

It's a bittersweet judgement

Labour's reduced majority means it will need to practise co-operation and consensus. That is all to the good

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The Guardian, Sunday May 8, 2005

New Labour is dead. Long live New Labour. In a bittersweet electoral judgment, the government has been given a majority large enough to continue its work, but served a warning that if it wants to hold on to its share of Britain's progressive vote it has to remake its fraying coalition and change in important respects.

It has to reassure former Labour voters switching to the Liberal Democrats, on whom the Conservative gains almost entirely relied, that it will start to respect civil liberties and be more sceptical about uncritically following George Bush's wars; but equally it has to reassure the centrist part of its coalition that it remains no less committed to wealth generation, business and full employment, and that it continues to be capable of delivering.

It's a delicate balancing act that requires both wings of the Labour party and wider left thinking to recognise the intellectual and political weaknesses of their twin positions. The Blairite calculation that it could take liberal England for granted because it had nowhere else to go, and thus New Labour could casually outflank the Tories by being more pro-American, more pro-war on Iraq, more willing to sacrifice civil liberties to contain so-called terrorist threats and only marginally less willing to be anti-immigrant and anti-asylum seeker, has been exploded.

The progressive vote haemorrhages to the Lib Dems who now make advances at the expense of Labour rather than the Conservatives, whose bedrock vote is staying unmoved at a loyal third of the electorate. Cherry-picking between right and left to occupy conservative ground is going to have to be much more carefully executed in future.

But, equally, old Labour needs to recognise that the government has won an explicit mandate, that in economic and social policy the Blairite combining of a commitment to market friendly economic dynamism with improved public service delivery and more social justice is the only approach to social democracy that provides a governing coalition. There is no electoral appetite for turning back the clock. If the Chinese Communist party accepts that the only option is to embrace and engage with globalisation, so must the British Labour party, and on this Blair and Brown are unequivocally right.

Equally, the provision of public services by monolithic providers unresponsive to citizens' choices is unwanted. The public sector has to follow the private sector in becoming more networked in the way it delivers, and this means the development of pluralist delivery systems that should not be attacked as privatisation when it is plain that they are being designed to serve public ends.

The participation of the private sector introduces welcome contestability and is a crucial element in improving the standards and quality of delivery. New Labour certainly has to be more careful to protect the public interest when it introduces private deliverers into the system - but the core of the policy is right.

Blair and Brown put down important markers during the campaign that they have begun to think in these terms, with Blair joining Brown in talking about building and sustaining a progressive consensus which implies giving the so-called New Labour project a more overtly social democratic and liberal hue. But the traditional left shows little sign of moving - sticking in its laager, hankering for the 1945 social settlement, traditional Keynesianism, traditional industrial policy and traditional public service delivery. The success of the third term will depend on finding some common ground, and not only Blair and Brown need to change.

One of Blair's unnamed aides, briefing after his enterprise speech in the first week of the campaign, identified one promising rallying ground: Labour is building a distinctive economic and social model, he briefed, a knowledge-based economy, responsive public services and the best and most imaginative

initiatives possible to alleviate poverty and promote opportunity. Around this the centre and centre left could rally.

But if that will prove difficult, even harder will be delivery. Brown's Chancellorship has relied on the dividend from economic growth - rising tax revenues - along with some judicious tax rises on pension funds in the first term and in National Insurance in the second to provide the wherewithal to fund the vitally-needed rise in health and education spending.

Labour now wants to prove its social justice credentials with establishing a national system of child care, guarantee training for every adult, lowering child poverty and to continue to raise the investment in the transport, education, university, science and health systems. That is going to require continued growth in spending just as the miraculous growth in the economy looks like faltering, weakening the crucial growth dividend when Brown needs it most. A bitter attack on indifferent public sector productivity and high Manning levels is thus certain; only marginally less certain is a difficult tax-raising budget in the spring of 2006.

Navigating these political reefs successfully requires a powerful and persuasive story that unites New Labour's coalition about why tough decisions are necessary and what vision of Britain they serve. That same vision also has to be powerful enough to persuade a majority to vote Yes in the EU constitutional treaty referendum next year - the political event that will define the third term and if lost will shatter Britain's relationship with the EU.

New Labour has had a comfortable ride for eight years, cherry-picking from right and left against a benevolent economic background and deferring the argument on Europe. Now the hard times begin. It has to be the new force for a modern social democracy and for Europe it has always promised, but never wanted openly to acknowledge - and it has to sell it to the country. On that, the third term depends.

Politics is suddenly set to become very much more interesting again.