

Some reflections on the third way

Samuel Brittan: Canterbury 20/11/98

Introduction

There is a human desire to have one's cake and eat it. The desire is particularly strong among politicians. If I am asked to choose between A and B it is difficult enough. But if a politician makes a hard choice in favour of A he or she risks losing the support of thousands or millions who might have preferred B. The instinctive response will therefore be to avoid the choice, perhaps by saying A and B; or neither A nor B, but C: in other words "A Third Way."

If this were all there were to it, the whole matter could be dismissed as a normal part of the political game and I could end my lecture here. But the search for a Third Way has enough historical background to make the subject worth further investigation.

History

The search can best be understood in terms of the struggle between capitalism and socialism which is supposed to have dominated the 20th century. I say "supposed to have", as I would argue that the more fundamental conflicts have been between open and closed societies and between heroic collectivism and the values of private life. So called "capitalism" comes into it mainly as one aspect, and only one aspect, of an Open Society based on the rule of law, civil liberties, personal freedom and a known system of property rights.

But, whatever our personal views, many people did see the 20th century in terms of capitalism versus socialism. And even sceptics have to admit that people need bread, as well as freedom, and if possible strawberries and cream as well. Moreover the first half of the 20th century did see not only a Great Depression, but widespread impoverishment and runaway inflation in many countries after both wars. Thus capitalism had its share of problems, even if some of them were due to the survival of feudal, militarist or nationalist cultures which overrode the requirements of economic common sense.

But that is not all. The most ambitious attempt at an alternative to capitalism was

the Soviet system in which the state really did own the means of production and the planners went further than in any other time or place in trying to overrule the market. Yet the Soviet system collapsed ignominiously after the fall of the Berlin Wall in 1989.

The softer kind of socialism practised in the West also ran into trouble. In Britain, nationalisation did not provide a superior way of running business; and privatisation was more successful than many commentators hoped or feared. The Swedish form of social democracy had a longer run for its money. But when political leaders there tried to push state spending and egalitarian legislation too far, the country succumbed to an all too familiar crisis of international confidence.

There are those who would still argue that these problems were only a manifestation of the evil workings of globalised capitalism. The recent troubles in international financial markets, triggered off first in South East Asia and then by the Russian suspension of debt payments last summer, have been hailed by some as a sign that capitalism was at last running into its much predicted final crisis. Indeed Marxism Today has reappeared in a special issue to celebrate "the end of the neoliberal era." (1). Sorry comrades, no such luck.

At bottom the search for a Third Way is an attempt to combine the benefits of capitalism with the greater humanity to which socialism, at its best, aspires. Occasionally it has seen the other way round. When supporters of Alexander Dubcek, the ill-fated Czech reformist Prime Minister, spoke in 1968 about "socialism with a human face", they wanted to preserve a basically state-run economy but with the addition of democracy, human rights and more market-based choice. The experiment was brutally destroyed by Soviet tanks before it even began. Much earlier on, in 1938, Harold Macmillan published a book entitled *The Middle Way* which was meant to be a compromise between capitalism and socialism. He advocated policies such as "compulsory industrial reorganisation", a National Investment Board, and "bulk handling" and "organised marketing" of foodstuffs.

John Maynard Keynes did his best to write a favourable review. (Macmillan was also his publisher!) But Keynes himself favoured a different type of Third Way. As Skidelsky writes(2), "Macmillan was more of a corporatist than an expansionist... obsessed with developing machinery of planning to replace market forces, whereas

Keynes wanted to supply the market system with enough demand to maintain full employment"

The most vociferous interwar exponents of the Third Way were the Nazis and Fascists. Indeed they had to be. For they elevated the nation or state above the "selfish" individual and they despised the materialism of the market place. On the other hand they could not espouse a full blooded socialism because so much of their appeal was based on fomenting middle class fears of Bolshevism. Thus what they sought was a guided form of capitalism, which retained private ownership but where the owners were meant to follow state guidance.

This historical point is almost certain to be distorted. Many of the statesmen who advocated some form of guided capitalism were as far from being fascist as it was possible to be. Because A advocates X and B also advocates X,Y and Z, it does not mean that A also advocates Y and Z. Middle of the road leaders, like Macmillan, did not worship war, foment mob violence against their enemies or espouse anti-semitism. Yet it would be cowardly of me to overlook the record or fail to point out that what all the corporatists had in common, from the most vicious racialists to the most high minded humanitarians, was a desire to subordinate the selfish individual to a supposedly higher purpose.

More recent forms of the middle way have been in lower key. We have had a much advertised contrast between two models of capitalism, the "Rhenish" model (theoretically based on Germany and France, but usually described in terms of German institutions) and the Anglo-American kind. The latter is based on direct responsibility to shareholders, active financial markets and the threat of hostile takeovers as a spur to performance. The Rhenish model relies on internal control exercised by banks, large single shareholders and supervisory boards where workers representatives have half the seats - all combined with compulsory nationwide collective bargaining. Both models have their strengths and weaknesses. But in fact the vogue for the Rhenish model in English-speaking countries came mainly from people who still detested what they thought of as capitalism, but felt they could no longer get away with advocating full-blooded state socialism.

The advocates of non-Anglo Saxon capitalism over-extended themselves when they transferred some of their admiration from the Rhineland to East Asian countries

which had thriving private enterprise and much less state welfare than the United States even under a Reagan administration but which had a lot of interpenetration between government and business. This is now called "crony capitalism"; but in its heyday it was widely regarded either as an admirably non-ideological system or as a superior form of capitalism based on Confucian values. What was unforgivable was the way that the some on the British left were prepared to overlook the brutalities of these regimes because they forced their inhabitants to save and invest and -above all - denounced individualism. Not only the left, of course. Some right-wing politicians and businessmen looked with an envious eye on the short way that people like Lee Kuan Yew and Dr Mahithir Mohamad employed with dissidents.

I must admit that I had a holiday in my heart when this Asian model ran into crisis. So far from these Far Eastern countries saving the west, the west has had to help to save them. Obviously, it is in everyone's interest that Asian economies should get back to a reasonable growth path as soon as possible, and that the economies of the older advanced industrial countries, which still account for well over half the world economy, should be as far as possible protected from the backwash. But at least self-proclaimed advocates of Asian values will no longer be able able to lecture us on their superior morality and discipline.

Blairism

By contrast, the distinguishing feature of Tony Blair's New Labour is that it has fully accepted competitive markets, private enterprise and the profit motive as the motor of the country's economy. It has done so in conjunction with a commitment to sound money and fiscal stability, going beyond what most Conservative governments achieved or even aspired to.

I doubt very much if the newly elected European Social Democrat governments have gone anything like that far. Of course they will probably come partially to terms with the market system rather in the way that British Labour governments grudgingly did in the 1960s and 70s - but as a result of the pressure of events rather than from conviction.

Indeed in his embrace of business leaders, Tony Blair has actually gone too far. To regard businessmen as the authorities on economic policy is like asking chauffeurs to

design motor cars. Their virtue lies in their ability to operate the vehicles rather than to design them. On the couple of occasions when corporate heads have given helpful advice - eg Martin Taylor of Barclays on welfare and tax reform - it has been because of their personal qualities and little to do with their specific business experience.

Be that as it may, it has been natural for modern Labour leaders to search for some doctrine which could distinguish them from the "neo-liberal" doctrines associated with Conservative leaders such as Margaret Thatcher and Ronald Reagan. In my view they have been far too influenced by left-wing academics who do not understand the Conservative Party and who take its occasional neo-liberal rhetoric at its face value.

Think of the many areas where even Thatcherite governments did not follow market principles because of their fear of middle class reactions - ranging from subsidies to home buyers, agricultural policy, feeble anti-monopoly measures and refusal to countenance an independent Bank of England. Add to this the kind of redistribution based on levelling up rather than on envy, which radical governments have every justification for introducing and which is quite compatible with competitive market capitalism.

On top of this are all the many other and far more important policy areas not to do with economics narrowly conceived. There is the heritage of the Gladstonian Liberal party in constitutional reform and a fumbling for an ethical approach to foreign policy, which distinguishes the present Government from its predecessor. At home there is a greater toleration of alternative life styles, which is more basic than the efforts at media manipulation - for which journalists have mainly themselves to blame if they allow themselves to be browbeaten.

Of course, there are many other aspects of Labour policy with which I am far less happy, such as obsessive centralised curriculum control, or the American-type attempts to impose "healthy" life styles, so that smokers are almost criminalised. It is far too early to draw up an overall balance sheet on the Blair Government; and this is not the intention of the present lecture.

You will already have guessed my conclusion that the Government has not found a Third Way either between capitalism and socialism or even between Anglo-American and Rhineland capitalism. Nor does it need to do so. We already have the concepts

we need. I have entitled a recent book of my own Capitalism with a Human Face (3). A broader and well established concept is Karl Popper's Open Society

If the needs of presentation and publicity dictated some excessive product differentiation in economic policy, this is something with which we could easily live. Some of my New Labour friends tell me that the text now most in favour is Anthony Giddens The Third Way(4). I am afraid I find it useful mainly for its list of references to other works. The author uses "neoliberalism" in a several contradictory sense, but always in a pejorative sense. The positive doctrines are is so generalised as to be compatible with almost any policy - which may be why it finds official favour.

The Radical Economic Right

The temptation to sign up as a heretical supporter of the Third Way is increased when I look at the state of affairs among those with whom I have the most obvious affinity - the heirs of the classical liberals - not to be confused with today's Liberal Democrats.

Unfortunately classical liberalism has fragmented. Its political ideas - covering, for instance, a toleration of different lifestyles, open government or the rights of suspects against the police - have been taken over by the left, while concern for economic freedom has been taken over by by right wing economic intellectuals whom they their opponents delight in calling "neoliberals." The result is to impoverishing to both sides.

This split may help explain why so many contemporary free market advocates have a strange emphasis. They agree upon personal freedom, but they fail to see that we lack a liberal theory of just property rights. They take the prevailing distribution of wealth and income as sacrosanct and regard the alleviation of poverty mainly as a matter of voluntary insurance or private benevolence. One is met with a resounding silence if one talks about redistribution - not equality - let alone puts forward some idea such as a national minimum income - income, not wage.

Yet a number of the left wing responses are equally peculiar. There is a widespread view that something called "globalisation" makes it impossible to redistribute income. Not so. Labour is still much less mobile than capital and more could be

raised for redistribution if enough voters favoured the idea. The degree of international labour mobility, outside the top managerial and professional grades, is still quite low. What is however true is that the bulk of the resources required to level up the income of the poor or the old or the sick can only come from the mass body of citizens and taxpayers. Globalisation has come to be an excuse, either to cover up a much-needed re-thinking of egalitarian ideals or - less commendably - as an excuse for not undertaking redistributive measures which might alienate key groups of marginal middle income voters. Suppose, however we leave aside, just for a moment, electoral tactics and presentation and ask: how much ought we to redistribute to whom, and on what principles, the issue is still difficult enough. One plausible way of getting a handle on it is by means of the academic doctrine known as "contractarianism". This is a modern adaptation of an idea going back to John Locke and which has been developed in our own day by, among others, the American philosopher John Rawls. He suggests a thought experiment: a veil of ignorance in which we ask ourselves what arrangements we would support if we did not know our own place in the hierarchy - whether we were going to be billionaires or paupers or anywhere in between. But in contrast to Rawls, I believe that such a thought experiment is most likely to lead to what Winston Churchill called the ladder and the safety net. That is a ladder of opportunity for all and a minimum below which no one can fall. How high the safety net should be is inherently a subjective matter on which people of goodwill will disagree.

But my reservations about the the radical right go further. Their leaders tend to scoff at market failures which have been known to economists for generations - such things as pollution, urban blight, destruction of urban and rural amenities and so on. Of course many of these failures result from an inadequate definition of property rights. But to introduce property rights to clean air or to an unspoilt country view, without incurring prohibitive litigation costs, is easier said than done.

It is also true that government failure can be as bad or worse than market failure. Many of the attempts to correct the market are made by politicians and officials on the basis of inadequate knowledge. Moreover, it is well known that the interests of small producer groups, because they are heavily concentrated, weigh far more heavily than the dispersed interests of citizens and consumers. The classic example is the European Common Agricultural Policy.

Overall, that there has probably been too much rather than too little regulation. But the appropriate moral to draw is not to scoff at all policy correctives, but to try to balance the failures of the market with the failures of government in our imperfect world.

I have even tried in earlier work to give some pointers on how to do so. (6)

Thus I have many reservations about the type of market economics favoured by the so-called radical right and I have even more reservations about the versions of it pedalled by the political right which are distorted by an affection for certain interest groups - remember the Countryside March - and, far worse, are becoming increasingly infected by a narrow and unpleasant anti-Europeanism which has nothing to do with free markets and still less with sound money. Some of us still remember the disgraceful poster which appeared during the 1997 election showing a shrunken Tony Blair sitting a ventriloquist's dummy on the knee of a large, smiling Helmut Kohl, the recent German conservative Chancellor.

Communitarians

Why then do I not just say that my form of liberalism is one variant of The Third Way, and leave it at that? Unfortunately, there is something worse than vagueness about much of the Third Way talk. My pet dislike is for the awful communitarian rhetoric with which New Labour launched the Third Way concept before the last election. Having accepted much of the economic counter-revolution of the last decade and a half, the main issue on which Blairites dug in their heels was opposition to supposed Thatcherite individualism.

This is precisely the wrong place to make a stand. It is based on a false chain of reasoning which identifies individualism with self-interest and self-interest with selfishness. The last is a howler, as can be testified by anyone who has laboured for a charity, for a good cause or any of the arts or religion or merely to improve the lot of his or her own family and intimates.

An example of what I have in mind is the new Clause 4 of the Labour constitution. In place of the old common ownership of the means of production we have the assertion that "by the strength of our common endeavour we achieve more than we

achieve alone." By itself this is just a banality which applies not merely to human beings but to most other mammals as well. But it risks giving sustenance to the dreadful Hegelian view that collective entities have a superior value over and above the individuals who compose them, and which reached its apotheosis in the state worship of the Nazi and Communist regimes.

Modern communitarians, who have been most articulate in the USA, would run a mile away from such conclusions. They are more clearly defined by what they are against than what they favour. Their highest common factor is the belief that many of the ills of our time are due to individualistic liberalism, a suspicion of Invisible Hand mechanisms and an emphasis on duty. They condemn both the minimal state liberalism formerly associated with Harvard's Robert Nozick, and the more redistributionist version associated with the rival Harvard philosopher John Rawls. Typically, communitarians wax lyrical about neighbourhood, churches, or school authorities, and have thereby also gained the sympathy of some American "neo-conservatives" who want to distinguish their creed from classical liberalism.

The softer version of US communitarianism can be found in the writings of commentators such as Amital Etzioni, who is pictured with Vice President Al Gore on the dust cover of his book, *The Spirit of Community*). Its harder version can be found in the Republican Religious Right, with its support of compulsory religious practices (of which school prayer is but a symbol), belief in savage punishment for retributive reasons and paranoid nationalist fears that foreigners are taking away American jobs.

The two kinds of anti-individualists come together in their advocacy of a year or two of compulsory national service to knock some patriotism and civic virtue into the American young. Another tell-tale symptom is propaganda for so-called Asian values and admiration for the Singaporean leader Lee Kuan Yew, who justifies his brutal punishments by saying "To us in Asia, an individual is an ant."

May I in response quote a leading interwar thinker? "If we say that goodness consists of serving the community, then everybody must serve. If I want to serve other people, I can't do it unless they are willing to be served. If everybody is to be served, then there is nobody to accept the service. We can't be unselfish if nobody is prepared to be selfish. If a friend and I are out walking and I have one cigarette left

and he has none, then I can't act unselfishly and give it to him unless he is prepared to be selfish enough to take it from me."

Then again "serving society or humanity always means in practice serving institutions - serving the state or your business or your trade union." Even more: "We have got to stop the false idea that it is a good idea to serve society and its institutions. The goodness of a man's life is its own quality, its integrity, not in any service it may do to other people or to the state or the church or the future."

You may think these quotations come from someone like Friedrich Hayek, the free market philosopher who influence Margaret Thatcher. In fact they come from the left wing Scottish religious philosopher John Macmurray, whom Tony Blair has acknowledged as a key influence on him when he was formulating his outlook in his student years in Oxford in the early 1970's.

To communitarians selfishness is the most hideous of sins, and sometimes the only one. An individualist-liberal does not celebrate selfishness; but he believes that there can be worse sins, such as the sacrifice of individual human beings for the sake of some abstract doctrine or religious or other belief. Those who have homosexuals shot in the name of the Islamic revolution cannot be accused of anti-social individualism or base self interest.

Defensible Individualism

The kind of individualism for which I will fight in the last ditch is ethical individualism. In its minimal form, it is the belief that actions should be judged by their effects on individual human beings. How would I justify this judgement? It is individuals who feel, exult, despair and rejoice. And statements about group welfare are a shorthand way of referring to such individual effects. This seems to me a plain statement of fact, despite the numerous "thinkers" who deny - or more usually - bypass it.

A particular misunderstanding is to pit the individual against the family. Anthropology and biology suggest that human beings are creatures who tend to live in one kind of family or another. The individualist is, however, more content to let the family evolve and hesitates to put a political imprimatur on the nuclear family in the state it reached among the middle classes of the late nineteenth century.

A Biological Perspective

It is a cliché to say "Man is a social animal." The statement can be given empirical content by noting that for the greater part of his existence on this planet he has belonged to clans of hunter-gatherers of not more than a couple of hundred people. It is, therefore, not surprising that people feel alienated, both in mass society and if left entirely to their own devices in nuclear families.

Let us, moreover, not romanticise the small group. It can be very oppressive and stultifying. Let me put in an unfashionable plea for a certain amount of centralisation. If you are suffocated or repressed by self-important local nobodies who cover up for each other, your main hope is inspection by, or appeal to, higher authority. It is not an accident that the worst abuses in children's homes have occurred under local authority jurisdictions, where all too often officials and councillors cover up for each other. The government has very rightly announced that it intends to bring in some central control and regulation to act as a check.

It is also time to query the pious belief that professional values are invariably superior to commercial ones. Professional bodies have their own inherent deficiencies. If left to themselves they often try to keep out new people and ideas and enforce restrictive practices. Many academics are opera lovers. Have they forgotten the professional guild of the Meistersingers of Nuremburg, which tried to keep out new influences and new types of song and verse from their guild? It was no free market fanatic, but Paul Samuelson, the Democrat Nobel Prize winning economist, who long ago said that he preferred "good clean money" to "bad dirty power."

The worst side of group psychology is the hostility almost always generated to those outside the group. This long predates modern nationalism. Byzantine emperors were able to generate artificial hostility between groups of citizens by dividing them by an arbitrary line into blues and greens. From here it is but a short distance to the bitter struggles in places like Bosnia, where people who had previously lived at ease with each other for generations, and indeed intermarried, went in for the barbarities of ethnic cleansing.

An attachment to personal freedom leads to one very specific difference with present day Third Way. The prevailing view on the both the centre left and the centre right is that cash transfers through the social security system are a diversion of resources which ought to be devoted to state services such as medical treatment and state education. A redistributionist who values freedom should take exactly the opposite view: that cash transfers are positively preferable to services in kind, Such services, worthy though they may be, reduce the income which citizens can spend at their discretion. Taken to extremes, they would leave us with nothing but pocket money to spend. Cash transfers on the other hand do not reduce personal choice at all, but simply redistribute the counters with which that choice is exercised.

As anything that can be misunderstood will be misunderstood, I must add the disclaimer that I am not advocating the rundown of state health or education. It is question of whether we look for improvement in these services from ever higher direct state spending or whether we look at ideas such as school vouchers which give citizens more opportunity to shop around.

The ideal way to provide a general top-up for those without sufficient resources would be a Negative Income Tax. There is an advantage in helping people to avoid being complete wage slaves and in facilitating an opt-out of the economic struggle for those willing to live on modest means. But, alas, public opinion is not yet ready to make such transfers to those to whom it regards as workshy. Gordon Brown's forthcoming top-up for those in low pay, known as the Working Person's Tax Credit could however provide the nucleus of an NIT, especially if it is ultimately extended to include voluntary work or activity in the arts or sports.

Call in the Archbishop

But I must come back to my basic theme. I have dwelt on the American communitarians because they have taken the anti-individualist rhetoric furthest. Some people may say that this is not fair and the doctrine of the Third Way is still being developed in the UK. Recent pronouncements do not allay my fears. Tony Blair's 1998 pamphlet *The Third Way* was understandably a partisan document on what the Government had so far done or planned. The four values stated at the outset are Equal Worth, Opportunity for All, Responsibility and Community. It is

difficult to disagree - so long as community is as something arising from voluntary individual choice - a matter on which the US communitarians are ambivalent. But It is disconcerting that extending personal freedom does not figure as a headline objective either here or in other statements.

It is too early to say whether the semi-authoritarian strain in New Labour will remain a side-show, left to the speech writers, or whether it will ultimately corrupt the substance of policy. But - to end with a little light relief -I would not extend my strictures to the "rebranding" of the UK or the promotion of the image of "cool Britain". Although outside the proper agenda of government it mainly adds to the gaiety of public affairs for a comparatively modest resource cost. So long as it is not taken too seriously.

Looked at with a cold eye, the job of government is to provide those services which are best provided collectively through the tax system, rather than by private enterprise under the market mechanism, or by voluntary co-operation. That is so whether one believes that the list of such collective services is short or long.

The fashionable spin-doctoring view of government points to a different function It is to provide so-called moral leadership. (Some of us still remember Dick the Vicar from Beyond the Fringe). It is also to reflect the more optimistic trends "in our society", eg. Tony Blair's talk about Britain being "a young country". There is undoubtedly a place both for role models and for preachers. But these are are not necessarily functions of government. There is is a lot to be said for Harold Macmillan's remark that if people are seeking a moral lead they should look to the archbishops rather than to politicians. Especially here in Canterbury.

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