

GLOBALISATION AND PUBLIC POLICY UNDER NEW LABOUR

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The concept of the Competition State differs from the Post-Fordist State proposed by regulation theory, which asserts that the contemporary restructuring of the state is aimed at maintaining its general function of stabilising the national polity and promoting the domestic economy in the public interest. In contrast, the Competition State focuses on the transformation of the state from within with regard to the reform of political institutions, functions and processes, in the face of processes of globalisation. It is argued that the state does not merely adapt to exogenous structural constraints; domestic political actors take a proactive lead in the process through both policy entrepreneurship and the rearticulation of domestic political and social coalitions, on both the right and the left, as alternatives are incrementally eroded. State intervention itself is aimed at not only adjusting to, but also sustaining, promoting, and expanding an open global economy in order to capture its perceived benefits. Such strategies, while reinforcing the roles and positions of such actors, can also undermine the generic function of the state seen in terms of traditional conceptions of social justice and the public interest and create the space for social conflict. It is further argued that the New Labour government in the UK has adopted a policy agenda which in its most crucial aspects reflects the continuing transformation of the British State into a Competition State in an attempt to adapt state action to cope more effectively with what they define as global 'realities'.

'We on the centre-left must try to put ourselves at the forefront of those who are trying to manage social change in the global economy. The old left resisted that change. The new right did not want to manage it. We have to manage that change to produce social solidarity and prosperity.' (Tony Blair, speech, Washington, 6 February 1998)

Introduction

Our main submission in this article is the claim that the labour government in the UK has adopted a policy agenda which in its most crucial aspects reflects the continuing transformation of the British industrial welfare state into a competition state. This agenda includes: the marketisation of 'UK PLC' through international structures of governance; the introduction of embedded financial orthodoxy; arm's length micro-industrial policy; the creation of a contracting post-welfare state and attempts to establish what the Chancellor of the Exchequer, Gordon Brown, has termed 'globalisation with a human face'; the further development of new governance; and reform of the constitutional order. All of these developments in forms of governance, politics and policy are, in part, a manifestation of the rise of a competition state in which state actors and institutions promote new forms of complex globalisation in the attempt to adapt state action to cope more effectively with what they

see as global 'realities'. It is further argued that the embracing of the ephemeral concept of the Third Way by the Blair government may be viewed as an attempt to provide a largely pragmatic political project with some belated ideological coherence in the face of mounting criticism of its social democratic credentials from the Old Left.

As a sighting shot and to avoid confusion it is important to establish what we are not arguing here. We do not write in praise of globalisation, we merely present an argument that understands the New Labour project, partly, but not wholly, as a response to the often 'virtual' imperatives of globalisation. By 'virtual' we mean that it has become conventional wisdom amongst political elites to proceed from the assumption that we live in an increasingly globalised world and to develop political strategy in response to the logic of globalisation or what Held *et al.* (1999, p. 2) have defined as the '... widening, deepening and speeding up of worldwide interconnectedness in all aspects of contemporary social life, from the cultural to the criminal, the financial to the spiritual'. While there can be little doubt that there has been a qualitative increase in global economic integration, the argument that there is no alternative to neo-liberalism or indeed to Anglo-American modes of capitalism remains highly questionable.

The argument in this article is organised into three parts. The first part presents a brief account of the rise and fall of the Industrial Welfare State (IWS), and, its replacement with forms of the Competition State under neo-liberal and centre-left governments in Britain and the USA. Part two examines the development of Competition State ideas in the formation of New Labour's project. In the third part, the key features of the Competition State are presented and a series of propositions are generated that are subject to a brief empirical investigation. The article concludes with some general observations about the implications of the Competition State project for British politics.

Accounting for the Rise and Fall of the Industrial Welfare State

The defining feature of the post-war IWS lay in the capacity which state actors and institutions had gained to insulate key elements of economic life from market forces (both domestic and international), while at the same time promoting other aspects of the market. This did not merely mean protecting the poor and powerless from poverty and pursuing welfare goals such as full employment or public health, but also regulating business in the public interest, integrating labour movements into corporatist processes to promote wage stability and labour discipline, reducing barriers to international trade, imposing controls on 'speculative' international movements of capital, and the like. All of these forms of interventionism have one thing in common: they take for granted a fundamental division of function between the market, which is seen as the only really dynamic wealth-creating mechanism in capitalist society (despite its susceptibility to market failures), on the one hand, and the state, which is seen as a hierarchical and essentially static mechanism, unable to impart a dynamic impetus to production and exchange (except in wartime), on the other. The state is thus characterised by a mode of operation which undermines market discipline and substitutes 'arbitrary prices' for 'efficiency prices' – at best a necessary evil, at worst inherently parasitic on the market (see Lindblom, 1977).

The welfare state was therefore based on a paradox. Although it was there to save the market from its own dysfunctional tendencies it carried within itself the potential to undermine the market in turn. In the context of the international recession of the 1970s and early 1980s these tendencies would come to have dramatic consequences for the economic policies

of advanced industrial states generally. The perceived lessons of the recession – the counter-productive disadvantages of stagflation and an ‘overloaded state’ – were widely recognised across the ideological spectrum and subsequently undermined the very legitimacy of a wide range of policy measures identified with the welfare state. Since the end of the Long Boom in the 1970s political decision-makers have undergone a fundamental learning process, which has altered the norms according to which they operate on both a daily and a long-term basis.

The ‘overloaded’ state was constrained in four areas. In the first place, chronic deficit financing by governments in a slump period was seen to soak up resources which might otherwise be available for investment, to raise the cost of capital, and to channel resources into both consumption (increasing inflationary pressures and import penetration) and non-productive financial outlets. Secondly, nationalised industry and tripartite wage bargaining are blamed for putting further wage-push pressure on inflation, while at the same time preventing rises in productivity thus lowering profitability through rigidities in the labour market. Thirdly, attempts to maintain overall levels of economic activity are seen to lock state interventionism into a ‘lame duck’ syndrome in which the state takes responsibility for ever wider, and increasingly unprofitable, sectors of the economy. And fourthly, all of these rigidities, in an open international economy, have negative consequences for the balance of payments and for the exchange rate.

The key to understanding the partial victory of the neo-liberal approach, whether Thatcherism in the UK, Reaganomics in the USA, or a range of other fully fledged or partial experiments, lies in its focus on the priority of controlling inflation. Indeed, the most important single step involved the collapse of the exchange rate system which had been set up at the end of the Second World War as the core of the Bretton Woods system of international economic cooperation. Differential rates of inflation in different countries were making the system of government-set exchange rates unworkable and it was eventually agreed, if mainly by default, to let exchange rates float (Strange, 1986). In other words, countries with high inflation would see capital flee for countries where the value of the currency was ‘sunder’.

Governments responded to this in three main ways. The first was to give priority in macro-economic policy to fighting inflation over employment and welfare policies, and, in particular, to privilege monetary policy over fiscal policy. The second was to remove capital controls and deregulate financial markets (in addition to other forms of deregulation). And the third was to adopt more rigorous financial management systems and financially-led programmes of privatisation in the public sector. From the beginning, then, the impetus behind the emergence of the Competition State was to adjust the economic policies, practices, and institutions of the state to conform to the anti-inflationary norms of the international financial markets.

In other words, neo-liberal states moved away from the ‘embedded liberalism’ of the post-war period towards an ‘embedded financial orthodoxy’ in order to root out inflation. On the left, the response was twofold. The first response, especially in Britain, was to revive a belief in increased state intervention, as exemplified by the Labour Party’s Alternative Economic Strategy in 1983. However, the second response, after the failure of the first, was to accept the bottom line of an anti-inflation strategy and to shift the boundaries of the left in order to support rather than undermine such a strategy.

The changes which occurred to New Labour’s policy agenda must also be understood within the context of internal Labour Party revisionism in response to electoral despair (see Box 1). The revisionism of former leader Neil Kinnock, which developed incrementally after

1983, dealt with the modernisation of internal party machinery and the removal of obstacles within to policy innovation. This included a period of consolidation after the defeat of the Bennite left and the strengthening of the power base of the PLP to make policy through the NEC. These changes permitted the emergence of a new policy agenda crystallised around pro-Europeanisation, pro-nuclear defence, the rejection of a general commitment to nationalisation and a commitment to a market-oriented economy.

BOX 1

From 'Old' Labour to 'New' Labour

'Old' Labour Project	'New' Labour Project
<ul style="list-style-type: none"> • class analysis 	<ul style="list-style-type: none"> • cross-class analysis
<ul style="list-style-type: none"> • mixed economy with a focus on redistribution 	<ul style="list-style-type: none"> • new mixed economy with a neo-liberal, supply-side emphasis
<ul style="list-style-type: none"> • full employment 	<ul style="list-style-type: none"> • social investment
<ul style="list-style-type: none"> • corporatism 	<ul style="list-style-type: none"> • new democracy
<ul style="list-style-type: none"> • universal welfare provision with implicit rationing 	<ul style="list-style-type: none"> • contracting welfarism
<ul style="list-style-type: none"> • internationalism 	<ul style="list-style-type: none"> • cosmopolitanism
<ul style="list-style-type: none"> • industrial welfare state 	<ul style="list-style-type: none"> • competition state

In the aftermath of Labour's 1987 General Election defeat Kinnock initiated a two-year policy review aimed at reversing Labour's electoral fortunes. The publication of *Meet the Challenge, Make the Change* in 1989, marked the completion of the Policy Review process of 1987–89, and symbolised the end of Labour's 'socialist myth' of public ownership (Jones, 1996). By 1990 full employment had ceased to be even a long-term aim for the NEC and Kinnock and John Smith had announced their support for British membership of the Exchange Rate Mechanism (Panitch & Leys, 1997). With Smith's succession to the leadership in July 1992 the pace of revisionism slowed with two exceptions. Through the establishment of the principle of 'one member, one vote' and thus curbing the political power of the trade unions within the Party, Smith took Kinnock's revisionism one step further. Moreover, partly as a response to the increased tartanisation of the Labour Party and partly due to a further electoral defeat in 1992, Smith had also been convinced of the need for constitutional reform (Geekie & Levy, 1989).

It was not until John Smith's untimely death in May 1994 and the election of Tony Blair to the Labour leadership in July of that year that Labour revisionism took on an almost evangelical zeal. New Labour's electoral project refocused its attention on supplanting the Conservatives as the natural party of government and represented a historic compromise between social democracy and the market orientation of neo-liberalism. New Labour's ability to be perceived as the party of the economy was crucial to the achievement of this aim (Panitch & Leys, 1997). It also meant forging a coalition dedicated to putting the Competition State strategy into practice. This was led by Blair but crucially backed up by his closest ally Peter Mandelson and his main rival Gordon Brown and thus combining 'les enfants terrible' of both Old and New Labour.

Tony Blair's 'Young Country': The Anthem of a Competition State

By the mid-1990s, the Thatcherite project of a more undiluted neo-liberal version of the Competition State had lost both its economic edge and its political cohesion, and with the victory of Bill Clinton – who was pursuing much the same project as Blair and Brown (although in a more complex and constraining institutional context) in the 1992 American presidential election – the political tide which saw centre-left governments returned to power across Europe had turned. By this time the New Labour project had become clearly focused on accepting the propositions of the Competition State. When considered in the context of Britain having suffered two of the five worst recessions amongst G7 countries in post-war economic history (1979–81 and 1990–92) it is not surprising that Conservative and Labour governments looked to the epithets of the Competition State for answers to the UK's economic problems. Although they have clearly deployed different strategic devices and policy instruments for coping with the impact of varying forms of globalisation, the degree of coherence across both economic projects has been striking. Policy initiatives such as: the rejection of Keynesian demand management; the emphasis on promoting economic growth through the introduction of supply-side policies aimed at freeing up markets and expanding choice; close attention to financial management and control of public expenditure; the defeat of inflation; and ensuring the conditions for stability in the private sector's planning environment, have all represented common themes in contemporary British economic discourse. Indeed, it is only in Gordon Brown's promissory note to develop an economic package which achieves 'Globalisation with a human face' that certain contrasts can be found.

Over several years preceding the election, the process of revising party policy focused primarily on a quasi-corporatist critique of British financial markets. This revolved around the idea of stake-holding in a challenge to a domestic financial system which for much of the post-war period valued short-term profit over long-term growth and preferred income generated in trading and financial activity through what Will Hutton (1995, p. 21) has termed the cult of the 'gentlemanly capitalist'. New Labour policies on education, welfare reform, new technology and help for small businesses were designed to create the opportunity structures on which an efficient stakeholder economy ultimately depends. The most interesting aspect of the stake-holding concept was that it symbolised an attempt to develop a broader understanding of the role of the state – something sadly lacking in previous Labour revisionism. It emphasised that welfare provision should focus on the individual's relationship with the state and not on the individual in contrast to the state. Yet the notion of a stakeholder society was a difficult concept for British people to grasp and it soon disappeared from the New Labour lexicon due to its unpopularity with focus groups. It was replaced with the even looser notion of the people. Of course speaking of having a stake in the people was pretty nonsensical, while the notion of the individual having a stake in the state made much more sense particularly within a project aimed at developing a New Constitutionalism based on revitalising the relationship between government and the people.

After the 1997 general election, the government refocused its programme on reinforcing and extending the neo-liberal marketising trends of the Thatcher period and it abandoned the concept of stake-holding altogether. Brown has launched five main initiatives: greater independence for the Bank of England; the adoption of a code for fiscal stability; a new fiscal framework; the creation of a new finance watchdog; and measures to

streamline the Bank of England's operations in currency markets to make them more transparent. Much of this was already underway under the Tories; indeed, it was John Major who first established the counter-inflationary anchor for economic policy between 1990 and 1994 (Bonefeld & Burnham, 1998). As one might expect from a reform programme of this magnitude, Brown attracted considerable praise and criticism. Will Hutton captures the nature of this reception with some insight with the observation that 'to his right, there is general acclaim; to his left, general dismay' (*The Guardian*, 7 February 1998).

Blair and Mandelson took it as a given that globalisation imposes limits on all social and economic policies, and thus the only ones worth promoting are those that are acceptable to 'the market'. Former US President Bill Clinton, Blair and their advisors may view this acceptance of the need to marketise the state as a key element of an emerging policy agenda for the centre-left. On 6 February 1998 Blair and Clinton joined teams of British and US advisors and intellectuals in Washington for a 'wonkathon' (after 'wonk', a US slang term for a policy expert) with the aim of forging an international consensus on the goals of the centre-left for the 21st century. Earlier the same day Blair had addressed the US State Department outlining what he termed the 'five clear principles of the centre-left', which he argued were common to both New Labour and the Democrats:

- stable management and economic prudence because of the global economy;
- a change in the emphasis of government intervention so that it dealt with education, training and infrastructure and not things like industrial intervention or tax and spend;
- reform of the welfare state ('otherwise the right will dismantle it') through Welfare to Work and managed welfarism;
- reinventing government, decentralisation, opening-up government ('so that what counts is what works'); and
- internationalism in opposition to the right's isolationism (*ibid.*).

The influence of the New Democrats' 'Progressive Declaration' which was published by the Democratic Leadership Council in 1996 was evident in Blair's statement, particularly the three pillars of the declaration – equal opportunity, personal responsibility and the mobilisation of citizens and communities through rights and responsibilities. The main difference between the two projects lay in Brown's emphasis on the importance of long-term organic growth and investment, which is a reflection of Britain's inferior economic position. However, an ever-lengthening list of common policy initiatives developed between the two states provide significant evidence of lesson drawing between Blair and Clinton's advisors. Prominent examples include welfare reform (welfare to work, redirecting welfare to the most needy, creation of work incentives such as working family tax credit), and central bank reform. Certain of these reforms reflect what the New Labour and Democrat spin doctors have subsequently spun as the Third Way, further defined by Blair's favourite political theorist Anthony Giddens (1998, p. viii) as 'social democratic renewal' or similarly by Charles Leadbeater (2000) as 'the core beliefs and values which will sustain the centre-left's hegemony in Britain and beyond'.

The debate over a credible Third Way in British politics, between the traditional positions of the Old Right (anti-state and pro-market), and, the Old Left (pro-public ownership and state intervention and anti-market), emerged within the context of trying to establish a more coherent future for social democratic politics. There is, of course, nothing new about the use of the term in Labour Party history, although it has been given different meanings. For example, in 1912, Labour Party leader Ramsay Macdonald's claim that Labourism was 'a

Third Way between State Socialism and Syndicalism', was greeted with equal derision. However, this particular debate was brought about by three main developments. The first, we have already discussed, the decline of the consensus underpinning the rise and consolidation of the industrial welfare state. The second is related to the fall of the Soviet Empire and the misguided view that this signalled the 'final discrediting of Marxism' (Giddens, 1998). The third is a reflection of the emergence of a British Labour government with a large majority but accused of lacking a distinctive political philosophy. The New Labour project emerged as a pragmatic response to electoral failure but grew in coherence as the government matured. Initially, the Labour Party was purely interested in instrumental 'win-win' policies, but once electoral success was achieved the luxury of developing a political philosophy could be explored. Giddens would provide the most comprehensive, though flawed, polemic on the Third Way. Indeed, his thesis would inspire the creation of a virtual industry on the subject (see Giddens, 1999, 2000, 2001, 2002 and Callinicos, 2001, for the finest critique). His argument proceeds from the assumption that '[s]ocial democracy can only survive, but prosper on an ideological as well as a practical level' (1998, p. vii).

Giddens may justly be criticised for overestimating the impact of processes of globalisation on the nation-state. The degree to which globalisation conditions state, economy, society and politics differs from state to state, from level of governance to level of governance and from place to place. He may also be accused of underestimating competing strategies for achieving equality such as the role of social or new social movements. It is also far from evident that the knowledge economy can serve as a key instrument for emancipating citizens from the contradictions of capitalism, for the knowledge economy both empowers and disempowers citizens depending on their access to knowledge resources. However, the most serious sins of omission lie in the absence of any detailed consideration of praxis: of how to effectively bond rights and responsibilities in a way that makes sense to the ordinary citizen; of how to create the incentive for citizens to exercise their rights and forge an active citizenry; and, of how to remove barriers to political participation. What we require is specific practical recommendations and not a set of declamatory statements. The devil is in the detail. At the same time he must be praised for offering a centre-left vision of future society that has facilitated a progressive war of ideas on the left throughout Britain, Europe and beyond. It is as controversial as it is intellectually provocative.

While evaluating the credibility of Giddens's Third Way project is not a major concern for this article, gauging its relative influence on the development of the New Labour project is. Measuring the influence of books of this kind is not always easy. Blair first put pen to paper on his conception of the Third Way in a pamphlet written for the Fabian Society in 1998, which pre-dated the publication of Giddens's *The Third Way*. Indeed, the pamphlet is more of a halfway house between Hutton's stake-holding and the New Progressivism of the New Democrats than a tribute to the political thought of Anthony Giddens. Blair has, however, written a review in praise of the sequel to *The Third Way*, *The Third Way and its Critics*, in which he proclaims, 'there is now a global attempt to apply progressive values in new ways. The debate about the Third Way is vital to politics in the twenty-first century. This book is an important contribution to the debate.' Blair also published an article in February 2001 in the magazine *Prospect* entitled 'The Third Way, Phase Two' in which he sought to map out the philosophical underpinnings of the second term.

However, the extent of Giddens's influence on Blair remains far from clear. The vagaries surrounding the influence of the Third Way on practical New Labour policy-making is broadly reflective of a working compromise at the heart of the New Labour government between

the last shackles of Brown's Old Labour idealism and Blair's pragmatism. The stubborn remnants of Brown's 'Old Labour' ideology make him uncomfortable with fashionable ideologies, while Blair's lack of an ideological centre make him prone to flirtations with in vogue ideas from communitarianism to Christian socialism, from stake-holding to the Third Way. The real influence of the Third Way can be seen in Blair's terms as taking 'the hard edges off capitalism without losing its essential wealth creating drive' (*The Times*, 8 February 1998). In practical terms this means fostering job market flexibility, but at the same time ensuring that those displaced by it are continually retrained so that they remain employable. As Brown (*ibid.*) argues, '[i]t shies away from stiflingly big government, while rejecting the minimalist state favoured by some British Tories and the Republican right'. In sum, the embracing of the ephemeral concept of the Third Way by the Blair government may be viewed as a clumsy attempt to provide a pragmatic political project with some belated ideological coherence in the face of mounting criticism of its social democratic credentials from the Old Left.

New Labour's Britain as a Competition State

The main challenge facing governments all over the world is their capacity to adapt to the exogenous constraints and opportunities brought about by different processes of globalisation while maintaining a relatively effective domestic policy programme. Within this context, the challenges faced by centre-left parties and governments are particularly problematic as for most of the 20th century they have believed in expanding the boundaries of the state to provide public goods for working peoples, minorities, and other socially valued groups and causes. These political strategies have depended historically upon the capacity of states to make domestic policy in ways that preserve key spheres of autonomy for policy-makers vis-à-vis international capital. However, such autonomy is increasingly being constrained by processes of globalisation. Some theorists of globalisation suggest that all states are losing power and coherence (for example, compare McKenzie & Lee, 1991, with Reich, 1991). While others maintain that governments are able to adapt and to transform state structures in ways that alter, but do not fundamentally reduce or undermine, state capacity, not only for neo-liberal governments of the right but also for social democratic governments of the centre-left (for example, compare Hirst & Thompson, 1999, with Garrett, 1998). The theory of the Competition State provides an alternative understanding of this problematic, which, while accepting that the state is losing power and coherence due to processes of globalisation and transnationalisation, argues that the Competition State will increasingly become the engine room and the steering mechanism of a political globalisation process which will further drive and shape economic, social and cultural globalisation (see Cerny, 1990; Cerny & Evans, 1999; Evans & Cerny, 2003).

There follows a brief discussion of the six main propositions that underpin the theory of the Competition State and explain the trajectory of the British State under the Blair government in Britain. We will assess the forms, scope and limits of the Competition State as it has manifested itself under Tony Blair's New Labour government through a discussion of each of these propositions.

Proposition 1: The Form and Functions of the State

The Competition State involves both a restructuring and a qualitative disempowering of the state in the face of processes of globalisation and transnationalisation. It may also lead to

the empowering of the state in certain areas. In Britain these processes have been associated with a constitutional reformation and the shift from government to governance.

It is well documented that constitutions structure domestic economic systems and pattern social relationships and politics (see Dearlove, 1989; Jessop *et al.*, 1980). Constitutional reform may partly be understood as an attempt to reform the constitutional order in line with the economic order, and, most significantly, to alter pre-existing patterns of social relationships and politics in order to allow the state to deal better with the imperatives of globalisation (see Evans, 2003). One of the most crucial lessons that the New Labour project learned from 18 years of Tory rule was that the Westminster model of parliamentary government was an obstacle to successful adjustment to the imperatives of globalisation (see Hutton 1995; Marquand, 1988). For New Labour, the constitutional reform project represents a means for reconstituting the relationship between government and the people through constitutional methods rather than economic interventionism – an ideal replacement for public ownership as an instrument of political modernisation.

The constitutional reform project was also introduced to enhance the government's capacity to steer the Competition State. For it constitutes a strategy of integration – a process through which new and old political communities are either defined or redefined, created or discarded in both institutional and attitudinal terms. Indeed, historically devolution has been used as a policy instrument by British governments to assimilate the demands of nationalist movements within the 'nations' seeking greater autonomy. Its main aim is to secure elite attachment to the UK system of governance through the forging of a consensus on national policy goals.

If constitutional reform is about changing the fundamental principles according to which the UK is governed, then the New Governance signifies a change in the processes by which society is governed. It is a term that depicts a multi-actored (governmental and non-governmental), multi-level (European, national, regional, local) domain of governance based upon power dependence (Smith & Richards, 2001). The process of 'hollowing-out' the state that underpins the emergence of the New Governance reveals a further source of pressure from the forces of globalisation and a profound challenge to the Competition State. The term infers that the political powers of the British State are being eroded in particular ways. Rhodes (1997) has observed that there are four key inter-related trends which illustrate the reach of this process: privatisation and limiting the scope and forms of public intervention; the loss of functions by central government departments to alternative service delivery systems (such as Next Steps Agencies) and through market testing; the loss of functions from the British government to European Union institutions; and the emergence of limits to the discretion of public servants through the new public management, with its emphasis on managerial accountability and clearer political control created by a sharp distinction between politics and administration. A further dimension can be added to these four – the global trend towards regionalisation and devolution.

This endogenous process of 'hollowing-out' not only leads to the loss of the state's previous interventionist role, but also obviates much of its traditional *raison d'être*. Hence the policy focus of the state shifts from the macro-level of the IWS to a micro-level analogous to the space traditionally occupied by local, provincial, regional or US 'state' governments. Indeed the Competition State itself becomes a pivotal agent in the erosion of many of those social and economic functions that capitalist states had taken on in the first two-thirds of the 20th century. Moreover, by prioritising the promotion of international competitiveness, the

state over time loses its capacity to act, in Oakeshott's (1976) term, as a 'civil association' and increasingly acts merely as a promoter of various 'enterprise associations'.

Proposition 2: The Nature of Political Agency

Rather than attempting to insulate states from key international market pressures, as state actors in the National Industrial Welfare State sought to do, political actors in Competition States embrace openness and marketisation.

State actors and institutions promote new forms of complex globalisation in the attempt to adapt state action to cope more effectively with what they see as global 'realities'. Hence they seek to make the domestic economy more prosperous and competitive in international terms while accepting the loss of key traditional social and economic state functions, which were central to the development of the IWS. However, in attempting to meet the challenges of globalisation, domestic political and bureaucratic actors increasingly transform the domestic political system into a terrain of conflict underpinned with profound policy debates around alternative responses to globalisation (e.g. in Britain the issue of the single European currency). There has emerged out of this process of domestic rearticulation, a particular range of policy options that have come to represent a restructured, loosely knit consensus. First on the right (many of whose 'neo-liberal' members have always believed deeply in the disarming of the economic state) and then on the left, as traditional alternatives are incrementally eroded. This increasingly familiar consensus involves both an extensive process of deregulation, liberalisation, and flexibilisation not only of public policy but also of the state apparatus itself and a refocusing of the state on supporting, maintaining and even promoting transnational and international market processes and governance structures at home. The latter manifests itself in a moral emphasis on personal responsibility, an economic and political acceptance of the correctness of market outcomes, and, paradoxically, an increase in pro-market regulation and intervention (Vogel, 1996). Thus the rationale for state intervention is aimed not only at sustaining the domestic economy but also at promoting its further integration into an increasingly open global economy in the acceptance that the imperatives of international competitiveness and consumer choice have a higher ideological status than issues of domestic social solidarity.

Proposition 3: The Role of Ideology

As a result of these changes, some consensual, some coercive, the ideological divide between left and right comes to lose many of its traditional landmarks.

Social democratic and other centre-left parties begin to search for policies, which, while adapting to the new constraints, are intended to promote a diluted form of neo-liberalism, or a Third Way. In Britain this represents the outcome of the war of ideas between the forces of social democracy and neo-liberalism. Policy initiatives such as: the rejection of Keynesian demand management; the emphasis on promoting economic growth through the introduction of supply-side policies aimed at freeing up markets and expanding choice; close attention to financial management and control of public expenditure; the defeat of inflation; and ensuring the conditions for stability in the private sector's planning environment, have all represented common themes in contemporary British economic discourse. Indeed New Labour's economic project is noteworthy for its similarities rather than its differences with Thatcherism.

Proposition 4: The Nature of the Policy Agenda

The creation of a Competition State involves a policy agenda which seeks to provide the conditions that will help the state to adapt state action to cope more effectively with what they perceive as global 'realities'.

In terms of the key elements of economic policy transformation, transnational factors have interacted with domestic politics to bring five specific types of policy change to the top of the political agenda. First, an emphasis on the control of inflation and general neo-liberal monetarism (hopefully translating into non-inflationary growth) has become the touchstone of state economic management and interventionism, reflected in a wider embedded financial orthodoxy. Secondly, a shift from macro-economic to micro-economic interventionism has been reflected in *both* deregulation and industrial policy and in new social initiatives such as 'New Deal' schemes. Thirdly there has been a shift in the focus of interventionism at the international level away from maintaining a range of 'strategic' or 'basic' economic activities in order to retain minimal economic self-sufficiency in key sectors to a policy of flexible response to competitive conditions in a range of diversified and rapidly evolving international marketplaces. Fourthly, new regulatory structures have been designed to enforce global market-rational economic and political behaviour on rigid and inflexible private sector actors as well as on state actors and agencies. Indeed, the rapid rise of the Competition State, in an increasingly crowded and heterogeneous world economy, has given rise to a further paradox. As states and state actors have attempted to promote competitiveness in this way, they have seemingly voluntarily given up a range of crucial policy instruments. A heated debate rages over whether, for example, capital controls can be reintroduced or whether states are still able to choose to pursue more inflationary policies without disastrous consequences. Finally, a shift has occurred in the focal point of party and governmental politics away from the general maximisation of welfare within a nation (full employment, redistributive transfer payments and social service provision) to the promotion of enterprise, innovation and profitability in both private and public sectors.

Proposition 5: The Nature of Policy Development

Policy transfer has become a key mechanism for delivering the policy agenda of the Competition State through elite structures of governance.

This policy agenda is spreading internationally primarily as a consequence of four key developments. First, processes of globalisation both external to the nation state (e.g. through changes in the nature of geopolitics, political integration, the internationalisation of financial markets and global communications) and the 'hollowing-out' of the nation-state itself, have created new opportunity structures for policy transfer.

Secondly, policy transfer is more likely to occur in an era of New Governance. The shift from traditional government to collaborative governance has increased the range of non-state actors involved in delivering public goods and has created an opportunity structure for cross-sector policy learning. In times of uncertainty policy-makers at the heart of policy networks will look to the 'quick fix' solution to public policy problems that policy transfer can provide.

Thirdly, the close relationship which developed between the Blair and Clinton administrations in the UK and the USA has made the study of policy transfer even more attractive (at least from an Anglo-American perspective). An ever-lengthening list of common policy

initiatives developed between the two states providing significant evidence of lesson drawing between Blair and Clinton's advisors. Prominent examples include: education (reduction of class sizes), crime (zero-tolerance, anti-truancy drives), and welfare reform (welfare to work and creation of work incentives). In addition, Brown became convinced of the need for Bank of England independence after discussions with Alan Greenspan, Chair of the independent US Federal Reserve Board (Central Bank), and Robert Rubin, Clinton's Treasury Secretary. Indeed, Brown's working family tax credit system is a direct copy of the American earned income tax credit scheme. It is within this international agenda for the centre-left that we are most likely to find examples of policy transfer between Britain and America. For example, in new public management (James, 2001), urban (Wolman, 1992) or welfare (Dolowitz *et al.*, 1999) policies. This 'special relationship' continued into the Bush administration, despite significant policy differences between the two administrations. Of course, this may be attributed to Britain and America's joint action in Iraq and the attempt to win the 'global war on terrorism'.

Finally, New Labour's programme of welfare reform reveals three key features of this crucial dimension of the Competition State. First, the ideology of welfare from which subsequent welfare reform has flowed has changed and lessons have directly been incorporated from the USA. The ideological sea change underpinning the philosophy of British welfarism began in earnest with Sir Keith Joseph's attack on the post-war settlement in the mid-1970s (Joseph, 1972, 1974) which proved particularly influential in shaping Margaret Thatcher's thinking on the welfare state. However, it was the American conservatives, especially Charles Murray and Lawrence Mead that gave the critique of welfare dependency greater policy and programmatic expression. Indeed it is also possible to trace a change to the discursive construction of British welfarism from this conjuncture. As Alan Deacon (2000, p. 8) notes:

[t]heir ideas about welfare dependency and the underclass had a profound impact upon all points of the party political spectrum in Britain . . . Margaret Thatcher recorded in her memoirs how these ideas reinforced her conviction that there was no conflict between individualism and social responsibility.

The work of the American conservatives also had an incremental but ultimately profound impact on New Labour's thinking especially in relation to their argument that rights and responsibilities were mutually reinforcing elements of sustainable welfarism. This, of course, challenged the key premises of Labour's post-war conception of welfare entitlements as the key policy instruments for achieving social equality and solidarity. The importance of bonding welfare rights and obligations won the war of ideas in the mind of Tony Blair and 'no rights without obligations' became 'a prime motto for the new politics' under New Labour (Giddens, 1998, p. 65).

A further feature of the Post-Welfare Contracting State has been the reform of the welfare state towards a more financially rigorous ensemble of bureaucratic structures and a downsized labour force in keeping with New Democrat thinking in the USA and the economic orthodoxy of a Competition State.

The third feature can be identified in the shift in welfare policy itself in favour of integrating people into the private sector workforce through active labour market inclusion largely based on the American model. However, it is important to note that the development of the post-welfare, contracting state, pre-dates the Blair government. New Labour decided to continue the Conservative 'workfarist' approach to labour market policy and to encourage its adoption in other EU states by pressing for a minimalist social chapter and promoting the

'New Deal' as the model labour market policy. This focus on the need to produce incentives in the welfare state constitutes an appropriation of a key New Right concept – the need to destroy the welfare dependency culture through getting people back to work rather than keeping them on benefits. This emphasis on the virtues of work has been central to Blair and Clinton's assault on what Thatcher termed the 'evils of welfare dependency' and despite the considerable differences which exist between the two welfare systems, not to mention political traditions, Blair and Clinton both argued that the two countries share a common problem of welfare dependency, which can be tackled through welfare to work.

Proposition 6: The Decline of Social Solidarity

These developments challenge the capacity of state institutions to embody the kind of communal solidarity which gave the modern nation-state its deeper legitimacy, institutionalised power, and social embeddedness.

The cumulative effect of these various pressures and processes is manifested in a redefinition of the boundaries of the political. The restructuring of the political arena forces parties and governments of the left to redefine their conception of the 'social' and the 'public' away from the traditional confines of the 'modern' state. In Britain this has been reflected in two main developments. Firstly, the residual rights approach to citizenship that underpinned Britain's unwritten constitution has been replaced with the introduction of legally enforceable individual rights through the introduction of a Human Rights Act. Secondly, there has been a paradigm shift in British Welfarism that has been manifested in an attack on welfare dependency and the bonding of welfare rights and obligations.

However, the battle for the hearts and minds of the people is a key problem for the Competition State for many of its key reforms rest on changing norms and values and challenging the dependency culture of the post-war settlement (e.g. New Deal, pensions, student tuition fees). New Labour's attempt to sell itself as 'globalization with a human face' is a similar tactic to that deployed by the Thatcher governments in the sense that Thatcherism operated as a discourse which situated subjects, made sense of their experiences, mobilised support behind particular projects and established the basis for political, intellectual and moral leadership (see Hall, 1985; Jessop *et al.*, 1988). In particular, the policy agenda of New Labour attempts to change individual and group attitudes to entrepreneurship.

In Conclusion: Globalisation and the Competition State as Paradoxes

The central paradox of globalisation, the displacement of a crucial range of economic, social and political activities from the national arena to a cross-cutting global/transnational/domestic structured field of action, is that rather than creating one economy or one polity, it also divides, fragments and polarises. Convergence and divergence are two sides of the same process. Globalisation remains a discourse of contestation that reflects national and regional antagonisms and struggles. Processes of globalisation generate not merely passive or automaton-like reactions to structural change, they alter the playing field on which political actors attempt to achieve their strategic objectives. New Labour, caught in the globalisation trap, has sought to reassert control of the game by both manipulating and learning the lessons of Thatcherism. However, whether they can be successful while also maintaining Labour's traditional emphases on social justice and redistributive community values is more problematic.

Whether the forces of convergence will lead to a complex but stable, pluralistic world based on liberal capitalism and the vestiges of liberal democracy, or the forces of divergence and inequality remains to be seen (Fukuyama, 1992). But whatever direction the future takes, the Competition State is becoming increasingly both the engine room and the steering mechanism of a political globalisation process, which will further drive and shape processes of economic, social and cultural globalisation.

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