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The Blair Government, Labour Market Flexibility
and the Social Democratic Project in Britain

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The Blair Government, Labour Market Flexibility and the Social Democratic Project in Britain

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From a Channel 4 programme charting the Blair Government's increasingly pro-business stance:

*Interviewer: 'Is the name Labour still appropriate to describe the Party?'
Government minister (Kim Howells MP): [long pause] 'Well, it's a name'.*

Introduction

In 2001, the Labour party was swept back to power with a majority of 167. It was the second largest parliamentary majority won by any party since 1945 – the largest being Labour's own triumph four years earlier. Tony Blair and his 'modernising' supporters set out to rebuild the party as the most formidable electoral machine in British politics and few doubt that this goal has been fully achieved. However, there is much more uncertainty about Labour's purposes in power. There is broad agreement that, under its new unofficial name of 'New Labour' the party has undergone a metamorphosis. About the nature and contours of that metamorphosis there is much less agreement. To sympathetic commentators, New Labour's 'Third Way' creed 'represents the only effective means' of pursuing the traditional social democratic ideals of social justice and solidarity today' (Giddens, 2000: 29). To critics, in contrast, the Blair Government 'owes more to a neo-liberal appreciation of the world than to any social democratic perspective....It's contemporary stance reflects the neo-liberal belief that the notion of an interventionist state imposing collective decisions upon an economic system of market exchange is outmoded and irrelevant' (Heffernan, 2000: viii. See also. Hay, 1999).

Politics, Laswell's famous formulation, is all about who gets what, when and how. Parties, as the representatives of social interests, have traditionally played a key role here. The function of party representation can be defined as the promotion of the claims and concerns of groups differentially located within social structure and their translation into acts of party and then public policy. The Labour Party was formed primarily because its founders, unions and socialist societies, felt that the working class was denied voice in the existing political system, its interests thereby neglected. For the Webbs, who played a central role in elaborating the Party's first programme, its formation was 'a recognition of the solidarity of interest....among the great mass of wage-earning folk' including routine white collar workers, and the belief that 'the aspirations and desires of wage-earners and the salariat can be formulated in a programme for legislation....that will command their general assent' (Quoted in Beer, 1967).

For most of the twentieth century, this is broadly how Labour defined its representational role (though this had to be balanced with other roles). In discharging this role a principal goal was to combat labour insecurity and to relieve workers from the status of commodities on the labour market by providing them with rights. An extensive network of employee protection was erected by Labour governments including entrenching the rights to combine and to strike, introducing redundancy pay, compensation against earning loss and unfair dismissal, and equal pay whilst over the years, trade unions acquired a sufficiently strong position at the workplace to check the exercise of managerial authority. Much of this was swept away by the Thatcher Government after 1979 in its determination to eradicate 'labour market rigidities' and restore managerial authority. By 1997 trade union membership had fallen almost by half, a far smaller proportion of the workforce had its wages and conditions collectively negotiated and British employees were amongst the least well-protected in the European Union, How would the new Labour government respond?

At the heart of the New Labour project has been a reformulation of the party's relations with business and the unions. 'We must never', Gordon Brown declared, 'return to a situation here in Britain where, unlike in America and most of Europe, one party is seen as pro-business and the other anti-business' (Electronic Telegraph 11 November 1996). In 2002 Anthony King described the 1997-2001 Blair administration as 'the first-ever Labour government to be openly, even ostentatiously pro-business' [and]... ministers were instructed to be, and were, continuously sensitive to business interests.' (King, 2001: 9). Was the new, strongly-pro-business orientation compatible with Labour's traditional role of guardian of the interests and needs of the working population? Or has Labour been remodeled from a social democratic into 'more or less a business party'? (Crouch, 2002: 47).

This paper addresses these questions by means of a case study, the Blair Government's advocacy of flexible labour markets. Shortly after his second electoral triumph Tony Blair reminded the Confederation of British Industry (CBI) that, according to the OECD, the UK has among the least regulated product and labour markets of any major industrialised country. 'It will', he reassured his listeners, 'stay that way...there will be no dilution of our essentially flexible labour market' (Blair, 2001). Why did the Blair Government decide to conserve much of the Conservatives' legacy of labour law? What did this signify for New Labour's mission? Could this commitment be reconciled with the Party's

traditional role of protector of wage-earner interests? Or is a new type of Labour Party emerging? If so, what are the implications for employee representation in the UK?

The paper proceeds in the following way. The first section describes Blair Government policies on matters directly relating to the operations of the labour market which, we will suggest, amounts to a sharp departure from Labour's traditional posture. The second section seeks to account for this. Firstly, we review Hall's influential thesis (Hall, 1998, Hall, 2002) that it was – in an exercise in 'policy learning' - a rational and functional response to the needs and constraints of a liberal market economy. We suggest that this is an unduly deterministic approach and explore other factors, notably the manner in which New Labour construed the needs of the economy. The third section considers the implications of the Blair Government's commitment to labour market flexibility for its representational role. The paper ends with some concluding thoughts.

1. New Labour: Regulation and Flexibility in the Labour Market

Wages, free market theory runs, are the price paid for labour and in a properly functioning market should operate as signal for both workers and employers as to how labour resources can be most productively used. Interference in the free flow of the market constitute instances of 'labour-market rigidity'. According to Solow, rigidities are usually assumed to exhibit the following features: unemployment- insurance benefits which are too high or last too long, too many restrictions on the freedom of employers to fire and to hire, too tight regulation of the permissible hours of work, unduly generous compensation for overtime work, and excessive trade union power enabling unions to protect incumbent workers against competition and to control the flow of work at the site of production. The overall effect is to hinder the smooth operation of the labour market. (Solow, 1998). Following this logic, the Thatcher and Major Governments enacted a whole series of industrial relations laws which, *in toto*, produced a major freeing-up of the labour market (these we sketch below).

In opposition Labour had resisted each new tranche of Tory labour relations laws but even before Blair's election to the party leadership in 1994 it had committed itself to leaving intact much of the new system. The 1997 Labour election manifesto pledged emphatically that 'the key elements of the trade union legislation of the 1980s will stay – on ballots, picketing and industrial action'. There would be 'no return to flying pickets, secondary action, strikes with no ballots or the trade union law of

the 1970s'. (Labour party, 1997). On the other hand, the Party promised to redress the damaging consequences of Conservative policies - a rapid growth in income inequality, the effective absence for many employees of protection against exploitation and, above all, mass unemployment. It pledged to introduce 'basic minimum rights for the individual at the workplace', a minimum wage, (though 'within a flexible labour market'), rights for workers to join a union and for a union to secure recognition by employers 'where a majority of the relevant workforce' balloted in favour. These were combined with initiatives to foster a 'culture of enterprise and risk-taking', to encourage the fuller exploitation of technology, to upgrade skill-levels and to encourage a 'spirit of partnership' between management and employees. In contrast to the Major Government, it promised to sign the EU's Social Chapter. Finally it stressed that the attainment of 'high and stable levels of employment' remained a key 'long-term objective' (Labour Party, 1997).

These pledges were realised by the Employment Relations Act, placed on the statute book in 1999, which was presented as the Government's final word on the subject. An important supplementary source of labour protection instruments were the various directives promulgated by the European Union under the Social Chapter whose implementation had been blocked by the Conservatives. To help trace the pattern Government measures followed, the paper distinguishes between three types of labour market flexibility, employment flexibility, employee cost flexibility and managerial control over the labour process in each case placing its actions in the context of the legislative changes effected by the Conservatives.

Employment flexibility

Employment flexibility refers to the capacity of employers to hire and fire employees at will, and to use part-time, temporary and short-term contracts to match production more closely to shifting market demands. Greater employment flexibility was pursued by the Conservatives by a variety of measures such as the dismantling of employment protection legislation, weakening employment rights over unfair dismissal, privatising industries and thereby removing workers from the umbrella of collective agreements, and enforcing competitive tendering in the public sector. In many sectors the proportion of the labour force on part-time and temporary contracts steadily rose enabling employers to tailor the size and composition of the workforce to market demand.

The Employment Relations act imposed some restraints on the right to fire, most notably by strengthening unfair dismissal provisions and banning discrimination against union members. (Glyn and Wood, 2001: 61). A number of other steps have been taken since 1997 to increase employee rights but these have been driven primarily by European Union legislation. In July 2000 the Government enacted the Part-time Workers Regulations as required by EU law which, for the first time in Britain, extended statutory employment protection employees engaged in 'atypical work' such as part-time workers (Jeffery, 1999). However the effect of this was attenuated when the Government limited coverage to those classified as 'employees' a definition which excluded many temporary, agency and nominally self-employed workers and the legislation as eventually implemented left (according to the government's own figures) more than 90 per cent still unprotected. (McKay, 2001: 294). TUC pressure to close this loophole by abolishing the legal distinction between 'employees' and 'workers' has so far had no effect. (TUC, 2003).

Employee cost flexibility

Employee cost rigidities, according to free market theory, have the effect of artificially inflating the cost to of employees beyond market equilibrium, either through the use of trade union bargaining power or state-imposed non-wage labour costs such as of holiday, sickness and pension entitlements. A variety of measures were adopted by the Conservative Government to promote both pay and non-wage cost flexibility. These included abolishing wage councils (which set minimum pay in low-wage industries), contracting out public services where the existing staff was often re-employed at lower rates and fewer fringe benefits and trade union laws which hampered the ability of unions to resist changes in wages and conditions. The scaling down and tightening eligibility for social benefits was also designed to lower the 'reservation cost' of labour by pressurising the unemployed to accept low-paid jobs rather than holder out for better paid ones. The spread of temporary and part-time contracts and self-employment also reduced costs since their holders were not normally eligible for holiday pay, sickness entitlements or pension contributions.

Here too the Labour Government took a number of steps to lessen the impact of market forces. The most important was the introduction (for the first time in the UK) in April 1999 of a National Minimum Wage though at £3.60 an hour the rate fell considerably short of the TUC's call

for £4.00.¹ It is calculated that over 1.5 million poorly paid (and mainly part-time) workers had benefited. Its effect was to push up the reservation wage by ensuring that no employee (within the law at least) would receive less than the statutory minimum. Additional worker protection was afforded by the EU's Working Time regulations that stipulated that workers must not be normally required to work over 48 hours per week. This has particular relevance for Britain since the average working hours of British employees are considerably longer than those of other nations.² However the Blair Government weakened their the impact by introducing amendments which have the effect of excluding millions of workers from coverage, such as allowing workers to waive their rights under the regulations (thereby exposing them to pressure from employers) and exempting a number of occupational categories (Smith and Morton, 2001: 123, Glyn and Wood, 2001: 63). In general, the Government has been very chary about adding to employer costs and to this end has either resisted, sought to dilute or has minimally implemented EU regulations.

Control over the work process

According to free market theory, competitive efficiency requires effective managerial control over the work process to enable the entrepreneur to exploit the rapid pace of technological innovation, to introduce more effective methods of work and to adapt to rapidly altering market conditions. The more that managerial prerogatives are constrained by the entrenchment of workers collective and individual rights by union power or protective legislation, the greater the loss to efficiency and competitiveness. For the Conservatives, the most formidable barrier to greater labour market flexibility was the ability of powerful unions to squeeze managerial prerogatives and it is here that the full brunt of Conservative industrial relations legislation was felt. Secondary picketing was banned, mandatory strike ballots imposed and individuals giving the right to refuse to abide by majority decisions. Unions could be sued if they went on strike without fulfilling complex and detailed statutory procedures and firms were empowered to replace collective agreements by individual contracts. (Michie and Wilkinson, 1994: 17, Hutton, 1995: 92) The culmination of almost two decades of Conservative rule was a veritable crisis of industrial representation. The weakness of union presence in the workplace meant that for the bulk of employees 'unilateral rule-making by management, as opposed to joint or legal regulation, retained its central position'

(Undy, 1999: 322).³ Trade unions were enfeebled, the coverage of collective bargaining much lower than it had been for generations and private employers had become much more aggressively anti-union (Towers, 1999: 91).

Intense controversy accompanied the framing of the Government's provisions on union recognition provisions and the outcome, as it eventually emerged in the Employment Relations Act, was very much a compromise. For the first time a legal right of employees to trade union representation was established, though this was circumscribed by a series of rigorous tests (Smith and Morton, 2001: 124).⁴ In addition, firms with fewer than 21 employees are exempted from recognition procedures, excluding over 5 million workers from the legislation.⁵ Even where recognition has been agreed the employers are under no obligation to bargain in good faith; nor does it prevent them from offering different terms to non-union members. The Act was welcomed by the TUC and its affiliates as a milestone in that it was the first piece of favourable legislation for twenty years. But this reflected the modesty of their expectations and British workers' rights in this area remain much slimmer than those of their counterparts in most other EU countries (Glyn and Wood, 2001: 61- 62; Towers, 1999: 86-7; Brown, 2000: 302-3).

As important as actions taken by the Government was inaction. Since it inherited a labour market which had been heavily deregulated what might be called 'policy quiescence' amounts to a confirmation and consolidation of the status quo and it is precisely here after over six years in power that 'the neo-liberal continuities of New Labour' are most pronounced. (Crouch, ,2001: 104). Most significant of all was the 'notable absence' from the Employment Relations Act 'was any weakening of the constraints on industrial action that had been introduced by previous Conservative governments' (Brown, 2000: 302-2; Blair, 2001). Though a new eight-week protection from unfair dismissal for workers taking official strike action was introduced, the paucity of change meant that 'the UK legal regime regulating industrial action is the most restrictive of all of the EU states' (McKay, 2001: 297) Solidarity action remains unlawful and the definition of legal industrial action remains tight and restrictive. Further, an employer still cannot be compelled to reinstate those who successfully claim unfair dismissal and the restrictions preventing employers dismissing those who are on strike are limited. 'The liberty of individuals to take industrial action remains precarious, in breach of

international standards' (Smith and Morton, 2001: 131). It is unlikely that trade union bargaining strength in the workplace has been significantly strengthened, reflecting Government's assessment that the existing balance of bargaining power, which favours the employer, is economically and socially beneficial. (Glyn and Wood, 2001: 62; Undy, 1999: 331). Though the government has given much greater priority to extending the individual rather than the collective rights of labour, in reality the two are interlinked since, in the private sector, research has found that that trade unions are frequently the main enforcers of individual rights. Though further research is required, existing evidence indicates that implementation of statutory rights (outside the public sector) is patchy and sporadic (Brown, 2000: 304; McKay, 2001: 298).

Labour Market Flexibility: Accounting for New Labour's Trajectory

The Blair Government's determination to maintain 'the most lightly regulated labour market' in the European Union undoubtedly represents a sea change in Labour thinking. How can we account for it? One approach which affords a fruitful point of departure is Hall's institutional/political economy theory of policy change. He distinguishes between two political economy models, the liberal market economy (LME) and the organised market economy (OME). The defining feature of the former 'is the degree to which it relies on competitive market mechanisms and short-term contractual relations for the resolution of such co-ordination problems'. The relevant mechanisms (for our purposes) are high degree of employment and pay flexibility and strong managerial controls. (Hall, 1998: 3). The defining feature of the latter is extensive reliance 'on institutions other than market mechanisms to resolve...coordination problems.' Such institutions include relatively-encompassing trade unions, regulated labour markets, strong trade unions and limits on the exercise of managerial prerogatives over hiring and work reorganisation. (Hall, 1998: 3-4). Powerful trade unions and other representative and consultative agencies (such as works councils) impose a consensual style of decision-making on firm managers that propels the firm to seek productivity gains via innovation in the organisation of work and product quality rather than by cutting wage costs whilst concerted bargaining between strong trade unions and employers associations ensures that wage increases match productivity growth. (Hall, 1998: 5, 8).

As a framework for understanding the trajectory of policy change Hall's central thesis is that the institutional structure of the political economy shapes the way in which political actors confront the

challenges posed by internal needs and external forces. 'Different alternatives are pursued because the pre-existing institutions, and their role in mediating the impact and direction of change, are different' (Regini, 2000: 8). Thus for social democratic parties the feasibility and likely effectiveness of varying policy repertoires is a function of the prevailing market regime, whether organised or liberal. (Hall, 2002: 42). Britain is seen as a major exemplar of the LME and this inevitably has profound repercussions for the type of policy option available to the Labour government. Thus its 'striking' enthusiasm for market mechanisms (including its promotion of labour market flexibility) – in comparison to the greater restraint displayed by sister parties in OMEs - is best explained in terms of the dynamics of the liberal market economy. (Hall, 2002: 47). The shift from old, and no longer feasible, policy packages to more relevant ones occurs via the mechanism of 'policy learning', which occurs 'when policy-makers adapt their cognitive understanding of policy development and adjust policy practices on the basis of the knowledge gained from past policy experience' (Hemertijck and van Kersbergen, 1998: 12). In short, studied analysis of the past coupled with a dispassionate understanding of the present ensures that policy accommodates to the institutional needs of the political economy

Though this approach (which we have greatly simplified) adds considerably to our understanding of the dynamics of policy innovation, there are limits to its explanatory value. Firstly, its institutional determinism – its presumption that once the trajectory is set all future evolution is path-dependent with purposive political action confined to ensuring that policy change corresponds to systemic needs. The record of both the postwar Labour administration and the 1979-97 Conservative Government indicates that this is an unduly constricted view. Linked to this is an assumption of structural coherence with its presupposition of both a natural social and systemic integration which takes insufficient account of the realities of conflicting interests, pressures and values. Further the notion of policy learning implies an objectivity of understanding, a sufficiency of information and a degree of regularity (and therefore predictability) of social processes which sits uneasily with the historical record (e.g. of Russia). In reality, political actors have to cope with a world which is unpredictable, where information and understanding is always imperfect and why uncertainty dogs every major decision. Whilst the process of policy reappraisal does involve a continuous effort to avoid past mistakes and to search for new means of resolving intractable problems, it does not follow

that the correct lessons are drawn, or that the policies newly adopted are the most appropriate ones or indeed internally consistent. The precise character and causes of events are often difficult to untangle and the nature of the lessons to be learned obscure. (March and Olsen, 1988: 337).

The external world clearly does shape decision-making but 'not as it appears "objectively" but subjectively to the actor' (Simon, 1985: 300). To elucidate this process we utilise the concept of frames of reference or cognitive maps or frames. These can be defined as analytical categories which organise one's understanding of the social world 'in such a way as to promote a particular problem definition, causal interpretation, moral evaluation, and/or treatment recommendation for the item described' (Entman, 1993: 52). They act as filters 'between the objective conditions in which human agents find themselves and the choices of action in them. ..They "orient" people to situations much as maps orient travelers' (Eckstein, 1996: 486). To understand what lessons were learned from the past experience of Labour administrations, as well as what was considered to be feasible in the present we need to investigate how both were construed.

Understanding Past and Present

Notermans has argued persuasively that a crucial factor determining the viability of social democracy has been its ability to achieve price stability and economic growth in conditions of full employment. He advanced the hypothesis that 'an expansionary macroeconomic strategy aimed at full-employment is only viable if it can rely on financial and labour market institutions to prevent cumulative inflationary pressures' (Notermans, 1998). In Northern Europe social democratic governments had achieved considerable success in reconciling these imperatives by the combination of an organised market economy and corporatist policy-making structures: a pattern of political exchange in which the unions exercised wage moderation whilst the state combated socially regressive market outcomes through expanding social programmes. In contrast, a sustainable balance between the competing priorities of full employment, price stability and sustained economic growth was a goal which eluded successive Labour governments. The much-heralded 'national plan' unveiled by the 1964-70 Wilson Government proved abortive, the growth rate actually declined whilst inflationary pressures intensified. The 1974-79 Labour Government engaged in a bolder bid amidst even more exacting economic circumstances - the so-called 'Social Contract' - to move towards a

more continental style social corporatism. However it was never institutionally embedded nor did it acquire legitimacy and eventually, in the 'Winter of Discontent' of 1978-9, collapsed amidst recrimination.

The disappointing record of Labour Governments in the 1960s and 1970s had a profound effect on the outlook of the New Labour leadership. The corporatist formula, they believed, had shown itself to be unworkable in Britain. The trade unions in Britain possessed neither the centralised structures nor the resources to become social partners of any government. The TUC (and, indeed, the employers' peak association, the Confederation of British Industry) lacked the power needed to ensure that tripartite bargains between government, business and the unions would be honoured whilst the system of wage bargaining was becoming ever more fragmented and decentralised. Equally (it was believed) Keynesian economics had proved itself inherently flawed in its perceived failure to cope with the combination of stagnation, inflation and rising unemployment in the 1970s whilst the increasingly integrated and liberalised character of the world economic order deprived it of any lingering viability (Shaw, 1996: 181-204).

Globalisation, Chancellor of the Exchequer Gordon Brown ⁶ declared, had transformed the 'the environment for domestic policy-making'. The financial markets now have 'more choice and freedom than ever before, and day to day flows of capital are greater and faster than ever before ... Today, the judgement of the markets - whether to punish or to reward government policies - is as swift as it is powerful' (Brown, 1997). However, it would be wrong to infer from this that the Blair Government believed its ability to promote its economic and social agenda had been jeopardised. Brown's point (often reiterated) is this: global money markets *do* constrain governments, but *they constrain them to act in economically rational ways* (Balls, 1997). Governments which pursue policies that are 'consistent and credible', that are sensible and 'guarantee stability' will win the 'day to day confidence of international investors' (Brown, 1998). So whilst chastisement for those who defy the markets 'is now more instantaneous and more severe than in the past' this is only meted out on governments pursuing fiscally irresponsible and inflationary policies (Balls, 1997). By the same token, the 'rewards' for following sound and judicious policies are 'substantial' (Brown, 1998).

The new thinking stipulated that as long as governments provide a stable, low inflation macro-economic framework, oscillations in the business cycle would balance themselves out, supply would

always tend to match demand and the free operation of market forces would produce optimal allocative outcomes. If money was sound, savings will be converted into long-term investment producing high levels of growth and employment. (Brown, 1997). Various policy and institutional decisions have been taken to ensure that price stability is entrenched into the machinery of policy-making, notably the transfer of control over monetary policy to the Bank of England and the adoption of a binding framework of rules to govern the conduct of fiscal policy. Where Keynesian thinking attributed unemployment to a deficiency of demand the Blair government sees it primarily as a supply-side problem. The theory of the natural rate of unemployment (NAIRU), which informs Government policy, postulates the existence of a level of unemployment at which the rate of inflation would be constant and below which it would accelerate. However, the Government does *not* believe that there is a trade-off between employment and inflation - indeed the goals of price stability, improved competitiveness and full employment are deemed to be mutually reinforcing. A rise in the flow of recruits into the labour market eases the inflationary pressures of fuller employment thereby lowering the NAIRU level. The key is then increasing the free flow of labour into work. High levels of joblessness were caused - New Labour maintained - by a variety of social and institutional pressures that discouraged labour market participation including the lack of relevant skills, inadequate child care facilities for the large number of lone mothers, the so-called 'unemployment trap' whereby income gained from employment would be more or less balanced by loss of means-tested social benefits and a welfare system that fostered a 'dependency culture' and a disinclination to work. Hence a prime New Labour objective has been to promote 'employability'. Policies adopted to achieve this include the various 'New Deal' programmes for the young, long-term unemployed, lone mothers and other marginalised groups which provide education and training, subsidised employment and so forth. In addition the Government has sought to 'make work pay' - or widen the gap between paid work and benefit levels - by a range of in-work tax incentives such as the Working Families Tax Credit, as well as by tightening eligibility conditions for unemployment benefits and failing to increase them in line with earnings. (Glyn and Wood, 2001: 53).

According to orthodox economics, the persistence of stubbornly high levels of unemployment in Western Europe are due to 'distortions and rigidities in labour markets' caused by 'regulations and high non-wage labour costs, used inter alia to finance social protection' (ILO, 1995)

The *basics* of this reasoning has now been accepted by the Blair Government. Markets operated most effectively where restrictions were kept to a minimum, where employers are free to pay labour its market cost, where they could adapt its supply of labour to their productive needs, and where they were not burdened by excessive costs and restraints. Thus the retention (in its essentials) of a flexible labour market was a core element in New Labour's prospectus for economic success. It alone could guarantee continued improvements in productivity, product and process innovation and overall competitiveness. The flexible labour market was crucial, it was claimed, in making the UK the third largest recipient of inward investment, and the leading location in Europe thereby engendering more jobs (Blair, 2001). By the same token, persistent high levels of unemployment in other EU countries were attributed to rigidities in their labour markets such as restraints on the right to fire, generous unemployment benefits that raised reservation wages, the excessive social costs of labour and collective agreements which inhibited pay flexibility (Brown, 1997).

The Representational Role of New Labour

What conclusions can be drawn from this about the enacting of Labour's representational role? Traditionally, social democrats had seen as 'the central mission of social democracy .. to reduce the dependence of individuals on markets' (Hall, 2002: 47). For New Labour, in contrast, economic vitality and material wellbeing both demand a high degree of labour market flexibility. The Government forcefully rejects criticism that, in pursuing the policy of labour market flexibility it is sacrificing the interests of employees to that of employers. 'Everyone benefits', Blair insists, 'employees and business alike' (Guardian 9 Sept. 2003). Underpinning this claim is the supposition that there exists a natural harmony of interests between capital and labour. This supposition, in itself, constituted a break with past Labour thinking.

Unitary and pluralist frames of reference afford two distinct-vantage point in elucidating the relationship between employers and their workforce. To what extent is that relationship defined by a commonality of interest or by conflict? (Fox, 1966: 2). The essence of the pluralist approach, which since its inception has permeated Labour's thinking, is that employers and employees have interests – on matters such as pay levels, conditions of work, decision-making arrangements and so forth – which often differ. It assumes 'both recognition by the trade union of the legitimacy of the functions of the employers and recognition by the employers' organisation of the legitimacy of the function of

the trade unions (TUC 1967: 30, 47-8). The pluralist must be sharply differentiated from what Fox called the 'radical' frame of references which defines the relationship between employers and employees in more starkly adversarial terms, and which contends that the interests of wage-earners cannot be properly met without a sweeping change in the social relations of property.⁷ The pluralist frame, in contrast, contends that ultimately, both *do* have a common in the success of the firm upon whose commercial viability secure and well-remunerated jobs depend. But it regarded disagreement over such matters as respective rights to shares over profit, wages and social benefits, and over rights to information consultation and participation in decision-making as equally inherent in industrial organisation. For the pluralist the task is to ensure that collective bargaining operates as an orderly and effective system for managing conflicts of interest. 'In this way the needs of the participant interests receive expression, and workable compromises or new syntheses are forged through agreements and understandings which preserve the coalition as a mechanism of collaboration' (Fox, 1974: 271).

What of New Labour? Its frame of reference is substantially closer to the unitary which emphasises the degree to which the interests of workers and management coincide, which accepts existing structures of authority and reward as legitimate and which holds that all within a firm are properly 'bound together in common loyalty and commitment' (Fox, 1966: 2). Thus the Blair Government's legislative programme was designed 'to replace the notion of conflict between employers and employees with the promotion of partnership' (Blair's foreword, Department of trade and Industry, 1998). Unlike the Conservatives, New Labour regards trade unions as legitimate interlocutors on behalf of their members interests and, far from excluding them from the policy process (their fate during the Tory years) has both engaged them fully in consultation over matters of common interest (though not with the same rights of access nor with equal receptivity as business,) and encouraged a union-business dialogue. The Prime Ministers aim was to foster a collaborative spirit in relations between labour and management and 'sought to stress the common interests that bound companies and their employers together and not their differences' (Taylor, 2001: 253). As Blair told delegates to the Labour party conference prior to taking office: 'forget the past. No more bosses versus workers. You are on the same side. The same team' (Blair, 1996).⁸

What pattern of behaviour do we expect' Fox enquires, ' from the members of a successful and healthily-functioning team? We expect them to strive jointly towards a common objective, each pulling his weight to the best of his ability' (Fox, 1966). Within the 'team' both employers and employees have rights and duties. Indeed, the team analogy implies that 'if the members have an obligation of loyalty towards the leader, the obligation is certainly reciprocated, for it is the duty of the leader to act in such ways as to inspire the loyalty he demands. Morale and success are closely connected and rest heavily upon personal relationships.' (Fox, 1966: 3). Employers must treat their workforce justly and respect the 'very minimum infrastructure of decency and fairness around people in the workplace' which the Employment Relations Act was designed to put in place (Blair, foreword to Department of Trade and Industry, 1998). Collective representation of individuals at work can be, the Government accepts, the best method of ensuring that employees are treated fairly', and concedes that 'individual contracts of employment are *not always* agreements between equal partners' (Note the important qualification. My emphasis. Department of Trade and Industry, 1998). Equally, however, unions have a responsibility to promote harmony and co-operation in the workplace. In return for being granted new rights employees must 'help achieve important business objectives' and 'accept their responsibilities to co-operate with employers. There will be no return to the days of industrial conflict' (Department of Trade and Industry, 1998).

The pluralist regarded collective bargaining as vital if employee needs were to be afforded firm protection on the assumption that the workforce had its own distinct interests which, in the absence of trade union representation would be subordinated to those of employers. (Fox, 1974: 263). In Place of Strife, a White Paper issued by Barbara Castle when Employment Secretary, defined collective bargaining as 'essentially a process by which employees take part in the decisions that affect their working lives. If it is carried on by efficient management and representatives of well-organised unions, negotiating over a wide range of subjects, it represents the best method so far devised of advancing industrial democracy in the interests of both employees and employers. It offers the community the best opportunity for securing well-ordered progress towards higher levels of performance and the introduction of new methods of work' (Department of Employment, 1969). As the 1968 Donovan Report on labour relations expressed it:

'Properly conducted, collective bargaining is the most effect means of giving workers the right to representation in decisions affecting their working lives, *a right which is or should be the prerogative of every worker in a democratic society*' (Quoted in McCarthy, 1988. My emphasis).

The Blair Government, in contrast, sees collective representation as one of several alternative methods. 'Many employers and employees choose representational methods not involving trade unions, which achieve good employment relations' (Department of Trade and Industry, 1998.). Rather than the right of unions to organise and secure employer recognition being inherent in a democratic society, it is a conditional one, which has to be earned. So the extent of trade union growth and organisation is dependent not only on their success in convincing employees of their value but of convincing employers as well: hence the very high threshold and complex procedures for union recognition laid down by the Employment Relations Act. As the Fairness at Work white paper put it, 'where trade unions are able to demonstrate value to employers', where they can show 'how much help they can bring to the success of an enterprise for employers' they are more likely to gain – and by implication to merit – recognition (Department of Trade and Industry, 1998.). The role of the union, from the New Labour perspective is a rather modest one: to protect 'their members against arbitrary and unfair treatment', to help them acquire appropriate skills and to work 'with business to promote business performance' (Byers, 1999).

The notion that the employment relationship is an inherently unequal one, that managerial authority that is not countervailed by union organisation constitute a threat, especially when the market for labour is weak, to employees' employment security, conditions or income levels is not one given much credence by New Labour. It is, further, assumed that ownership affords employers and managers the right 'to organise the production process and social relations inside the firm'. The primary task of industrial relations institutions 'is not to correct an imbalance of power in the workplace, but to create a context in which the productivity and creativity of workers is properly harnessed for the good' (Howell, 2000). To the pluralist the legitimacy of managerial rule 'in the eyes of subordinates is not automatic but must be actively pursued and maintained' (Fox, 1974: 263). For New Labour, managerial authority, as long as it is not exercised in an arbitrary and dictatorial manner, is unproblematic. Thus the Government does not favour any substantial reform

to the structure of authority or the decision-making process within the firm – and, indeed, has striven to block modest EU-inspired measures to make mandatory more extensive employee consultative rights as well as more enhancement of workplace rights.

New Labour's adherence to a unitary outlook reflects a range of influences: its reading of the past, its understanding of present economic exigencies and more broadly a more positive normative orientation to the established distribution of rewards and life-chances. Its 'modernisation project' 'deliberately sought to develop a positive and intimate relationship with business and a more arms-length and unsentimental one with trade unions' (Taylor, 2001: 246).⁹ Blair himself (and many of his closest advisors) had a somewhat jaundiced view of the unions and the role they had played both in the party and the country at large and believed that the Conservative legislative assault on union power had benefited both the economy and the conduct of management-labour relations. (Taylor, 2001). He was convinced that an anachronistic trade union movement, steeped in the obsolescent rhetoric of industrial conflict and reluctant to co-operate constructively with management for the good of the corporate sector had been a major obstacle to economic progress.

In an important article, Jon Cruddas MP, a former Downing Street industrial relations advisor,¹⁰ sought to explain why elements in the Government were 'so hostile to labour market regulation' and why 'every single labour market initiative has to be fought line by line, almost street by street'. He suggests that its basis lies in its conception of the 'new economy', the 'intellectual glue' for the Government's deregulation agenda (Cruddas, 2002). According to this reasoning the successful economies of the future' would be those that excelled 'at generating and disseminating knowledge and exploiting it commercially'. (Byers, 1999). In the high-tech, computerised and ceaselessly changing modern economy the most valuable resource has become labour - human capital: skill, knowledge and creativity. Competitive strength in the 'new economy' depends upon a skilled, well-educated, highly-qualified, motivated and adaptable workforce producing high quality, high value goods. In this new, fluid economy there will be fewer full-time, permanent jobs: the dynamic of endless innovation places a premium on transferable skills that can be deployed in a whole range of occupational settings. In this context, old forms of collective organisation and action, buttressed by collective rights, are obsolescent. What matter is individual

employability – the capacity to shift between jobs to maximise remuneration – primarily a function of possessing human capital. Tony Blair put the argument succinctly: ‘you will do more to prevent people being treated as commodities by giving them the best educational skills and opportunities and by having an employment service that is dynamic than you will by trying to protect the workforce with over-restrictive union legislation’ (Tony Blair interview, Observer 27 March 1997). From this perspective, ‘rights for people at work are seen as a policy hangover relevant in a previous epoch of industrial organisation’. (Cruddas, 2002).

But the problem with the ‘new economy/human capital’ scenario is that labour concentrated in weakly-protected labour markets tends to be low-skill and poorly-paid. Despite the emphasis given to skills acquisition and retraining spending on active labour market policy has in fact (in comparative terms) remained low. Labour’s strategy, one expert has concluded, seems to be ‘not so much based on training and raising skill levels but more on relatively inexpensive job-search-focused programmes to move people into regular employment which might be low paid and thus publicly subsidised.’ The scope of training elements within the various New Deal programmes which might lead to raising human capital have been ‘modest’. (Clasen, 2003: 26-7). The availability of a constant flow of low cost and lightly protected labour, Kitson, Martin and Wilkinson contend, actually ‘encourages competition based on cost and price rather than on high quality, good design and product and process innovation’ (Kitson, Martin and Wilkinson, 2000: 633). Thus employment growth (outside the public sector)¹¹ has largely been in hotels and catering, retailing and contract cleaning where low pay and poor working conditions are endemic, managerial controls tight and trade union membership is extremely low.

The Government contends that being in work brings major improvement in living standards and allows escape from the isolation and social marginality associated with unemployment. Critics would respond that the option of being outside the labour market or having an insecure, low-paid life within it constitutes a circumscribed choice, with limited scope for expanding life-opportunities. We can take the point further. A traditional social democratic objective has been to help insulate and/or compensate workers from the vagaries of the market or the impact of technological change. Consolidating fluid labour markets, in contrast, intensifies the risk exposure of workers (in terms of employment and income security) as their employment tenure is increasingly contingent upon product

market shifts, stock market oscillations and managerial diktat . 'Thus, whilst responsibility for performance is being collectivised, risk and uncertainty is being decollectivised as workers are made more readily disposable and the mutuality upon which high performance work systems depend is being undermined' (Kitson, Martin and Wilkinson, 2000: 638). Risk exposure, recent investigation indicates, takes its toll on physical and psychological as well as economic wellbeing. Much research has demonstrated over the years the damaging effects on physical and mental well-being of prolonged spells of unemployment. More recent studies indicate that this applies equally to those employed in insecure labour markets. Research findings reviewed by Fryer showed that 'job insecurity is associated with experienced powerlessness, impaired mental health (depression and reported psychosomatic symptoms), reduced job satisfaction, reduced organisational commitment, reduced trust in management, resistance to change and poorer industrial relations' (Fryer, 1999). Similarly, a research conducted by the Rowntree Foundation into the effects of job insecurity and work intensification found these to be associated with 'poor general health and tense family relationships' (Rowntree Foundation, 1999).¹²

Conclusion

The question which this paper set out to address was whether, as a result of its shift to a much more market-oriented programmatic posture, New Labour's representational role had altered: whether it was becoming less a custodian of the interests of wage-earners than that of business. The first section charted the Blair Government's policies during its first term in office. The Employment Relations Act and the ending of its predecessors' stalling on EU directives marked a major shift from the Conservative approach. We found that the individual and collective rights of the workforce have been extended and the Government has set an important precedent by establishing by statute a minimum wage. Furthermore, its 'lasting settlement will lead to an increase in employee representation (in respect of grievances, collective redundancies, transfer of undertaking and through union recognition), marginally enhanced job security (action on unfair dismissal and parental leave) and extended information and consultation' (Undy, 1999: 332). However, union recognition procedures are complex and cumbersome, the laws regulating industrial action remain highly restrictive and EU Directives have usually been acceded to only with 'generous derogations and exceptions' (Undy, 1999:331).¹³ Further, whilst the onus has been on

extending employees' individual rights, these largely depend for their practical application (in the private sector at least) on a strong trade union presence which is generally lacking and, as a result, for many workers they remain paper rights. Legislative measures have been too limited to enable trade unions to regain their role of mediating 'between organisational changes and the defence and articulation of employment rights' (Brown W et al, 2001: 192).

We then sought to account for the Government's insistence on retaining lightly regulated labour markets. Hall's analysis of the different logics of the Organised and Liberal Market economies and the differential parametrical limits they impose on policy choice contributes significantly to explaining this. The paper has queried the functionalist and deterministic bias in this account. For example, it is not at all clear that the retention of elastic labour markets is 'functional' to the accomplishment of the Blair Government's ostensible pursuit of a high-skill, innovative and productive economy.¹⁴ Research conducted by Michie and Sheehan research indicates that the characteristics associated with flexible labour markets "low-road practices" the use of short-term and temporary contracts, a lack of employer commitment to job security, low levels of training, and so on-are *negatively* correlated with innovation. In contrast, it is found that 'high road' work practices-'high commitment' organisations or 'transformed' workplaces-are *positively* correlated with innovation' (Michie and Sheehan 03: 138). Equally, Kitson, Martin and Wilkinson conclude that correlates of labour market fluidity, the concentration of power in the hands of top management and the ever-greater emphasis on shareholder value, favour 'a shift away from the long-term investment necessary for creating co-operative forms of work organisation towards short-term cost-cutting' (Kitson, Martin and Wilkinson, 2000: 638).

The Government's record in reducing the jobless queue has been quite impressive in comparison to other EU countries (though overall levels of economic inactivity in the male 50-65 age-group remain astonishingly high). However, the flow of the unemployed has been mainly into low-paid, low-skill, insecure work especially in the non-professional private service sector. As a result, and despite measures like the Minimum Wage and the expensive Working Families Tax Credit¹⁵ poverty is endemic for millions of working families.¹⁶ A combination of other policies, such as strict eligibility criteria and low benefit levels for the unemployed depresses the reservation wage. A corollary of this is that those employed in poorly-remunerated occupations cannot expect any significant improvement of their pay and conditions beyond increases in tax-funded wage subsidies

(Glyn and Wood, 2001: 55). The paper also showed that there is a clear correlation between employment in insecure labour markets and impaired health, both physical and mental. (European Foundation, 2002).¹⁷

As the Blair Government entered its second term, the Prime Minister confided to a business audience that partnership with business was 'a founding principle of New Labour and it will not change' (Blair, 2001). Committed to the notion of a natural harmony of interests, New Labour would deny that this partnership was at the expense of its traditional constituency. Our account indicates otherwise. In terms of policy outputs and outcomes, it seems reasonable to suggest that New Labour has ceased to act as a representative vehicle for at least the lower-paid sections of the working class. There are indications, in the wider political system, that a representative vacuum is opening, most notably the sharp fall in electoral participation which is most dramatic in low-income urban areas (such as Liverpool and Glasgow). The reasons for this are complex and manifold, but it seems plausible to contend that a growing estrangement from the Labour Party, indeed from any form of political activity, within the working class reflects a widespread sense that the party is no longer 'theirs'.

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¹ By October 2003 this had been uprated to £4.50 per hour for workers aged 22 and over and to £3.80 per hour for workers aged 18-21 inclusive

² In 1997 average annual hours worked were 1,731 in the UK compared to 1,656 in France, 1,574 in Germany, and 1,552 in Sweden. (Glyn and Wood, 2001: 62-3).

³ 'The proportion of the workforce covered by collective bargaining and statutory wage agreements fell from over 80 per cent in 1980 to less than 50 per cent in 1994 - a sharper fall than in any other major industrialised country' (Treasury, Nov. 1997).

⁴ Thus a majority of those voting *and* at least 40 per cent of those eligible to vote would be required before a union would be recognised which means that on a 75% turnout majority support would not suffice.

⁵ As a result of tactically astute union maneuvering the Employment Relations Act incorporated a procedure for automatic recognition where a union can prove that a majority of the workforce were already union members: an important union gain.

⁶ Gordon Brown has been an immensely powerful Chancellor of the Exchequer and a key influence in the shaping of economic and related policy fields.

⁷ The radical frame is historically to be found on the left within the unions and the Labour Party though the relationship between all three paradigms should be seen as points along a spectrum rather than quite distinct and separate categories.

⁸ The unitary frame of reference often uses the analogy of the professional football team, 'for here, combined with the team structure and its associated loyalties, one finds a substantial measure of managerial prerogative at the top in the persons of the manager, trainer, and board members. Team spirit and undivided management authority co-exist to the benefit of all' (Fox, 1966: 3). Compare this with the pluralist view, as articulated by the former TUC General Secretary George Woodcock: 'unions and management exist - not as part of the same team but as two separate groups with different aims working in the same sphere' (Taylor, 2000: 141).

⁹ New Labour also held that the close association with the unions had been a crippling electoral handicap, a major cause of its bleak electoral performance since the 1970s (King, 2002: 10-11). Gaining the respect and the confidence of the business community – and therefore of the predominantly pro-business press – was a major strategic goal and one largely accomplished by 1997.

¹⁰ He was closely involved, on behalf of the Prime Minister's office, in discussions with the unions over the framing of the Employment Relations Act.

¹¹ This is a consequence to the major boost in public spending announced in early 2000 in health and education

¹² According to an extensive review of the literature 'whatever the methodology used, virtually all the studies demonstrate a negative correlation between precarious employment and health' (European Foundation, 2002).

¹³ For example, the Government has sought to minimise the impact of European Directives over the culture of long working hours in the UK (Waddington, 2003: 243). According to a study commissioned by the GMB union more than 3.4 million people worked more than the 48 hours allowed by European legislation. (Tribune 5 Sept. 2003).

¹⁴ The official aim of Government policy is to provide 'incentives for employers to seek competitive advantages by improving the quality of the products or services they provide, by improving the quality

of the inputs they employ, for example, new technology, by enhancing labour utilisation and by upgrading the skills of their workforce' (Gennard, 2000: 586-7).

¹⁵ The Working Families Tax Credit, whilst significantly benefiting the low paid, effectively institutionalises, by subsidising, meagre wages along the lines of the eighteenth century 'Speenhamland system' to which it bears an uncanny resemblance. In effect, it transfers the cost of employment from the service corporate sector to the taxpayer. In 2002 it was estimated that the cost to the Exchequer was £15 billion annually. Estimate by a Government minister, Baroness Hollis, [Lords Hansard text for 16 May 2002 \(220516-24\)](http://www.parliament.the-stationery-office.co.uk/pa/ld199900/ldhansrd/pdvn/lds02/text/20516-24.htm) www.parliament.the-stationery-office.co.uk/pa/ld199900/ldhansrd/pdvn/lds02/text/20516-24.htm

¹⁶ See the graphic account in Toynbee, 2003. New Zealand apart Britain witnessed the most rapid growth of inequality of any industrialised country since the late 1970s. (Goodman et al., 1997). Though the pace has slowed, pay inequality is still widening under Labour. (Guardian 23 Aug. 2002)

¹⁷