

Is New Labour's 'Third Way' New or Just Hot Air in Old Bottles?

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Preamble: This paper is presented and published in order to stimulate debate – and have feedback - on the various economic, political and social issues raised. Though the context is Britain, many of the issues raised are relevant for other countries. Readers are encouraged to circulate it among friends and colleagues who might have an interest and contribute to the debate.

Summary: The paper discusses the main aims and characteristics of the three Ways in British economics and politics: the First Way refers to the period from after WWII to the mid 1970s; the second Way refers to the Conservative Government period starting from 1979; and the Third Way to the New Labour Government period since 1997. These three Ways are considered in relation to their main characteristics, the policies of the relevant governments and the problems they have encountered. The New Labour policies are analysed in more details by reference to the case of the National Health Service. The reasons why the New Labour Way is different from the second Way as well as the problems it is facing are highlighted. A discussion of why New Labour has taken the Third Way route follows.

Key words: New Labour, Third way, Government policies, British economics

JEL: H11, H40

1. Introduction

The re-launch and revival of the British Labour Party as New Labour has gone hand-in-hand with the proposition that there is a 'Third Way' in economics and politics, that is a set of strategies and policies which differ substantially from the one followed in the post-WWII decades (the First Way) and from the one later followed by Margaret Thatcher (the Second Way)¹.

There are plenty of meaningless sound bites and of policy statements in the various manifestos of the Party but no clear statement of the essence of its phi-

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¹ See Grieve Smith (2001)

losophy or of the main aims of the so-called Third Way and of its differences from the two preceding 'Ways'². The aim of this paper is to bring out the essential features of the three Ways in relation to their aims and strategies and then to analyse the New Labour government policies in more detail. Mention will also be made of the problems that the three Ways have encountered or are encountering. The aims of the three 'Ways' are inferred from the actual policies and strategies and not from the declared oral or written pronouncement of politicians and electoral programmes. Politicians themselves and their ideologues tend to make high-sounding, empty or even obfuscating statements rather than be explicit about their aims and strategies; so we must infer their aims from 'what they do, not what they say'.

2. The 'First Way'

In the post-WWII there was a large consensus – which to some extent was cross parties – over the following *aims*:

- The economy was to be run under the capitalist mode.
- Industries which were both basic to the rest of the economy and unprofitable for the private sector would be nationalised and managed by the state sector. This would include also those services essential for the workforce to function effectively such as health and education³.
- The level of capacity utilization and employment to be kept high in the interest of both capital and labour.
- The balance of class forces to be kept at a level which would avoid social upheavals and industrial strife. The State would take a role in securing this.

There was a large degree of consensus about these aims, though, of course, disagreement erupted often enough on the distribution of the cake between capital and labour and on the specific policies to achieve the aims. Various policies were designed through the decades by successive governments to achieve these broad aims and in particular:

A series of tripartite arrangements – between business, trade unions and government - and the establishment of relevant institutions to achieve some balance of class forces and avoid strife. In some periods government intervention in this balance took the form of incomes policy.

² An insider view is given by Giddens (1998) and (2000). A critical contribution is given by Callinicos (2001).

³ The British tradition of elite private schools – the so-called 'public schools' - influential though it has been in public life, was never large enough to affect the training and education of the labour force at large.

Demand management using both monetary and fiscal levers in order to stabilise the economy and achieve some sort of equilibrium between the objectives of high levels of employment, low inflation and the country's external accounts.

There were *problems* with this 'First Way' and whatever consensus there was in the first couple of decades it broke down completely in the 1970s. High levels of employment had gradually led to a shift in the balance of class forces away from capital. Inflation rates escalated as a result of the stronger and better organised labour force as well as of exogenous forces such as the increase in oil prices under the OPEC cartel. Meanwhile the structure of the economy was becoming old and unable to compete with younger economies whose capacity had been completely built or re-built after the WWII. Both inflation and unemployment began to rise; the latter took a cyclical as well as a structural form. Whole industries became unviable as the economy struggled – and often failed - to get into new sectors. As industries became uncompetitive, balance of payments crises became a feature of the British economy.

3. The 'Second Way'

It is within this background that Margaret Thatcher took power in 1979. The *aims* of her government, partly openly announced and partly clearly implicit in her policies, can thus be stated.

- To shift the balance of class forces away from labour and thus reduce the bargaining power of trade unions on a long term basis if not permanently. Her policies were built on a fertile ground since the structural imbalances and changes in the economy were already operating against labour.
- To restore the profitability and competitiveness of capital.

The strategies followed to achieve these aims took a variety of forms. In particular the first aim was to be achieved via the following.

- High levels of unemployment and fears of losing one's job became a powerful disciplinary force for labour.
- Reshaping the context of Trade Unions power via legislation which included outlawing secondary strikes and restrictions on a variety of activities including picketing.
- The latter strategy went hand-in-hand with organisational fragmentation strategies for the labour force. By this I mean the strategies – followed by both private and public sector institutions - of outsourcing part of the production process; this caused the labour force previously all employed by the same company, to be divided into a myriad of sub-contractors. This fragmentation of labour led to greater difficulties for the organization of labour and its Trade Unions in the public and private sector in

both of which the strategy was used and indeed encouraged by the Government.

- Allowing and indeed often encouraging the worsening of working conditions and the casualisation of labour with a view to increase productivity and decrease the bargaining power of labour.

These strategies supported not only the first aim but also the second one because they were supposed to lead to lower labour costs and higher productivity levels. Moreover support for the second aim was also to be achieved via large privatisation programmes and generally via drastic reductions in areas of direct public involvement in the economy. The basic idea being that a cut in the production of goods and services by the state sector would generate investment opportunities for the private sector. Moreover, a smaller state sector would require lower levels of taxation leaving higher disposable incomes to individuals and firms. This would – allegedly – encourage people to work harder and firms to invest more.

The overall underlying assumptions of the ‘Second Way’ can thus be summarised. If the balance of class forces is shifted away from labour, the overall business climate as well as the costs of production will be more favourable to capital and will lead to investment particularly in new industries. Moreover, investment opportunities for the private sector will be created by reducing the provision of services by the state.

The ‘Second Way’ was not without *problems* for capital and the government let alone labour. The economy was in a very poor state for many years: high unemployment; poverty; begging in the streets, hitherto an unknown feature in post-WWII British society; the decline in levels of education and in the health of the labour force were undermining productivity let alone leading to a cohesive society, one to be proud of. Indeed Margaret Thatcher contempt for society was summarised by her well known 1987 statement: “There is no such thing as society. There are individual men and women, and there are families”⁴.

However, in a way the major problem was for capital itself. Though some investment opportunities were created and some foreign capital attracted in more deprived areas, the basic problem was that the shedding of activities by the state does not automatically create *profitable* investment opportunities. Most of the activities which were in public ownership by the 1970s had originally become so because they were not profitable under private ownership. They did not necessarily or not always become profitable when the Thatcher government privatised them. With every privatisation the City went into euphoria because immediately after each selling by the government the value of the company shot up with huge gains for the buyers and for the institutions involved in the deals; this is not sur-

⁴ Interview in *Woman’s Own*

prising given the fact that the public companies' assets were sold at grossly low prices. However, often the euphoria became short-lived as many companies faced difficulties and needed propping up with continuous handouts from the taxpayer; substantial amounts of these subsidies went to the shareholders and to increasingly demanding corporate managers.

4. The 'Third Way'.

Aims

New Labour swept in amidst an enthusiasm for political life which had not been seen in Britain for decades. The enthusiasm was mixed with high expectations about the changes which were to come for the economy and society after the previous bleak two decades.

The expectations were soon to be checked by the reality of a government that: put economic prudence and stability over fulfilment of pent up needs; put the financial expectations and interests of the higher echelons of society, the City, the big corporations – domestic and foreign – and the right wing press before those of the millions of people who voted it in; proved to be very aggressive in foreign policy and over enthusiastic for wars to achieve those aggressive aims; developed a very cavalier attitude towards democracy and accountability on the strength of a high parliamentary majority achieved, partly, through the specific British electoral system.

Many people on the Left have in the last few years tended to see the record of New Labour as no more than a continuation of Mrs Thatcher's policies of which Prime Minister Blair is known to be an admirer. However, even the most critical assessors of New Labour, will recognize that: (a) the economy has been run competently and with high levels of employment; (b) the last two years have seen a considerable increase in government expenditure in the public services particularly health; (c) the people at the bottom of society have been better provided than they had been for the previous two decades: street begging has become almost a thing of the past in the last few years.

These achievements are real and relevant; however, are they the crux of the differences between Thatcherism and Blair-Brown-ism? I think not and I will argue for this position in the rest of this paper which I now deliberately structure along the lines of the previous two, starting with the following *implicit aims of the New Labour Government*. They are aims springing from both the legitimization and accumulation function of the State.

- To keep the balance of class forces strongly in favour of capital along the trajectory mapped by the Thatcher government.
- To create opportunities for profitable investment by the private sector.

- To secure long term advantages for British capital abroad and lower the economic and political risk of access to primary resources and to investment opportunities.

These aims to be achieved while securing: a stable economy with high levels of employment and low inflation; and a stable social environment in which the bottom of society had a safety net to fall in.

Aim three, coupled with the specific ambitions of the PM, led to the illegal and aggressive war in Iraq whose consequences will be felt world wide for decades. This aim has clearly not been achieved and is very unlikely to be achieved; indeed a higher level of instability and increased risk for people and for investment in the Region has been created. But this topic is beyond the scope of the present paper.

Aim one was to be achieved by: keeping the Thatcher legislation on industrial relations and Trade Unions; taking a declared stance of hand-off in industrial relations on the part of the government; greatly increasing the scope for the fragmentation of labour and hence for the difficulties in its trade unions organization. The latter objective was achieved by: organizational fragmentation brought about by the outsourcing strategies imposed on the providers of public services over and above those implemented during the Thatcher years: increasingly the labour force finds itself working for many private companies rather than one single public employer. Moreover, many providers are increasingly foreign firms⁵ and this adds to the power of capital over labour because of the added difficulties of labour in dealing with a foreign employer.

To the fragmentation of labour created by the involvement of private providers within the public sector was added another type of fragmentation by New Labour: the encouragement – not always successful so far – for public sector institutions to ‘go it alone’ and operate individually and indeed in competition with other institutions not only in providing services but also in negotiating with their work force and setting contracts for their staff.

In the education sector, some university managers have indicated their desire to move in this direction. Moreover, the establishment of the so-called Academy Schools will create scope for local bargaining with education labour force at school level rather than centrally. In the health service the organisational fragmentation of the sector is leading in the same direction. Here are two examples on this trend. New Labour has established the formation of so-called Foundation Hospitals, that is hospitals with independent status free to conduct their own

⁵ The World Trade Organization (WTO) rules that once public services are run on a private basis – even partially – then foreign firms have the right to compete for provisions. The opening up of public services to foreign firms greatly helps the saturated US health industry; it also helps the British firms who use the developing expertise at home to branch out into new countries.

business including bargaining with their work force: once they are fully established, the health workers may be forced to enter into contractual arrangements with individual hospitals and not with a unified National Health service (NHS). A second example derives from legislation on Primary Care. From 2004 negotiations by General Practitioners (GPs) are to take place at the local level – with their local Primary Care Trust – rather than at the country's level with the Ministry of Health.

In essence the main aim of both Thatcher and Blair's governments was to support and strengthen capital via:

Positioning the balance of class force away from the power of labour and trade unions as much as possible

The penetration of capital into areas hitherto seen as the preserve of public provision

Some handing over of subsidies to private companies

As regards the first element New Labour endorsed Thatcher's policies and went much further in the labour fragmentation strategy. As regards the second element Thatcher and Blair strategies differ.

Key differences between the 'Second and Third Ways'.

Thatcher had served capital very well in her strategy to lower the resistance of labour and its trade unions and therefore to shift the balance of class forces away from labour. This she succeeded in doing. New Labour, as mentioned above, has happily embraced the newly established balance, was keen to continue her policies and went further into the fragmentation strategy to secure further shifts in favour of capital.

The Thatcher government initiated the outsourcing of non-core activities within the public sector as a whole and New Labour endorsed this move and went further along the same root. However, the major differences between Thatcher and New Labour were with regard to the provision of core activities in the public services sector.

The Thatcher government's ideological stance on the role of private enterprise versus governments led it to believe that, provided the state provision of services were cut, the private sector would step in and organise the provision of the services along market lines. This is fine in theory, but in practice, private capital would only invest in such provisions if there was the prospect of profitability. But such a prospect eluded many traditional public services. The demand for private health services or education cannot be met with production at *profitable levels* when the majority of the population cannot afford it. At the same time, these services are essential to the supply of an effective work force to the economy: they are services that are not only beneficial to the individual consumer/user, they generate enormous positive externalities whose effects spread throughout the economy and society.

Similarly, the privatization of transport does not secure profits to the rail companies unless massive state subsidies and high fares are introduced. This was indeed done. Transport services also produce strong externalities. Unreliable, unsafe and costly transport leads to disruption in the workplace as well as to demand for higher wages to meet the costs of getting into work. The use of cars as alternative means of transport causes congestion and pollution which generates well known health problems and high economic and social costs.

It is interesting to recall that Mrs Thatcher herself was apparently against the privatization of the railways. This was implemented by the Conservative Major government that followed her demise. Once the euphoria of the privatization gains by the stock exchange – caused by the underselling of State assets to the private sector as in other cases – had subsided, the huge problems of this sector began to unravel: poor service; high fares, low safety standards; application for ever increasing State subsidies. These problems eventually led to re-nationalization of Rail Track, the company which owns and manages the basic track infrastructure.

Moreover, high levels of unemployment – as in the Thatcher era - are not exactly conducive to high demand for most type of products whether traditionally provided by private enterprises or arising from privatized public services.

The key insights of New Labour were therefore the following:

A healthy economy running at high levels of employment can provide healthy demand and thus lead to profitable investment opportunities provided labour and its trade unions can be kept at bay.

The provision of public services by the private sector can become profitable only if the state guarantees demand and funding thus lowering the risk for the private investor. Moreover, even under such conditions, profitability may require state subsidies to the companies providing the services as became evident from the case of the British rail network.

The latter point led to a new element in New Labour's strategy compared to Thatcher's. The State should not cut public expenditure on the provision of public services; on the contrary it should increase it compatibly with 'prudent' financing. However, while funding the services out of tax revenue, the state should shed its direct provision which would increasingly be contracted out to private companies: this means effectively a regime of private production/provision in the context of social/public funding. Therefore, while the *strategy of full commercialization* of public services (private funding and private provision) by the Conservative Government failed the private sector which it was supposed to help and encourage, the *strategy of private provision with public funding* by New Labour is helping capital. This is because the former strategy leaves the consumer to pay for the services while in the latter strategy the consumer receives the services free and the taxpayer foots the bill. Under the 'Third Way' capital is secured low risk, high demand, high prices provision and thus

profitable investment. It is an irony that one of the traditional '*raison d'être*' of - and justification for - profits is the assumption that the entrepreneur runs risks when investing. Here the state is using taxpayer money to reduce substantially the risk while securing profits for the private sector.

This pattern can be seen in many provisions of public services from transport to health to education to Home Office ones under New Labour: the outsourcing has increasingly been extended from non-core – security, catering, IT provision and maintenance, catering, laundering and cleaning - to core activities. The mantra we hear over and over again by the PM and his ministerial entourage is that the investment expenditure the government is providing must be subject to 'modernisation'. If one scratches the sound bite surface, one sees that 'modernisation' means allowing in private companies to provide these services paid by the taxpayer and free at the point of delivery.

*The National Health Service (NHS): the main test case*⁶

The opportunities for involvement by the private sector in the provision of core activities in services such as Education or Home Office or Defence services are rather limited: most non-core services have been privatised; however, extending the process to the key service is more problematic because the opportunities for *profitable* involvement by the private sector are more limited: nonetheless some attempts are being made as follows. First, the privatization of non-core services has proceeded along the Thatcher route; second, during New Labour government the private sector has become very involved in the provision of infrastructure via the Private Finance Initiative (PFI) on which more below; third some opportunities for to the private sector to get a share of core business is given here and there: from the outsourcing of prison management to the proposal for State supported pupils to study at private schools – in Britain called 'Public' Schools - to proposals for the outsourcing of Probation Services by the Home Office, to the outsourcing of some Defence activities to private contractors.

However, it is within the NHS that the major scope for full private sector involvement in non-core activities, as well as in infrastructure and core services delivery has been spotted and is currently being implemented. There is not much more to add about the outsourcing of non-core activities. Except that some non-core activities such as laundering, cleaning and catering have a strong impact on the health and safety of patients thus affecting the quality and cost of health care.⁷

Let us look at the involvement by the private sector in the provision and management of the building infrastructure: the process is similar in several of

⁶ The main arguments in this sub-section are further developed in Ietto-Gillies (2006). An excellent source of the history of the NHS is Pollock (2004).

⁷ I owe this point to D.A. Gillies.

the public services institutions from health to schools to universities. The key development was the Private Finance Initiative (PFI) developed in 1992 by the Major government largely under pressure from an ailing construction industry. The scheme involves the public sector institution entering into a contract with a private sector consortium of construction and facilities management companies as well as banks, for the following services: raising funds and construction of buildings – hospitals, schools or universities. The buildings would then be leased to the public sector institutions by the consortium which would also provide some or all of the following: maintenance; security, cleaning etc. The contracts would last for an average of 30 years at the end of which, in most cases, the land and the building developed on it would belong to the private company/consortium. The public institution would pay: interest to the private banks for the funding; rent on the building; fees for the various services provided.

These payments are well above what would cost to produce the same infrastructure and services under public provision because: (a) borrowing on the private market is much more costly than if the government borrows; (b) to the cost of the various operations must be added the profits of the companies involved; (c) there are high administrative managerial and legal costs of dealing with the development and management of the contracts. The latter item of costs results in duplication across the NHS as a whole because the structure is now fragmented and each Trust is operating on its own and there is no central expertise to advise and help. Pollock (2004: 55-6) estimates that the costs of services PFI buildings are between two and three times higher than if the same building were built with funds borrowed by the government and the whole development were in-house rather than outsourced. The funds for these payments come from the annual allocation to the institution for the provision of its services: the higher costs means that cuts have to be made on the year to year provision of clinical services in the case of hospitals; in the case of universities it will result in lower staff/students ratios for years to come. The whole PFI system raises issues of intergenerational equity: we are forcing our children to go with poorer clinical services to pay for our current infrastructural expenses.

Nonetheless, it could be argued that having additional bed capacity is beneficial in a tight NHS and so is having better buildings for crumbling schools and universities. However, the capacity is often not additional but substitute and the extra cost often means that those NHS Trusts that want to own their new hospitals at the end of the period may have to knock down old decrepit structures and build new ones. However, because the latter is so expensive only smaller capacity can be afforded and the overall bed numbers is cut. Pollock (2004: 95) writes on the implementation of PFI by New Labour: “The result was an average reduction of 30 per cent in the number of beds and a 25 per cent reduction in budgets

for clinical staff during the five-year period between the signing of the contract and the opening of the new PFI hospital...”

A similar move on the provision of physical infrastructure is going on in the Primary Care part of the service. Since 2001 a PFI type of system is being implemented regarding the provision of GPs premises; private firms are being involved in the funding, constructing, leasing and managing GPs premises.

What about the involvement of the private sector in the provision of core health services? When New Labour came to power they were keen to point out that they were not just borrowing a scheme developed by the Major government: the PFI. They renamed it PPP (Private Public Partnership); this was a cosmetic exercise as regards the provision of infrastructure; however, though little noticed at the time, it signalled the intent to apply outsourcing strategies to a wider range of core services: the private sector from now on would provide public core services under the title of ‘strategic service delivery partnership’ (Pollock, 2004: 58).

There are three areas of health services where outsourcing is currently being implemented though they are at different levels of development: (i) hospital clinical services both diagnostic and consultants’ services; (ii) primary care services; and (iii) long term care for older people. As regards (i) the involvement of private surgery units for routine, low-risk operations has been widely publicized as has the use of foreign capacity with patients travelling to France or Germany to have their operations (paid for by the NHS).

As regards (ii), the traditional contract of GPs with the NHS is one of independent contractors not of salaried employees; this makes it very easy for other providers to come in and contract out of the NHS the care of thousands of patients – so much per patient and so much per specific service to the patient – and then run the Primary care Unit as a profitable venture: doctors and other health workers will then be employed at a salary that will leave a good surplus for the company. The entrance into the sector by private companies is proceeding at a fast pace, encouraged by the recent high settlements for payments to GPs. At the moment the Government through the PCTs is offering contracts to British and American companies; however, it is not difficult to see that in future some GPs may sell their practices to health care companies, particularly since they are now allowed to sell the practice ‘goodwill’.

One point to note is the fact that it appears that the private providers of primary care are intending to run the practices with a much higher ratio of nurses to doctors than in current GPs practices: John Carvel in *The Guardian* of May 25th 2006 reports a total of three GPs and seven nurses to run a practice of 7000 patients in East London. This ratio is consistent with those in two other areas of full private involvement in primary care: NHS Direct and NHS walk-in centres (Pollock, 2004: 144-5).

As for (iii) the privatization of care for the elderly had proceeded very fast under Thatcher; New Labour was happy to keep it in private management and to dilute regulation in spite of some negative high-profile cases. Indeed New Labour has increased the scope for the involvement by private providers of nursing/care homes through the following. In order to free overstretched bed capacity (and, I think, also to generate further areas for profitable investment by the health care providers) the Department of Health has created an extra category of patients, those in need of 'intermediate care'. They are mainly the elderly people who occupy hospital beds though their acute clinical needs are over – or cannot be met; they still need nursing and care and this is to be provided by privately run nursing homes at the state's expenses.

Moreover, the taxpayer is made to contribute to the private sector also in a more direct way: through subsidies. The annual subsidies to the private Rail operators have so far been much higher than anything ever received by sector when it was publicly-owned. Not all hand out are easy to unravel and disclose. ITV plc Annual report indicates that the company had an increase in pre-tax profit of £143m for 2005 (p.39); where does this money come from? Courtesy and generosity of the Culture Minister who cut the licence fee from 207m to 75m (p. 24); what did the company do with this nice hand out? The dividends increased by 30% (p. 16).

It is often thought that the 'Second' and 'Third' 'Ways' are much the same in relation to public services because in both strategies the private sector is involved. However, there are substantial differences. The general thrust and the essence of Thatcher's support for the market system in relation to services previously provided by the state was to cut public expenditure and State involvement in them and encourage the full '*commercialisation*' of the services. This would lead to a US type of health care in which private provision is funded via private insurances. New Labour's strategy is to increase government expenditure in the services while outsourcing their provision to the private sector; in other words it is a form of *state sponsored private provision of services*, in which private provision is encouraged and supported by social funding via compulsory National Insurance contributions.

The Blair government repeats almost daily the mantra that the NHS is not being privatized because services will be 'free' for the patient. This is another case of deliberate obfuscation: they are using the possible confusion between funding versus provision: only the first one is public in the Third Way; the production/provision is becoming more and more privatized.

5. The 'Third Way': problems unravelling.

Blair's so called 'modernization' programme for the public sector and public services has generated much discontent in spite of large amount of funds made

available by the Chancellor in the last couple of years. Why? Surely, we should welcome a government that provides public services free for the user and increases expenditure on them. Are we just whingeing or is something wrong? If so are the problems related to issue of competence in managing change or is there something more fundamentally wrong with the whole concept?

Undoubtedly there may be problems with managing changes and the more so when the changes are non-stop and do not carry with them the goodwill of the staff who are involved in these changes. However, I think that there is a fundamental problem in the 'modernizing' changes that have been imposed on the public services that make the current problems inevitable and indeed will lead to further problems in the future well after Blair and Brown are out of the political scene.

The problems can be seen in terms of the following: *costs; complexity and disintegration; quantity and quality of provisions; social cohesion.*

Costs

The PFI system is much more costly than if the funds were borrowed by the government and the capital expenditure for the buildings managed by the NHS or Universities or Education authorities for the following reasons: (a) Private sector borrowing carries higher interest rates than public sector one; (b) The private consortia charge profits for their shareholders on top of the actual cost; (c) These project involve a tremendous amount of expenditure on financial and management consultancy as well as on lawyers to draw contracts and handle inevitable litigations. The latter costs are further compounded by the fact that each Health/Education Authority or University has to have its own 'experts' because the centralized expertise that existed pre-Thatcher has been disbanded. The systems have been decentralized and institutions of the public sector have indeed been and are encouraged to compete with each other.

In relation to core services one opponent of the reforms, Frank Dobson - the former Health Secretary under Blair - writes in an article in *The Guardian* of 1st July 2006: "The private diagnostic and treatment centres are being paid on average 11% more per operation than NHS hospitals" and later "Commercialisation has already doubled the administrative costs of the NHS - only 4% under the old system".

Simon Jenkins in *The Guardian* May 24th 2006 expresses the frustration of much media in stronger terms that I have seen elsewhere. He writes; "The Treasury handling of privatisation will, I believe, one day seem not far removed from what happened at Enron. Brown's aids have encouraged public services, especially health education and transport to indulge in extravagant private borrowing from their associates in the City, enabling ministers to boost their 'share prices' and leaving future taxpayers to pay inflated bills. The new £1bn super-

hospitals will each carry a cash burden of over £100m in profit and debt payments before caring for one patient. This is way above the cost of public loans. Little known firms such as Capita, Atkins, Serco and Carillon have grown rich on these contracts. Capita lent Blair £1m for his campaign last year after its turnover from public contracts increased in seven years from £112m to £1.4bn.”

It is often argued that any extra expenditure of private provision is more than counterbalanced by increased efficiency. There is, in fact, not much evidence that the private sector is better at running public services (Florio, 2004). Any productivity gains tend to be short term and are related to cut in staffing and or/use of poorly qualified staff which creates problems for quality and social cohesion. Moreover, we should take note of the inefficiency of the most privatised health care system on both the funding and provision sides: the US system.

We do not have official statistics on the provision side but we know that the US has the lowest percentage of public expenditure in relation to total health care expenditure among all OECD countries: in 2004 it was 44.7%. It also has the highest health expenditure as a percentage of GDP (15.3%) and the highest expenditure per capita (\$6102). To this huge expenditure corresponds poor performance as evidenced by relatively low values of life expectancy (76.8 years) and high ratios of infant mortality (6.9 per 1000 live births). Most developed countries have life expectancy between 78 and 80 and infant mortality of between 3 and 4 (OECD, 2006).

Complexity and disintegration.

The last point on costs deals naturally to the issue of complexity: a myriad of companies, contracts, consultants, experts and lawyers are involved in the whole process: contracting and outsourcing require a whole new layer of bureaucracy in both the public and private sector. The transaction costs of all this is difficult to assess but it must be very large indeed. Apparently the contracts between London Transport and the private companies to which the services have been contracted out run into millions of pages. Moreover, the disintegration of the NHS into separate institution encouraged to compete rather than cooperate require that each keeps their own complement of ‘experts’ thus leading to duplication across the health system as a whole.

Moreover, the disintegration of services leads to safety issues in both transport and health services because each private company will try to shift the burden of safety measures on to others.

Quantity of services and capacity.

The government insists that once the public services institutions have been allocated the funds it is their responsibility to see that their budgets are balanced. Institutions do not have a choice as to how their services are run in terms of in-

volvement by the private sector; they have to go along with the so-called 'modernization' programme or face lack of funding and eventually closure. However, the 'modernization' programmes are very costly as mentioned above. Where does the money come from? The institutions of the public sector – Universities or Hospitals or Schools – have to pay the PFI charges out of their annual funding and the extra costs imposed on them can only come at the expense of their core services such as clinical services in the NHS. This is most evident in the NHS where huge injections of funds are not leading to the expected improvements in services or to increase in the number of available beds. Sir Ian Carruthers, acting chief executive of the NHS is reported in *The Guardian* (14th June 2006: p. 4) as saying that cut in hospital services are very likely and possibly even closure of whole hospitals.

As regards capacity, the decrease in the number of hospital beds brought about by the high costs of building and managing new hospitals under PFI has already been mentioned. Moreover, in many cases private involvement in the provision of services cannot increase capacity because the staff working in the private sector comes from the NHS. In some cases staff come from foreign countries; however, it is difficult to be proud of poaching staff from countries whose health service can hardly afford to lose them and whose educational resources have paid for their training.

Quality of services and safety.

The private sector aim in production is and must be: profit. This aim often stands in the way of the quality of services provided or of safety. The UK railways have had a record of several serious accidents since privatization; hospitals' cleaning standard deteriorate with huge costs to the patients who may suffer the health consequences of problems such as MRSA with high costs for society and the NHS who have to pick up the consequences; meals provided in schools or hospitals becomes substandard: Pollock (2004: 38) reports that: '...10 per cent of seriously ill patients were found to have suffered malnutrition while they were in hospital.' She thus concludes on the effects of the marketisation of NHS hospitals: "Some of the signs are all too clear, even if the root cause is usually officially denied – new PFI hospital buildings with too few beds and too few staff to cope with demand; outsourced meals too unappetising to eat; substandard cleaning or sterilisation of equipment by underpaid outsourced workers, contributing to the raise of dangerous infections; medical accidents due to faulty work by private pathology labs." (79-80).

Erosion of social cohesion.

The erosion comes about largely in the following ways. First because the outsourcing and generally the involvement of the private sector in the provision of

public services fragments the labour force involved in the services. In the NHS workers employed by the Health Trusts – usually health workers – operate alongside private agency workers and private companies workers. The organizational fragmentation of the sector leads to a fragmentation of the work force with loss of morale and indeed with loss of bargaining power. Pollock (2004: 113) writes: “Outsourcing has changed relationships inside the hospital, creating a new kind of ‘social apartheid’. Outsourced workers on lower pay and worse conditions of employment struggle to meet their supervisors’ demands, while working alongside NHS staff with higher pay and status who do not always respect them”.

Social cohesion is also being undermined in the health sector because well paid powerful GPs partners or hospital consultants work alongside under paid nurses who work hard to deliver the targets and points leading to the high remuneration of doctors.

In addition, the decentralization and competition drive between various Health Trusts or hospitals leads to a further fragmentation: institutions are encouraged to compete and eventually set their own salaries independently of other institutions. Erosion of social cohesion comes about also because the decentralization leads to inequality of provision by geography; moreover further inequalities are introduced because the long term care services – such as services for the elderly have now been almost completely outsourced and many old and disabled people are left at the mercy of for-profit care providers.

Moreover, a third very pernicious element of erosion of social cohesion and indeed addition to social problems come via the ‘modernizing’ prescriptions for schools. The British school system always had elements of elitism and class divide; however, the Blair government is greatly adding to those elements - partly for ideological reasons - by; (a) encouraging Faith Schools which separate children along lines set by their parents’ religion; and (b) moving towards a system that encourages selection which is likely to result into the educational ghettoization of children from the worse off families.

In spite of government’s utterances, many parents are unimpressed with the existing Academy Schools and others are mounting legal opposition to the establishment of new ones as reported in a special Report on Academies in the *Education Guardian* of 13th June 2006.

These elements of erosion of social cohesion must be seen also in the context of ongoing changes in the distribution of income and wealth in favour of the rich and very rich. Pro business policies including cuts in income and corporation tax rates coupled with increases in indirect taxation have led to overall regressive taxation and to considerable shift in the distribution of income and wealth in favour of high income and high wealth groups in society. Tony Atkinson, at a lecture at La Sapienza University, Rome (2006) gave comparisons for the Gini coefficient of inequality between 23 developed or intermediate coun-

tries. It shows that around the year 2000 the within-country inequality in income distribution was highest in: Mexico (where the coefficient was almost 50%), Russia, USA, Estonia, Israel, UK and Italy). As regards the UK, the presentation gives further details that show that the Gini coefficient has increased from around 26% in 1977 to over 35% in 1990 with a slight decline to around 33% in the mid-1990s and a slight increase after that to reach the previous level of around 36% in 2000.

Atkinson (2003) traces the secular trend in the incomes of the top 1% UK earners during the XXth century. Fig 2:36 shows that the share of the top 1% declined steadily from after WWII to 1979 and then increased steadily during the Conservative and New Labour governments. The UK trend in the last 25 years is similar to that in the US – though the two shares in 2000 are respectively 13 and 17 percent - but not to that of France where the share has remained fairly constant throughout the period. He concludes that as regards the UK “..the shares of top incomes are now broadly back where they were at the end of the Second World War. The last quarter of a century saw an almost complete reversal of the decline in observed inequality at the top that had taken place in the preceding twenty-five years” (p. 22-3). Callinicos (2001) also reports that inequality has widened under New Labour. He writes: “... during Blair government’s first two years in office...The richest 10 per cent of the population saw their income rise by 7.1 per cent, compared to only 1.9 per cent for that of the poorest 10 per cent.” (p. 52).

He thinks that the responsibility for such trends under New Labour lies largely with the “...shifting the fiscal burden from direct to indirect taxation” (p. 53) started under the Thatcher government and continued under Blair-Brown. This strategy makes the overall system of taxation more regressive.

6. Summary and conclusions

The theme of the paper is set by the question in the title: is the Third Way just an ideological shell hiding essentially Thatcherite policies? Or is there something new and different to it? My answers to these questions are as follows.

Ideology does indeed play a strong role in Blair’s strategy; an even bigger role is played by obfuscating words and sound bites: ‘modernization’, ‘choice’, ‘equality of opportunities’, are just a few.

Some commentators are baffled by the fact that Brown – the man who loves prudence – backs a strategy that clearly wastes taxpayer’s money: is it possible that he is ill advised by consultants and civil servants too close to the private sector? Is he too much led by the ideology of Blair? Or is he fixated with keeping Public Sector Borrowing at low levels? In my view none of these are true. The sad truth is that the Blair-Brown project is about using State revenue and inter-

vention to create profit opportunities for the private sector and further shifts in the balance of class forces away from labour. To this grand design everything else is subordinated.

Thatcher's government faced the crisis of capitalism of the 1970s head on and with brutal strategies in which the main aim was to increase the viability of capitalism via: (a) a shift in the balance of class forces between labour and capital; and (b) widening the scope and opportunities for profitable activities. These two aims are shared by the Blair government. However, as regards the second strategy the Blair-Brown project realized that cutting public expenditure is not only difficult but may be counterproductive for capital. So, here comes the crux of the 'Third Way' which is the following: use of taxpayer's money to create profit generating opportunities by the State through the involvement of private companies as contractors to the public sector for the provision of services previously supplied by the State: essentially create a regime of social funding in the context of private production/provision. Moreover, 'modernization' strategies were also directed towards further inroads into (a), the disintegration of the institutional infrastructure with the – hidden – aim to fragment the labour force operating within the public services which traditionally had strong trade unions.

An added bonus of New Labour's strategy for capital is the fact that outsourcing, decentralization of provision, the institution of Foundation Hospitals and decentralised, competition-driven organizational structures for schools and universities, all contribute to the fragmentation of labour. There is organizational fragmentation because labour is employed by many different companies rather than a single institutions; geographical (by nation-state) fragmentation because the decentralization of responsibilities of single Health Trusts or University adds an element of difficulty for trade unions organization; inter-nationally because the outsourcing to foreign companies compounds the difficulties of organization by labour working in the same sector⁸. All this contributes to the shifting of the balance of class forces away from labour.

The implementation of the Blair-Brown project is currently under way and set to proceed much further. If things continue in their present course it is not difficult to see a time when most GPs practices are owned and run by large British and American private health companies and when much further inroads will be made into the privatization of hospital care.⁹ As regards Primary Care the scene has been set by the recent high pay settlements for the services of GPs' practices. It is worth remembering that the settlement is about the prices that the

⁸ See Letto-Gillies (2005), ch. 15.

⁹ Pollock (2004: 123) reports that: "In 2001 the BMA [British Medical Association] published guidance for hospital doctors considering exchanging their salaried status for that of subcontractors and forming doctors' 'chambers', on the model of barrister' chambers, as a way to sell their services to the NHS and other hospital providers." Boots, the chemist is planning provision of GPs and consultants' services in its premises. Other large retailers have also expressed an interest.

NHS is prepared to charge Primary Care contractors (currently mainly GPs partners) for the provision of health services. The combination of prices and volume of services – largely set by the number of patients contracted as well as the range of services offered – will determine the budget for the GPs practices; once all expenses are paid including the largest ones for salaries of hired doctors, nurses, administrators and other health workers and for renting on the premises, the surplus will form the partners' remuneration.

Given the recent generous prices settlement by the NHS, the sector will attract private investors keen to turn into profits the existing surpluses: they will employ salaried health workers – including doctors – and administrators. It is not difficult to see the shape of things to come: the drive to cut costs will lead to the employment of cheaper labour and the adoption of labour saving technology. This will herald the era of nurses-led Primary Care assisted by computer-aided diagnostic technology¹⁰ which uses AI (artificial intelligence) software; this system is already in use by NHS direct. These developments in Primary Care will see the end of the British NHS as established in 1948. They will eventually lead to the end of the current huge gap between pay of partners GPs and of nurses and other health workers: the for-profit production by health corporation will gradually make everyone salaried within GPs' practices.

The problems of this Blair-Brown grand design for the public sector are beginning to unravel and they will increase as time goes by: problems for the user of public services; problems for the health workers and eventually problems for capital; problems for the State and the political class. Why the latter two problems? Because this grand design signals a profound structural crisis for capitalism. If the system needs propping up via continuous State intervention it cannot be very healthy. So what is going to happen when all that can be outsourced is outsourced and an even larger share of inland revenue goes to pay for private companies' profits?

Moreover, the state is in danger of despoiling itself of major functions and this may lead to a problem of legitimacy: if the State's function is limited to collecting taxes and handing them over to private – domestic and foreign – companies for the actual provision of services can the State justify itself? Will this create also problems for democracy? (Florio, 2004: 155).

A separate important question may be one that political scientists and future historian of politics may be able to tackle: how is it possible for a Labour-led Parliament to preside over the erosion leading to the demise of the NHS and to similar trends in other public services? A question almost as important as why the parliament and the Labour Party did not call government to account over the

¹⁰ The use of AI programmes to assist diagnosis as well as the better utilization of health workers at all levels of skills may be a development to be considered positively but not in the context of profit-led provision.

Iraq war. The huge amount of obfuscating that has been and is going on may explain why it was difficult for the wider public to understand the significance of the changes, but not why competent elected MPs accepted them.

Yes, the 'Third Way' is a new way; it is not just Thatcherism in new clothes, though a good amount of garments have indeed been enthusiastically borrowed.

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Da li je „Treći put“ Novih laburista zaista novi put ili samo prazno obećanje?

Rezime: Rad analizira glavne ciljeve i karakteristike tri puta britanske privrede i politike: Prvi put se odnosi na vreme od kraja Drugog svetskog rata do sredine sedamdesetih godina; Drugi put se odnosi na vladavinu Konzervativaca, od 1979. godine, a Treći put se povezuje sa Vladom Novih laburista od 1997. godine. Ova tri puta se razmatraju u odnosu na njihove osnovne karakteristike, politiku odnosno vlade i probleme sa kojima su se suočavale. Politika Nove laburističke partije se detaljnije analizira, na primeru Nacionalnog sistema zdravstvenih usluga. Posebno su istaknuti razlozi na osnovu kojih se put Novih laburista razlikuje od drugog puta, kao i problemi sa kojima se suočavaju. Nakon toga razmotreno je zašto su Novi laburisti izabrali Treći put.

Ključne reči: Novi Laburisti, Treći put, Vladine politike, Britanska ekonomija

JEL: H11, H40