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After Brexit[1]

In the referendum held on 23 June 2016 the British people voted by a narrow margin (52 per cent to 48 per cent) to leave the European Union. 37 per cent of the total electorate voted Leave. The result introduced great uncertainty into the future path of British politics and the shape of its political economy. The debate has been shaped by partisan perspectives. Some have called it the most disastrous peacetime event in British history, the greatest act of self-harm ever inflicted,[2] others have described it as a liberation from a corrupt and failing organisation which allows the British people to take back control and Britain to be Britain again.[3] The result has placed the long-term future of the UK union in doubt, since both Northern Ireland and Scotland voted Remain, and it raises questions once again about the UK's place in the world, particularly the nature of its relationship with the United States and its future defence and security cooperation with its European allies.

The UK had endured three difficult decades after 1945, adjusting to the loss of empire and world power. After the Suez debacle it tried and failed twice to join the European Economic Community (EEC), finally succeeding in 1973. The decision was then ratified by a two-thirds majority in a referendum in 1975. Joining the EEC was not the economic panacea for the many ills of the British economy which some of its advocates had hoped, partly because it occurred during the major recession and prolonged crisis of the 1970s, but it did appear to many observers that it had settled Dean Acheson's concern ten years before that Britain had lost an empire and not yet found a role. Membership of the European Economic Community gave Britain a role at the heart of the European project for economic integration which complemented and supported the parallel structures of NATO for defence and security. For forty years, membership of the EU was a crucial anchor of British policy, and although the UK was often

reluctant to back deeper integration, it was enthusiastic in its support for the creation of the single market, and then for the enlargement of the EU after the collapse of the Soviet Union in 1991. The single market bound the UK ever more closely to its European partners and encouraged increasing convergence of the UK economy with other European economies.

Empire and decline: the peculiarities of the Anglo–liberal model

The UK's political economy and the peculiarities of the Anglo–liberal model were shaped by the role Britain has played in the global economy in the last three hundred years. Britain became first a successful entrepreneurial and commercial society, an expanding colonial and naval power, and then partly as a consequence the first significant industrial society. By the middle of the nineteenth century Britain had become the world's leading commercial, industrial and imperial power. Many of the peculiarities of the Anglo–liberal model became set in this period and have proved very hard to reform. Some of the features which made the UK distinctive in the nineteenth century, such as Britain's industrial lead and the size of its urban working class, have disappeared as other countries have caught up and industrial economies have converged. But there remain some important features of British capitalism which mark it out from development elsewhere.

One of the most important of these is the size and weight of its financial sector. One million people currently work in financial services in the UK, as many as worked in the mines in the 1920s. The City of London has an economic and political weight that is greater than in any state of equivalent size. The financial sectors of some other countries such as Switzerland are even larger in relation to their host economies, but their populations are much smaller. In the nineteenth century the City became the leading centre for financial, shipping, and insurance services for the rest of the international economy. It formed its own 'industrial district'. This cluster of expertise survived long after the disappearance of the economic and military power which made it possible. Having weathered the collapse of the gold standard and the Great Depression, the Second World War and the post-war social democratic settlement, the City experienced a remarkable renaissance starting in the 1960s with the development of the Eurodollar market.[4] British governments allowed the City to behave as if it were an offshore financial centre, free of many of the regulations which other jurisdictions, including the US, imposed on their financial centres.

In the neo-liberal era the City became once again one of the world's leading international financial centres. One of the most significant reforms of the Thatcher Government was the deregulation of financial services in 1986, the 'Big Bang', removing restrictions on the entry of foreign banks into London.

A second distinctive feature of the British economic model is the legal framework governing its labour markets, trade unions, and companies. For a time in the twentieth century trade unions appeared powerful actors, but they were never fully incorporated as part of the governance of the economy, and their powers were granted as privileges, exemptions from the provisions of the common law. In the 1980s these privileges were revoked. Similarly UK corporate governance has always treated the company primarily as a private association rather than as a public corporation, in contrast to European law.[5]

A third distinctive legacy from the British *Sonderweg* is the size of the British state, and its relationship to civil society and the economy. This is reflected both in the relatively small size of UK public expenditure compared to those in some other European member states, and the corresponding low fiscal base, and also in the relative lack of success of the British state in recasting itself as an entrepreneurial state in the manner of Germany, France, Japan or even the United States. This liberal conception of the state is paralleled by a liberal conception of the household, reflected both in the emphasis on consumption rather than production in the Anglo–liberal growth model, and the importance placed on self-reliance and independence, which has shaped attitudes towards welfare.

In the nineteenth century Britain became the world's most modern and advanced economy, the economy which, as Marx noted, showed every other economy the image of its own future. But this was not true in every respect. Many aspects of the British model in time came to seem anachronistic and no longer modern. Britain was surpassed by other major powers. As British power waned the British model began to be questioned. Its shortcomings were exposed, and numerous prescriptions offered as to how it might be reformed. Many of the projects for reversing British decline recommended learning from the more successful models of some of the UK's competitors in Europe, East Asia and North America. The widespread perception of Britain as the 'sick man of Europe' reached a peak in the 1970s. Britain it seemed had the wrong kind of capitalism, the wrong kind of state, certainly the wrong kind of unions and was rapidly moving to the abyss. As Sir Keith Joseph, one of Margaret Thatcher's closest allies, put it:[6]

> The visible signs of Britain's unique course – as it slides from the affluent Western World towards the threadbare economies of the communist bloc – are obvious enough. We have a demotivating tax system, increasing nationalisation, compressed differentials, low and stagnant productivity, high unemployment, many failing public services and inexorably growing central government expenditure; an obsession with equality, and with pay, price and dividend controls, and immunities for trade unions; and finally, since 1974, top of the Western league for inflation, bottom of the league for growth.

Yet within eight years these problems had been miraculously dispelled. The 1987 Conservative party manifesto proclaimed:[7]

> Remember the conventional wisdom of the day. The British people were 'ungovernable'. We were in the grip of an incurable 'British disease'. Britain was heading for 'irreversible decline'. Well, the people were *not* ungovernable, the disease was *not* incurable, the decline *has* been reversed.

This triumphalism proved slightly premature and was quickly followed by a severe recession between 1989 and 1992, which saw unemployment rise again by 1.5 million, the collapse of the housing market, plunging many house owners into negative equity, and the Exchange Rate Mechanism (ERM) debacle. But following the exit from the ERM and a substantial devaluation, growth resumed, and by the start of the new century, decline as a theme in British political discourse had almost disappeared. The condition of the economy was no longer at the centre of political debate. Triumphalism had reappeared. In his 2004 budget speech Gordon Brown declared:[8]

> For decades after 1945, Britain repeatedly relapsed into recession, moving from boom to bust … since 1997 Britain has sustained growth not just through one economic cycle but through two economic cycles, without suffering the old British disease of stop-go – with overall growth since 2000 almost twice that of Europe and higher even than that of the United States. Indeed in the Pre-Budget Report, I told the House that Britain was enjoying the longest period of sustained economic growth for more than 100 years …

> I have to apologise to the House. Having asked the Treasury to investigate in greater historical detail, I can now report that Britain is enjoying its longest period of sustained economic growth for more than 200 years – the longest period of sustained economic growth since the beginning of the Industrial Revolution.

Something of a sea-change had taken place in Britain's economic fortunes. The pessimists had been proved wrong. Britain in 2004, the Chancellor announced, had 'the lowest inflation for 30 years, the lowest interest rates for 40 years, and the highest levels of employment in history'. The inflation peaks in the last three recessions of 27 per cent in 1975, 22 per cent in 1980, and 9 per cent in 1990 were a distant memory, as were the three million unemployed of the 1980s, and high interest rates (17 per cent in 1980 and 15 per cent in 1990).

Had the performance of the British economy improved? At the time many still argued that it had not, or at least that the improvement was only superficial, and that the fundamental problems of the British economy remained unresolved. The economy only appeared to improve because expectations about British economic performance had been lowered so much. As David Coates argued:[9]

> The UK had spent the first four decades of the postwar period locked in a process of cumulative economic decline caused by inadequate levels of investment in plant and equipment, and that growth trajectory remained firmly in place at century's end … [positioning] the UK as predominantly an off-shore warehouse economy, where a low-paid, underskilled and now poorly unionised workforce depended for the attraction of foreign direct investment on the economy's role as an assembly pad within the tariff boundaries of the EU for the export of medium-tech mass-consumer goods into the more prosperous heartlands of corporatist Europe. The UK economy remains disproportionately a service-based economy, internationally competitive in financial services, but otherwise centred around low-paid service provision to a slowly growing domestic market.

Others, however, maintained that the 1987 Conservative manifesto had been essentially right but premature. A combination of the institutional reforms pushed through by the Thatcher Government in the 1980s and

structural changes in the global economy had altered the trajectory of the British economy and created a set of conditions which had enabled first the Major Government and then the Blair/Brown Government to maintain financial stability and steady growth. A new consensus on economic policy had been established which all parties were content to work within, and which had created the conditions for addressing long-term problems of low investment and skills shortages. Typical of this point of view was Geoffrey Owen, a former editor of the *Financial Times* who argued:[10]

> For the first thirty years after the war, the political climate militated against the single-minded pursuit of industrial efficiency and international competitiveness. The tide turned in the 1980s, when two powerful forces came together and reinforced each other: external economic pressure and domestic policy reform. By the end of the 1990s Britain had found a role for itself as a medium-sized industrial nation, well integrated into the world market.

From this standpoint Britain's decline from its nineteenth century dominance had now come to an end. The adjustment had been hard, but since the 1980s a new chapter had opened, in part as a result of the changes introduced by Margaret Thatcher, consolidated and extended under John Major and Tony Blair. The policies which the Blair Government pursued were a sign that something had changed permanently in the British political economy, and UK capitalism was back in business.

Models old and new

The performance of the British economy was certainly different at the beginning of the twenty-first century than it had been in the 1970s, but was it a new model, or the old model, suitably patched up? And from where did the inspiration come? In the 1960s, 1970s and 1980s, the British looked to models of capitalism from France, Germany, Sweden and Japan. But in the 1990s the US model gained in attractiveness again, as the performance of other models faltered, and the strategic choice facing Britain tended to be posed more starkly as a choice between Europe and America,[11] which was bound up also with attitudes towards Britain's membership of the European Union and the military alliance with the US. The rival charms of the Anglo–American shareholder

model of capitalism and the European stakeholder model increasingly set the terms of this debate.

Critics of models of capitalism argue that these models presuppose a unity that does not exist. National economies are a construct of national governments; many economic relationships are transnational and cannot be neatly contained within national boundaries. Each national economy in any case is normally a hybrid, with different models in different sectors, rather than a single model throughout. Nevertheless despite these qualifications the concept of models is hard to dispense with entirely, even if as some argue the space in which such models could exist and thrive is now fast shrinking, and the logic of competition and accumulation are forcing all national models to converge[12] On this reading it was the US model which had emerged once more in the 1990s as the leading edge model, and the European social model which was underperforming.

In their seminal analysis Peter Hall and David Soskice distinguished between two basic models of capitalism – liberal market economies and coordinated market economies. This distinction runs right through the political economy literature: market led/state led; market based/trust based; bank based/credit based; individualistic/communitarian. It seeks to isolate the mechanism by which an economy is coordinated and the different ways in which successful long-term businesses are built. Hall and Soskice argue that in a liberal market economy firms coordinate their activities primarily through hierarchies, competitive market arrangements, and formal contracting. The exchange of goods and services is coordinated through price signals, which leads agents to adjust their behaviour. In a coordinated market economy firms depend more heavily on non-market relations to coordinate with other actors. Contracting tends to be relational and incomplete. Networks are much more important for the exchange of private and privileged information, and collaborative arrangements are more common than competitive ones.

From this perspective what is important are the different national regulatory regimes, which provide the institutional foundations of comparative advantage. From an institutionalist perspective there is no reason to expect institutional foundations to merge into one best model. On the contrary, the shifting circumstances and opportunities of the global economy ensure that different models will thrive at different times. The ascendancy of the Anglo–American model in the 1990s was as shortlived as the ascendancy of the French, German and East Asian models in earlier decades. But that does not mean it

is easily replaced in the countries where it is established. As Hall and Soskice put it:[13] 'So many of the institutional factors conditioning the behaviour of firms remain nation-specific.'

The trajectory of British capitalism, 1942–2016

1942–1956: The relaunching of the UK model

In the plans for reconstruction during and after the war the priority of the British political class was to reestablish the old UK model of capitalism, based on the trading and financial links of Britain's territorial and commercial empires built up over the previous three centuries, through which so many successful British businesses had been established. At the same time there was growing acceptance that the institutional conditions of the model had to be revised to permit a political settlement with organised labour, along the lines set out in the influential 1942 Beveridge Report.[14] The report offered a compelling vision of a Britain in which the social security needs of all citizens would be met through flat-rate contributions to a general fund, with additional services such as family allowances and a national health service being met by general taxation. The plan would be underpinned by government pledging to make the maintenance of full employment the prime objective of its economic policy. These proposals were implemented by the Attlee Government, in addition to a substantial enlargement of the public sector through nationalisation of core utilities, as well as the introduction of new planning powers, and the restoration of legal immunities for trade unions (removed by the Conservative Government after the 1926 General Strike). By 1950 Britain had one of the most advanced welfare states in the world, one of the pioneers in combining liberal capitalism and democratic citizenship.[15]

The enlarged state and widened conception of citizenship which the Attlee Government bequeathed to the Conservatives in 1951 survived through the 1950s and 1960s largely intact. The Conservatives concentrated their energies on assisting the networks, both industrial and financial, which British capital had built up in the nineteenth century, and which had been so badly disrupted during the war and its aftermath, to reestablish themselves.[16] The reopening of the markets of the City of London and making sterling convertible in 1958 were major steps on the way to reestablishing the distinctive British form of capitalism and its associated businesses that had flourished so much in the past. The liberal and global character of British capital

and the importance of sterling and the financial networks around it were reaffirmed. In 1951 the British economy was still the third most important after the US and the USSR, and had leading edge industrial sectors, particularly in the defence field.[17]

1956–1992: The crisis of the UK model

The crisis developed in stages, as successive programmes of modernisation were launched to overcome Britain's economic problems. The mood at first was optimistic, but the failure to improve British economic performance gradually created a mood of despondency about Britain's prospects and the intractable nature of its problems. This came to a head in the 1970s, with the discrediting of the political centre, increased polarisation between right and left, and talk of ungovernability and overload.[18] This time of stalemate and drift was ended with the election of the Thatcher Government, which set out to reverse the collectivist and social democratic framework of policy and restore key elements of the old liberal economic model.

Fundamental to this period of crisis was the acceptance by a majority of the political class of two unpalatable facts – that the debacle of Suez meant that Britain could no longer act independently without the support of the US, and that therefore disengagement from the Empire should be speeded up. The second was that Britain could no longer stand on the sidelines of the new European union that was in the making. 1956 was the year of both Suez and the negotiations which led to the Treaty of Rome. British governments had refused to participate in the new European institutions, believing that Britain could remain an independent power between Europe and America, linked to both but absorbed by neither. In the aftermath of Suez and the establishment of the Common Market, the British position began to seem untenable. At the same time, it was becoming clear by the late 1950s that Britain was being outperformed by the other economies of western Europe. The first big inquest into the failings of post-war British economic policy began.[19]

One of the most important features of this period, which began with Suez and the setting up of the EEC in 1956 and ended with the forced exit of Britain from the ERM in 1992, was that Europe became the focus for many of the economic and social programmes of modernisation that were proposed. This was so in two senses. Membership of the European Community came to be seen as essential for Britain's future economic prosperity; at the same time European models of capitalism, particularly the French, the Swedish and the

German began to be widely studied and discussed in Britain, and many of their features were incorporated in the new policies which were put forward. The French model of indicative planning in particular became highly fashionable in the early 1960s and directly inspired the setting up of the National Economic Development Council (NEDC) and the devising of a National Plan, as well as (unrealised) plans for remodelling the British civil service along French lines. Many of the interventionist agencies which the first Wilson Government established, such as the Industrial Reorganisation Corporation (IRC), the forerunner of the later National Enterprise Board (NEB), were justified by the need for the state to play a much more proactive role in organising innovation and raising investment, and in reorganising British industry by arranging mergers and creating national champions which could compete with the rest of the world.[20]

The attraction of the French model of capitalism for the British was at its strongest in the 1960s; later the German, Swedish, and Japanese models became more influential. Britain finally joined the European Community in 1973 and the emphasis shifted from establishing a more *dirigiste* form of state to plan the British economy, to reorganising the basic social relations of British capitalism, particularly the production process, the education system and industrial relations. But the basic premise of most of the remedies for decline in this period was that what Britain required was a developmental state which could intervene to modernise the antiquated institutions and structures of British capitalism, and make it a capitalism able to compete again with the rest of the world.[21]

The developmental state argument was further developed in the 1980s, at a time when the ascendancy of Japan was at its height and both the US and the UK were perceived to be in decline. The Anglo–American or Anglo-Saxon model was contrasted unfavourably with European and East Asian models. Yet the decisive turn in British politics was not towards the alternative models of capitalism on offer. Instead the Thatcher Government elected in 1979 appeared to go in a quite contrary direction, aiming at the restoration of the UK model as it had existed before the entrenchment of the rights of labour and of welfare in the post-war period.

The Thatcher Government could not restore the Empire, but it did seek quite consciously to open the UK economy to international competition, through ending exchange controls, encouraging foreign direct investment both outwards and inwards, and setting its face against protectionism (at that time being strongly canvassed on the left). The consequence of this stance, combined with the adoption

of a strict monetary policy which pushed up sterling, was to deepen the recession into which the UK plunged in 1980 and 1981, leading to a wave of bankruptcies in manufacturing industry and a doubling of unemployment to over three million. This shakeout of industry was accompanied by a progressive tightening of trade union laws which removed the legal immunities trade unions had enjoyed, and hampered their freedom to call strikes by among other things outlawing secondary action.

Whether the Thatcher Government intended the shock to be as severe as it turned out to be is doubtful. But once it had occurred it was quick to seize the opportunity to argue that a watershed had been crossed and that the British economy needed to be restructured as a free market economy with a smaller public sector and much weaker trade unions. Deregulation, the reduction of taxes on high income groups and business, privatisation of state assets, and marketisation of public services all followed. Much of this was bitterly contested in Britain, and little of it was popular at the time. Yet although many of the grandiose ambitions of the Thatcher Government were never achieved, a new framework was gradually put in place which marked a decisive change in the UK political economy and steered it in the direction it is still travelling.[22]

This direction pointed away from the alternative European models of capitalism that were on offer, making it less likely that Britain would participate more fully in European integration. The European social model was increasingly perceived by many Thatcherites as the model they did not wish to copy. The consequences of the Thatcher period and the type of capitalist modernisation that Britain underwent was to move Britain further away from Europe not closer to it, because during it the UK model was substantially reconstructed, and the kind of business environment the UK now sought to build owed more to the US model than the European.

1992–2016: The financial growth model

The shape of the new model economy which emerged from the travails of the 1970s and 1980s was broadly neo-liberal. Its institutional foundations were open and flexible markets, including foreign exchange and labour markets, a competition state, low marginal taxation, residual welfare programmes and monetary stability. Within these constraints, however, (and contrary to many accounts of the monolithic character of neo-liberalism) quite a wide variation of policies proved possible, and important political choices and emphases remained. In Britain

political argument focused on such questions as membership of the Economic and Monetary Union (EMU) as against maintenance of a national currency, universalism as against selectivity in welfare, higher public expenditure as against lower taxation, employment protection as against employment flexibility, and stakeholder value as against shareholder value in corporate governance.[23]

What was undeniable, however, was that Britain had adopted a set of institutions for its political economy which precluded certain options – including planning, industrial intervention, protectionism, or corporatism. Britain after 1992 had a political economy which ensured financial stability, steady economic growth, low levels of strikes, low inflation, and high employment. What was different from what went before was the removal of many of the factors which led to intractable problems, policy failure and the cycle of decline.

The post-war UK political economy had severe structural defects, both external and internal. The chief external problem was the impossibility of maintaining a value for sterling high enough to sustain the global networks of British capital and military bases that had been built up during the British ascendancy.[24] The attempt to do so made the task of building strong competitive industries at home more difficult, and delayed effective modernisation of the industrial base, much of which eventually had to be written off in the recessions of the 1970s and 1980s. Unwinding the coils of empire and breaking free from the straitjacket of sterling took a long time, and many sterling crises, but by the middle of the 1990s after a last disastrous policy choice, when entry to the ERM was made at too high a rate, the transition appeared finally to have been made.

The chief internal problems were the incompatibility of combining the voluntarist system of industrial relations, based upon the principle of free collective bargaining, with social democratic aspirations to plan all aspects of the economy, including prices and incomes. The desire of the trade unions to remain independent of the state undermined the policies of Labour and Conservative governments in the 1960s and 1970s and created the climate for the successful onslaught by the Thatcher Government on the legal immunities of trade unions. The inability to bridge this divide meant that corporatism in Britain never achieved the degree of organisation or success that was common in many other European countries, and again opened the way for the thorough-going dismantling by the Thatcher Government of corporatist structures for managing the economy. The attitude of the trade unions towards the state and towards capital in Britain also meant that the Labour movement paid little attention to the question

of how companies should be governed or managed. Apart from the abandoned proposals of the Bullock Report in the 1970s there were no moves to change the institutional relationship of capital and labour except through nationalisation on the one hand and the reinforcement of free collective bargaining on the other.[25]

Another internal problem was the set of principles on which the welfare state was founded. Flat rate insurance contributions to fund universal benefits, along with general taxation to fund a national health service and family allowances, failed to anticipate rising demand and rising earnings and expectations. As a result a huge chasm gradually opened up in the welfare state which came to a head in the 1960s and 1970s. Either there needed to be a move towards a much more generously funded system of welfare benefits on Scandinavian lines, to make good the original promises of the Beveridge Report, or there needed to be a retreat from universalism to a residual welfare state. The first required a substantial increase in general taxation to fund the welfare state. The latter required an increasing number of citizens to take out private provision. The inability to find a political consensus for either course, coupled with the weakness of the domestic economy and the problems of sterling, led to oscillations between sharp increases in public spending programmes, shortly followed by fiscal crises and forced public expenditure cuts. The Thatcher Government was at its least radical over the welfare state, and failed to reduce overall spending on it,[26] but it did succeed in slowing the growth of spending by introducing a number of significant changes, such as breaking the link between benefits and earnings, and abandoning the consensus on long-term pension provision. Over twenty years this had done much to transform the British welfare state in some areas, particularly pensions and housing, into a residual welfare state.[27]

During the Thatcher period many of the deep-seated problems in the political economy that so plagued the conduct of economic policy in the 1960s and 1970s were overcome or at least reduced. The Thatcher Government was able to pursue a strategy for smaller government, lower taxation, weaker unions, and stronger companies. It was not wholly successful, but aided by structural changes in the global economy it made sufficient institutional changes to permit the new financial growth model to emerge. This economy was not without problems, as many critics noted. Productivity and investment remained stubbornly low, there was relatively little improvement in the skill base, investment in infrastructure and science was seriously underfunded, along with most of the public services, and regional imbalances remained and were increased. But the new flexibility in

many markets, along with a gradual revival of entrepreneurship, marked a major change.

The Labour Government which inherited the new model economy had a ten-year period of sustained success in managing it, while shifting some of its emphases, and consolidating its achievements, for instance by giving the Bank of England operational independence. The structural changes in the global economy which took place in the 1970s and 1980s, in conjunction with the institutional changes in Britain, made the British economy much easier to manage than it had been two decades before. The global shift from manufacturing to services shifted the balance of the British economy towards those sectors where it enjoyed some comparative advantage, and removed or downsized those sectors which had been the source of so much of the instability as well as poor performance of the British economy. At the same time a new low inflation, low interest rate international regime was established and sustained, again greatly reducing the external pressures on the British economy. Britain was not alone in enjoying low inflation, low interest rates, high employment. It was the common experience, especially of the English-speaking countries of the Anglosphere after 1991, and one of the chief reasons was the impact of the new emerging economies like China. It helped make British performance among the best in the OECD, whereas earlier it had regularly been among the worst. The weakness of the trade unions compared to their position in the 1960s and 1970s also helped insulate British economic policy-making from unwelcome pressures.

This good fortune did not last. The British economy was increasingly propelled by credit bubbles (in housing and equities in particular)[28] and was running very large deficits on the balance of payments. In addition, household debt by 2007 had practically reached its limit. The economy was very vulnerable to the pricking of any of these bubbles. The sub-prime crisis in the US provided the spark which led to a serious financial collapse, destroying Labour's reputation for economic competence. Its spending plans depended on growth continuing, and that prospect disappeared in the crash. The banking crisis precipitated a recession, and quickly became a fiscal crisis, leading to plans to cut the deficit through sharp increases in taxes and major cuts in public spending. Labour's electoral coalition fell apart and it ceded the political initiative to the Conservatives.

Before the crisis struck, the Labour Government had persisted with its plans to expand public spending. The result was, in public expenditure terms, the most successful social democratic government Britain had ever had. Resources for the public sector were increased

more substantially than under any previous Labour administration. Spending on the NHS for example, which was £41 billion in 1997, was planned to reach £106 billion in 2008. From being below the European average for health spending Britain at the end of two terms of Labour Government was above and set to go higher still. Spending on the NHS, which was 4 per cent of GDP in 1950 and had risen quite slowly to 6 per cent of GDP by 1997, had jumped to 8 per cent of GDP in 2005 and was planned to be 9 per cent of GDP by 2008. The same broad picture was true of education. The 2002 plans aimed to raise education spending to £69 billion per annum by 2008 (from £36 billion in 1997). Labour chose to use the growth in the economy to increase public spending rather than to reduce taxes, and it put huge emphasis on increasing investment in human capital, particularly education and skills, through schools, training programmes and the New Deal youth employment scheme. It also invested heavily in other public services such as health, but still struggled to overcome the perception of poor public services bequeathed by two decades of underfunding.

Its other main strategy was to increase the competitiveness of the British economy, partly through regulatory bodies such as the Financial Services Authority (FSA), and partly through investment in science and technology to encourage innovation and an enterprise economy, focused around the industries of the new knowledge economy. There were some signs too that this had begun to pay off. A new generation of entrepreneurs and companies emerged in the UK in the 1990s, while traditional British strengths in sectors like aerospace and pharmaceuticals were retained.[29] There was no longer anything resembling an industrial strategy in the UK, and the British state no longer had the capacity, if it ever did, to manage industrial change. The shrinking of the manufacturing sector continued under Labour. Manufacturing by 2007 accounted for only 12 per cent of total employment, compared with 28 per cent in 1979 and 17 per cent in 1997. There was no longer any substantial body of opinion in the UK supporting the kind of industrial strategy aimed at fostering indigenous investment, still practised in many other capitalist countries. Before the crash, given the way Anglo-Saxon model countries had outperformed Germany, France, Italy and Japan since 1991, many wondered whether it any longer mattered.

Europe and America

Many critics of New Labour acknowledged that the alternative they preferred could not be delivered within the constraints of the political

economy model Labour had inherited in 1997. It required the adoption of a very different model, such as the European social model of stakeholder firms, high taxation, high welfare benefits, buttressed by high levels of trust and cooperation. The British model in the 1990s appeared much closer to the US model, particularly its policies on welfare, on deregulation, on new public management in the public sector, on public private partnerships, on shareholder value, and on the encouragement of the knowledge economy. Gordon Brown was a strong critic of many aspects of the European model, particularly the inflexibility of its labour markets and its discouragements to business enterprise, and often contrasted Europe unfavourably with America. The very success of British domestic economic management encouraged a sceptical stance among British ministers to further European integration in the 1990s, particularly in regards to the euro. This approach was echoed on the Conservative side.[30]

Being more like America again and less like Europe is the heart of the UK model of capitalism. For several decades modernisers toiled to make the UK more like Europe, but as the voluminous literature on models of capitalism demonstrates, they have not had much success, and the counterattack launched by the Thatcher Government swept away many of the institutional supports on which a social democratic political economy might have been built in Britain. On the other hand there are many respects in which Britain remains unlike America despite its strong appeal to the British political class.[31] Many of the attitudes, for example on welfare, on tax, on fairness and social justice, on public spending, and on poverty are broadly in line with those found in other European countries. Repeated surveys have shown that British views on welfare and taxation are not Thatcherite.[32] The British welfare state has always been a hybrid, and quite hard to classify. Esping-Andersen sees Britain as belonging broadly to the liberal regime type of welfare state, and argues that it moved closer towards it in the Thatcher period, but at the same time acknowledges that there remain some strong social democratic aspects to the British welfare state, most notably its universalist features such as the National Health Service. Starting from a high base after 1950 Britain failed to move on to a full social democratic welfare state as Sweden and similar countries did in the 1960s, and had since slipped back, and in that sense had come to resemble more closely the US model. The change of direction signalled by New Labour did not survive the crash.

One way of reading the history of the British political economy over the last sixty years is that after the attempt to restore Britain's lost

position in the world had been abandoned, successive governments sought to transform the UK into a coordinated market economy which could play its full part in the process of European integration. But these initiatives, although not as unsuccessful as sometimes suggested, nevertheless did not achieve their goal. This prepared the ground for the sharp turn of policy in the 1980s, abandoning the attempts to create either a coordinated market economy or a social democratic welfare state. Instead trust was placed again in the institutions and regulatory forms of a liberal market economy. By the end of the 1990s this was clearly bearing fruit, in the form of a political economy whose assumptions, including membership of the European Union, were accepted by all the leading political parties. British economic growth was not spectacular but it was steady. Critics still worried about the weakness of manufacturing, and the low wage, low skill syndrome in which Britain was caught. But the change in atmosphere and in performance from the 1970s and 1980s was marked.

The 2008 financial crash and Brexit

Since the crash a new phase has opened in British politics, and many of the achievements of New Labour have been rolled back. The political fall-out from the crash discredited the record of the Blair/Brown Government for economic competence, and its relegitimation of public spending and state action assisted the ascendancy of fiscal conservatism, and led to renewed attempts to shrink the state. Enduring features of Britain's liberal market economy have been emphasised once again. With the exception of some ministers in the Coalition Government such as Vince Cable, the Business Secretary, there was little political appetite to rebalance the British economy, to regulate the financial sector, to move Britain on to a different path or embrace a different model of capitalism.

The 2008 crash also marks a watershed in the development of the international market order. This international order has been extraordinarily resilient since the financial crash in 2008. Huge efforts were made to stabilise the international economy, and a new world depression was avoided, but the recovery was patchy and weak, the slowest recovery since 1945, and living standards for the majority continues to stagnate. Many incumbent governments in the western democracies lost elections after 2008, but they were replaced by governments who adhered to the broad terms of the neo-liberal consensus.[33] Events in 2016 changed that. The financial crisis started in the heartlands of Anglo-America, so it is perhaps appropriate that

it was in the UK and the US that the first serious breaches in the neo-liberal political order were made.

Trump's victory in the US presidential election has been compared to the vote for Brexit but there are important differences. Both were driven in part by anger and despair among sections of the white working class, and their rejection of the liberal, cosmopolitan establishment, both neo-liberal and social liberal. Both were part of a wider populist rebellion against globalisation and the western international economic and political order. Populist nationalism in western democracies is a politics of *ressentiment*, fed by economic and cultural grievances. The economic grievances stem from the displacement of many workers from jobs in manufacturing. This is a process which stretches back to the 1980s and has seen the blighting of formerly prosperous industrial regions and the creation of long-term worklessness and dependency. At the same time wages have stagnated or risen only very slowly in many countries, particularly since 2000, so at a time when inequality was increasing and the wealth of the top 1 per cent was growing quite dramatically, many working-class and middle-income citizens saw little if any improvement in their standard of living and were increasingly reliant upon borrowing. The social wage in the form of public services and employment protection was maintained during the boom years, but has come under sustained attack in the austerity programmes implemented since 2008. These economic grievances are often blamed on globalisation. The rapid pace of change, the introduction of new technologies, competition from immigrant labour, the outsourcing of jobs to other cheaper jurisdictions, the weakening of trade unions, have all combined to reduce labour's share in national income and weaken labour's bargaining strength. Many workers have come to feel resentful at being left behind and ignored, and they have become as a result increasingly disconnected from mainstream politics and government.[34]

But there were also important differences between Trump's victory and Brexit. Trump's natural allies were to be found in UKIP rather than the British Conservatives. Many Conservative Brexiters like Daniel Hannan regarded Trump as an economic nationalist.[35] Trump wanted not just to curb immigration, and deport illegal immigrants, but also to protect US jobs by slapping tariffs on foreign imports, ripping up trade deals, and unwinding the production chains of US multinationals, ending outsourcing. Hannan insisted that the vote for Brexit was about *increasing* free trade not limiting it. Britain was to be a global power again with greater openness than ever before. Brexiters like him believe in 'Global Britain' and acknowledge that immigration

will continue at a high level after Brexit because the UK economic model demanded it.

Britain's first post-Referendum government, led by Theresa May, was more ambivalent. It wanted strict border controls *and* free trade. Trump's position was more consistently nationalist – against free trade, against trade deals, and against immigration. It assumed that the US was a large enough economy to make the costs of going protectionist bearable. That was not an option for the UK after Brexit, because it relied too heavily on international trade for its prosperity, and lacked a large enough internal market to be a substitute. The problem for Conservative Brexiters is that while many of them were strong free traders, many of the people who voted for Brexit, particularly in the old industrial heartlands, were not. They did not want a global Britain but a closed Britain or at least a protectionist Britain. They wanted serious controls on immigration, regardless of whether this meant a contraction of trade. The May Government agreed with them. It indicated that controlling immigration was a priority. Trade deals came second. It accepted that there was no good Brexit, only a Brexit which limited the economic damage.

The May Government pursued a two-stage strategy. Falling in with the wishes of the EU Commission the Government accepted that it had first to clinch a deal over the divorce terms (the withdrawal agreement) and then move on to discuss trade. It set out its red lines for the negotiation in 2016, but its position was weakened when it called a general election in 2017 and lost its majority. It pressed on with negotiating a withdrawal agreement with the EU and succeeded, but it was then unable to get it approved by the House of Commons. The concessions it made to secure a deal were not acceptable to a powerful block of Brexiter opinion in the Conservative party. The result was an extraordinary period of parliamentary deadlock which lasted up until the election of 2019.

During this period there were four main possible outcomes of the Brexit negotiations: a No-Deal, a limited Canada-style free trade deal, a Norway-style deal, or a decision by Britain after a second referendum to suspend Article 50 and Remain. Almost all economic impact assessments of these options showed that, apart from the last, they would leave Britain significantly worse off but many Brexiters argued this was an acceptable price to pay to regain full sovereign control of borders, money and laws.

The outcome remained uncertain for two years, but after the third rejection of her withdrawal agreement by Parliament in 2019 Theresa May was ousted as Conservative leader and Boris Johnson,

the leader of the Leave campaign in the Referendum, took her place. He conducted a sweeping purge of the Cabinet and the parliamentary party, ending the thirty-year civil war in the party over Europe, and won a general election in 2019 by uniting Leave supporters behind the Conservatives while the Remain vote remained split between several parties. Johnson's victory allowed his revised version of Theresa May's withdrawal agreement to pass in Parliament and Britain formally exited the EU on 31 January 2020. This removed two of the four options, Norway and Remain, from consideration.

At the 2019 election the Johnson Government presented itself as a new government with a radical new agenda. It was committed not only to making Britain 'Global Britain' once more, freed from the shackles of the EU, but also to 'Britain First', the pledge to level up and rebalance the economy, shrinking the inequalities which emerged so starkly as a consequence of the 'Global Britain' policies pursued by the Thatcher Government in the 1980s. The 'Britain First' agenda seeks to consolidate Conservative support in the 'red wall' seats won in 2019. The question for the Government was how it would seek to reconcile these very different agendas.

The May Government had signalled that it was aiming to remain as close as possible to the EU, to minimise economic harm. This would have left Britain in a sub-optimal but broadly similar position to the one it had before Brexit, where it was already semi-detached from significant aspects of European integration such as Schengen and the euro. The May strategy would have confirmed the EU as Britain's most important long-term trading partner, and that would have created at least some pressure for continued convergence between the UK and the European models of capitalism. The May Government had intended through its EU Withdrawal Bill to incorporate all EU legislation into UK law until such time as the UK Parliament decided to replace particular measures. It also recognised that there would be future pressure for the UK to adopt new regulations announced by the EU, so as to preserve its access to the single market. Under the May plan, the UK might have eventually achieved something close to an associate status with the EU, although not as complete as Switzerland and Norway, and like them with no influence over the content of new rules.

After the 2019 election the new choice was between No-Deal, now called an Australian-style deal, based on trading on WTO rules, which would involve tariffs on a wide range of goods and border checks, or a Canada-style free trade agreement, which would still have border checks but would be tariff-free. A more radical version of the

No-Deal option, as set out by Economists for Brexit,[36] was for Britain to declare unilateral free trade. This would be truly 'Global Britain'. This 'Hong Kong' or 'Singapore-on-Thames' option would see taxes and regulation pared back, and welfare provision made less generous, public expenditure reduced to no more than 25 per cent of GDP, and employment rights, social rights and environmental protection all reduced to make the UK labour market even more flexible. It would represent an extreme form of the Anglo–liberal model, and the divergence between the UK and the rest of Europe would be magnified. The viability of this model would depend very much on the ability to trade freely with the rest of the world, in an era of trade blocs and trade wars.

'Britain First' is at the opposite end of the spectrum. This vision for Britain's future after Brexit places primary emphasis on the national economy and the communities it supports rather than global or regional engagement. It draws on the heritage of social imperialism and protectionism from the 1930s and also on the protectionist traditions of the left, as expressed for example in the alternative economic strategy developed in the 1970s and 1980s. Such policies would have a profound effect on the UK economic model, giving priority to industry over finance, putting employment ahead of financial stability, and investment ahead of consumption. Depending on the left or right inflection of these policies, border controls might become very tight.

The 'Global Britain' agenda implied radical divergence from the EU, which government ministers frequently confirmed was their aim. The UK could not be a passive rule taker, so could not belong to either the single market or the customs union. It must have the freedom to pursue trade deals with non-EU states, signalling the end of frictionless trade with the EU, creating a difficult period of adjustment. The Johnson Government accepted that there would be winners and losers and that in the short term the economy would be smaller than it would otherwise have been. But it argued that in the longer run the economy could be larger and more dynamic if looser regulation and taxes stimulated higher rates of economic growth, particularly in new emerging sectors.

Many supporters of the 'Global Britain' agenda welcome the prospect of No Deal with the EU and the severe economic shock that might bring, forcing the disruption of many supply chains and a radical restructuring of the British economy. Those sectors of the UK economy which are highly dependent on trade with the EU will go under, shrink or be forced to diversify into other markets. New sectors such as AI will emerge. Such an economic shock is what some

supporters of a No-Deal Brexit have always wanted, believing that as in 1979 what the British economy requires is the breakup of a particular model of the economy. The strategy has some big risks attached. The Johnson Government cannot know how large the losses might be in the short run, or how swiftly a new wave of enterprise and innovation can be unleashed, or whether trade deals with major non-EU markets can be negotiated quickly. A Canada-style agreement carries fewer risks, but in practice might mean the Government sticking more closely to EU rules than it would like. A minimalist free trade deal is less optimal than current arrangements but the costs and risks will be more manageable than No-Deal.

Even this version of 'Global Britain' will be hard to reconcile with the 'Britain First' agenda. The towns and regions which have suffered cumulative disadvantage in the last forty years are unlikely to be the cutting edge of 'Global Britain'. What they want is not more globalisation but less. They want economic security, infrastructure investment, better public services, and much less immigration. 'Global Britain' embraces free trade, a minimal state, and a capitalism which is more dynamic, open, cosmopolitan and inegalitarian. 'Britain First' embraces protectionism, an interventionist state and a capitalism which is more risk-averse, closed, communitarian and egalitarian. To meet its election promises the Johnson Government will struggle to deliver both free trade *and* protection, lower taxation *and* better public services, higher economic growth *and* a big reduction in immigration.

The UK is not a continental sized economy. Since the middle of the nineteenth century it has been dependent on trade. 'Global Britain' does not seek to abandon the Anglo–liberal model which has shaped British development for so long but to entrench it still further. 'Britain First' would move Britain in a very different direction, with major consequences for its politics and its political economy. The Conservatives might not necessarily be the long-term beneficiaries of this shift.