

UK: Shipwreck of the Third Way: Tony Blair, New Labour and Inequality

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Phil Hearse writes: As a general election approaches, especially one which might lead to a Johnson or Johnson-Farage government, (and, less likely, a Corbyn government) the record of the last Labour government is bound to come up. As memories fade, rose-tinted spectacles can be deliberately deployed to airbrush past realities. At the end of June, Tony Blair took to twitter to attack Jeremy Corbyn's speech which proposed Labour's objective should be equality and not 'social mobility'. Blair took issue with Corbyn's claim that for decades governments had resisted the objective of equality. Speaking at the Nation Education Union conference, Corbyn had said:

"For decades we've been told that inequality doesn't matter because the education system will allow talented and hard-working people to succeed whatever their background...For 30 years, the media and the establishment tried to tell us that class doesn't matter any more and that we should ditch any idea of representing and advancing the interests of the working class."

This, according to Blair, implied the view that:

"In other words, Thatcher Government, last Labour Government, 10 years of Tory austerity. It's all the same. All one unbroken line. All one policy. All one ideology. This is bad politics and worse history - and it is time to set the record straight...We made the UK more equal, more fair and more socially mobile. And we never, ever said inequality didn't matter or that tackling it was not a priority of the Government."

The alleged Blairite focus on equality would have come as a shock to Peter Mandelson, one of the key architects of New Labour, because it was Mandelson who while a cabinet minister explained he was 'intensely relaxed' about some people being filthy rich - provided they paid their taxes. (BTW: the filthy rich always avoid paying taxes).

But Blair was right about one thing: New Labour was not Thatcher, and New Labour's descendants are not Boris Johnson. And Corbyn didn't say they were. But New Labour shared (and shares) key essentials of Thatcherism, especially faith in market solutions and privatisation.

Blair's government maintained harsh anti-union laws that made effective trade union action difficult. It deepened Thatcher's adherence to labour 'flexibility'; it kept her policy of starving local government finances; it continued the policy of rock bottom welfare payments and harsh penalties for claimants, including disabled people.

Most of all, despite several initiatives to help the poorest in society, it failed to take the kind of measures needed to make any significant dent in Britain's status as one of the most unequal advanced capitalist economies. Which is why the few significant measures to help the most disadvantaged were so quickly overthrown by the post-2010 Tory-Liberal coalition government.

As we argue below, Blair's government fully signed up to a low-wage economy which forced many working-class people to depend on consumer debt to finance their daily lives – which of course contributed to the dreadful outcome of the 2007-8 financial crash. The cost of daily life was massively inflated by the increasing reliance on the private rental sector for housing and the huge amounts of disposable income pumped out of working people by privatised utilities and transport networks. So let's look at the real record.

Gordon's Big Idea

New Labour Chancellor Gordon Brown had a central idea which he shared with Prime Minister Tony Blair. That was to allow the economy, especially financial services, to boom – as it turned out on a sea of debt. As the private sector blossomed it would create huge tax revenues, which it could then use to invest in schemes to help public services and the poor especially. Early on, Brown cut capital gains tax from 40% to 10%, as another gesture of good will towards business. The new government, Brown thought, could be business friendly and use private business to combat poverty. It was this philosophy that underlay the private finance initiatives (PFI) in key capital investments – the NHS, schools and transport. Although as a scheme to generate immediate cash to build infrastructure like new schools and hospitals it worked (for a time), in the long-term it failed to generate more equality. In 2007 economist Stewart Lansley commented:

“The strategy of indulging the rich while trying to tackle poverty does not square.” This is because, said Lansley, massive fortunes for rich people are usually accumulated at the expense of the rest of us. In fact, despite a whole series of measures to help the poorest, in the period prior to the 2008 crash -11 years of Labour government – inequality actually increased. In the first five years of New Labour government, the percentage of personal wealth owned by the richest 10% increased from 17% to 24%, and the percentage owned by the bottom 50% declined from 8% to 6% [\[1\]](#).

This trend towards increasing inequality occurred despite a raft of measures aimed at helping the poorest – Sure Start, Every Child Matters, the National Minimum Wage and above all tax credits, especially important for the working poor. How come these initiatives didn't impact on inequality? Overall these measures attempted to alleviate or reduce poverty, but could not impact on inequality – that would have required a much more decisive shift in wealth away from the rich towards workers. What New Labour gave with one hand, big business took back with the other. How come?

Low Wage Economy

The National Minimum Wage was first set (for 21-year olds and above) at £7.83 per hour. In April 2009 it was set at £8.21. This was not a living wage, and many people earning it were eligible for tax credits. What really happened was that many employers – the big supermarkets for example – took this allegedly minimum wage to be their normal rate for most of their non-supervisory staff. For most people earning the minimum wage, take home pay on 35 hours would be around £1140 a month, or about £265 a week. This was – and is today – poverty pay. It would be extremely difficult to find even a small flat for rent in any major city for that amount of money. If a single worker can't afford a roof over her head, plus money for food, transport and even an occasional drink in a pub, then they are not earning a minimally living wage. For single parents this type of income is catastrophic.

The second problem with the National Minimum Wage was its application. Inspection of employers was minimal, allowing whole sectors to evade it. The government of course knew this and tolerated it – particularly for the big farmers and gang masters who used dirt cheap immigrant workers to pick crops in East Anglia and elsewhere. Cheap labour was a decisive factor in keeping British labour 'flexible'. The solution of course was not, as some argued, to ban immigrant workers from the

EU and elsewhere, but to ensure that everyone was paid a living wage.

Brown reduced the minimum income tax rate from 20p in the pound to 10p in the pound, a measure he later abandoned. The maximum tax rate of 50% was lowered to apply to those earning £150,000 a year or more, but this too was later abandoned and the maximum rate reduced to 40%.

But the most important thing about tax credits was that they reduced the amount of tax workers would pay, but that move in itself could not transform a low wage into a liveable wage. But it did temporarily help many working families to just about keep their heads above water. The Tory replacement – Universal Credit – doesn't do that at all. Effectively though, tax credits were a subsidy paid to low-wage employers, shifting the burden of trying to sustain workers paid ridiculous wages to the state and the tax payer. The retail sector, fast food outlets, the care sector and many others all benefited from this huge subsidy, which would have been prevented by a living minimum wage and workable enforcement.

The aim of reducing low pay suffered two other problems. First was the increase in zero hours contracts, and the growing percentage of workers in part-time jobs. An increasing number of workers did not have a stable, relatively well-paid, full-time job, which deprived them of many benefits as well as pay.

Take for example holiday pay and pensions for zero hours, occasionally employed workers. EU directives meant workers in full-time jobs had the right to four weeks holiday. For casually employed workers, holiday rights accrued only after 13 weeks of continuous employment. Employers therefore often keep workers for 12 weeks, then make them redundant for a week, and then re-employ them. So, no holiday rights.

The EU moved against this to try to give all workers pro-rata holiday rights, but Labour resisted this. In 2002 the EU issued a directive compelling Britain to institute holiday rights for part-time and casually employed workers. Many companies responded by lowering the hourly rates to compensate for holiday pay. The workers paid for their own holiday pay, and New Labour tolerated this abuse. And of course these workers were not paid any form of occupational pension.

A classic example of the National Minimum Wage as poverty wages was (and is) care for the elderly. Many care homes charge residents £1000 a week or more for barely adequate care, while nearly all their workers are on the National Minimum Wage. Care companies providing in-home visits will typically employ workers on a 'labour only' contract system, require them to pay their own transport costs between visits, and pay them only for the time actually spend in houses. Often workers, then and now, had no new client to visit for several hours, but not enough time to go home in the break. So they hang around in cafes and libraries, suffering unpaid dead time. All this was part of the labour flexibility New Labour promoted.

Labour market 'flexibility' – a low-wage economy – goes hand-in-glove with squeezing welfare payments. For getting people into the low paid, part-time or zero-hours gig economy absolutely requires welfare payments not to be able to provide any type of liveable income. The desperate will take any work, albeit that there is poverty pay and dreadful conditions, when the alternative is to be sanctioned and have no income at all. This was the reality of the 'welfare to work' strategy, which from the very start of New Labour, stressed that getting people into paid work is the key way to end poverty. But outside of effective pay and employment guarantees, it just isn't. Labour's welfare to work approach was closely modelled on the US welfare 'reform' under Democratic President Bill Clinton, whose 1996 Personal Responsibility and Work Opportunity Act severely limited welfare payments, trying to force people off welfare and into any form of low-paid work.

Education, and social mobility

Nowhere was New Labour's confusion about social mobility and equality more visible than in education. New Labour perpetuated the delusion that by having a more skilled workforce, Britain would become richer and more socially mobile. This would be measured by targets, especially in the grades students achieved, but also in things like the number of people going to university. The means to achieve this were teachers' 'standards' imposed and policed by the regulator Ofsted, targets, so-called academies run by the private sector and including 'faith schools' and new school buildings mainly financed from the private sector. And increasingly schools and colleges would be responsible for their own budgets, rather than managed by local authorities.

What was imposed through Ofsted supervision of schools were ideas from American corporations, especially their human resources departments – especially the idea that everything can be measured. This included detailed prescription of the teaching methods that should be used, including near-impossible targets like ensuring a positive learning outcome for every student (in classes often 30+!), and personalised learning objectives, which meant different learning tasks for each student. It meant masses of detailed record keeping, so that above all a paper trail could evidence the 'value added' to each student. And this prioritised grade outcomes above all else. The targets and administration imposed by Ofsted demoralised schools and teachers, stunted real education and drove tens of thousands of teachers out of the profession.

New Labour had 203 privately-run academies in place by 2010. Aimed especially at giving a boost to Ofsted-type targets in disadvantaged areas, they signally failed to make substantial improvements and gobbled up a disproportionate amount of financial resources. Academies were wracked by a series of scandals as private capital grabbed government grants, in exchange for some vast salaries by managers, an over-reliance on temporary supply teachers, complete secrecy about how things were being managed, a refusal to recognise teaching unions, and poor exam results. An analysis by Sam Freeman found that six in ten academies resulted in worse exam results for students from disadvantaged backgrounds. Academies were another market-based failure by New Labour.

But the whole ideology of massive social change through education, although very attractive to many teachers, is false – or at least partially so. By every measure, the students who do best in the present education system are those from upper and middle-class families, especially those in private (so-called 'public') schools. Their families have more money and more cultural capital, with more books, museum visits and foreign holidays. Their schools have fewer very large classes, and in public schools the ratio is often one teacher for seven or eight students, and not one teacher for 30+. And the educational outcome is inevitably skewed by the class structure, as of course are the career outcomes. That is not to say that everything is set in stone and no students can break through. But on average, educational outcome reproduces the existing class structure. Individuals can be socially mobile, but whole classes cannot, without a frontal assault on inequality.

Continual change in education and the setting of new and more fiendish requirements by Ofsted reinforced the typical *Daily Mail* idea that the 'problem' in education was incompetent teachers, an idea seemingly recycled by New Labour education ministers from 1997-2010. It drove hundreds of thousands of teachers to despair.

The one really positive measure was the Education Maintenance Allowance of up to £30 a week, that financed teenagers from poor families to stay in education. That was quickly ditched by the Tory-Liberal coalition after 2010.

NHS market and PFI

In 1999 New Labour marked the start of a transition of the NHS from a public sector provider to include the private sector under the guise of choice and competition. The last Labour Government laid the groundwork for everything that the Tory-led coalition is now doing to the NHS. Market structures, foundation trusts, GP consortia and the introduction of private corporations into commissioning were all products of an ill-conceived Labour vision of 'public service reforms'. It would be tedious to relate all the changes, which closely parallel those carried out in education - bring in private money, create an 'internal market', create 'choice' by boosting the private sector and encouraging middle class users to gain advantage by 'going private'.

The shiny new hospitals are a testament to the way in which New Labour operated -using Private Finance Initiatives to raise huge amounts of money, at high interest rates, and repayable over many years. This debt mountain is a poisoned chalice that has a devastating effect on the public sector. According to the National Audit Office, the state will be forced to hand over nearly £200bn to contractors under private finance deals for at least 25 years. The NAO also found that the cost of many projects was up to 40% higher than if they had been funded by public investment. This is devastating for the NHS, many of whose trusts have to pay upwards of £3m a month to pay off the debt. PFI companies have made vast profits through the scheme and will continue to do so. The alternative would have been to raise taxes on the rich to provide public sector infrastructure renewal, something New Labour was never going to do. When the government announce 'there is no new money' for schools, hospitals and transport systems, bear in mind the totals that would have been available without PFI, based on higher taxation for the very rich.

New Labour and the Great Crash

The Conservatives and the Liberals who formed a coalition with them in 2010, have blamed Labour for the financial mess they inherited in coming to power, and the subsequent austerity they have imposed. At one level this is rubbish. An international banking collapse was hardly caused by New Labour.

And yet, there is a crucial aspect of the crash for which New Labour cannot be exonerated. New Labour under Blair and Brown enthusiastically championed a de-regulated financial sector, which engaged in a ferocious competitive battle to lend ever larger sums of money. This was promoted by a high price economy and an insane financial bubble as house prices shot up to astronomic levels. This was compounded by the finance sector using privatised utilities as a machine for pumping vast amounts of disposable income out of the working class, re-balancing the focus of exploitation towards consumption. In a society of great inequality with important layers of dire poverty, the result was always going to be the same - the use of credit to sustain living standards. The absurd spectacle of millions using their credit cards to buy food, pay rents and fund transport went alongside the growth of pay-day loan companies like Wonga, charging astronomic levels of interest.

The heartlands of the debt economy were the United States and Britain, because it is these countries that are the centres of neoliberalism and the world pioneers in privatisation. New Labour did nothing to stop it because its commitment to market solutions and the gig economy prevented it even trying. A deadly set of factors emerged that included the growing gig economy and zero hours contracts, huge percentages of disposable income being hoovered up by finance capital, massive and for many unaffordable housing costs and - for sections of middle class and better off workers - a consumption boom focused on fashion, holidays, hi-tech gadgets, cars and restaurants and bars. Including vast production of material goods that were ecologically unsustainable.

This was an era of untold millions running harder and harder to stay where they were, and many millions falling into a poverty trap of debt and insecure employment. And the structure of this era was enforced by the harsh anti-union laws that made a collective working-class fightback very

difficult.

Cost of War

In 2000, Chancellor Gordon Brown got a massive £22.5bn windfall from the auction of 3G mobile networks, won by the likes of Vodafone, Orange and BT. By the end of the decade that sum, and probably more, had been wasted on Blair's wars in Iraq and Afghanistan. In his book *Investment in Blood* [2], former army officer Frank Ledwidge estimates the cost of these wars by 2013 to have been around £37.5bn, most of that spent before 2010. How many schools and hospitals could have been built with that money? How much social housing? How many more nurses and teachers employed?

If New Labour had really done something to overcome inequality, then it would show. It would show above all in the streets of the post-industrial towns in the North, in South Wales and the North East. But it doesn't. The areas and people 'left behind' by Margaret Thatcher were still left behind when Blair and Brown had gone.

Effectively this was the end of so-called 'third way' theories, enthusiastically promoted by Blair's favourite sociologist Anthony Giddens. The idea here was that a middle way could be found between the dominance of the market, and socialist planning. Under Blair, the third way remained ever elusive. Repeated attempts to bring it to life, carried out by an army of educational and health bureaucrats, armed with a mountain of targets and cleverly named projects, failed miserably.

The guilty not-so-secret of the third way was that it was really the market, dressed up to look like something else. And it could absolutely not do anything fundamental about inequality.

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<https://prruk.org/shipwreck-of-the-third-way-tony-blair-new-labour-and-inequality/>

Footnotes

[1] Stewart Lansley, 'Wealth', in *Closer to Equality?*, published by Compass, 2007, p 37.

Download available at

<https://www.bl.uk/collection-items/closer-to-equality-assessing-new-labours-record-on-equality-after-10-years-in-government>

[2] Frank Ledwidge, *Investment in Blood*, Yale University Press, 2013.