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New Labour, Economic Reform and the European Social Model

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The European debate on the challenges of globalisation often degenerates into a contest between a purportedly 'Anglo-American' model of liberalised markets lacking a social dimension, and an inflexible 'European Social Model' of generous welfare provision but slow growth and high unemployment. We argue in this article that this is a false choice. Data on the comparative performance of European states in implementing the 'Lisbon Agenda' show that countries which perform well in terms of economic efficiency and liberalisation also perform well socially. Although combining efficiency and equity may be easier for some political economies than for others, we question the notion that European states are irrevocably 'locked in' to particular welfare regime types, suggesting instead that they are generally 'hybrids', and that successful reforms may be achieved even in the most unlikely cases.

Introduction

The 2005 British presidency of the European Union, begun in the aftermath of the rejection of the European Constitution by the electorates of France and the Netherlands, brought with it a renewed focus on the challenges of globalisation and economic reform. Freed of the Sisiphean task of selling the constitution to a sceptical British public, the British government moved on to the offensive, arguing the case for liberalising reforms in continental Europe. For them, the apparent demise of the proposed constitution presented an opportunity to place the spotlight on the slow progress of some key continental European countries carrying out the economic reforms they had agreed to adopt at the Lisbon European Council of 2000. However, the 'no' votes in France and the Netherlands seemed—at least in part—a clear signal that changes to existing socioeconomic arrangements would be vociferously contested. These contrasting interpretations of the constitution's fate seem to suggest a fundamental disagreement over Europe's direction. The constitutional project was sandwiched between British scepticism towards further integration and suspicions in some continental member states that the constitution would dismantle a vaguely defined 'European social model'.

In this context, the contrast between the constitutional debate in France and Britain is arresting: political opposition to the constitution in France generally rejected it as insufficiently 'social', while its median opponent in the UK saw the document as meddling too much in national economic and political life. This contrast is instructive as well as striking. It draws our attention to an important and consequential aspect of European political discourse, the idea that Europe is in the throes of a fundamental ideological struggle between 'Anglo-Saxon ultra liberalism' and the 'European Social Model' (see *Financial Times*, 7 October 2005, 6, for

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example). That the ultra-liberal position is represented by the leader of the British *Labour* party while social Europe is defended by a *conservative* French president appears as a particularly telling irony, which might indicate that deep national cultures dominate intra-national political alignments. Be that as it may, there is no doubt that a wide range of popular opinion in some continental European countries (and not just on the ideological left) is unreceptive to British appeals for economic reform, and particularly hostile to reductions in welfare entitlements or changes in labour market practices. Britain is seen as having adopted a US-style economic model, achieving higher growth at the expense of increased poverty and the collapse of social cohesion. The Blair government's close relationship with the Bush administration has only served to exacerbate this perception. As a result, British exhortations of the need for economic reform have been interpreted as a threat to Western Europe's much treasured institutions of social cohesion and solidarity. The Blair presidency was therefore widely expected to pursue a rampantly neo-liberal, pro-globalisation strategy.

While accepting that this expectation, and the argument that good economic performance is not always compatible with strong social rights, both contain a dose of truth, in this article we develop a different analysis. First, we analyse the essential features of the orthodoxy that economic reform is likely to undermine social cohesion, and then we subject this orthodoxy to empirical scrutiny. We draw on evidence of the comparative performance of European states in implementing the 'Lisbon Agenda'—the reforms agreed by the member states in 2000 to enhance the competitiveness of the European economy. Our analysis of the relationship between economic efficiency and social equity vindicates the overall *objectives* of the Lisbon European Council of 2000 (if not the practical process of implementation). Although sometimes—and arguably increasingly—identified primarily with an attempt to enhance the 'competitiveness' of Europe, we argue that the original Lisbon agreement had equally strong social roots. In other words, we agree with the Lisbon interrogation of the orthodox assertion that a 'big trade-off' exists between equity and efficiency (for the classic statement of this position see Okun 1975). The evidence is that countries which perform well on the economic efficiency and liberalisation criteria also perform well socially.

Of course, showing that social and economic objectives *need* not be in conflict with one another does not show that it *will* be possible to combine the two. We go on to consider the polarising dynamics of socioeconomic debate concerning the constitution and its aftermath. The European debate is beginning to take the shape of a contest between polarised—and overdrawn—'social' and 'economic' perspectives, perhaps symbolised by France and the UK respectively. Partly driven by conflict between the political leaders of France (motivated to some extent by domestic political concerns) and the UK (based in part on a hubristic interpretation of the domestic record), a political debate is developing that suggests a fundamental 'choice' between economic and social priorities. This notion is, we argue, misleading and damaging. Even if Europe could 'choose' the social or the economic, either option on its own might prove impossible to sustain. Moreover, a polarising European debate is likely to have important ramifications in domestic political debate. For example, a European debate cast in these terms threatens to have an impact on British domestic politics, restricting the space for more progressive aspects and

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achievements of New Labour. Indeed, it is likely to have a similar impact in domestic political debates right across Europe.

One of the problems facing Europe's policy-makers is that, even if it does become widely accepted that economic and social performance can be mutually supporting, this creates further dilemmas, since it implies that the problems facing the worst performers appear even more intractable. For many observers, the national policy configurations of EU member states conform to internally coherent, self-reproducing 'models' or 'types', and it is widely assumed that—in Western Europe at least—social and economic policies conform to three or four types or regimes. The conventional wisdom of comparative policy studies is that each regime responds in a distinctive way to common external 'shocks', reproducing the pattern of regime 'clustering' (Pierson 2001; Swank 2002). In this light, one way of reading the result that social and economic performance co-vary is that the 'Nordic' policy regime is generally effective, that 'liberal' and 'continental-corporatist' regimes sit in the middle of the distribution and that the 'southern' regime (and perhaps also 'eastern' states) perform poorly on both social and economic dimensions. This argument has some credibility, and begs the question: is there any point in southern European states attempting to emulate successful Nordic social democracies?

Here, we may be able to detect an influence of intellectual ideas on public discourse and political debate. These ideas, which have a long history (Shonfield 1965; Albert 1993), seem to have helped constitute—and have certainly reproduced—differences in how the European political economy is understood and confrontations about its (desirable) future trajectory. But, framing the issue as a competition between distinct varieties of capitalism (Hall and Soskice 2001) or worlds of welfare capitalism (Esping-Andersen 1990) closes down other potential political economy options. Moreover, scholarly debate has begun to move on, questioning whether state social and economic policies, or national political economy configurations more generally, are in fact internally coherent (for example, see Wincott 2001; Zeitlin 2003; Crouch and Farrell 2004; Cox 2004). While recognising the impossibility of importing policy macro-constellations wholesale and the risks of implementing policy prescriptions in inappropriate contexts, we are equally concerned about the debilitating and politically demoralising consequences of a new determinism, which seems to assert that states are locked into overall policy regimes that strictly limit their policy options. This determinism, for example, would imply that the much-criticised Open Method of Co-ordination (OMC) (Wincott 2003) was doomed from the very beginning to have only a marginal influence. But, we do find considerable diversity and variability in the social and economic policies of European states, even within the regime clusters. That is, state policy configurations are typically 'hybrids', containing specific social policies conforming to different 'regime-types'. In and of itself this observation does not lessen the difficulties facing some parts of Europe that seek to improve their economic and social records. In contrast to the still-dominant conception of regimes as descriptions of actually existing policy configurations, the emerging recognition of their complex—potentially even contradictory—character creates more space for across-type lesson drawing, of the sort that the OMC has sought to encourage.

The article proceeds as follows. The next section outlines a series of claims that we suggest have become the orthodoxy in interpreting the dilemmas of economic

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reform in the European Union. The following section assesses evidence on the reform records of EU member states that call into question that orthodoxy. The penultimate section looks more closely at the UK case, examining the performance of the Blair governments in combining economic reform with social priorities, and looking at how Labour's domestic strategies affect its approach to Europe. We conclude by briefly returning to the issue of hybrid political economy regimes.

1. The Orthodoxy: Globalisation and the Imperative of Economic Reform

The way in which debates on economic reform and institutional change in the European Union have recently pitted France against the United Kingdom seems at first sight little more than the latest example of a secular rivalry between the two neighbours. But, Anglo–French tensions have in fact been inspired by apparently fundamental differences in their socioeconomic 'models' and their political elites' understanding of the pressures facing mature industrial economies in the advanced world. Much of the public discussion of the effects of globalisation on the rich democracies has drawn on the Anglo–French comparison to produce a rather simplistic representation of the choices facing the European Union.

The UK has played the role of cheerleader for economic reform in the European Union for at least two decades. The Thatcher governments of 1979–1990, and less melodramatically the Major governments of 1990–1997, set out to reduce the role of the state in economic life and open up new space for market solutions to problems of resource allocation (Gamble 1994; Graham 1997; Walsh 2000). The wholesale privatisation of most state-owned industry, the liberalisation of financial services, the reform of the tax system to benefit high earners and investors and, perhaps most importantly, the assault on the role of trade unions through legislation restricting strike activity, shifted Britain in the direction of a liberal economic framework. High-profile attempts were made to reduce welfare entitlements, and to liberalise and decentralise wage bargaining. The consequence of these reforms was a much harsher social environment: income inequality and poverty soared, as did levels of crime and other indicators of social distress (Walker and Walker 1997). As in the early 19th century, the incursion of markets into ever broader areas of social life had heavy costs, particularly for more vulnerable sectors of the population. However, Britain's comparatively strong economic performance after the collapse of the European exchange rate mechanism in 1992 appeared to show that this painful 'medicine' had brought economic benefit. Higher rates of growth than the other large Western European economies, and significantly lower levels of unemployment, have been widely attributed to the effects of the Thatcher/Major reforms: the removal of levers of institutional interference in the labour market, as their advocates had promised, seems to have facilitated market clearing, allowing the economy to adjust quickly to structural change and deploy its labour resources more efficiently. In an era of increasingly global competition and rapid economic change, the orthodox view sees the flexibility of the British model as a major asset.

This narrative goes on to cite developments in France and Germany in particular as dismal mirror images of the British success story. Socialist and Christian Demo-

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crat governments in continental Europe, horrified by the social costs of the British strategy, have made only piecemeal reforms to labour markets, wage bargaining and welfare entitlements. Moreover, highly regulated product markets and the persistence of direct state investment in key industrial sectors confirm a reluctance to allow markets to determine the allocation of resources. The result has been much higher levels of unemployment than in the UK, and consequently lower growth. The maintenance of extensive welfare provision, and in particular the generous use of early retirement packages to facilitate labour shedding, have cushioned the populations of continental Western Europe from the harsher consequences of structural adjustment. However, this protective embrace carries severe costs: slow labour market clearing has undermined firms' flexibility to respond to changing product markets, and restrictive practices and excessive employment protection have hindered the integration of new workers into productive activity, preventing economies from efficiently deploying their resources and undermining consumer confidence. In the age of globalisation, these problems can only get worse.

It is easy to conclude from this account that the price continental Western Europe has paid for protecting its population from the chill winds of global competition is economic stagnation. It therefore follows that the European Union must embark on unpleasant and painful reforms, or face long-term decline as the emerging economies in Asia eat away at its markets. This message emerges clearly from high-profile contributions to the debate about economic reform by Tony Blair and his chancellor of the exchequer Gordon Brown in recent months (Blair 2005; Brown 2005). Put simply, the orthodoxy holds that the 'European social model' is no longer sustainable, and wholesale liberalising reforms are an urgent requirement.

The Lisbon process emerged as the Europe-wide response to these challenges. It is no coincidence that Tony Blair's Labour government was a driving force behind the Lisbon agenda, and that his most enthusiastic allies were right-wing leaders such as Spain's José María Aznar and Italy's Silvio Berlusconi, neither known for any sentimental attachment to the welfare state. All three of these leaders were also enthusiastic Atlanticists in foreign policy terms, underlining the apparently 'American', and therefore economically liberal, nature of the Lisbon diagnosis of Europe's economic challenges. France and Germany, both under centre-left governments, came across as reluctant participants in the Lisbon process. The French Socialist leader Jospin, whose political discourse emphasised the limits of markets ('a market economy, not a market society'), had a difficult relationship with Tony Blair, and things did not improve once Jacques Chirac was able to appoint a conservative government in 2002. The French insistence on maintaining a government role in industries such as air transport, and the attempt to tackle unemployment by reducing working time, is wilfully inconsistent with the liberalising thrust of the Lisbon agenda. The result of the referendum on the European constitutional text suggests that French public opinion is unwilling to contemplate the kinds of economic reforms which appear to be needed.

The power of this orthodoxy has perhaps been enhanced by international events. For Europeans suspicious of the motives behind the economic reform agenda, the enthusiastic adherence of Britain, Italy and Spain to the American invasion of Iraq has stoked fears that liberalising policies threaten to 'Americanise' European

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societies, undermining welfare and widening the gap between rich and poor. The divisions over the Iraqi war also drove a wedge between the UK government and its counterparts in France and Germany, and further damaged the prospects for concerted economic reform. Maladroit interventions by the representatives of the Bush administration contrasting 'Old' and 'New Europe' drew attention to the radical economic reforms undertaken by some former communist states and encouraged many to see the new 2005 EU members as a vehicle for promoting American interests in Europe. All of this undermined both the Lisbon agenda and the constitutional project. But, however powerful the orthodoxy has proved, there are serious doubts as to its basis in reality. The following section assesses the evidence for the orthodoxy's claims.

2. The Dilemma of Economic Reform: Assessing the Evidence

A wide variety of agencies, official and unofficial, seek to evaluate the performance of EU member states in raising competitiveness, often explicitly assessing this performance against the yardsticks set out at Lisbon. We use some of this evidence here, although with a certain amount of caution. Much of this data is generated by various generally pro-market think tanks and lobbies or the official institutions embodying the orthodoxy often referred to as the 'Washington consensus'. Our confidence in the analysis we develop rests on the close resemblance between the general patterns identified by the various comparative analyses of Lisbon performance. Moreover, we would expect any ideological bias in our data to bolster the very orthodoxy we are questioning here. In short, we use data generated and endorsed by advocates of the orthodoxy to illustrate flaws or cracks in the view that enhancing economic performance is compatible only with a strictly truncated social agenda.

The World Economic Forum (WEF), associated with the Global Competitiveness Programme (GCP), has published a series of reports on the implementation of the Lisbon Agenda (WEF 2002 and 2004). Its data are grounded in an 'Executive Opinion Survey of business leaders in more than 100 countries' that 'provides information on subjects for which no hard data sources exist' (WEF 2004, 3). In some places the survey data is augmented with 'hard data' variables. 'While the Survey data is excellent for capturing the essential qualitative measures of the competitive environment, we decided', the WEF report states, 'to include ... quantitative hard data because in a number of areas such measures, where available, are highly informative' (WEF 2004, 4).[1]

If we bring together the WEF rankings for the new and old member states (and some 'accession states') producing an overall ranking reported in Table 1, several things become clear. First, the overall ranking shows that the Western European states generally display a much stronger performance in meeting the Lisbon objectives than the states that have newly acceded to the Union. 'Old' Europe, it appears, is no laggard in terms of economic reform. Second, within Western Europe, overall performance generally deteriorates as one moves south. The Nordic countries stand out at the top of the distribution, putting in very strong performance across the

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Table 1: World Economic Forum Lisbon 'Scores'

	Rank	Score	Info Soc	Innov/ R&D	Liberal	Network Industry	Financial Services	Enterprise	Soc Inc	Sus Dev
Finland	1	5.8	5.78	5.87	5.36	6.33	6.13	5.48	5.46	5.97
Denmark	2	5.63	5.57	4.87	5.14	6.51	5.96	5.6	5.52	5.78
Sweden	3	5.62	5.71	5.57	4.91	6.37	5.8	5.29	5.46	5.89
UK	4	5.3	4.96	4.67	5.11	5.78	6.1	5.62	4.86	5.3
Neth	5	5.21	4.99	4.46	4.94	6.04	5.67	4.71	5.29	5.57
Germany	6	5.18	4.95	4.9	4.64	6.36	5.62	4.64	4.37	5.96
Lux	7	5.14	4.98	3.57	4.96	6.22	5.72	5.17	5.19	5.28
France	8	5.03	4.52	4.68	4.65	6.1	5.68	4.68	4.72	5.2
Austria	9	4.94	4.69	4.27	4.54	5.76	5.48	4.28	4.88	5.64
Belgium	10	4.88	4.08	4.45	4.63	5.74	5.39	4.69	5.12	4.91
Ireland	11	4.69	4.14	4.18	4.47	4.89	5.59	5.3	4.62	4.35
Estonia	12	4.64	4.92	3.82	4.4	4.98	5.43	4.9	4.2	4.44
Spain	13	4.47	3.71	3.93	4.5	5.34	5.14	4.32	4.38	4.48
Italy	14	4.38	3.94	3.87	4.4	5.3	4.92	3.64	4.24	4.74
Slovenia	15	4.36	4.38	3.92	4.06	5.21	4.69	3.76	4.24	4.6
Latvia	16	4.34	3.62	3.86	4.44	4.35	4.84	4.87	4.47	4.29
Portugal	17	4.25	3.88	3.44	4.1	5.35	4.9	3.89	4.15	4.29
Malta	18	4.2	4.42	2.99	4.03	4.81	5.27	4	4.83	3.24
Czech	19	4.16	3.62	3.34	4.01	5.19	4.03	4.18	4.4	4.48
Hungary	20	4.12	3.24	3.47	4.1	4.57	4.87	4.41	4.19	4.09
Lithuania	21	4.05	3.36	3.57	4.1	4.51	4.67	4.38	3.69	4.17
Greece	22	4	3.16	3.44	3.96	4.99	4.74	3.78	3.9	4
Slovak	23	3.89	3.29	3.34	3.84	4.5	4.39	3.43	3.83	4.53
Poland	24	3.68	2.95	3.53	3.75	4	4.26	3.56	3.42	3.99
Turkey	25	3.45	2.61	2.72	3.68	4.01	3.99	3.84	3.45	3.33
Romania	26	3.35	3.91	2.88	3.04	3.48	3.77	3.65	3.74	3.33
Bulgaria	27	3.25	2.66	2.94	3.26	3.54	3.64	3.81	3.07	3.08

board: in these countries, high levels of research and development and innovation, liberal regulatory frameworks for communications and financial services, and a supportive environment for businesses, are all combined with high levels of social inclusion.

Given the emphasis on *competitiveness* in the WEF approach, we felt that it was important to introduce several other measures to gauge the *social* dimensions of Lisbon. In this context we are particularly interested in measures of employment regulation. According to the orthodoxy outlined in the previous section, 'over-regulation' of employment is probably the most important factor explaining Europe's lackadaisical competitive performance. Taking a measure of employment regulation developed in association with the World Bank,[2] we wanted to investigate the relationship between employment regulation and social inclusion, particularly using the WEF's rather 'opportunity oriented' measure of the latter concept.

Across Europe this analysis suggests a weak (but not statistically significant) positive association between employment regulation and social inclusion (see Figure 1). The weakness of the relationship between these variables might suggest that they are tapping different characteristics of European states. Combined, they could

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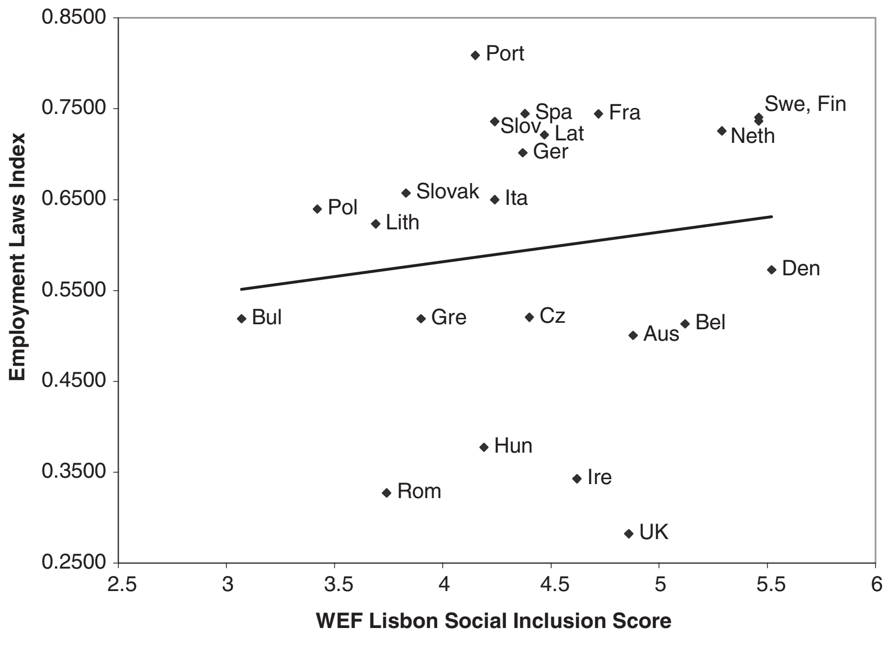
Figure 1: Employment Protection and Social Inclusion in Europe



provide some measure of the 'social' dimension of Europe.[3] A combined Social Inclusion and Employment Regulation measure provides an opportunity to interrogate the orthodox argument that Europe's social dimension fetters its economic performance or, more specifically, is incompatible with economic liberalisation.

Our analysis of the relationship between the combined measure of 'social Europe' and the WEF variable measuring the 'liberalisation' of Europe's economies produces a striking graph (see Figure 2). Far from illustrating a conflict between Europe's social and economic dimensions, this analysis appears to suggest that these dimensions are mutually supportive, showing a clearly positive and relatively tight relationship between them. In the top-right quadrant, the Nordic social democracies and the Netherlands stand out as displaying a virtuous combination of competitiveness and social cohesion, while in the bottom left of the graph Greece and Portugal—the two least-advanced economies of the pre-2005 EU—join most of the new member states and some 'accession' states in having low levels of competitiveness *and* weak social cohesion. We do not wish to push our argument too hard here, given the nature of the data we are using. Nevertheless, this evidence—drawn largely from impeccably reform-oriented sources—does support our contention that social priorities need not be inimical to economic efficiency or economic liberalisation. At the very least, it is difficult to reconcile this evidence with orthodox arguments.

As the WEF measure of social inclusion may be somewhat contentious, we also inspected the relationship between levels of social protection expenditure and

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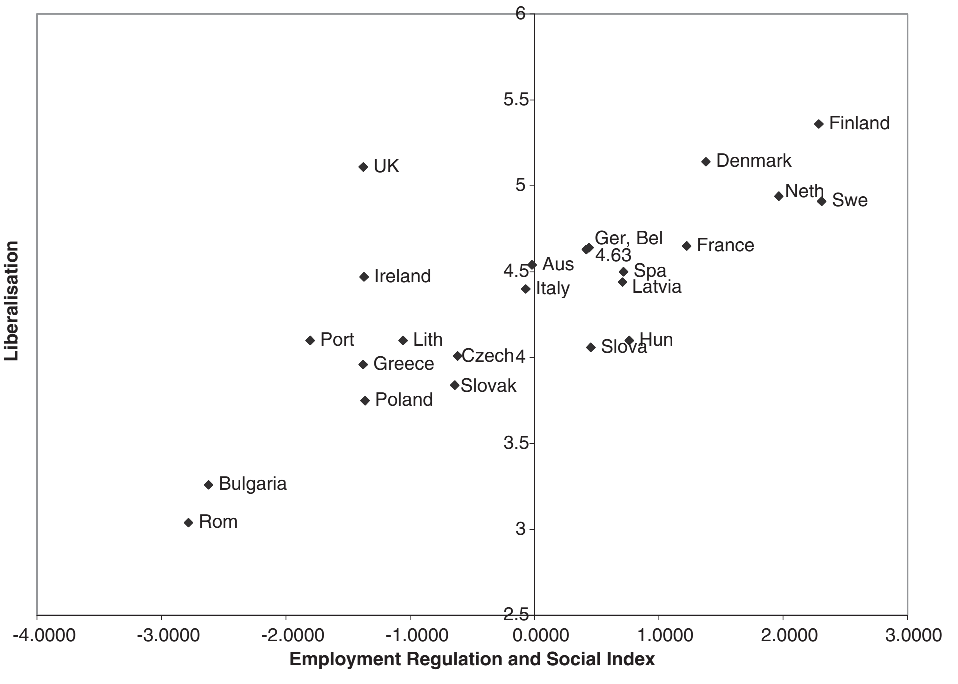
Figure 2: Liberalisation and Employment Protection/Social Inclusion in Europe



liberalisation (see Figure 3). According to the orthodoxy we would expect to see a powerful negative relationship. Within this world-view spending on social protection is, *par excellence*, a burden on economic efficiency. But, no such clear-cut relationship is evident in the data; social protection spending has only a weak relationship to the WEF measure of liberalisation. Although the strikingly positive relationship shown in the previous graph is not evident, this 'social' measure is also positively related to liberalisation, if only slightly. It is also worth remarking on the position of the UK for these variables. For all that it is sometimes vaunted (or coruscated) for its liberal and flexible political economy, Britain does not have a particularly parsimonious social protection regime, with some other states—such as Ireland—spending far less in this area.

Finally, in its strongest neo-liberal form, the orthodoxy suggests that a fundamental trade-off exists between equity and efficiency, depicting these values as in tension with one another.[4] Given that the WEF Lisbon assessment is mainly concerned with competitiveness, we sought to explore the relationship between this measure and an indicator of income inequality. Graphing Gini co-efficients for 2003 (or the nearest year for which data were available)[5] against the WEF's measure of overall Lisbon performance lends no support to the neo-liberal orthodoxy (see Figure 4). Instead, in terms of 'competitiveness', more egalitarian societies seem to perform better than their less egalitarian neighbours, with the Scandinavian social democracies once again rated highly in terms of competitiveness and income equal-

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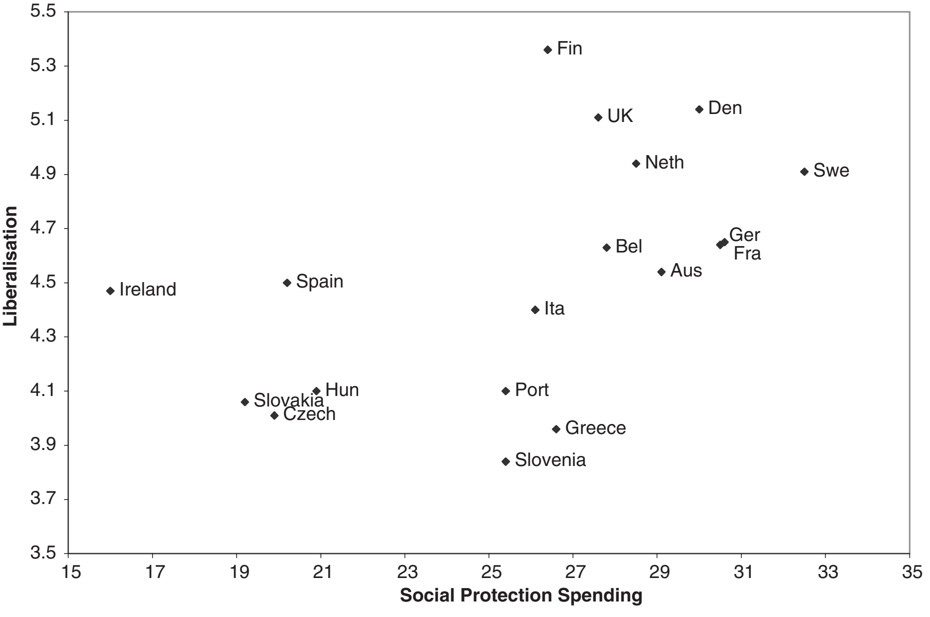
Figure 3: Liberalisation and Social Protection Spending in Europe



ity. The relationships illustrated in this graph deserve further comment. First, the negative relationship between inequality and competitiveness is primarily due to effects in Western Europe. The Scandinavians are way ahead, with continental Western Europe performing respectably in terms of both variables, and the Southern European states performing more weakly (see also Sapir 2005). The new member states together with those that still aspire to membership vary considerably in levels of inequality, but rather less so in terms of overall Lisbon performance. That having been said, a small group of eastern countries (Slovenia, the Czech Republic, Hungary and to a degree also Bulgaria) all register strikingly low levels of inequality, which makes them appear as a distinct cluster. But, there is one clear individual outlier—the UK—in this overall group of countries. According to the WEF data, Britain does appear to be a reasonably strong performer in terms of competitiveness. But, almost uniquely in Europe, this performance is combined with a dismal record on equality; contrary to our general theme, in the UK competitiveness may have been bought at a cost to equality. Its uniquely poor record in terms of income equality may have important implications for British pretensions to European leadership. Holding the UK up as a putative model for economic reform may teach other Europeans the inaccurate lesson that this path inevitably leads to a sharply unequal society. But, if the UK is hardly the best European advertisement for economic reform, a closer examination of the Blair government's record suggests a more complex picture, both of the British 'model' and of the prospects for economic reform in Europe more broadly.

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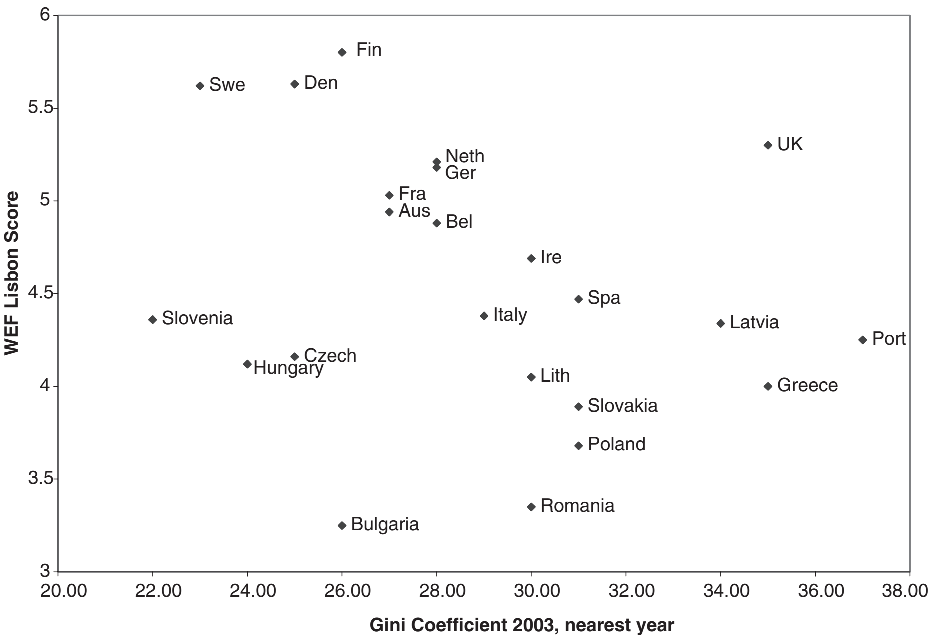
Figure 4: Competitiveness and Income Inequality in Europe



3. New Labour and the Future of the European Economy: Model or Counter-model?

Across Europe, many perceive Blair as the apotheosis of 'Anglo-Saxon' politics and economics—reflected in his slavish devotion to US foreign policy and his allegedly unapologetic advocacy of the 'market society'. And there is, of course, a strongly pro-market dimension to Tony Blair's political outlook—and indeed to the wider political and economic discourse of New Labour. At times, in setting out his attempt to lead Europe from the impasse created by the rejection of the European Constitution in the French and Dutch referenda, Blair restated New Labour tropes that may have reinforced his image as an unalloyed pro-market actor. He presented globalisation as an unavoidable constraint restricting and directing policy choice, arguing:

> if European nations ... decided to huddle together, hoping we can avoid globalisation, shrink away from confronting the changes around us, take refuge in the present policies of Europe as if by constantly repeating them, we would by the very act of repetition make them more relevant, then we risk failure. Failure on a grand, strategic, scale (Blair 2005, 2).

In the UK, such arguments pass almost without comment, and the few discordant voices in prominent positions in public life are generally dismissed as 'dinosaurs'.

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The dominant idiom of public debate in France is quite different. By the autumn even Nicolas Sarkozy, earlier an apparently trenchant advocate of market-oriented structural reform, had engaged in something of a *volte-face*. No doubt his shift in position was in part motivated to manoeuvre himself into position for the next French presidential election. Even so, it indicates the depth of anti-globalisation political sentiment in France. Sarkozy's analysis appears as a direct challenge to Blair when it claims that 'Europe must at last protect itself from globalisation. Europeans do not expect Europe to aggravate within our borders the globalisation that already confronts it from without' (cited in Thornhill, *Financial Times*, 7 October 2005, 6).

Tempting though it is to present these positions as eternal manifestations of the essential qualities of French and British political cultures, a closer reading of public discourses and the policy record in these two states delivers a more nuanced perspective. Ironically, Franco–British political disagreement and conflict may play a key role in pushing these two states into clichéd national positions, in the process sharply restricting the range of possible political choices. Here, we will concentrate on the British case, but France shows similar complexity, symbolised by Sarkozy himself. Although he may have changed his discourse somewhat now, until recently Sarkozy was a forceful advocate of market-oriented economic reform. Yet, in a manner that is difficult to reconcile with the conventional image of French political culture, his political economy approach did not seem to damage Sarkozy's considerable political popularity.

Conceiving of New Labour as essentially neo-liberal is hardly confined to non-Anglophone Europe; it is arguably also the dominant strand in analysis of the domestic record of the Blair governments. In a particularly fluent account, Colin Hay has identified very significant continuities in both the economic and social dimensions of the New Labour 'project' from the earlier period of Conservative government (1999). Scholarly analyses that identify 'Blairism' as a novel social democratic political programme are relatively thin on the ground. While its star has waned somewhat, pro-Blair analysis (including the once-influential 'Third Way' formulation, see Giddens 1998) tends to occupy the less scholarly public space defined by think tanks and journalistic commentators. Even so, rather than offering an unequivocally positive evaluation of New Labour, those who contest the neo-liberal characterisation of this government generally suggest that its record is mixed (see Lewis 2005 for a particularly clear statement). The Institute for Public Policy Research (IPPR), arguably the centre-left think tank that has had most influence on New Labour, argues that the Blair governments have laid some foundations for a fundamental transformation of the UK from the neo-liberal, characteristically 'Anglo-Saxon' regime inherited from the Conservatives, into a novel hybrid 'Anglo-Social' model (Pearce and Paxton 2005). Its advocates claim that the 'Anglo-Social' approach combines the 'Anglo' economic efficiency of the US with the Nordic countries' emphasis on social equity. Significantly, they lay more emphasis on the social than the economic side, appearing almost to take British 'efficiency' largely for granted, and attempting to persuade sceptics that Labour has significant social achievements to its credit. But, the claim that New Labour has made a serious effort to address Britain's declining social cohesion will surprise many. Although this argument should not be overstated, a careful assess-

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ment of the Blair government's policies provides plenty of evidence of Labour's concern for combining economic efficiency with social objectives. Four areas—redistribution through the tax-benefit system, a minimum wage, sharp increases in public spending and a sustained expansion in Early Childhood Education and Care provision—seem particularly important in this assessment.

The Labour government has engaged in a much more extensive *redistribution* than is usually recognised, partly because it has done so *stealthily*. For example, HM Treasury calculates that changes to the tax-benefit system between 1996–1997 and 2003–2004 on average made a family with children £1,200 better off per annum, with families in the poorest fifth of the population enjoying twice that gain. This redistribution to families with children amounts to some £9 billion per annum, nearly 1 per cent of GDP (although independent analysis reduces the amount directly linked to children to £7.5 billion) (see the discussion in Hills 2003). Two aspects of this redistribution merit further comment. The first is the perplexing fact that Labour seems to have downplayed its redistributive successes. Geoff Mulgan, until recently a close adviser to Tony Blair, has recently been disarmingly frank on this point. He said that the Labour leadership judged 'over a number of years' that they should not be 'talking too much about redistribution'. The tactical justification for this silence is also revealing. Mulgan argued that emphasising redistribution draws it to the attention of middle-class swing voters and 'you therefore undermine your support' (2005). Equally, New Labour assumed that those who benefited from the redistribution would credit the government for the improvement in their situation. Mulgan now accepts that this assumption has proven misplaced (ibid.). As the government decided not to claim political credit for these policies, it has not reaped the expected electoral reward from those who *have* benefited from them. There is a deeper flaw in this tactical logic. The rationale for much of this redistribution is distinctive and potentially morally engaging. Particularly when cast in terms of supporting children, it is one to which many, though not all, people would subscribe. But, Labour ambivalence about making these arguments undercuts their ability to construct this potential constituency. The second comment partly follows on from this first set of observations and concerns the political sustainability of redistribution through the tax system. Experience elsewhere suggests that policies of this sort are difficult to entrench; an incoming Conservative government might find it relatively easy to alter the system so as to make it less redistributive.

The Minimum Wage requires relatively little comment, except to say that when first introduced in 1999 it was set at a rate sufficiently low to have relatively little impact (adult rate £3.60 per hour). It was then increased roughly at the rate of earnings growth until October 2002, when it reached £4.20. But, between 2002 and 2004 the level was reviewed and increased dramatically, faster than average earnings, to £4.85 by October 2004, and £5.05 in 2005 (a 15.5 per cent increase while average earnings rose by 8 per cent). Current plans envisage a further rise to £5.35 by October 2006—prompting complaints from organised business.

After an initial period when they stuck to Conservative spending plans, Labour has *increased public spending* on key services in a sustained and substantial manner. Just as under the Conservatives the level of spending had sunk unusually low by

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European standards, Labour's rate of increase in recent years is unmatched across Western Europe. Despite historically low inflation, nominal increases in health spending have been spectacular. NHS spending doubled from £33 billion in 1997 to £67 billion in 2004, and the projected increase to 2008 will take the annual spend to £106 billion. Education has enjoyed similar growth, from £38 billion in 1997 to a projected £76 billion in 2008 (figures from Lewis 2005 and Gamble 2004).

For proponents of the 'Anglo-Social' model Early Childhood Education and Care (ECEC) provision stands out as a key Labour policy innovation.

> Embedding entitlements to childcare and early years education in a high-quality, publicly regulated and comprehensive service should form the centrepiece of progressive institution-building in the early 21st century, just as the NHS did in the immediate post-war period (Pearce and Paxton 2005, xxi).

Long a notorious laggard in this area of policy, Labour has made ECEC a 'national' policy priority for the first time, and has channelled considerable political energy into it, culminating in a commitment made during the 2005 election campaign to move towards a 'universal' entitlement in this area. The 1998 National Childcare Strategy committed the government to free, part-time early years education places for all four-year-olds (achieved by the end of 2000), and subsequently three-year-olds (achieved in 2004), with a further commitment in 2001 to add 1.6 million new childcare places. In 2004, the Treasury's 10-year strategy for childcare made further commitments to provide 15 hours per week free early years education for 3- and 4-year-olds, and to increase the amount of money available for buying childcare via the working tax credit.

As an empirical description of the current social, political and economic situation in Britain, the 'Anglo-Social' model is premature, to say the very least, and as a product of the IPPR, it is probably better understood primarily as a political intervention. As such, it could be seen as an attempt to manufacture a *practical ideal* or *aspiration* towards which the wider centre left in Britain could direct its energy. In this context, the argument made by the IPPR that achieving social justice within an 'Anglo-Social' Britain would require an increase in direct taxation for those with higher-level incomes is significant. Despite Labour's undoubted but unpublicised redistributive efforts, the evidence is that income inequality in Britain—already the highest of any advanced European economy in 1997—has continued to edge upward, in large part because of rapid income growth among high earners (Brewer et al. 2005). Be that as it may, our point here is that Labour already has significant social achievements to its credit that do not appear to be widely recognised elsewhere in Europe, not least because neither Blair nor Brown trumpet this aspect of their record. Although it is an exaggeration, some truth remains in the suggestion that while many on the continental left (in this case the former French prime minister Lionel Jospin) 'talked left and acted right; with Blair it is the other way round' (*Observer*, 9 October 2005, 25).

This more progressive interpretation of the British New Labour project has important implications for the Europe-wide debate on the perils and possibilities of eco-

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nomic reform. If even the worst-case scenario of economic reform turned out to be more benign than is generally perceived, then the prospects for persuading reluctant European electorates to address the causes of economic stagnation would improve. Indeed, Blair's initial move as EU president—his speech to the European Parliament in June 2005—was an attempt to articulate the compatibility of economic and social objectives. In addition to setting out an argument for economic reform, Blair argued: 'I believe in Europe with a strong and caring social dimension. I would never accept a Europe that was simply an economic market' (Blair 2005, 1). He also stated his credentials as 'a passionate pro-European' and emphasised that he 'believed in Europe as a political project'. The speech was initially well received, and many MEPs seemed surprised that Blair was able to articulate these sentiments, confirming that Labour has been all too successful in concealing the nature and extent of its social agenda.

Encouraged by its positive reception, New Labour European strategists may have hoped that this speech heralded a dynamic and productive UK European presidency. If so, they will have been sadly disappointed. Through the summer presidency preparations and negotiations stuttered; by the autumn they had stalled (*Financial Times*, 7 October 2005, 1), blocked by a mutually reinforcing suspicion between 'continental' and 'Anglo-Saxon' visions of society and economy. Britain and France seem to stand as symbols of the poles of this contest, embodied in the hostile relationship between Tony Blair and Jacques Chirac. This mutual suspicion is well established. Nevertheless, it seemed to deepen during the first months of the British presidency. If Chirac had been attempting to mobilise support for the European Constitution by attacking 'ultra-liberal Anglo-Saxons' during the French referendum, by the autumn Sarkozy, long hailed as the champion of liberal economic reform in France, seemed to be adopting a similar position, as his earlier-cited argument about Europe protecting itself from globalisation indicates.

Equally, Blair himself seemed to shift ground in the course of the UK presidency. His June speech to the European Parliament echoed the original Lisbon agenda—in which economic reform (especially oriented towards developing the new 'knowledge economy' was balanced with a renewed commitment to a (modernised) 'European Social Model' (Blair 2005). By the autumn Blair's position appeared much more one-sided, with Lisbon depicted as an 'agenda for increasing the EU's competitiveness' (*Financial Times*, 7 October 2005, 1). Of course, Blair's stated commitment to a 'social dimension' to Europe in June may have been little more than window dressing; an attempt to seduce other Europeans into a Blairite economic reform camp. However, as we have seen, his government's domestic policies have been consistent with this discourse.

The changing rhythms of domestic politics no doubt play an important role in EU leaders' strategic interactions. Sarkozy's repositioning is certainly in anticipation of the next French presidential election. In Britain the notoriously tense relationship between Blair and Brown involved competition to the left during the pre-election period as the prime minister and chancellor sought to outdo one another in proving their commitment to public services including ECEC. Since the election, with attention focused increasingly sharply on when Blair will stand down, the competition

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seems to have shifted to the right. Freed from electoral constraints Blair is contemplating more radical reforms about which Labour's traditional supporters seem uncertain, while Brown has played up his 'New Labour' credentials, perhaps to reassure Blair that this legacy is safe in his hands. Nevertheless, we argue that the European debate is itself having an impact. As they cross swords about the future of Europe, Blair and Chirac seem to be turning into parodies of themselves, into British and French political clichés. Both may be doing so deliberately: Chirac in a desperate attempt to divert attention from his own political failings during the dog days of his presidency; Blair making neo-liberal noises to head off opposition from the right, and perhaps to constrain the range of options open to his likely successor and rival Brown. At least in the British case, the consequences of this European political 'debate' have a more tragic air about them. As Blair drives himself ever further into the arms of business-oriented economic reformers, he marginalises and undercuts the real but fragile possibilities for a more social-democratic politics within British domestic politics.

And, there is one final irony here: the least convincing and most hubristic aspect of the Anglo-Social model is its claim to combine Anglo-American economic efficiency with Nordic social equity. We have shown that the UK remains an unusually unequal society by general European (never mind Nordic) standards; nevertheless Labour has made substantial steps in the social direction. But, it is on the economic side, where 'Anglo-Social' advocates appear simply to assume that Labour's record is exemplary, that the deeper difficulties may lie. While Labour does have a strong record of sustaining and stabilising economic growth, as Hay (2005) and others argue, this growth has been largely based on consumer confidence, growth in house prices and rising levels of personal indebtedness. In this sense, the economic model is highly vulnerable and all too Anglo-American. And, our analysis has shown that as well as their unmatched record in social terms, the Nordic countries themselves also show exemplary economic performance—arguably based on firmer economic fundamentals. Perhaps Britain should also be aspiring to Nordic economic efficiency. Moreover, given that the Nordic countries seem to be (re)appearing as desirable socioeconomic models in many other national contexts across Europe (for a French example see *Le Monde*, 20 June 2005), rather than holding Britain up as a model for Europe, a smarter strategy from the British presidency might have been to focus attention on Sweden, Finland and Denmark.

4. Conclusions: Models, Hybridity and Europe's Reform Prospects

Evidence of comparative performance in relation to the Lisbon objectives strongly suggests that equity and efficiency, or liberalisation and the welfare state, are not mutually exclusive but may actually support one another. Moreover, the social record of the Labour government in the United Kingdom, the highest-profile sponsor of the Lisbon agenda, is far less dismal than widely believed. But, while these findings help to vindicate Lisbon's overarching *objectives* at least one knotty problem remains: does the Open Method of Co-ordination make a difference? Does it help those countries that appear poorly placed to address either economic or

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social challenges and, in particular, those that face both together? Our general answer to this question will be somewhat negative, especially for countries that fall into the latter category. But, this pessimism is somewhat mitigated by reconsidering the conventional wisdom that welfare states are locked in to monolithic regime types.

If the analysis developed here shows that some—particularly Nordic—states have found a mix of economic and social policy that is both reasonably equitable and economically efficient, it also indicates that other countries are performing poorly on both dimensions. Within Western Europe performance seems to run broadly from north to south, with some states in the middle performing moderately well. The key point is that some southern countries seem to perform badly on both the economic and social dimensions. The irony here is that the *same* statist features that ossify the economy, making adjustment to new economic opportunities slow, may *also* fail to ameliorate—and even exacerbate—social inequality.

Some analysts detect an opportunity for economic and welfare reform to reap big gains in these states. Perhaps most optimistic is Jonah Levy's analysis of how the continental 'vices' of rigid and often anti-egalitarian welfare provisions might be reformed in ways that both reduce the aggregate weight of social policies in the economy and deliver more egalitarian outcomes (Levy 1999). But, large though these potential gains may be, they depend on generating and maintaining political will for reform. Although such reforms might be possible in principle, in practice they are likely to involve taking on relatively powerful and politically well-entrenched groups in order to introduce reforms for the benefit of the weak and disorganised.

Even so, it is misleading to assume that these states—or any states—are wholly impossible to reform. Here, scholarly analyses may have had a debilitating impact on practical politics. The widespread assumption that welfare capitalism comes in three or four internally coherent and distinct types suggests that countries are locked in to their existing regime types. As conceptual abstractions these types are of tremendous analytical value: Esping-Andersen's work has made old-style single country 'social administration' impossible and contributed to a flowering of interdisciplinary comparative analysis of the welfare state. Nevertheless, these abstractions become misleading, and potentially politically dangerous, if they are treated as adequate descriptions of the complex and contradictory reality of 'actually existing' welfare states. It is no accident that where discourses of hybridity are most clearly evident, these countries have been best placed to embark on novel reform programmes. And, given the complexity and diversity of the social legacies of the new member states, the openness that 'hybridity' allows may become even more important.

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Notes

1. Although the report claims that the 'specific hard and Survey data, as well as the relative weights used in the calculation of the Lisbon scores, are available on request', when the authors requested this information we were informed that WEF policy was not to disclose this information. Although the WEF is an independent NGO, which proudly declaims its lack of partisan or political ties, its choice of a measure of social inclusion is revealing. This measure, which focuses on such things as levels of higher education participation, actually ranks the US as a highly 'inclusive' political society.
2. Botero et al. (2004). Unfortunately, the latest publicly available data from this source refers to the late 1990s, before the Lisbon reform process was under way (although after the European Employment Strategy has been set in train). We were primarily interested in the relative assessment of the various countries concerned and we are reasonably confident that in this respect the data retain some value: enough to justify their inclusion here, rather than simply ignoring this important dimension of comparative political economy. The lack of fully up-to-date data has contributed to our reluctance to make strong causal claims on the basis of this evidence. Nonetheless, we believe that these data have an important illustrative role, helping to counterbalance orthodox claims.
3. We calculated a combined measure by adding standardised versions of the two distinct variables.
4. For an analysis of the trade-off argument, see Hopkin and Blyth (2004).
5. We also prepared a graph using the income quintile share ratio as an index of inequality. The resulting pattern was broadly similar to the one reported here.

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