

RETHINKING THE RELATIONSHIP BETWEEN GOVERNMENT AND THE ECONOMY

The end of an era

While the Conservatives, still quite untested in taking over the reins of power, seem with the wind in their sails

by John Loughlin

There is a sense in today's Britain that we are approaching the end of an era: the era of Tony Blair's New Labour politics; also the end of a phase of globalization which began in the 1980s with the election to power of Margaret Thatcher and Ronald Reagan and which has been retroactively called the era of neo-liberalism. The 'neo-liberal revolution' sought to end the role of the Welfare State and Keynesian state intervention in the economy. Its aim was to provide full employment, and to reduce social and economic inequalities through the redistribution of wealth and by providing a range of welfare services to all citizens. Neo-liberals, on the contrary, were radically opposed to this role of the state and saw the market as the mechanism for achieving economic growth and, eventually, for providing the range of services in a more efficient and effective manner. Although it did not abolish the nation-state, neo-liberalism really did change many of its features but particularly its underlying values of fairness, equity, equalization and the notion of social citizenship. Neo-liberalism also encouraged globalization leading to the creation of quite new global financial and economic markets which, in turn, reduced the room of manoeuvre of national governments. The relaunch of European integration in the 1980s was both a response to, and a means of advancing, these developments.

In the UK, Margaret Thatcher gave her name, Thatcherism, to these neo-liberal reforms. Although she was highly sceptical about the European Union and distrusted Jacques Delors, she was enthusiastic about his Single Market project which she saw as an application of neo-liberal ideas. Thatcher was replaced as Prime Minister by the lacklustre John Major but her policies continued. When Tony Blair came to power at the head of a renewed Labour Party in 1997, he applied what was really 'neo-liberalism with a social face' but neo-liberalism nevertheless. That is, he believed that the market and competition were good things even if they needed to be tempered by some awareness of the social dimension (Thatcher had infamously stated 'there is no such thing as society, only families and individuals'). There is little doubt that his period as prime minister was marked by some achievements and not least the 1998 Good Friday Agreement in Northern Ireland. His biggest blunder was to join the US in the invasion of Iraq, and the price he paid for this was his replacement in 2007 by Gordon Brown as Prime Minister. Brown, however, has been an almost total failure in his leadership of the country and it is now almost certain that the Conservatives will win the next election and their leader David Cameron will be the new Prime Minister in 2010.



Brown's premiership has been marked by a series of political and economic disasters. First, just when he assumed the premiership in June 2007, the global financial system almost collapsed, beginning with the sub-prime mortgage crisis in the US and then spreading to the rest of the financial and economic systems throughout the world. In fact, Brown and his Chancellor of the Exchequer (Finance Minister), Alistair Darling, both played an important role, both in Britain and on

The end of an era, by J. Loughlin

the world stage, in preventing a complete melt-down and in stabilizing the situation. However, he has failed to derive any political kudos from the UK public since many held him to be partly responsible for the situation in the first place. As Chancellor of the Exchequer himself, he had overseen the loosening of governmental controls over the financial sector and had given the banks free rein to pursue their dangerous speculative activities. The second disaster for Brown was the revelation that MP's were using the allowances system in a quite scandalous way to enrich themselves personally. Although Brown was not personally involved in this (except to a very limited extent), several of his ministers were. Furthermore, some of these ministers, especially the female ones who had been promoted mainly because of their gender rather than because of their intellectual or political competence, became deeply unpopular with the rest of the country. For example, Jacqui Smith, the first female Home Secretary (Minister of the Interior), submitted an expenses claim which included the price of two pornographic films watched by her husband on cable television! Several of these female ministers resigned, with some claiming that they were simply 'window-dressing' and not taken seriously by Brown. Whatever the truth of these allegations the impression left was of a petulant and frivolous group of women whose primary concern was promoting themselves. Harriet Harman, Deputy Leader of the Labour Party has further damaged the coherence of the Labour Government by promoting herself as a future 'Leader' through a quite extreme form of man-hating feminism. The problem is that she lacks the intellectual skills of either Blair or Brown and has alienated large sections of the population. All of this has damaged the Labour Party but, more seriously, the institutions of parliament themselves are in some disrepute.



Samuel Cogliati © Possibilia

The scandals and the economic crisis all give the sense that one era is ending and a new one is beginning. The 1980s and 1990s was a period of a continually expanding bubble in the financial, housing and dot.com markets and many (at least in the developed world and some parts of the developed world such as China, India and Brazil) benefited from this economically and in a general sense of well-being.

With the global crisis this has now collapsed and has been replaced by a certain anxiety about the future. What is clear is that the previous period of under-regulated neo-liberal globalization has now ended and a new period of greater regulation has begun. This does not mean a return to the days of the highly regulated and controlled Welfare State and Keynesian economic approaches. But it does mean rethinking the relationship between government, the financial system and the economy. The new regulatory institutions necessary to express this new relationship are still being devised but the general direction seems fairly clear. At the same time, governments have had to pump astronomical sums of tax-payers' money into the system to avert complete collapse. This seems to have worked in the short term but it also means that there are also astronomical mountains of debt that will have to be paid back. Incoming governments are therefore faced with the unpleasant prospect of cutting services and raising taxes over a long period of time.



In the UK, all three parties have had to confront these challenges in their party conferences which are the last opportunity to present them before the general election which must take place by May 2010 at the latest. The most honest of the three has been the Conservatives who have more or less spelled out the measures they will take even if these are unpopular. For example, they have said they will raise the retirement age from 65 to 66 from 2010. Labour have said they will do the same thing but at a later date. The Liberal Democrats in their conference came across as confused and divided about these issues. For the Conservatives, then, the gamble is whether the public is ready to accept these cuts. Public opinion is ready to accept that cuts are inevitable but tend to think that these will affect someone else rather



than themselves. At the moment, it seems that the Conservatives have the wind in their sails and even these 'promises' of cuts will not stop them winning the election. But there are still seven long months before the election happens and much can happen between now and then. Of course, it is one thing to be an Opposition party and to gain political credit faced with a government that is in complete disarray (the current situation is reminiscent of John Major last days in 1997). It is quite another to take over the reins of power and bring about real change or, at least, to carry on an economic recovery. In this the Conservatives are still quite untested and, if the truth be told, there are few of them with any experience of exercising political power. For this reason, many Britons have not yet fully made up their minds and to a large extent the Conservatives lead in the polls is more a reflection of Labour's difficulties than enthusiasm of the party. However, it is most likely that the UK electorate will take the chance and elect the Conservatives to power next year. After that, their rhetoric will be put to the test by the harsh world of reality.

John Loughlin is Professor of Politics in Cardiff University and a Visiting Fellow at St Edmund's College, Cambridge. He is currently Distinguished Visiting Research Fellow at the University of London. The Princeton Centre of Theological Inquiry invited him to be a member of their Residential Colloquium in 2010. The University of Umeå, Sweden awarded him an honorary doctorate 'in recognition of his great contribution to research in the fields of European politics and regional and local government'. He is a Fellow of the Royal Society of Arts, of the Royal Historical Society and of the Academy of Social Sciences.

