Author(s): BEN CLIFT and JIM TOMLINSON
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Complexity, Constraint and New Labour's Putative Neo-liberalism: A Reply to Colin Hay

BEN CLIFT AND JIM TOMLINSON*

Colin Hay's combative response[1] is a welcome engagement with our ideas.[2] Let us first set out where the battle lines are drawn. The most important points in Hay's shot across our bows relate to accommodating the notion of complexity; defining Keynesianism; invoking Labour's past; the relationship between fiscal and monetary policy; and the evidential basis for our argument.

The first point involves admitting complexity when characterizing a political economy. In essence, we agree with Hay about the need to admit complexity into the explanation and characterization of New Labour's political economy, but he does not recognize in our account that this has been successfully achieved, nor do we see it in how he characterizes the relationship between New Labour and neo-liberalism. This is in part a disagreement about how to operationalize the insight about the need to admit greater complexity into the analysis of the political economy of New Labour's macroeconomic policy making. For example, our account of complexity accepts that, under a particular set of monetary policy conditions, which are not in any straightforward sense Keynesian, it is nevertheless legitimate and useful to consider the 'Keynesianness' of the fiscal policy regime. Hay, by contrast, sees this as a dubious manœuvre, no doubt fuelled by the unspecified 'normative bias' he detects in our work and refers to enigmatically but repeatedly.

Similarly, we recognize that Hay has identified the *need* to admit complexity into analysis. However, in our reading of his work there remains a sense that, in the final analysis, New Labour's is a neo-liberal political economy.[3] Despite what Hay says about complexity, we still feel strongly that much of the material (including Hay's) characterizing New Labour political economy does seek in fact to derive Labour's policy positions from allegiance to a particular economic theory. We are accused of mischaracterizing the literature we critique, yet the central contention of much of that literature is that New Labour *has* decisively renounced Keynesianism. Our contrary contention is that New Labour has not. That is why the article was written, and nothing in Hay's response has changed our view of the need for us to offer the characterization we do.

Hay's critique suggests that we seek and assert a singular, consistent logic underpinning New Labour's political economy. This, it should be clear, is at variance with our entire enterprise in relation to characterizing New Labour's political economy. The exercise of reading off every aspect of New Labour's political economy as Keynesian, which Hay assigns to us and then castigates us for failing to achieve, is not one we consider to be analytically plausible. We do not believe it is possible or desirable to make bold claims about a singular, consistent political economic logic underpinning the making of New Labour's macroeconomic policy. The inescapable caveat is that *any* attempt to read off one singular, consistent logic underpinning New Labour political economy, whilst a useful heuristic device, is not going to paint the fullest and most accurate picture. With that in mind, we *do* contend that New Labour's political economy is Keynesian in certain important respects, and that this is in fact a *more* satisfactory characterization than the 'neo-liberal' one.

* Department of Politics and International Studies, University of Warwick; and Department of History, University of Dundee, respectively.

[1] Colin Hay, 'What's in a Name? New Labour's Putative Keynesianism', this *Journal*, 37 (2007), 187–92.

[2] Ben Clift and Jim Tomlinson, 'Credible Keynesianism? New Labour Macroeconomic Policy and the Political Economy of Coarse Tuning', *British Journal of Political Science*, 37 (2007), 47–69.

[3] C. Hay, 'Credibility, Competitiveness and the Business Cycle in "Third Way" Political Economy: A Critical Evaluation of Economic Policy in Britain since 1997', *New Political Economy*, 9 (2004), 39–56.

It is not entirely clear what Hay is criticizing us for in our historical discussion of the political economy of Labour. We feel that there is a need to clarify the terms on which the history of Labour's political economy is invoked in the contemporary debate. Our point is that, where the past is invoked, it tends to be based on a cursory, often misleading, characterization of Labour's political economy in the 1960s in particular. Our analysis reduces the distance between Old and New Labour partly by asserting New Labour's continuing qualified Keynesianism, but also by arguing that Old Labour's Keynesianism has been exaggerated. Again, this is partly about the non-derivation of policy from singular theoretical positions. Hay says that in the 1960s 'Labour publicly and enthusiastically professed itself Keynesian',[4] but we would dispute that. Indeed, many of Labour's arguments in the 1960s were based on asserting the limits of Keynesianism (because of the focus on 'modernization'). In addition, the Keynesian use of the budget to influence unemployment was in practice heavily qualified by the focus on the balance of payments, so unemployment moved noticeably upwards from 1968–69.[5]

At the root of much of the distance between Hay's position and our own is a definitional issue about how Keynesianism can and should be understood. Hay sees our distinction between monetary and fiscal policy as illegitimate, and implies that our definition is arbitrary. Given the contours of this particular 'semantic minefield', this is an accusation that will often be levelled. However, we feel that ours is a sensible and appropriate distillation of the essence of Keynesianism. It is a definition that accepts a practical adjustment to particular constrained circumstances. Our view is that Keynesianism is centrally concerned with fiscal policy because monetary policy is constrained by being primarily focused upon anti-inflationary issues. We think it is legitimate to explore the logic underpinning fiscal policy under particular monetary policy conditions, and to recognize that the international political economic context creates conditions which impose constraints on the policy options available. Given these conditions, we define Keynesianism in terms of fiscal policy.

Hay characterizes the new monetary policy arrangements as 'new Keynesian', yet we would reiterate that our evidence of monetary policy practice suggests a disparity between theoretical prescription and actual policy. Furthermore, our differentiation between monetary and fiscal policy, which Hay finds problematic, is a helpful analytical tool, and indeed *not* admitting such a distinction leads to a serious mis-characterization of New Labour's political economy. At the root of this is the most fundamental and important difference of view. This relates not to how monetary policy should be characterized, but the constraints upon it. We do not accept Hay's assertions about the unconstrained nature of monetary policy choices faced by New Labour in 1997.

New Labour were authors of their constraint in the re-design of the Bank of England and monetary policy architecture in Britain in 1997. However, the reasons for this are to be found in an interpretation of the constraints and conditions imposed by operating in the context of global financial markets. Hay's approach to this issue assumes that the potential field for autonomous action by policy makers is very large. His assessment of realms of the possible (in this case for New Labour) involves an absence of real constraint. This informs his insightful analyses in other work of the extent to which economic policy constraints are discursively constructed, and imagined rather than real.[6] The assumption of latitude is evident in Hay's invoking of Mosley's work.[7] Mosley identifies inflation as a key variable, and notes that economic policy makers in advanced economies have misread and over-estimated the nature of constraint. Mosley is, however, reticent as to the real nature and degree of constraint, and thus Mosley, like Hay, posits a world almost without constraint from global financial markets.

[4] Hay, 'What's in a Name?' p. 188.

[5] G. O'Hara, 'Dynamic, Exciting, Thrilling Change: The Wilson Government's Economic Policies, 1964–1970', *Contemporary British History*, 20 (2006), 383–402.

[6] Colin Hay and Ben Rosamund, 'Globalization, European Integration and the Discursive Construction of Economic Imperatives', *Journal of European Public Policy*, 9 (2002), 147–67.

[7] Layna Mosley, 'Room to Move: International Financial Markets and National Welfare States', *International Organization*, 54 (2000), 737–73.

However, we think that in this instance Hay over-eggs the pudding in terms of the room to manœuvre and absence of constraint. Our view is that assuming this degree of autonomy is not realistic, and that global financial markets do establish certain parameters for policy makers, and as such pose real problems for governments. Hay argues that 'Central Bank independence is … not a condition of credibility',[8] which may be true, but is he really extrapolating from that observation that Bank of England independence has not enhanced credibility? This is, we feel, one of the more extraordinary 'wild extrapolations' within the literature on New Labour. We felt it was an uncontentious point to argue strongly that Bank of England independence aimed at, and did achieve, enhanced credibility for New Labour. It is surprising that Hay finds our assessment such an outlandish one.

Hay's assumption that Bank of England independence was not designed to, and did not serve to increase credibility is an unusual one, with which we can only disagree. To quote Gordon Brown's Statement to the Commons on 20 May 1997:

> I am confident that the new arrangements, taken together, will enhance significantly the credibility of UK monetary policy and improve the workings of the financial markets. That means lower long-term interest rates and higher growth and investment. Indeed, we have already seen long-term interest rates fall by over 30 basis points since my announcement a fortnight ago, reflecting the positive reaction to the new monetary framework.[9]

The improvement in the new government's credibility in financial markets is shown by the fall in the differential between British and German bond yields from 1.0 per cent just before the 1997 election, to 0.25 per cent in the autumn of 1999.[10] Ultimately, the degree of enhanced credibility which accrued from this policy shift cannot be conclusively established. What financial markets would have done as New Labour public spending grew and the fiscal rules were reinterpreted had Bank of England independence never happened remains an intriguing counterfactual.

There are numerous jibes regarding the evidential base for the case we make. The notion that we have provided no evidence that New Labour has used its constrained discretion is at odds with, for example, the explicit statement on this matter in Brown's 2004 Budget Speech quoted in our article.[11] Hay also raises questions about the evidential base for our 'assertion' of a Keynesian element to New Labour's doctrine. The article contains numerous doctrinal statements which illustrate the Keynesian (as understood and defined in our article) thinking behind policy. Our citations of Gordon Brown's *Economic Journal* article, in particular, serve that purpose, and Hay would do well to return to this source for further corroboration of our point.[12]

Hay's reading of Ed Ball's piece is selective in asserting that the independence of the Bank of England has 'little or nothing to do with creating space for … Keynesian fiscal policy'.[13] As we demonstrate with numerous quotes from the piece, the points about securing discretionary space for the use of fiscal policy are made repeatedly and are integral to the discussion of Bank of England independence. That Hay does not read our selections from Brown or Balls as evidence of a Keynesian element to New Labour's doctrine comes back to how much the definition of Keynesianism within which he operates differs from ours.

[8] Hay, 'What's in a Name?', p. 191.

[9] Gordon Brown, 'The Chancellor's Statement to the House of Commons on the Bank of England', 20 May 1997, HM Treasury Press Release 49/97, available at <http://www.hm-treasury.gov.uk./newsroom_and_speeches/press/1997/press_ 49_97.cfm>

[10] A. Glyn and S.Wood, 'New Labour's Economic Policy', in A. Glyn, ed., *Social Democracy in Neo-Liberal Times* (Oxford: Oxford University Press, 2001), chap. 8.

[11] Clift and Tomlinson, 'Credible Keynesianism?' p. 63.

[12] Gordon Brown, 'The Conditions for High and Stable Employment and Growth', *Economic Journal*, 111 (2001), 30–44.

[13] Hay, 'What's in a Name?' p. 191; E. Balls, 'Open Macroeconomics in an Open Economy', *Scottish Journal of Political Economy*, 45 (1998), 113–32.

One aspect of Hay's critique repeats back to us our auto-critique, and here we agree with ourselves (and him). We can simply reiterate the point that we made (twice) in the initial article, namely that we accept that New Labour's Keynesianism cannot be definitively demonstrated because of the absence of a severe deflationary shock to test it. Nevertheless, we think the 'circumstantial' evidence, in terms of both analytic statements and the response to the actual mild recession faced by New Labour, is strong.

Finally, Hay repeatedly makes points about the Major government in a bid, it would seem, to expose the sham of our 'pretensions to normative neutrality'. The assertion that we are 'loathe to admit' the possibility of the Major government being interpreted as Keynesian imparts to us an (underspecified) normative position we do not hold. Hay seems to infer that the idea of the Major government potentially falling under our definition of Keynesianism is a damning blow. On the contrary, we by no means rule out Major pursuing Keynesian policies in the particular context of the mid-1990s, but that is not where our argument lies.