

The Terms of the Neo-Liberal Consensus

COLIN CROUCH

AND so the most spectacular crash of the world's most neo-liberal government ushered in the neo-liberal consensus. From now on both major contending parties in the British state accept the essential neo-liberal tenets: markets should rule under the guidance of entrepreneurs, with minimal intervention from government; taxes and public spending, and in particular the redistributive effect of direct taxation, should be kept down; and trade unions should have as marginal a role as possible. However, the bounds of the new politics are set by landmarks familiar from the start of the twentieth century, the spectrum of the consensus running from nationalist neo-liberals on the right to social neo-liberals on the left. It is also a politics framed by class; the fact that the manual working class has passed its historical peak does not mean an end to class politics, only a major change in its shape.

Postwar history can now be read as follows. For thirty years after 1945 the needs and capabilities of the manual working class set the terms of a basic Keynesian economy. There was broad consensus over the form of this, parties contending over the precise balance of social policy and taxation, the degree of redistribution to be aimed at, and the extent of steering to be given to markets. As the working class declined in strength in the 1970s and 1980s, the class of global financial capital rose to pre-eminence and economies underwent a major restructuring. Consensus broke down and was replaced by a confrontation—seen at its sharpest in Britain—between anti-Keynesian neo-liberalism and a

hopelessly defensive labour politics. The thoroughly successful installation of a British Labour Government that has managed to escape that politics and come to terms with the new hegemony restores consensus, but one based on the principles of neo-liberal market freedom.

More 1951 than 1945

Seen in these terms the Labour victory of 1997 was not another 1945, when a party representing the powerful new forces at work in politics and society came to power, but a 1951, when Winston Churchill's Conservatives showed that they could adjust to and succeed in a political world which was not of their making and in which they had initially felt distinctly uncomfortable. It is at that point, when previously defeated parties find their way of playing and winning their opponents' game, that a consensus can come into being.

How the future will now develop will depend on events and forces that we cannot yet perceive, but we can set our bearings for it by properly understanding the relationship of New Labour to Old Labour, and also to a potential future forgone—the idea of an 'institutional capitalism' that flourished in the 1980s and for much of the present decade.

If we restrict ourselves to politics that had a practical importance and ignore the masses of untried theories, there were really four Old Labours. The first was not some kind of *Ursozialismus* but the politics of the governments of the interwar years, thrust into office prematurely at a time of frightening turbulence

in the capitalist world. Nothing can be done about capitalism yet, they had to argue. Eventually things will develop so that socialism becomes possible; meanwhile we must do what we can to protect our people from the ravages of the markets, through rudimentary social policy and trade union rights. This was the stance of the ill-fated governments of British Labour and the Weimar Social Democrats until the logic of the capitalism of their day made even their limited objectives of social protection impossible.

Old Labours Two and Three dominated the postwar period, which lasted until the oil and other inflationary crises of the 1970s. Two was the strategy of nationalisation and state planning and control that has come to be called democratic socialism. Three was social democracy, which fully accepted the competitive market economy but sought to affect its operations through a mixture of Keynesian demand management, various subtle interventions to channel rather than suppress market forces, and extensive development of a major non-market sector through a universalist welfare state.

Democratic socialism was really suited only to an economy with very clear basic priorities and without much need for innovation or detailed consumer choice. Its heyday was therefore the wartime and immediate postwar period, when people sought little more than basic forms of food, warmth, shelter, clothing and furniture, and social services. The 1940s Labour governments in Britain and Norway, and multi-party coalitions in Austria, France and Italy, provided the main examples. Although socialist thinkers clung to the model for much longer, it did not really survive practical politics after 1950—apart from temporary late appearances in the 1970s in Portugal and in the early 1980s in France. France was the country where the national political context was most supportive of such policies, but by the time French socialists

had their chance the time of this approach to the economy was long past. It could not cope with complex consumer demand, nor did it understand how new products could be developed and marketed. It also required some capacity for the autarky of a national economy protected from hostile external forces.

The relative success of social democracy

Social democracy, Old Labour Three, was far better attuned to the world of mass consumption and an increasing variety of marketed goods that developed in the 1950s and 1960s. It had the added advantage that the part of the world where its ideas were most fully developed—Scandinavia, especially Sweden—provided the political conditions for enduring government by labour-movement parties. Scandinavian social democrats fully accepted the need for competitiveness and respected the importance of market forces. They had no choice here: their small economies were heavily dependent on export markets in which they were bound to be price-takers and not price-makers; protectionism and economic autarky were not an option. The avoidance of inflation, the priority of union restraint in wage bargaining and the need to look to the requirements of local capitalist firms together provided the iron frame within which their policies for redistributive taxation, extensive social policy, full employment and cautious steering of private investment had to develop. While in no way protectionist, social democracy did however need the assumption that a Swedish company was more or less based in the country and would therefore have to reach agreements with Swedish governments. Social democracy along these lines became the most successful form of labour politics so far developed.

Old Labour Two lived on as a potential

politics. The British Labour Party never made up its mind between democratic socialism and social democracy. Despite the best endeavours of Hugh Gaitskell and Anthony Crosland, advocates of socialism took the moral and ideological high ground, so that social democracy tended to develop as a series of 'betrayals' of socialist positions. As a result it never got far beyond basic Keynesianism. Something similar happened in France and Italy. In the US the left wing of the Democratic Party failed to progress past the 1930s New Deal, though for different reasons. German Social Democrats learnt the Scandinavian lessons well and had some opportunity to implement them in the 1970s.

Social democracy predominated mainly in its small northern fastness, but in a weaker sense it permeated the whole period. Among the many useful concepts scattered around the thoughts of Karl Marx is the idea of different classes whose interests dominate particular epochs. In a very real sense the post-war decades were the decades of the working classes of the industrial world. It was not just that they formed vast voting blocks whose demands for stability and social services powered the great multiplier of Keynesian demand management. Their full employment, sustained by these policies, was both the consequence and the cause of unprecedented growth: their consumption provided markets for the increasing variety of mass-produced goods that were providing previously unimaginable opportunities for capitalist entrepreneurs who had in the past been limited to making small quantities of luxury items for the rich and very simple cheap products for the poor. These facts remained even though parties devoted primarily to the interests of the working class ruled only intermittently. Social democracy therefore *characterised*, though it never *dominated*, the postwar period. This was inevitable, given that the working class

could not actually topple more powerful classes within a capitalist economy.

In the 1980s social democracy temporarily left the Baltic and took a Mediterranean holiday, as labour-movement parties enjoyed spells of government in Spain, Greece, Portugal and France, and took a leading role in coalitions in Italy. Even if they wanted to be socialists, these administrations had to settle for social democracy and they enjoyed some success in implementing Scandinavian-type welfare state programmes—as José María Maravall, a long-serving education minister in the Spanish government, describes in his recent book.¹ However, they had far less success with a distinctive economic management. They had arrived on the scene too late, and the northern European models themselves were also crumbling. Social democracy was in trouble.

The collapse had been triggered by the crises of the 1970s, the inflationary shock of which tested to destruction the capacity of demand management to deflate when necessary. Both employment and the welfare state had become too dependent on sustained high public expenditure. But there were other, even more fundamental causes. The productive system was shifting again, away from mass-consumption staples to a more rapidly changing diversity of goods and, increasingly, services, that required more scope for innovation, product change and entrepreneurship than social democratic policy anticipated. Capitalism was also becoming more international, so the assumption that a company was more or less committed to its national base was becoming less valid. The technology of communications was making it possible for corporate headquarters to control productive activities in remote locations; giant firms were becoming able to shift their operations around the world. New countries in the third world were beginning to compete in producing industrial goods at far

lower labour costs. More important still, financial markets were becoming global, enabling capital to move around the world at ease.

Further, the position of the manual working class was about to be fundamentally challenged. It was, for the first time in its history, growing smaller as productivity in its manufacturing heartland rose more rapidly than in other sectors of the economy. Employment shifted to services and to administrative functions within the manufacturing sector itself. These new occupational groups had nothing like the clear political profile of the manual class and its unions. These unions were meanwhile becoming problematic actors in the new struggle against inflation, even in Scandinavia gradually losing their capacity to use wage moderation as a crucial component in squaring the circle of an entrepreneurial economy and a strong welfare state. The working class was becoming a social problem rather than an economic motor.

The socialism of defensive decline

Although the crisis gradually became general, its political implications were felt first and most strongly in the United Kingdom, where the industrial structure was old and weak and unable to withstand competition, and where unions were particularly incapable of playing the moderating role. Within the decade 1976–85 the political edifice erected after 1945 was destroyed. Keynesian demand management was formally abandoned by a Labour government in 1976; there was massive industrial conflict in 1978–9; a neo-liberal government took office in 1979; the Labour Party split in 1981 and in 1983 swung sharply to the left and suffered the worst defeat since its infancy; the unions were broken following an utterly inappropriate mining strike in 1984–5.

Superficially it seemed that, as it moved left, the labour movement was responding to the situation by reasserting Old Labour Two, democratic socialism. In fact it was inventing Old Labour Four: the socialism of defensive decline.

Previous labour politics had been produced by parties of a constantly growing working class. Even the weak ambitions of Old Labour One had been rooted in a fundamental optimism: our class is growing; one day it will be able to challenge capitalism. Certainly the early British Labour Party was confident enough to believe in free trade and expanding economic horizons. The labour politics produced in the late 1970s and 1980s departed from this pattern, and for reasons that were as understandable as they were hopeless. The class was getting smaller; productive forces were developing beyond its reach. Its core demands were for control and subsidy to stop industrial change, for protectionism and autarky to limit the need to trade; for isolation from the dizzy world of product innovation and changing corporate structure that was constituting the next stage of capitalism. The rhetoric might have been socialist, even Marxist, but there was no real sense here of the politics of a class inheriting the future.

It is true that a useful new sub-class had been emerging alongside the manual working class: the large numbers of public service employees, including professionals, the service providers generated by the welfare state. However, the role of this group also became negatively defensive during the dark years of the 1980s. 'Defend jobs and services' was the slogan of the public service unions, and the rank order of these two was clear.

The potential politics of capitalist diversity

Old Labour Four contained no answers for the future; but Two and even Three

had also outlived their time. A New Labour was absolutely necessary, and by the late 1980s a potential new model seemed to be emerging, in the UK, elsewhere in Europe and in the US, first in the academic literature but moving quickly through the think tanks into journalism and discussion. The central theme was the institutional diversity of capitalism.

The new economic possibilities for product and service innovation needed a labour politics that was more flexible, more responsive to the needs of entrepreneurialism than even Swedish social democracy had been. But the new alternative had to combat neo-liberalism and its stark messages of the commercialisation of as many aspects of life as possible (including social policy and long-standing public policy functions), the growth of material inequalities, a maximum emphasis on rapid, short-term decision-making without respect to longer-term commitments, and the concentration of all economic decision-making in the hands of an entrepreneurial elite.

The potential answer started from the observation that by no means all successful capitalist economies embodied these characteristics, and that during the 1980s the two that had gone furthest in a neo-liberal direction, the UK and the US, seemed to be performing less well than several of what became known as the 'institutional' economies (because various non-market institutions articulated and shaped the operation of market forces). The range of these institutional factors was extensive and included the role of trade associations, codetermination and regional levels of government in giving a distinctly collectivist cast to German business; the cooperative communities of small firms in central Italy; cooperation both among firms and between them and employees in Japan; and the record of technological innovation of French state enterprises. Not only

did a diversity of forms of capitalist organisation seem possible, but there was evidence that those which incorporated some sense of collective interests, long-term commitments, trust and cooperation, and recognition of the role of interests other than those of share owners in corporate decision-making could be at least as successful as the pure market models.

True to the postmodernist temper of the time, ideas and institutions were being taken from a diversity of sources, not always with appropriate regard for context, but observers seeking a redefinition of labour politics were consistent in seeking strategies for the involvement of workers and other collective actors which might reduce the power and autonomy of the business elite. For similar reasons there was great interest in training and work skills, to furnish the workforce with a strong position within the labour market. Politics had to be about power. If more scope needed to be given to entrepreneurs and if the old mass working class was breaking up, the employee population on whom labour politics would continue to depend needed a new kind of power within the productive system.

Socialists could easily ridicule an attempt to base a new strategy for the left on Japan and Christian Democratic Germany, but they missed the point. Policies which tried to put the lid on entrepreneurial flexibility were utterly doomed; what were needed were approaches that could accommodate this alongside the essential core of labour-movement values: assertion of the collective interest; reduction of inequalities; preventing the concentration of power in the capitalist class. The fact that since the 1980s Germany and Japan have become among the most egalitarian societies in the industrial world while the UK and US are moving to extraordinary degrees of inequality vindicates the project.

The most succinct and celebrated formulation of the institutional thesis was Michel Albert's *Capitalisme contre capitalisme*,² which contrasted short-termist Anglo-American capitalism with long-term-oriented 'Rhenish' capitalism. The latter model included a variety of different forms; the Rhine has to be seen for these purposes as rising under Mount Fuji and reaching the sea somewhere near Saltsjöbaden. Albert is a French businessman who was close to the Mitterrand presidency. The best-known local British exposition of the theme is to be found in the economic discussions of Will Hutton's *The State We're In*,³ the enormous success of which demonstrated a deep desire within the British population for an alternative to an economy dominated by the criteria of the City of London.

The most significant practical expression of the new hopes found voice in the aspiration of Jacques Delors' presidency of the European Commission towards a 'social Europe' that would seek the competitive advantages accruing to economies with strong social infrastructures. In Britain the idea of a 'stakeholder economy', in which shareholders would no longer be the only group with a recognised stake in a firm, became another expression of the idea.

A new labour politics seemed about to be born. Its main constituents would be institutional reforms to encourage various forms of cooperative, high-infrastructure, collectively oriented enterprise; measures at international level to replace national attempts at regulating capitalism which had been rendered impotent by the globalisation of capital movements; and strategies to improve the skills of as much of the population as possible.

But it was not to be. If any one event destroyed the project it was the unification of Germany. Incorporation of the bankrupt economy of the east into the central exemplar of Rhenish capitalism has completely disturbed the balance of

that model. The rise in all-German unemployment consequent on the loss of four million jobs in the east during the first two years of reunification, and the enormous cost of trying to bring the *neue Länder* up to the level of the west before they become a permanently depressed region, has provoked panic in the German business class, which now clamours for the short-term orientation and reduced social burdens of the Anglo-American model.

But such events only set the seal on underlying forces. Generally, the politics of employment had been turned upside down by the universal abandonment of Keynesian policies. This route to employment creation being blocked off, it became possible for neo-liberals to assert the priority of reducing unemployment and to do so by advocating the reduction of labour costs (both wages and welfare) and labour protection. Acceptance of these arguments puts paid to attempts at building an institutional rather than a pure market capitalism, especially one that gives employee interests an active role. The Organisation for Economic Cooperation and Development and other neo-liberal international agencies have been hard at work generating the now hegemonic stereotype of a low-unemployment, low-regulation Anglo-American world and a high-unemployment Europe in which Delors' future vision of a social Europe is inaccurately treated as already having been implemented.

Sometimes variation within Europe is admitted, but the same lesson is drawn, unemployment being highest in 'highly regulated' Spain and Italy and low in 'lightly regulated' Denmark. Some might ask whether the recency of agricultural decline might not be part of the southern European story, or question whether the impressive legislative edifices of Spanish and Italian labour law are sufficiently enforced in practice for the labour markets of these countries to be regarded as highly regulated. Others

might ask whether the corporatist regulation of the labour market by employers' organisations and trade unions in Denmark really counts as light regulation just because it is not implemented by government. However, within the neo-liberal hegemony it is not considered appropriate to ask questions of that kind.

As Albert himself warned, and as Wolfgang Streeck and I have argued elsewhere,⁴ at times of rapid change, systems that maximise opportunities for short-term exit will be preferred by businesses, even if this might undermine their own long-term interest. But most important of all has been the gradually intensifying shift of power to the financial markets which has resulted from an almost global economy, complete international deregulation of capital movements, technological developments which enable the players in these markets to respond extremely rapidly and to know what each other is doing, and a capacity to wield sums of money far vaster than anyone actually owns through leveraged deals and constantly expanding derivatives markets.

The actors in these markets are becoming a new global dominant class. They do not need to exist in the large numbers necessary for most other classes within a democracy. While the rest of us get a chance to vote for representatives every few years, these people can, by buying and selling currencies and company stock, effectively express their views on policy actions every minute of every day. They are the only true citizens in the modern world, and they can exercise their distinctive form of citizenship in any country that is part of the capitalist world. Since they epitomise the short-termist, pure-market, constraint-free form of capitalism against which all the arguments of the institutionalists were primarily directed, they might be expected to take a view about the prospects of any country whose politicians

were seriously considering 'stakeholder' ideas.

The birth of social neo-liberalism

Therefore, when New Labour finally arrived, it could not take the form of policies for constructing an institutional capitalism. Stakeholding became little more than commending to employers the value of consulting their workforces. Nothing that might displease the neo-liberal business community, especially the financial community, could be risked. What could remain were policies to equip the population with first-class work skills, since this part of the institutionalist strategy involved the adaptation of people to the needs of the markets rather than vice versa. Thus a strategy of economic institutional reform, international regulatory initiatives and education became 'education, education, education'. Mr Blair's famous enunciation of his party's top three objectives was very eloquent.

In a sense this is a return to Old Labour One, but with crucial differences. Inter-war labour had said: 'Nothing can be done about the markets (yet); we must just try to protect our people from their ravages.' New Labour says: 'Nothing can be done about the markets (ever); we must help our people adapt to their requirements.' The increase in pessimism in the first clause but in proactive optimism in the second indicates the character of the change.

And so British Labour followed a path already being trod by the Italian left as it moved from its even more socialist past to its flimsy but historic governing majority. Parties which had been more social democratic and had spent fewer years in opposition, as in Scandinavia or The Netherlands, have less of a dramatic adjustment to make and may even save more of the institutionalist agenda, but

the story is basically the same: reconciliation with neo-liberalism.

There is still space for politics within the neo-liberal consensus, as there was with Keynesianism. Parties will contend over how much public policy should assist people to adapt rather than leave them to it, over how much local communities should be helped to deal with the crime and other forms of dislocation that follow from intensified inequalities and insecurities. And within the consensus New Labour occupies the familiar and authentic position of the left, pressing the role of social policy in support of adaptations to the markets, seeking amendments to the rougher edges of finance-driven capitalism, maximising the importance of education.

Its task will not be easy. Since New Labour sees no problems of *power* in its relations with capital, it has no defences against the constant shift of that commodity towards the financial markets and the risk that their demands will become increasingly onerous. Similarly, by more or less sharing the neo-liberal agenda of hollowing out the state and privatising more and more of its functions, it runs the risk of losing all economic policy expertise from public authorities, who become simply contractors-out of services to the private sector, such as the new management consultancy conglomerates, who are themselves part of the business world and share its interests and agenda.

Finally, and most immediately, it is possible that the strategy of educating as many people as possible to the point where they can compete in global markets without much need of a welfare state will reach its end point while welfare bills are still large. The problem with competing through high skills is, as the Germans have found, that the very success of the policy means that ever fewer workers are needed to produce a given unit of output, reducing the need for workers of that kind. Increasing activity

in high-productivity areas has its corollary in requiring increasing activity in low-productivity areas which bring high employment but low wages and poor conditions. Will the neo-liberal economy still permit the option of extensive public service employment, offering decent conditions and security, if not good wages, to fill this gap?

The other pole: nationalist neo-liberalism

This does not mean that, once the Conservatives have recovered from their crisis, all is plain sailing for 'real' neo-liberals, even if they and the markets are economically more at ease with each other. After the initial lure of low taxes, neo-liberalism without a social cushion is a rather forbidding doctrine. It has to come to the hustings telling people that very little can be done to protect them from global competition and that their demand for security cannot be met unless, in the long run, the markets happen to deliver it. It also suffers, like classic nineteenth-century liberalism before it, in being unable to appeal to deep loyalties and passions. Classic liberalism became a minority movement except where it could join itself to broad appeals to class, religion, race or nation. Similarly, in this neo-liberal age nowhere is a party that is solely defined by neo-liberalism a major political force.

This is why the right's counter to social neo-liberalism will be not pure but nationalist neo-liberalism, since the late nineteenth century the main rightist response to social politics. Appeals to nation (or race, or traditional values, or any other form of reassurance of security that does not interfere with the market) provide both a focus of loyalty and the illusion that neo-liberalism stands for something solid and stable. The European Union enables British Conservatism to square its circle of proclaiming

national sovereignty while wanting to expose the country to completely unregulated capital movements and as much globalisation as possible. The formula is: where Brussels is concerned, national sovereignty; in all other circumstances, full market freedom. Thus, if a French firm buys British water resources privatised by a Conservative Government, no comment; but if Spanish fishermen buy British fishing quotas under the aegis of the European Commission, the national soul has been offended and revenge must be sought.

This explains the curious fact that, following a general election which saw its fundamental economic strategy upheld but its party defeated for a variety of reasons, the Conservative Party chose to make its approach to the EU the sole defining issue in its struggle to renew its identity. It is clever, but risky. If the business world eventually decides, as it well might, that it prefers the UK fully inside an integrated Europe, Conservatives will have a new choice. They will have to do what their counterparts in Germany, France and The Netherlands do and adopt a weak version of social neo-liberalism; or follow their US and Italian counterparts into more extreme forms of right-wing appeal. But, as the US Republicans found when they temporarily considered the far-rightist Pat Buchanan as a potential standard bearer, at a certain point reactionary nationalism becomes very protectionist and hostile to free markets.

For some years people have been suffering the pain of having to adapt their lives to the preferences of the capital markets; but the markets will also have to adapt to the people. The terms of the neo-liberal consensus will not be static: elements of its social version overlap with the institutional agenda, and many of its constituents are uncertain. We are now thoroughly embedded in it, and change will come only by working through it, not by attempting a major reversal. A case in point is monetary union itself. The criteria for joining it are heavy with neo-liberal assumptions, which largely explains the deflationary state of most continental European economies. However, once it has been achieved it will provide a powerful protection against currency speculation in the financial markets, and thus a crucial ingredient of the institutionalist programme.

Notes

- 1 José María Maravall, *Regimes, Politics and Markets*, Oxford, Oxford University Press, 1997.
- 2 M. Albert, *Capitalisme contre capitalisme*, Paris, Le Seuil, 1991.
- 3 W. Hutton, *The State We're In*, London, Cape, 1995.
- 4 C. Crouch and W. Streeck, 'Introduction', in C. Crouch and W. Streeck, eds, *The Political Economy of Modern Capitalism*, London, Sage, 1997.