SOCIALIST RENEWAL

Where Blair is Wrong

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Following monetarist policies must spell disaster for Labour

by Michael Barratt Brown

What Blair said to the businessmen

In a lecture in the City of London delivered on April 7, 1997, Tony Blair proclaimed that 'New Labour is now the party of business'. He promised therefore:

- 'to build a partnership with business . . . a partnership that puts industry first'
- 'to enhance the dynamism of the market economy, not to undermine it'
- 'to extend the flexible labour markets to the rest of Europe, [not] importing "Eurosclerosis"'
- 'to make progress in our high priority areas [education, research, small business, manufacturing investment] without the need for higher personal taxes or imposing burdens on business.'

'Living standards can rise for all our people', he averred, 'if we build a stable economy with low inflation, if we set about transforming the country's education, if we reform the welfare state and if we back British business in Europe.'

This is a prescription for government to delight the City of London and the few thousand members of the business community. It must chill the very bones of the millions whose labour is to be made more flexible, who will not be included in the educational transformation and whose welfare state is to be reformed (a verb which seems always nowadays to carry the pejorative sense of a reduction in scale and scope).

How can it be that the political leader of a Labour Party, seeking the support of the British electorate, should come to make such proposals? The answer appears in the first paragraphs of the lecture in which Blair defines something which he calls the 'challenge of the New Economic World', in the emergence of 'three new forces [that] have transformed the debate about economic policy and personal prosperity'.

These supposedly 'new forces' are in fact neither new, nor do they have the force that he ascribes to them. The arguments based upon their assumption have been at the foundation of monetarist policies adopted worldwide over the last twenty years, which have resulted almost everywhere in falling employment and widening inequalities of wealth and income, especially in the United Kingdom. The assumptions have been shown to be myths in a series of recent statements from the most authoritative sources — among others, from the International Labour Office *1996/7 World Employment Report*, from the United Nations Conference on Trade and Development (UNCTAD) *1995 Report*, from the United States Federal Reserve Board (Bank of Boston), from the Clare Group of United Kingdom economists in the National Institute *Economic Review* for February 1995. It would be laughable, were it not tragic, that Mr Blair should be so ill advised by a burgeoning private office of New Labour acolytes that claims, in Blair's words, 'to understand these profound changes [unlike] the Conservative Party that is still living in the 1980s'. New Labour, it appears, is similarly unenlightened. Each one of the assumed 'new forces' can be shown to be mythical. There have been profound changes in the world economy but they are not at all what Blair supposes.

Myth No.1: Unbridled Competition

The first 'new force' which Blair discerns is 'the emergence of dozens of new market economies which enjoy untapped reserves of labour eager to work at wages which we would not like to see applied in the West'.

It would be pettyfogging to complain that it is an exaggeration to say that there are '*dozens* of new market economies' emerging in the East. By stretching it to include some half dozen oil economies in the Middle East, which pose no threat to industry in the West, rather the contrary, and half a dozen East European economies, whose exports have been declining and not expanding, another dozen could perhaps be added to the bare dozen Asian economies which might be said to meet Blair's definition.

It would be more relevant to recall that this is not at all a new phenomenon in capitalist history. Following Britain's industrial revolution, new market economies emerged during the Nineteenth and early Twentieth Centuries in the USA, Canada, Australia, New Zealand, South Africa, throughout Western Europe and then in Japan, Russia, Eastern Europe, China and Latin America, where there were 'large untapped reserves of labour'. How eager they were to work at low wages depended on what alternative ways they had of getting a living for themselves and their families — as indeed it still does.

The result of the emergence of new market economies in the past was not the decline of British industry, except in relative terms of the share in world industry (a point which Blair recognises). The cause of Britain's decline, which his argument does not recognise, was rather the failure of the economies in large parts of the British Empire, especially in Africa and on the Indian sub-continent, to develop beyond primary production to enter diversified markets for the exchange of goods and services. The same failure affected the Asian and African colonies of other European powers and the dependent territories of the United States in Latin America. Only Japan pursued a policy of industrial development in her sphere of influence, as Britain had once done in the settler colonies where self-government was achieved. We can easily see the advantages today deriving from such earlier policies as these.

Many of the leading economists in Britain, including the prestigious Clare Group, writing in the National Institute *Economic Review* (February 1995 pp.74ff.) have been going back to rediscover the sources of full employment in the economy before monetarism overwhelmed the Keynesian assumptions of twenty years ago. In a study entitled 'Is Full Employment "Passé"?' a major assault has been launched by the International Labour Office (*World Employment Report 1996/7*, pp.132ff,) on the assumption that cheap labour competition from the East has required the response in developed economies of a 'flexible [i.e cheap] labour market'. First, they show that in all the cases studied of competing market economies in the East, real earnings have risen over the last two decades as productivity has increased. Secondly, they show , more significantly, that the impact of imported manufactures from the East on wage levels in the West is much less than had been supposed. The sectors where such competition exists are quite small parts of the total economies of developed countries and wage movements both for skilled and unskilled labour have been no different in the least trade-affected industries than in manufacturing (ILO 1996/7, pp.69-71).

Of course, it is true that some jobs in the West have been lost to workers in the East. Proportionally even more jobs have been lost to Japanese management, especially in the United Kingdom. But what matters, according to the UNCTAD studies, is that such losses to Asian producers have been offset by gains in new markets in Asia for European products. While imports of manufactured goods from Asia into the Developed Countries rose faster than exports to them in the 1980s, this trend has been reversed since 1989 and the earlier trend of the 1970s of the Developed Countries' exports rising faster than their imports has been renewed. It is the case both that their imports have been levelling off especially of goods requiring low skills and that their exports have been rising especially of medium and high skill goods (UNCTAD 1995, pp.134-7).

The upward trend of the total trade in manufactured goods between Developed and Developing Countries is the most evident feature of the last 25 years. This was always the advantage of expanding market economies. International trade is not a zero-sum game where one country's gain must be another's loss. This only occurs where entry is actually restricted into the markets of the more developed countries, so that developing countries can obtain no advantage from diversifying into new lines of production. This is what Europeans did in relation to Africa and India, and what the United States did in relation to Latin America, and what Britain did *not* do in her trade with the self-governing dominions, nor Japan in her trade with East Asia. The one field of trade exchanges where growth has *not* been occurring is still in relations between European countries and Africa, South Asia and Latin America where most countries in these continents have been restricted to exports of primary products, whose prices fell steadily in the 1980s. This may have provided Europe with cheap raw material imports but at the expense of reducing the primary producing countries' capacity to buy European products in exchange.

Myth No.2: Unprecedented Technological Change

The second of Tony Blair's supposedly new challenges in the world economy relates to the new technology. He speaks of

> 'Technological change in many industries which has reduced the demand for unskilled labour, relative to skilled labour in the developed economies themselves.'

This is obviously nothing new. It has been going on ever since the Industrial Revolution, once the old handicraft skills had been replaced by machinofacture. The ILO 1996/7 Report quotes studies which question whether the technological 'shock' in the 1980s was greater than similar 'shocks' in earlier periods. Indeed, they show that in the USA the rate of technological change actually slowed down in the 1980s, when compared with that of the 1970s. Robin Marris in a recent book (*How to Save the Underclass*, Macmillan, 1996) has sought to show that what he calls an 'underclass' of the ill educated (if not intellectually weak) fifth of the population were becoming unemployable. But both he and the ILO and the UNCTAD reports indicate that this was less to do with technological change, or wage competition from the East, than from the macro-economic environment created by governments. The UNCTAD report is particularly insistent that rapid growth of economic output and labour demand encouraged by governments' belief in full employment in the 1950s and 60s 'allowed and gave strong incentives to firms to upgrade the skills of their workforces to meet new needs' (ILO 1996/7, p.75).

Labour productivity gains are revealed in all these studies to have been much greater in the 1970s than in the 1980s and in the 1980s than in the 1990s. But the result might have been expected to be a reduction in the pressure to replace unskilled labour and to reduce unskilled workers' wages relatively to those of the skilled. In fact, experience in different countries with different macro-economic policies is very different. The ILO 1996/7 Report points out that wage dispersion between skilled and unskilled increased most rapidly in North America, the United Kingdom and New Zealand — where governments have followed what the ILO calls 'a market-driven approach, characterised by a high degree of deregulation'. In other words, falling demand for unskilled labour was part of falling demand for all labour as the result of deflationary policies pursued by government and not primarily of technological change.

These policies of governments in the 1980s were designed to control inflationary price rises. They had been instigated by the results of the oil price shocks of the 1970s. But in some countries the deflationary policies were continued long after they were required. The effect was to create a permanently high level of unemployment and to reduce new employment creation. Growth in output was achieved with new machinery without expanding employment, not because of the pace of technological change, but because of the reduction by government of general demand. In the labour market more skilled labour took on unskilled jobs and the unskilled found themselves unemployed. Further continuation of policies based on 'building a stable economy with low inflation' and rejection of demand management, as New Labour intends, only serves to perpetuate the errors of the past.

Myth No.3: 'New' Freedom of Capital Movement

Blair states his third so-called 'new' factor in the world economy in the following way:

> 'And almost complete freedom of capital movements around the world, with over $200 billion dollars per annum of development capital flowing out of the old economies into the new. Providers of capital in the developed economies are now able to scour the world for the highest returns — a factor which creates a new competitive force in global labour markets and requires government policy to respond.'

Once again, this is, of course, nothing new. Capital throughout the Nineteenth and Twentieth Centuries has always moved freely around the world seeking the highest returns. The strength of the economies first of Britain, then of Western Europe and the USA and of Japan was built on the export of capital and the enlargement thereby of the whole world capitalist market.

The figure given for the export of '$200 billions per annum of development capital flowing out of the old economies into the new' is highly misleading. 'Development capital' is not defined, but the key figure must be that of foreign direct investment. The actual figures for the latest year available and for the previous decade are shown below:

Foreign Direct Investment Inflows 1981-1994 ($ billions)

	1981-85	1986-90	1994
Total	50	155	226
into Developed	36	129	135
Developing	14	26	84
of which — to Asia	7	9	49
— from Japan	na	na	30
Transitional	0	0	6

Source: UNCTAD **World Investment Report 1995**, Tables 1.4 and 1.5.

To make the figure of inflows to developing countries up from $84 billions of direct investment to anywhere near Blair's $200 billions, it is necessary to add in the *gross* flows of $57 billions of official aid — national and multilateral — and other International Monetary Fund and World Bank funding. Even then all these are gross figures and are offset by outflows from the developing countries to the developed of $33 billions of Direct Investment and at least $70 billions of debt servicing. The impression given by Blair is that there is a capital transfer taking place from developed to developing countries. In many years in the 1980s there was actually a reverse flow from the developing to the developed, and this almost certainly continues today if account is taken of the transfer price abuses perpetrated by the giant transnational companies (see M. Barratt Brown and P. Tiffen, *Short Changed: Africa and World Trade*, Pluto, 1992).

It will be noted from the table above that the new market economies in the East are very largely being developed by Japan. We have already commented upon the different way in which Britain treated her dominions in the Nineteenth Century and Japan treats her neighbours in East Asia in the Twentieth compared with the exploitative relations of the developed countries with other developing regions. The result is that Japan is the main beneficiary of the prosperity zone being created in East Asia and the United Kingdom the main loser from the marginalisation of the one-time British colonies, especially those in Africa and Southern Asia.

What, then, has changed?

If Mr Blair's three 'new' factors in the world economy turn out to be mythical, is there nothing that has changed in the last twenty years? There have in fact been three major changes which Blair fails to recognise: the first is the changing and declining role of government intervention in the economy, which he seems to be happy to continue. The second is the ability of transnational companies to switch their production locations, not so much to seek cheap labour as to win tax and other concessions from national governments. This Blair realises he has to respond to, but he does not understand the response that is needed. The third is the absolute environmental and resource limits to economic growth of the kind that has occurred over the last two hundred years. This limitation Blair shows absolutely no sign of recognising in his lecture to British business leaders. Yet there is no group of men — and there may have been a few women present — who are more in need of a lecture on this subject. British industry is distinguished among the European developed countries for the profligate use of natural resources and the neglect of environmental considerations. This distinction is unfortunately one of the attractions which British governments have been offering to foreign investors; and Blair appears to be content that it should remain so.

The role of government

Blair's prescription for a New Labour government is to find 'a third way between state control of industry and *laissez-faire*' in a partnership between government and business. This, it must be said, is not anything very new in social democracy. He recalls, indeed, that this had already been recognised by Jim Callaghan in the Labour government's acceptance, in 1976, of what Blair describes as 'progressive economic thinking'. This was, Blair says, that 'markets, not governments, had the main responsibility for creating full employment'. Regrettably, this is the only point in his lecture where he refers to 'full employment' as a policy objective. But he does spell out the nature of this 'progressive economic thinking' — which is more generally described as 'monetarism', and in the hands of Mrs Thatcher and others has been, without doubt, the most regressive development in economic thinking of this century.

Blair makes it clear that he evidently welcomes what have been the 'significant attempts' during the years of Conservative government, 'to "marketise" many aspects of the economy'. He sees his own rewriting of Clause Four of the Labour Party's Constitution as in line with world-wide movements of economic opinion reflected in Tory 'reform' of trade union laws, in the 'freedom of management to respond to stock market incentives' and in a 'massive programme of privatisation' — which Blair does not seem averse to continuing. The role of government and the response of government to world-wide movements of capital is to support business and particularly 'to back British business in Europe'. It is evidently what he was referring to in 'requiring government policy to respond . . . to the new competitive force in global labour markets'.

This is, however, to engage in a Dutch auction, each government offering the lowest taxes and least regulation to 'beggar-my-neighbour'. The alternative is to agree within a European Economic and Monetary Union on common policies towards the giant companies, so as not to be driven down by them to the lowest common denominator. Blair rightly rejects a protectionist policy which would continue to keep out goods from developing countries by escalating tariffs and by levies on agricultural products that compete with European produce. But he assumes that the Left alternative to open competition inside Europe is what he calls 'go-it-alone dashes for growth or demand management which ignore the context in which one economy is linked with others'. 'To that extent', he adds, 'the Keynesian post-war consensus is over'.

This dismissal of Keynes fails to take any account of the man who drew up the plans for post-war international financial and trade institutions at Bretton Woods in 1944, who was hardly likely to ignore that context, even if some post-war governments did so. Keynes's whole concern was to maintain full employment by national government action at home *and* international government action abroad. As we have already noted, the Keynesian consensus is re-establishing itself in the light of the total failure of monetarism to maintain employment and economic development or even to achieve its own central aim of inflation control without imposing other costs on the economy. This is the conclusion of a major article in the January-February 1997 issue of the *New England Economic Review* from the US Federal Reserve Board Bank of Boston entitled 'Central Bank Independence and Inflation Targeting: Monetary Policy Paradigms for the Millennium'.

Blair's 'third way between state control and laissez-faire' is 'partnership between government and business for certain specific limited objectives to enhance the dynamism of the market economy not to undermine it'. These objectives are supply side measures plus control of inflation. They will not be enough. Keynes queried this dynamism. Encouragement of what he called the 'animal spirits' of capitalists needed some real expectations of future demand for goods and services. Capitalists did not just come crowding in with their capital, as the monetarists expected they would, to fill the space which was opened up for them by government withdrawal. They had to believe in future demand or be bribed into suspending disbelief.

Blair's prescription for providing this encouragement is limited to exactly the same supply side measures which the Tories have introduced, with their focus particularly on 'labour skills, infrastructure, small business, science and research and improving the manufacturing base [what ever he means by that] and encouraging investment. Most of all we base our emphasis on education and skills.' But without financial resources to back up this focus and emphasis, it is hard to see how the measures can be more effective under Labour than under Tory administration. Blair's passionate denunciation of the Tory low wage economy cannot be reconciled with his continuing support for flexible labour markets, modified only by a minimum wage, the level to be set in partnership with the employers.

All the evidence assembled by the ILO and by UNCTAD and also by the European Commission under the leadership of Jacques Delors in the *White Paper on Growth, Competitiveness and Employment* of December 1993 has shown that supply side measures are only effective if combined with a major expansion of demand. This is not part of New Labour's prescription. Rather the contrary. In face of the deflationary effects of achieving the Maastricht convergence criteria for government debts and deficits (which look as if they must be abandoned, or enforcement delayed), Blair demands that 'the criteria must not be fudged.'

Blair states again and again that New Labour's aim in government is 'a stable economy with low inflation'. His criticism of Conservative governments is that they failed to achieve this aim. 'They produced not a strong stable economy, but a roller coaster economy, gyrating between one extreme and another.' By this he must be referring to the trade cycle of booms and slumps which has been in operation for over 200 years, except during periods of major wars. The only amelioration of this cycle was effected by Labour (and Tory) governments in the 1950s, 60s and 70s, applying Keynesian measures to step up spending on the down turn and increase the tax take on the upturn.

Such measures are very precisely ruled out by Blair in his rejection of what he calls '[Old] Labour's ways of tax and spend'. All the criticisms which he makes of Tory failures to achieve steady growth, a balance of foreign payments, rising investment in industry, increased and secure employment opportunities, a balanced budget without excessive borrowing are criticisms of policies which stem from the very same assumptions that Blair himself is making about the role of government — in leaving economic activity entirely to the private sector and concentrating public policy on supply side measures and what he calls 'strict monetary discipline'. Professor Milton Friedman and Mrs Thatcher should be proud of him.

The true nature of the new globalism

We have seen that it is a myth that the free movement of capital around the world is either a new phenomenon or that the trend of capital flows is towards the developing countries and away from the developed. On the contrary most capital flows today more than ever before move between the already developed, and the small flows to the developing countries are largely offset by debt service payments in the opposite direction. There is no danger, as Blair supposes, of the developed countries lacking capital resources for their further advancement. But there is a real danger of large parts of the developing world — Africa, South Asia, South America becoming marginalised and dropping out of the main flows of trade and investment. All parts of the world economy — developed and developing — are thereby impoverished.

There is, moreover, in addition, a real challenge in the new economic world to the management of national economies. This is because the giant modern transnational companies, which are never mentioned in Blair's lecture, are able today through modern information technology to exercise control over thousands of sub-contractors world-wide and to shift investment from country to country rapidly and without difficulty. The powers of the nation state have not disappeared, as some suggest, but they have become subjected to the demands of the giant companies. Their investment decisions are very much dependent on the tax and other concessions that each separate nation state can offer. This is the importance of a joint and common policy throughout Europe towards these giants, so that their game of divide and conquer can be ended. For Blair to speak of 'backing British business inside Europe' is to misunderstand the real interest of the British people. He should rather be concerned to back the peoples of Europe against the overriding power of large-scale capital.

It is a fundamental tenet of New Labour, repeated in Blair's lecture, that they can 'make progress in our high priority areas without the need for higher personal taxes or imposing burdens on business'. This refusal to tax higher incomes, as we have already suggested, leaves precious little in the way of resources for correcting any of the gross inequalities of income which have developed under Tory administrations. It means that the welfare state is being reformed at the expense of its basic principle of redistribution from the rich to the poor — in old age pensions, the health service and other social provision. The guarantee that the poor pensioner will be cared for and the Health Service will be protected, when made without any commitment of funds, simply implies a two-tier service, one for those who can afford to make their own provision and another for those who will be offered a basic safety net.

The promise not to impose burdens on business has, however, an even more sinister implication. First, it must mean abnegation of the regulation of industry in the interest of resource conservation and environmental protection, a matter to which we shall return. Second, it must mean acceptance of the incredibly lenient tax regime which the Tories have operated in relation to company profits and particularly the profits of the transnational companies. Given the desperate need recognised by New Labour for investment in education and skills and for a public transport alternative to road congestion, it is beyond belief that no proposals exist for obtaining finance from big business except for the one-off tax on the excess profits of the privatised utilities and the continuation of the Tories' Private Finance Initiative. This is simply a way of borrowing money for public projects from private capitalists with a state guarantee of the return.

What neither Mr Blair nor the Shadow Chancellor, Gordon Brown, have anywhere proposed is to increase the taxation of corporate wealth and in particular to end the tax avoidance which all companies and particularly the transnationals operate. Corporation tax was reduced by Mrs Thatcher from 52 per cent to 33 per cent. This compares with rates at around 50 per cent still being raised on company profits in Germany, Italy and Japan and with rates at around 40 per cent in the USA and Canada. Two experts writing in the *Financial Times* (1.4.97) suggest that the rate should be raised to 35 per cent, thus raising the £1.5 billion that Gordon Brown says that he needs to finance his spending plans for 1998-9. Much more could be found from higher rates and reduced concessions. Tax concessions to the North Sea oil and gas operators have been estimated by researchers at Sheffield University (*The Guardian*, 9.2.96) to cost the government some $3 billions a year.

Raising corporation tax is not only a matter of finding funds for the minimal measures of social justice which New Labour proposes. The UN Development Programme Report for 1996 estimated that 358 billionaires in the world owned wealth equal to that of half the world's population living in developing countries. Rupert Murdoch must be one of them. His News International paid £11.7 million in tax over ten years on pre-tax profits of £979.4 millions. The issue is more fundamental than one of correcting such gross inequalities. The truly new concentration of wealth in such a small number of individuals and competing giant companies means that these funds are only invested in projects returning the very highest yields. Everything else is 'downsized'.

While awaiting new super-profitable investment opportunities funds are used for massive speculative activities.

The net result of this concentration is that capital is not available for small and medium sized businesses, which are the main employers of labour and if governments will not tax these giant incomes and profits, there are not the funds for generating new public employment. It is not the new technology, nor any new found freedom of capital movement, nor new competitive economies that are posing problems for governments in maintaining full employment. It is the concentration of capital and the high yields demanded by investors. In UK companies reporting in 1996, dividends took 41.6 per cent of trading profits, while taxation took only 19 per cent. This tax take has hardly changed since 1979, while the share of dividends has risen threefold from 14.6 per cent. While some £24 billions of wages and salaries was redistributed into gross trading profits in the UK each year in the years 1992-5 (according to John Hughes, *European Labour Forum*, No.17), these sums were not translated into new productive investment. For the whole period 1987-1996 there was no increase in real terms in private sector capital investment in Britain.

If it is said that the high dividends are financing the pension funds, then Labour must return to supporting the state pension, which the Tories have reduced from 41 per cent of average wages to no more than 16 per cent. Experts like Professor Townsend have argued that this could be corrected by increasing the National Insurance contributions on higher incomes, but in his City lecture Blair has specifically ruled out this option. Leaving pensions to private provision not only benefits the rich at the expense of the poor but fails to give to government control of resources for creating employment, which private capital accumulation has failed to ensure.

If New Labour will not grasp the nettle of taxing high personal incomes and large corporation profits, all their promises to the long term and young unemployed will fail. The Tories have left behind a large tax deficit, so as to create a favourable election climate and to embarrass their successors. To cover this and to meet the Maastricht Treaty demands for entry into the economic and monetary union, which Blair says must not be fudged, all the experts are agreed that taxes will have to be raised. But Blair and Gordon Brown have promised not to raise income or corporate taxes. The utilities windfall tax is a one-off impost. What is supposed to happen after the first two years? Labour will be unable to keep its promise — to help the unemployed without raising taxes. The fact is that only government spending can ensure that jobs are created in all the non-high profit services that are manifestly being neglected in the country's infrastructure, in education and health and in measures of resource conservation and environmental protection that are becoming so urgently necessary.

Conserving resources and protecting the environment

One way of raising taxes, which seems not to have found favour with New Labour, would be to extend a carbon tax beyond the current taxation of petroleum products and to raise a tax on carbon dioxide emissions. If these were to be combined with the proposed reduction of income tax rates on the lowest incomes, a major boost would be given to the employment of labour in place of the present excessive use of increasingly scarce carbon products. Taxes could also be raised on the use of non-recycled paper and non-renewable raw materials. A government which was seriously committed to 'green' issues would prepare for public enlightenment an energy budget and energy accounts for the whole country, side by side with the financial budget and accounts which are presently available. Money values could then be placed on the loss of production, the cost of correction to damage to human health and to the land, seas and rivers and also on property prices and costs of travel to work when these are affected by environmental nuisance such as road traffic and aircraft noise. More honest ways of presenting the labour accounts than the current 'faked statistics' (*Guardian*, 16.4.97) would also be required by such a government.

It must be presumed that New Labour no longer pays attention to the publications of the European Socialists. Had they done so they would have read an important statement from Jacques Delors in a Working Document of the Party of European Socialists entitled *A New Model of Development* (dated 17.3.96, also published in *European Labour Forum* No.18) which warned:

> 'Our model of growth which emerged from an industrial economy based on assembly line techniques is beginning to break down. By failing to take sufficient account of environmental costs and by the disproportionate emphasis of technological research on replacing labour input by a combination of capital and energy, we are locked into a pattern of wasting both human and natural resources.'

This is the true impact of the new technology, not the effect on the balance of skilled and unskilled labour as Blair supposes, but the effect on all labour of the profligate use of natural resources. Every employer seeks to increase labour productivity, that is to reduce labour costs, but at the expense of other costs for which he does not have to pay. Increasingly some part of these other costs are the costs of environmental protection, for which Delors gives a figure of 1.5 million people in Europe engaged in clearing up the effects on the environment of current production methods. Delors goes on to make a further important observation:

> 'We must avoid the false argument that environmental protection and job creation are incompatible. Both experience and research have shown that the two are linked in the medium term and inseparable in the long term. For example, if we were to fail to develop "lean technologies" now, we should forfeit our lead in a market which is set to grow by 50 per cent by the year 2000.'

In the short term conservation measures in house insulation, in recycling, in ecological planning and in all forms of environmental improvements could take up a large part of the present unemployed, especially the young people on exciting and worthwhile projects. In the longer term there is no possibility world-wide of continuing with the kind of economic growth which has been indulged in by the rich societies of the world over the last century and more. Quite new forms of living with much reduced use of energy and other natural resources will have to be discovered and applied. A serious political party that had the long run interests of the people at heart would have recognised this. A coalition of 32 UK campaigning organisations for green issues, human rights and Third World development has issued the warning for all political parties to understand in the manifesto entitled *The Real World.* Their agreed conclusion should be written into the manifestos of every political candidate in the 1997 UK general election, but so far only the Liberal Democrats and the few Green candidates have made a modest positive response. It is summarised as

> 'putting the task of meeting human needs and respecting our international obligations above today's unthinking obeisance to short-term unaccountable market forces, and about putting solidarity, social cohesion and a concern for future generations above today's mean-minded individualism . . . there can be no long-term protection for the environment without reducing and finally eradicating poverty'.

Conclusion on what can be expected from New Labour

Tony Blair has made it abundantly clear in his City lecture that we may expect from a New Labour government very little real change in economic policies from those which the Tories have pursued over the last eighteen years. The idea of continuity in basic policy combined with change of emphasis and personality has been the foundation of the appeal of New Labour to disillusioned Conservative voters. At the same time some of the language of socialism and its concern for equality and justice has been preserved in order to retain Labour's traditional constituency. What may be expected from New Labour in government to satisfy expectations that have been raised will be severely restrained by the self-denying ordinance that has been imposed on any expansion of taxation and public expenditure.

What promises have been made for increased social expenditure are conditional on savings being made elsewhere and on some asset stripping in public departments — something the Tories called privatisation — plus the one-off tax on what are called the 'windfall profits' of the privatised utilities. The savings from the assisted places scheme in education, from ending the internal market in the Health Service and from the so-called asset-rich departments of government are not likely to yield sums which will easily be perceived to have much effect on the current quite desperate underfunding of Education, Health and Local Government services. The deficits deliberately left behind by the last Government will create a most difficult problem for New Labour, which they can blame on their predecessors but which they will be expected to do something to remedy.

It is a serious matter for a Labour Government to have lost its long-term income from state industries without enjoying, as the Tories did, the short-term proceeds from their sale. Thus, the major source of funds on which New Labour is relying in order to make some reduction in the very high levels of unemployment among young people and the large number of long-term unemployed is the levy on the profits of the privatised utilities. This could yield anything between £3 billion and £10 billion over a two year period, according to how the 'windfall' is defined. It is to be spent in three ways: a cash payment (not yet determined) to firms which hire people who have been unemployed for more than two years; a £60 a week subsidy for hiring a young person who has been out of work for more than six months; and for the costs of training, voluntary sector employment or an 'environmental task force', which will be offered to young people without jobs as an alternative to the subsidised job.

These proposals are not particularly generous. £60 a week is roughly £3,000 a year. The savings to the state of one less unemployed person have recently been estimated by Michael Kitson, Jonathan Michie and Holly Sutherland (*Cambridge Journal of Economics*, Vol.21, No.1, January 1997) at about £9,000 pa., assuming average earnings in employment, which would probably be more than the young people would be paid. More than £60 might have to be offered for employing long-term unemployed and there would be the costs of training. There is a danger in all subsidising of jobs that employers will simply dismiss one existing employee in order to take on a subsidised unemployed person in replacement.

Other options are open to a government which wishes seriously to tackle the scourge of unemployment. Kitson, Michie and Sutherland, for example, have made more radical proposals for employing a million people in public services — education, health, housing, community care and environmental and conservation projects. These they estimate at a gross cost of £17,000 per job, less the saving of £9,000. A million new jobs including the multiplier effect could be created, they estimate, from 750,000 directly created for £17 billions less the £9 billions saved, i.e. for about 8 billions. This sum could, perhaps, just be found from the 'windfall' tax, but it seems unlikely that the money will be spent this way.

The reason for this has already been indicated. It is the large budget deficit which New Labour will inherit from the Tories. Without any new taxation apart from the 'windfall' tax, and with large commitments to nuclear submarines and prison building in the pipeline which New Labour has supported, the new government will have no room for any major attack on the unemployment problem. The exact point at which the raised expectations of voters will turn to disillusion cannot be calculated, but it must come. This is likely to come sooner rather than later because of the considerations which have occupied us in this paper. First, there is the danger of beggar-my-neighbour policies breaking out in Europe, if the movement towards an Economic and Monetary Union is checked. Secondly, there is the increasing marginalisation and impoverishment of large parts of the developing world and of large populations inside the developed countries themselves with the inevitable effect of declining purchasing power. Finally, there is the increasing cost of unregulated use of resources and environmental damage, for which restorative action simply cannot be put off to another day.

The tragedy of this election, a time when political interest is aroused to an exceptionally high level, is that New Labour has done nothing to educate the public, to help people to understand what are the real problems that face us all, how we must pay for the benefits of health and education and social services which we all want and what major changes in our ways of living the New Economic World must entail. It is not a matter of stepping up a competitive position against other people, but of finding ways of co-operating with other people to find solutions to problems, which we cannot solve on our own. There are answers to these problems some of which we have indicated, but following the failed monetarist policies of the last twenty years will not help. Indeed it is likely to lead to disaster for any government which continues along that road.

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