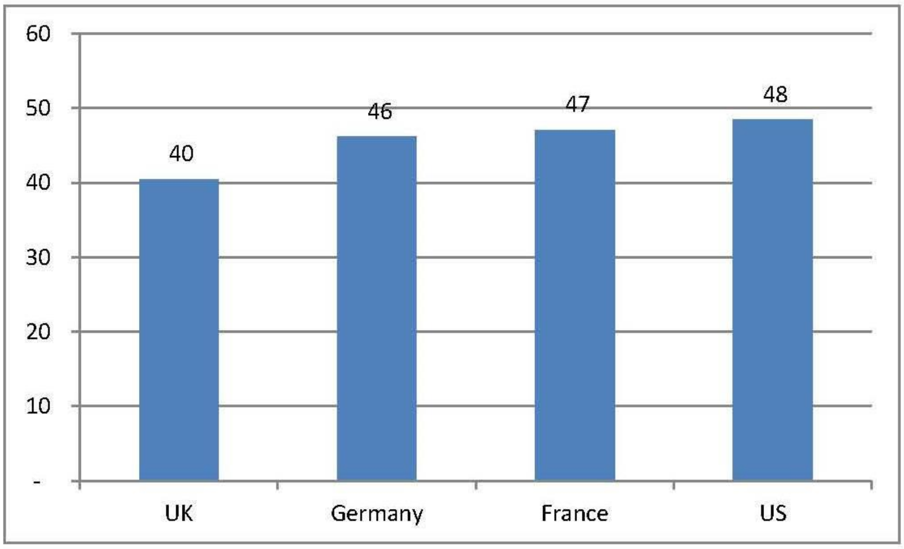
In terms of labour productivity, Labour's strategy was partially successful. Broadly, two generic sources of improved productivity can be distinguished: static efficiency gains from the more efficient deployment of the existing factors of production and dynamic efficiency gains from new investment. Conservative governments emphasised enhanced static efficiency. It was a significant motivation behind their trade union reforms and it was linked to numerous other policy initiatives, including privatization and market deregulation. They put less emphasis on dynamic efficiency. Although reforms to corporation taxation in the mid-1980s were intended to make more funds available for investment, the United Kingdom's investment/GDP ratio remained low relative to those of her major competitors. R & D performance also showed relatively little improvement.

In office, Labour frequently referred to five drivers of productivity growth (Brown, 2006, 75; Balls et al, 2004, 29-40). These were:

- Investment in physical capital;
- Innovation (the successful exploitation of new ideas);
- Skills;
- Enterprise (the seizing of new business opportunities by both start-ups and existing firms);
- Competition (the incentive to innovate and allocation of resources to the most efficient firms).

These drivers combine static and dynamic approaches. Labour's discourse placed considerable emphasis on improved productivity and the measures that it adopted continued to close the gap (as measured by productivity per worker hour) with France and Germany. They did not eliminate it (see Figure 1). Major gains had already been secured by the Thatcher and Major administrations through static efficiency. Arguably, Labour's policies did little more than offer a continuation of those earlier initiatives. Labour failed to improve significantly dynamic effiency with respect to either investment/GDP ratios or the United Kingdom's R &D performance. Much stress was placed on training strategy and on expanding higher education – in other words on improving labour quality. The impact of such measures on productivity is a matter of some controversy (Van Reenen, 2013; see also Department of Business, Innovation and Skills, 2013). An alternative approach would have been to consider different approaches geared to extracting higher productivity from already skilled workforces. Put starkly, if employers were not altering their demand for skills, there was a danger that the extra education funded by Labour would be significantly under-utilised in the labour market. An additional criticism suggested that some of the extra skills being developed were only small, incremental, low level improvements in the capabilities of the workforce and were therefore unlikely to have major impacts on productivity.

Figure 1: GDP per hour worked – 2000-10 averages at 2005 $ PPP



Notes: Analysis based on OECD data (extracted on 28 Oct 2011 from OECD.Stat). GDP from GDP database, hours data from OECD productivity database. GDP is US$, constant prices, constant PPPs, OECD base year (2005).

Source: D Corry et al, 2011

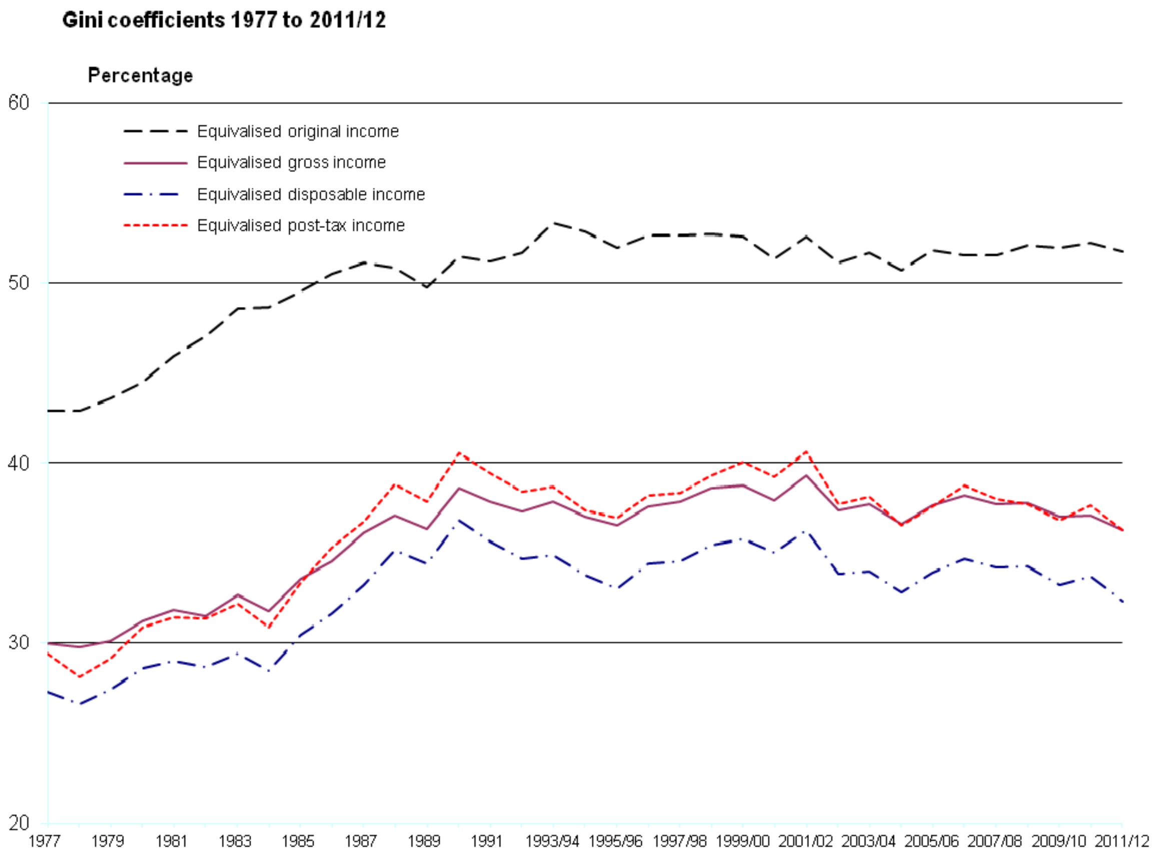
New Labour and income distribution

Figure 2 gives some details of new Labour's impact on inequality for four different measures of income.[2] On this chart, original income refers to income before any government intervention; gross income adjusts for cash benefits and tax credits from the state; disposable income makes a further adjustment for direct taxes, employees' national insurance contributions and council (local) tax; and post-tax income is calculated after making further adjustment for the impact of indirect taxes. The chart indicates that inequality in original income rose from the early 1980s until around 1993-94. From that point on, the situation more or less stabilised. Unsurprisingly, this is reflected in the time profile shown by earnings, the major component of original income. Under New Labour there was no further rise in inequality on this measure, but little decline either. As we have argued, New Labour

[2] The term equivalized used in the chart reflects the fact that the unit of analysis is the household: "equivalization is a standard methodology that takes into account the size and composition of households and adjusts their incomes to recognise differing demands on resources" (Office of National Statistics website).

believed in a free and flexible labour market and placed great emphasis on international cost competitiveness and therefore on pay flexibility particularly at the bottom end of the market.

Figure 2



Source: Office for National Statistics, "The effects of taxes and benefits on household income, 2011/12", May 2013

The minimum wage did little to obstruct the operation of New Labour's model: set at a low level, it had no majormajor impact except at the very bottom end of the earnings distribution while in-work benefits meant that tax-payers were subsidising employers. Even worse, the existence of government funded top-ups imposed a moral hazard on these employers, encouraging them to persist with low pay. Though the minimum wage was subsequently uprated, it remained low, below the recognized international definition of low pay (less than two thirds the median hourly wage). Taken together, Labour's policies - the New Deals, measures for skills formation, and the minimum wage - did little to reduce the incidence of low pay in the UK economy. Thus, by 2010, it was not clear that employment was a route out of poverty. In 2005around 22 per cent of those in work were poor - more than in most other European countries (Lloyd and Mayhew, 2010, 429).

Taking into account the impact of the tax and benefit system, the distributional outcome is different. Looking at gross income, the impact of benefits appears to have halted the rise in inequality by the beginning of the 1990s with little movement thereafter. Bringing direct taxation into the story (post tax income) alters the data yet again with inequality demonstrating two peaks, one at the beginning of the 1990s and the other at beginning of the 2000s with little discernible fall in inequality in the last decade. The same general pattern is apparent after allowing for indirect taxation (post tax income). On these aggregate measures, therefore, it is hard to see much general diminution in inequality during the Labour government. At the level of decile groups, real income grew for the second, third, fourth groups by more than it did for the seventh, eight, and ninth ones, indicating a greater equality between these bands. But such a pattern was offset by the poor performance of the first decile, the very poorest (whose real income fell), and by the strong growth of the tenth – the richest – band (Sefton et al, 2009, 25).

Considering the very lowest reaches of the income distribution gives an indication ofcwhat happened to deprivation. Largely as a result of higher benefits, the overall rate of poverty fell from 25.3 % in 1996-97 to 22.5 % in 2007-08. These figures are based on official definitions and include allowance for housing costs. Child poverty fell from 26 per cent in 1998/99 to 20 per cent in 2009/10. Qualifications are required. First, the government’s own targets for poverty reduction were not met. Partly, this failure stemmed from poverty being defined in relative terms making it a hard target to achieve: as incomes rose so too did the yardstick by which deprivation was measured (Sefton, 2009, 41). Second, as Figure 2 demonstrates, the persistence of very low disposable income was marked. The United Kingdom had become one of the most unequal countries in Western Europe under preceding Conservative governments: it remained so under New Labour. The national minimum wage narrowed earnings dispersion at the very bottom of the labour market, whilst changes to taxes and benefits had some impact at various points on the distribution of income, but perhaps the best that can be said for Labour's period of office is that such measures halted the general rise in inequality experienced under the Conservatives.

4. The Social Model and the Economic Crisis

Unsurprisingly, the financial and economic problems that emerged in 2008 had a major impact on the United Kingdom. For several decades, and especially since the mid-1990s, the financial sector had become increasingly important to the British economy. In 2002 Brown placed its share of GDP at 5 per cent; four years later he put it at 7 per cent. Alistair Darling, his successor as chancellor, gave a figure of 10 per cent in 2008. Toynbee and Walker chart a shift from 5.3 per cent to 9.1 per cent over the same period (2010, p. 74). Cobham et al quote a study suggesting that the financial sector's growth rate had been around 6.1 per cent - roughly double that of GDP (2013, 8). Whilst in employment terms the sector was far less important, its salience meant that the United Kingdom was immediately exposed to any downturn in financial markets. It also meant that tax revenues generated from financial services made an important contribution to Labour's expanding public spending commitments in this period (Moran et al, 2010, 100).

Labour was not responsible for the speculation across the developed world that triggered the economic crisis: however, it had developed a deliberately "light touch" approach to financial regulation (one based on a 1986 Conservative initiative). In 1997, after granting independence to the Bank of England, Labour transferred its responsibilities for bank supervision to a new regime. Frequently thereafter ministers claimed credit for the relatively light regulatory framework, arguing that it was a major cause of the country's impressive (by historical standards) economic performance. In his 2006 Mansion House speechBrown (2006) typically argued that the United Kingdom would "advance with light touch regulation, a competitive tax environment, and flexibility."

The economic crisis began during 2007 with defaults on loans that were uncovered by realisable assets (Kavanagh and Cowley2010). Several financial institutions found themselves in severe difficulties. The crisis was worsened by the "credit crunch", a reluctance by financial institutions to extend credit to each other (and elsewhere, including the housing market), as a result of uncertainty about how far each was exposed to bad debt. House prices, having soared under the Labour administration, stagnated or, in places, fell raising questions about the sustainability of asset-based welfare being generated by increased home ownership. Large-scale public interventions were required to support UK financial institutions. Northern Rock, a British bank, ran into trouble in September 2007: in February of the following year, the Labour government decided, reluctantly, to nationalise it. Six months later, it took another institution, the Bradford and Bingley, into public ownership. In October 2008, one month after Lehman Brothers had collapsed in the United States, the government extended help to the Royal Bank of Scotland, HBOS and Lloyds TSB. By 2009 much of the banking sector was in public hands, an outcome not without irony given New Labour's utter hostility to natioalisation. By the end of 2008 the British economy was in a recession that would continue until the autumn of the following year: GDP fell by around 6 per cent. Unemployment had already been rising for some years. By 2009 it was higher than when Labour had first been elected (though it rose by less than during the previous recession in the 1990s – Cobham, 2013, 53).

The economic crisis starkly exposed Labour's economic model. Expensive and ambitious welfare commitments relied on buoyant revenue streams which in the event proved fragile. The initial scale of public sector expansion (largely to fund health and education) left public finances extremely exposed to any reduction of tax revenues. Tax receipts fell markedly as GDP declined. As the recession worsened, public spending increased further as automatic stabilisers in the form of social security payments kicked in. The unplanned bailout of financial institutions put further pressure on public finances. The result of these combined factors was a dramatic increase in public debt. The Institute for Fiscal Studies had warned Labour about its fiscal plans back in 2005 (Kavanagh and Butler, 2005, 75). But in 2009-10, according to Toynbee and Walker (2010, 79), Labour borrowed more than it had in the entire period between 1997 and 2008 .

Quite how far Labour was responsible for this fiscal crisis is an open question. The economic crisis, of course, was an international one, driven in large part by developments in the United States. The United Kingdom entered the recession with relatively low public debt compared to other industrialised countries. Moreover, the ratio of debt to GDP was lower than when Labour had entered office in 1997 at around 40 per cent (Cobham et al, 2013, 7). Broadly speaking the golden rule – that borrowing should only fund investment over the economic cycle – was met until the crisis. After 2010, Ed Balls (2011) unapologetically noted that "before the global financial crisis, Britain had a lower deficit and a lower national debt than Labour inherited from the Conservatives in 1997." From this perspective the increase in public debt was a straightforward, rational response to an exogenous shock.

Critics responded that Labour had relied on over-optimistic growth forecasts to justify its spending plans and its ability to borrow in later years rested heavily on its probity during 1997-99 (Cobham et al, 2013, 8). More importantly they indicated that it was Labour's particular approach – combining minimal regulation with ambitious spending commitments and expensive programmatic interventions – that had left the United Kingdom so exposed to such a shock. Moreover, the crisis raised fundamental questions about that strategy: how could the mechanisms – consumer credit and a buoyant housing market - that had appeared to transmit prosperity from the City of London to other areas of the United Kingdom economy between the mid-1990s and 2008 be sustained? By 2008, they were no longer working. In any case, Labour had done little to combat rapidly rising housing prices.

The initial policy reaction to the slump, widely praised by many economists, included a relaxation of monetary policy as the independent Bank of England cut the interest rate steadily from December 2007 onwards until it bottomed out at 0.5 per cent in March 2009 (Cobham, 2013,65). Between March 2009 and February 2010, the Bank further eased monetary policy through a series of asset purchases known as quantitative easing. As well as bailing out the banks, Labour eased its fiscal stance generally in November 2008 through a temporary cut in VAT (value added tax). In all, Labour offered a relatively modest discretionary fiscal stimulus between 2008 and 2010 (automatic stabilisers complemented such intervention, of course) – just under 2 per cent of fiscal balance. Most other industrialized countries did more (Barnes and Wren, 2013, 290).

By 2010, however, significant changes had been made to Labour's original response to the economic crisis. Monetary policy remained loose but fiscal policy had been tightened. Alistair Darling, as chancellor, announced a plan to halve the size of the public deficit in four years based on tax increases, spending cuts, and constraints on public sector pay. Tax increases included VAT and national insurance. Labour had finally scheduled an increase in the higher rate of income taxation. For a period the Brown government had attempted, rhetorically, to contrast Labour's "investment" with proposed Conservative "cuts". After such prevarication, the government indicated that there would have to be cuts in planned expenditure programs. However, opinion remained divided within the administration: some senior figures, most notably Ed Balls, proposed a more moderate and slower approach to deficit reduction.

There is some controversy as to how far the social model as developed by Labour ameliorated the unemployment that resulted from the recession. The fall in GDP varied across countries, as did the strength of macro policy reactions. Correcting for these differences, however, generally speaking those OECD countries with strong employment protection, greater collective bargaining coverage and a greater willingness to adopt work sharing arrangements experienced smaller rises in unemployment (Amable and Mayhew, 2011). Proponents of liberal market economies might claim that such gains are temporary but the avoidance of hysteresis effects suggests longer term benefits for countries with a different social model to that of the United Kingdom. Notwithstanding these comparative findings, the fact remains that the rise in UK unemployment was less than might have been expected from the experienceof previous recessions. We discuss this further later in the chapter.

The recession impacted directly on the electorate's perceptions of Labour's economic competence. For more than a decade and a half, Labour had dominated the economic argument between the two main parties since the United Kingdom's ejection from the ERM in September 1992. In the spring of 2008, the party's long ascendancy on the issue came to an abrupt end (Ipsos Mori, 2012). Opinion polls indicated that the electorate now concluded the Conservatives to have the better policies on the economy. The Conservative lead was not great, however, even as the recession worsened (and Labour continued to have a commanding advantage on health policy, a reflection of its longstanding commitment to the NHS). Voters' perceptions on the economy were reflected in voting intentions and in the result of the 2010 general election. The Conservatives' enjoyed a narrow lead running up to the ballot. They did not do sufficiently well, however, to gain a majority in the House of Commons, winning 306 seats (out of 650 in total) to Labour's 258 and the Liberal Democrats' 57.

After Labour: Austerity and the Coalition

After a few days' negotiations, the Conservatives and Liberal Democrats reached an agreement to form a coalition administration. From the start, the new government placed considerable emphasis on austerity as the basis for its program: the agreement underpinning the Coalition stated "We recognise that deficit reduction, and continuing to ensure economic recovery, is the most significant issue facing Britain." George Osborne, as the new chancellor, immediately initiated a series of reductions to spending programs that went well beyond Labour's deficit reduction plan. In July 2010 he announced scything cuts, exceptional in their size as well as the speed with which they would be introduced, followed later that year by a cap on particular benefits as part of an overhaul of social security (Taylor-Gooby (2012). The Coalition also shifted the balance in debt reduction: a greater proportion would be covered by spending cuts (put at 80 per cent) as opposed to tax increases (20 per cent) than had been the case under Labour. In 2013, the IFS estimated the outturn at 85:15 (Johnson, 2013, 2).

By contrast to this fiscal austerity, monetary policy under the Coalition remained lax. The Bank of England kept the interest rate at 0.5 per cent: its new governor indicated in July 2013 that it would remain so until unemployment started to fall. Earlier, in 2011, the Bank initiated another round of quantitative easing. Indeed, in contrast to Eurozone economics, the capacity to operate an autonomous monetary policy was a great benefit to the British economy. In particular, it made borrowing much easier for the Coalition and cheaper than insome Eurozone economies. Traditionally economists argue that sovereign debt denominated in a country's own currency causes less servicing problems than one denominated in a foreign currency. In the former case a country can issue more bonds valued in domestic currency and print the money needed to service the interest payments. By contrast if the debt is in a foreign currency, an increase in the domestic money supply is likely simply to lead to a depreciation of the exchange rate making it even more difficult to service the interest payments. Historically this was a dilemma faced by developing economies. The problems of countries like Greece or Italy, however, are analogous. They can issue bonds denominated in euros but cannot increase the money supply to ease the servicing burden. As financial markets lose confidence in such governments, then interest rates demanded become ever higher as therefore does the servicing burden. This can reach the point where lenders believe that sovereign debt levels are unsustainable. Osborne did little to exploit the UK's room for manoeuvre: by contrast he persisted in austerity insisting that cuts in public spending remained necessary. By 2012, international agencies such as the International Monetary Fund counselled the Coalition against the severity of its austerity policy, arguing that the pace of deficit reduction was too swift.

Between 2010 and 2012, economic growth faltered as the United Kingdom slipped briefly back into recession (subsequent data indicated that the "double dip" recession may not have taken place). Critics blamed Osborne's cuts for taking too much demand out of the economy too quickly and suggested that such austerity was "self-defeating" (Holland and Portes, 2012).Moreover, the strategy did not cut debt as quickly as the Coalition had hoped and ministers accepted that it would take longer to reduce the deficit. Commentators pointed out that the squeeze on public spending would continue well into a second parliament after a May 2015 general election (the Coalition committed itself to a full fixed term in office).

Given the latitude afforded by monetary policy and the concerns of those such as IMF, some suggested that Osborne's program was motivated by ideological concerns. Arguably, the reduction in spending provided cover for an assault on aspects of the social model – such as reduced welfare provision and cuts in benefits (seeKrugman, 2012). Many of the reductions had a dispoprortionate impact on the less well off, particularly women (Taylor-Gooby, 2012, 64-65). Such an account was obviously consistent with previous Conservative polemics about the need to reduce state interventions in the economy based upon a New Right philosophical outlook. Significant cuts instigated by the Coalition included time limitations on benefits and restrictions on housing benefit including a constraint on the number of bedrooms to which recipients were entitled (benefit was reduced if beneficiaries had a spare room). By 2013, the National Housing Federation, a body representing housing associations, estimated that around half of the households affected by the so-called “bedroom tax” were in debt as a result – around 300,000 in total, many of which were in receipt of disability benefit (Ramesh, 2013, 7). However, in other aspects, particularly in his rhetoric, Cameron’s approach was quite pragmatic. With the projection of a “Big Society”, he attempted, with limited success, to justify theoretically the reduced state interventions necessitated by spending cuts as being part of a more communitarian approach to policy. Rather like Blair’s “Third Way” in the late 1990s, the Big Society failed to generate sustained political discourse and was, to all intents and purposes, quietly dropped. By September 2013, the Coalition had indicated that there would be a further tightening of benefit eligibility including drastic cuts for the young unemployed.

A particular puzzle concerned unemployment under the Coalition. GDP had fallen sharply (by over 5 per cent) in 2009. Thereafter growth was slow and halting – 1.7 per cent, 1.1 per cent and 0.2 percent in 2010, 2011 and 2012 respectively. Unemployment rose significantly at the start of the recession and was nearly 2 percentage points higher in 2009 than in 2008. However, as already noted, this was a smaller rise than would have been expected from the UK’s experience of previous recessions. Moreover in 2010 the unemployment rate rose only a little further but then effectively stabilised. Meanwhile by 2013 the level of employment was higher than at the outset of the recession. Putting the employment and unemployment figures together suggests that under the Coalition employment rose by just enough to absorb the increase in labour supply, thereby making little impression on the level of unemployment. Nevertheless at first sight the labour market picture appears more favourable than the UK’s historical experience might have led us to expect. Coalition supporters put this down to the virtues of the increased flexibility of the labour market and there is indeed some truth in this. One dimension of this flexibility was exhibited in a falling real wage. Another dimension is more contentious. Bell and Blanchflower (2013) introduced an index of underemployment – defined as when a worker wants to work more hours than available from the employer. They calculated that the underemployment rate had increased from 6.2 per cent of the workforce in 2008 to 9.9 per cent in 2012. Of course there may also be workers who would wish to work fewer hours. Bell and Blanchflower argue that this group was more or less the same size as the underemployed group between 2001 and 2007. However by 2012 the underemployed far outnumbered the over employed and, on their calculations, the index of the unemployed plus underemployed stood at 9.9 per cent as compared to unemployment rate of 8 per cent. A particularly extreme form of potential underemployment was the zero hours contract and a 2013 press release from the Chartered Institute of Personnel and Development suggested that about one million workers were on such contracts. Perhaps even more worryingly it is arguable that the present high levels of measured unemployment represent a higher NAIRU (Elsby and Smith, 2010;see also Table 1). Unsurprisingly the composition of employment shifted dramatically with between 300,000 and 400,000 jobs being lost in the public sector during the first two years of the Coalition (Emmerson 2013; Johnson, 2013). The IFS indicated that, in all, around one million public sector jobs might go by 2018.

Sweeping cuts notwithstanding, the institutional configuration of the social model in the United Kingdom shaped the Coalition's program in a striking fashion. In particular, regarding social welfare, there were powerful continuities between the trajectory established by Labour in office and the measures adopted by the new administration. It promised to ring-fence spending on the NHS and on schools (though over parts of the education budget were cut). Spending reductions were focused on local government, and community budgets as well as justice and the environment. But aside from defence, education, transport, and climate change as well as health and international development (both of which rose), they averaged over 20 per cent per department. At the same time that the Coalition protected the NHS, however, it also announced organisational reforms to it, proposing to devolve powers to GPs (general practice doctors as opposed to hospital specialists) and more private sector involvement. Almost immediately both coalition partners backed off, slowed down the pace of reform, and disowned aspects of the initiative. Alongside the spending commitment, such caution was an indication of the powerful political constraints shaping health policy in the United Kingdom and, as Paul Pierson (1994) had argued in the mid-1990s, of the tenacity of certain institutions. It indicated a generic lack of trust on the part of the electorate towards the Conservatives. Cuts to health were further constrained by Liberal Democrat participation in the coalition. The Coalition did eventually proceed: the 2012 Health and Social Care Act once again reorganised the provision of treatment and enhanced the role of the private sector.

Elsewhere were other continuities: whilst New Deal interventions were terminated, the new Work Programme was based on much the same, though possibly even harsher, welfare-to-work philosophy (Portes, 2012). The government indicated that it would simplify social security benefits, tightening regulations and restricting eligibility further to reduce welfare dependency. Although earnings inequality increased under the Coalition, inequality of net incomes actually diminished because of the redistributive effects of the tax benefit system. On conventional measures the incidence of poverty also fell, but this was because the poverty line was reduced as average earnings fell – in absolute terms the poor became worse off (Cribb et al, 2013).

Employment relations differed little from arrangements under the Labour government. The Coalition placed less emphasis on individual employee protection and offered less respect for the relevant European Union Directives. But it continued to support unionlearn (a TUC skills initiative launched in 2006) and the Union Learning Fund (in place since 1998) though the sums involed were quite small. More importantly, David Cameron resisted pressure from his own party to weaken legislative protection against unfair dismissal and to toughen up anti-strike provisions. He commissioned Adrian Beecroft's report, published in 2012, on employment protection legislation which advocated a severe reduction in it. The report represented a strand of Conservative thinking that questioned fundamentally the kind of social model inherited by the Coalition: it had little, if any, impact on policy-making. The Coalition was more tolerant of exclusions from the system of protection such as that for mini-jobbers in Germany (or, as already exists, for temporary agency workers in the United Kingdom). Proposed public expenditure cuts (over pension arrangements) prompted public sector strikes. Following the recommendation of the Low Pay Commission, in 2013, the

Coalition uprated the minimum wage by less than the rate of inflation. Perhaps more striking parliamentary answers revealed that between June 2010 and February 2013 there were no prosecutions for failing to pay it (between 2007 – the date of the first action - and 2010 there had been eight – Hansard, 25 January 2013, col 458; and Hansard 7 February 2013, col 434.)

Like its Labour predecessor, the Coalition put skills and training at the centre of its discourse about national economic success and social justice. The Coalition placed as much emphasis on education and training as a means to improve productivity New Labour's rhetoric about labour market empowerment through improved human capital persisted. Despite this continuity, however, education and training budgets were slashed. The Educational Maintenance Allowance was abolished in England. Train to Gain was ended and the programs which replaced it involved significantly reduced spending. There was increased emphasis on funding high quality apprenticeships, but any improvements in the quality of government subsidised work-based training appeared rhetorical rather than real (National Audit Office, 2012).

5. Conclusions

Between 1997 and 2010 New Labour shaped the social model in the United Kingdom in a number of significant and distinctive ways including expanded health provision and interventions to help the unemployed into work. Underpinning these initiatives was an approach based on the importance of a flexible labour market as well as a buoyant financial sector which together contributed to the generation of a surplus to fund such activities. Some scholars concluded this approach to be an essentially neoliberal one that had much in common with the preceding Conservative administration (Taylor, 2005, 204; Hay, 1999). In the analysis of New Labour's approach to the social model, however, it is important to distinguish its often polemical discourse from the detail of its policy measures. At times there appeared to be a painful contradiction between some of the government's interventions (as designed by Brown) and the neoliberal discourse offered by Blair. Both rhetoric and policy can be further contrasted with outcomes. Often, interventions failed to offset the inequality generated by exogenous factors. That Labour relied heavily upon work as the route by which to tackle poverty further limited the government's success since frequently groups outside the labour market did not benefit as much as those within it - for example those not in work without children (Sefton et al, 2009, 33).

Broad similarities between the program adopted by the Conservatives before 1997 and by New Labour thereafter and in the rhetoric frequently deployed by senior figures within those governments hide significant differences. New Labour was more prepared to intervene in the promotion of flexible labour markets. The myriad of New Deals were based on a model of systematic market failure (in the supply of workers) and the necessity of state intervention to correct that failure that went far beyond anything offered hitherto by the Conservatives. The illiberal impetus of these measures exceeded that attempted by the Thatcher and Major governments between 1979 and 1997. In addition, the scale of tax and spend involved in New Labour's policies should not be underestimated. Brown's measures to integrate the tax and benefits systems were based on a manifest redistributive impulse. In this regard, political partisanship remained relevant in assessing UK policy and outcomes (Bermeo and Pontusson, 2012, 20-21). Ministers did little, however, either to flag their social democratic credentials or to articulate their initiatives as part of a comprehensive reformist approach. Moreover, caution needs to be exercised in determining just how coherent Labour's model was in office. Blair's agenda from September 2001 onwards was heavily shaped by foreign policy concerns. As important, throughout his time as chancellor and subsequently as premier, Brown was more interested in the pragmatic character of particular initiatives than he was in the overall narrative that underpinned such measures.

It would be equally mistaken to characterise New Labour as an orthodox social democratic party in some form or other. In terms of principles, an integrated model based on duties and contracts replaced one based largely on rights and trust. In mapping out its approach to the social model, both Blair and Brown's governments appeared to reject firmly the kind of arrangements to be offered by conventional reformist parties (or in Europe more generally, for that matter) in favour of their own particular approach. From the party's first days in office after 1997, Blair's antipathy to what might be called the European model was manifest. In June 1997, in a calculated insult, he told a meeting of the Party of European Socialists at

Malmo that “There is a choice of destiny which confronts us in Europe. Stay as we are and fail. Change, embrace the future and succeed…We modernise or die.” His words were reinforced six months later when he concluded: “We need to reform the European social model not play round with it.” Of course, European social democracy has not remained static in the last decade. How much any developments in it reflected the influence of Tony Blair, alongside Gordon Brown, and how much New Labour’s rhetoric has fully permeated the general discourse of reformist politics on the continent is an open question. The 1999 Blair-Schröder statement, however, like other documents and speeches, emphasises a break with the past and makes clear a distance with Europe more generally: ‘To make the European economy more dynamic, we need to make it more flexible’ (Blair and Schröder, 2000, 168).

How is the political basis of New Labour distinctive approach to be understood? In influential papers, including a chapter in this volume, Torben Iversen and David Soskice advance a model of redistributive policies that places considerable weight on the political system and the type of distributional coalition that follows from it (Iversen and Soskice, 2006). In the British case, majoritarian institutions might be expected to lead to centre-right governments in which middle class voters ally themselves with the better off to limit redistributions. Of course, this logic does fit aspects of the UK social model under successive Conservative governments during the 1980s and 1990s. Whether this model captures the specificities of the British case and New Labour’s domination of politics between 1997 and 2010 is much less clear. New Labour's original coalition of support was far more encompassing than the two class alliance depicted in the Iversen-Soskice scheme: it was defined by a generic anti-Conservativism and by the trauma of the ERM crisis in 1992 far more than it was by redistributive or tax-cutting positions. Following on from that, the coalition remained ill-defined as new issues cut across its base, most obviously of course intervention in Iraq. The Iversen-Soskice model captures neither the complexities of Labour's social program nor the pragmatism of particular initiatives. Moreover, certain initiatives developed by New Labour (and for that matter by the Coalition government since 2010) were directly costly for middle class voters (most obviously university tuition fees), the very group which should have been most insulated from tax increases in this model. Nor were these measures directed to benefit “insiders”, the core of the social democratic economic base in the form of skilled workers as David Rueda's work indicates is likely to be the case (Rueda, 2007). Between 1997 and 2010 nearly five million electors abandoned Labour: around four million by the time of the 2005 general election in the wake of the Iraq war. By 2010, Labour's support base further haemorrhaged in the aftermath of the banking crisis, perceptions of government incompetence, and allegations of sleaze. Renegotiations of the distributional demands of particular groups played little part in this process as Labour lost votes across the class spectrum. (Labour lost more support from class groups C2 and DE than A, B and C1 but the latter groups are larger within the electorate: the party's vote declined most dramatically not in the middle class south but in East of the UK, the Midlands, the North-East and Yorkshire; Hunter, 2011)To be sure, Britain's Westminster system shapes the capacities enjoyed by any government with a majority of MPs in the House of Commons. It did not define the distributional trajectory taken by Labour after 1997. Above all, Labour never constructed a durable political coalition, along the lines proposed by Peter Gourevitch's "Politics in Hard Times" approach, with which to underpin its initiatives (Gouevitch, 1986; Bermeo and Pontusson, 2012, 21-23).

With hindsight it is manifest that New Labour's second term in office was utterly dominated by foreign policy, and in particular the invasion of Iraq, with profound consequences for its domestic agenda. Without such a focus, Blair would have been likely to pursue a far more radical "public service reform" agenda, oriented around greater choice. Blair's initiatives in this area were obstructed by a lack of support within his party, most obviously exhibited in the tensions between him and Gordon Brown. Conflict between the two politicians hampered the development of a coherent strategy. Key features of Blair's trajectory – foundation hospitals, academy schools, fees for higher education - were fiercely resisted within his party. Whether out of ambition or principled opposition, Brown was lukewarm towards the specifics of this agenda. Such an arrangement reflected an internal party politics where neither key actor enjoyed authority but both had veto powers (and uncertain future trajectories) leading to a permanent disequilibrium. From 2003 much of Blair's political capital was sunk into generating and sustaining support for the invasion of Iraq and dealing with its catastrophic consequences. His overall weakness limited his capacity to pursue simultaneously a radical domestic agenda: in effect a trade-off prioritised foreign policy. In 2007, many commentators and others expected a dramatic change when Brown finally became prime minister. It never really happened. Like Blair with Iraq, he seemed swamped with the financial crisis and remained intensely practical in his orientation. Brown's general philosophy, underneath his pragmatism, seemed quite similar to that of Blair: a focus on responsibility, contracts, and work. In interviews he talked about choice and responsibilities in much the same way that his predecessor had. Even if Brown did not share Blair's public sector reform agenda precisely, the policies he articulated were pretty much the same. After more than a decade in office, Labour struggled to offer a narrative of what it was doing, why it was doing it and what it wanted to achieve. The party's 2010 general election manifesto was widely criticised as lacklustre.

The economic crisis exposed profound weaknesses with New Labour's articulation of the social model. In opposition in the 1990s, Labour was cautious, promising that there would be no return to tax and spend. In office, the party emphasised flexible labour markets as the basis for sustained economic growth, and an end to boom and bust. Many erstwhile supporters were profoundly disappointed with the emphasis placed on material growth at the apparent expense of distributional concerns. In the event, the failure to regulate the financial sector coupled with ambitious spending commitments left the economy perilously exposed to the kind of shock that took place in 2007-8. Such economic failure had, of course, profound consequences for Labour's electoral standing as well, evidenced at the 2010 general election.

Subsequently, the configuration of the social model in the United Kingdom has constrained the Conservative-Liberal Democrat Coalition. The model's institutional tenacity, coupled with electoral calculation, has shaped George Osborne's program of austerity in significant ways, most notably in the protection of health spending. That stated, the Coalition's approach, notably the extent of cuts in spending and the dogmatism with which they have been imposed, represent an ideological challenge to existing arrangements. This challenge is likely to take two forms. First, cuts in spending may transform quantitative changes into qualitative ones (as provision can no longer be sustained in its current format) – what Pierson identifies as 'systemic change' (Pierson, 1994, 13; Taylor-Gooby, 2012, 63). Second, the dynamics of austerity create an opportunity to establish and legitimate an ideological agenda. Although, the United Kingdom's particular configuration of the social model is well established, particularly in the popularity of the NHS, it is manifestly under considerable pressure.

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