

# ECONOMY AND CITIZENSHIP



## Britons' changing identities

Social attitudes in Britain have changed dramatically in the past 40 years

Madeleine Bunting, Associate Editor, *The Guardian*

**H**OW DO YOU DEFINE your identity? By nation, by class, by religion, by political party? These were the most common reference points by which people explained their place in the world in the past.

But the assumption in recent years is that this has changed. The argument put forward by many thinkers is that these traditional groupings have been eroded by a greater degree of 'individualisation' – people choose and mix the kinds of reference points that they find useful for their identity. No longer able to rely on given collective identities, they have to compile their own narratives to describe their sense of belonging.

But according to the latest research from the Identities and Social Action Programme on identity

The percentage of people in England who identify themselves as 'English' rather than 'British' has risen in recent years.

in Britain, the story is not so straightforward. Some of the traditional identities are very persistent, with just as many people using them to define themselves as 40 years ago. Others of those traditional identities have declined dramatically. No one theory of individualisation covers this mixed pattern.

One of the most politically sensitive of identity issues is nationality. Do we feel British or English, British or Scottish or a bit of both? Several senior government figures have contributed to a vibrant debate about our sense of nationhood. In part, this has been stimulated by devolution in Scotland and Wales; in part, by the nature of an increasingly diverse Britain; and in part, by the process of globalisation and its weakening of the nation state as an independent political and economic unit. ➤



Despite devolution in Wales, the number of Welsh people who regard themselves as British has remained at a steady level.

► What this debate has shown up is that under this scrutiny, 'Britishness' proves fragile. It is a relatively recent construction, the product of an intense period of nation-building in the wake of the Acts of Union between England and Scotland in 1707, and superimposed on earlier national identities such as English, Scottish and Welsh.

What adds to the fragility of the British identity is that the materials from which it was built in the 18th and 19th century – the opposition to Catholic France and the rise of empire – are no longer valid. So is it possible to detect the impact of such grand historical developments on people's sense of their own identity?

The answer is quite clearly yes. Looking back over research data collected from detailed surveys of British social attitudes since 1974, there have been some quite dramatic developments. The proportion of respondents describing themselves as 'British

only' has fallen significantly among those who live in England and even more dramatically among those living in Scotland. The figure for Scotland in 2005 is less than half that of 1974, with a sharp rise in the number of people now claiming to be defining their national identity only as Scottish. Only in Wales has the figure of those claiming to be British – after some ups and downs – remained the same.

The decline in Britishness seems to be gathering pace, particularly in England where the proportion of people describing themselves as British fell from 59 per cent in 1997 to just 44 per cent in 1999. This increasingly assertive Englishness could be a response to devolution in Scotland and Wales. Some of those questioned articulated the sense that, while others have dual identities such as British Asian or British Scottish, there is a perception that Englishness has been overlooked. Such sentiments are likely to have significant political repercussions in the years to come.

Shifting now to another of the traditional identities, what has happened to class? Given the enormous economic change of the last 20 to 30 years, with the decline of heavy industry and manufacturing in Britain, one would expect some dramatic changes. Much has also been made of meritocracy and increased access to higher education – surely this will have transformed people's understanding of their social position and made class a largely irrelevant identity?

In fact, contrary to expectations, class identity has proved extraordinarily stable. Nearly half of all respondents to the surveys identify themselves unprompted in terms of class, and that figure was as true for 1964 as it is for the latest figures in 2005.

And the proportion not identifying with any class is exactly the same – a tiny six per cent.

Class still matters. What has changed is that there has been some increase in the number describing themselves as middle class and a commensurate decline in working class identity. But well over half of people – 57 per cent – still define themselves as working class, a percentage that is out of proportion with people who are actually in working class occupations in the economy. In other words, many people still define themselves as working class even if they are in middle class occupations. And what is clear from interviews is that many people regard their class identity as a given, formed when they were growing up; it is not something they chose or created for themselves.

Next, we can look at two traditional identities that have been in steep decline: political parties and religion. In 1987, 46 per cent of people identified 'fairly' or 'very' strongly with a party; now that figure is only 35 per cent. At the same time, the proportion of people who fail, despite persistent questioning, to name any party they could identify with has nearly doubled from seven per cent to 13 per cent. Other studies show that this decline has been in train since the 1960s: in 1964, 82 per cent of people identified 'very' or 'fairly' strongly with a party compared with the most recent figure for 2005 of 51 per cent.

The sharpest decline of all has been in religious identity. In 1964, 26 per cent of people either did not claim membership of a religion or said they never attended a religious service; that figure has risen to 60 per cent. Religious attendance has also been falling among people who claim to belong to a religion: in 1964, three-quarters of such people said they attended services; now the proportion is only a half. There has been a weakening of identity among those who still identify themselves religiously.

The percentage of people who identify themselves with a political party has fallen dramatically in the past 20 years.

increasing use of faith identities by ethnic minority communities such as Muslims, Hindus and Sikhs.

A strong sense of being British does not increase the sense of community with other British people, nor does a strong sense of English identity. These do not seem to generate solidarity, unlike Scottish and Welsh identities.

On the second question, there are some dramatic differences between traditional identities. Broadly put, class no longer works as a reference point. While class may have persisted as an identity, it is no longer a predictor of values. The same is true of political party identities; they do not act as a frame of reference for people's views.

When it comes to Britishness, confusion is rife: interviewees struggle to define values or behaviours as typically British. On the other hand, religious identity continues to play that traditional role of providing a reference point. If you are a member of a religion, your views are likely to be shaped by that.

So the patterns of decline among traditional identities of nation, religion, party and class are very different. No one theory of individualisation and of people choosing their own identities fits them all.

The decline of Britishness and the rise of Englishness offer the biggest challenge to politicians intent on building a sense of national solidarity. They have little material to work with; people's difficulty in defining values and behaviours indicates how vague these identities have become.

But the biggest surprise is perhaps the persistence of class identity. It continues to be important as a way of explaining oneself though it does not provide any reference point for values – this is a striking gap. Yet despite the significance of class, it is rarely discussed; it is not a part of the national conversation, for example, in the way religion has become in recent years. ■

### *The decline of Britishness and the rise of Englishness offer the biggest challenge to politicians intent on building a sense of national solidarity*

So out of this picture of weak and declining identity, can we still perceive the two key roles that identity used to play in the past – first, a sense of solidarity and common interests with others; and second, a reference point for values and behaviour?

On the first role of identity, those who strongly identify with a traditional identity such as class or a political party are more likely to feel a sense of community with others of that identity. The same pattern is evident in religious identity where those who actually attend services are much more likely to feel a sense of community, an indication that participation is vital.

Interestingly, the strongest sense of religious identity in Britain is among non-Christians: 31 per cent of Anglicans feel they have 'a little' in common with fellow Anglicans, while 84 per cent of non-Christians feel they have something in common with fellow adherents. This reflects the



# Productivity races

## BRITAIN IS PLAYING CATCH-UP WITH THE UNITED STATES

PROFESSOR JOHN  
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Performance



**H**OW WOULD YOU LIKE to add every Friday to your standard weekend and yet stay on full pay? According to the latest productivity figures from the Office for National Statistics, that's what Britain's main rivals effectively do because of our 'productivity gap'. British output per hour worked is 13 per cent lower than Germany's, 18 per cent below the US and 20 per cent below France.

This means that if we could reach French productivity levels, we could award ourselves 20 per cent higher wages or take a day off and still earn the same. Or we could spend the extra resources on schools and hospitals, greater benefits for the needy or lower taxes.

But aren't our continental European neighbours well-known economic basket cases? The short answer is no. But the longer answer is that the raw numbers on their workforces' productivity might unduly flatter them. Both France and Germany get a much lower proportion of their working age people into jobs than Britain and the US. What this means is that the most unskilled and least productive French and Germans are not even in the workforce. So there is a 'batting average' effect: dropping all the tail-enders from the cricket team boosts the average number of runs. France and Germany also have stronger unions and higher minimum wages, causing firms to use more machines per worker. When these two factors are taken into account, Britain's productivity looks a lot more like continental Europe.

Nevertheless, there is still a big productivity gap with the US because British and US employment rates are similar. This gap is not due to the British simply being lazy and Americans working 'crazy' hours, as productivity is measured as output per hour worked. Comparing output per worker (an alternative measure of productivity), Americans are 27 per cent more productive than the British because of their longer hours.

There are many reasons for the longstanding productivity gap, including lower levels of innovation. Our research at the Centre for Economic Performance suggests that British management is also much weaker. The evidence from a large international survey shows Britain lagging behind the US on management of people, performance, targets and shopfloor operations. Is it a coincidence that one of our country's export successes is TV shows about bad managers? Think David Brent in *The Office* and the proprietor of *Fawlty Towers*.

Perhaps even more dramatic than the US productivity advantage has been its change over time. For 50 years after World War II, Europe was catching up to the US frontier. The rebuilding of Europe relied heavily on US technology and investment, but catch-up continued even after the worldwide slowdown following the first oil shocks in the 1970s. This meant that, historically, European productivity growth exceeded US productivity growth, even though the US retained a lead in the level of productivity as late as the mid-1990s because it started off so far ahead in 1945.

But the big surprise is what happened after 1995. For the past decade, US productivity growth has surged ahead of Europe's. This means that the productivity gap has stopped converging. At first, only 'new economy' cheerleaders thought anything fundamental had changed. But even sceptics have been surprised by continuing strong growth into the 21st century. Despite stock market crashes and the 9/11 terrorist attacks, US productivity growth has continued to hum along.

One key explanation for this productivity acceleration is the growing importance of information and communication technologies (ICT). Technological advances in these sectors have been very rapid and productivity growth has been spectacular.

But careful analysis shows that productivity growth in the industries that produce these high-tech gadgets has been just about as fast in Europe as in the US. The big difference is in the industries that are users of ICT, such as finance, retail and wholesale. In these sectors, US productivity growth really jumped from the mid-1990s, whereas productivity growth in Europe's equivalent sectors stayed about the same.

This is a puzzle as computers are available on both sides of the Atlantic at roughly similar prices and qualities. One explanation is that the real driver of productivity increases is the way ICT is used rather than simply the amount spent. ICT often requires firms to change radically the way they are organised and do business.

For example, the job of a bank clerk has completely changed with the arrival of cash machines. Instead of collecting and handing out money, front-office bank staff are now more involved in selling financial products and advising customers.

This has required changing job roles, extensive retraining and reduced numbers of less skilled bank clerks. All such change is hard, but it is particularly hard in Europe where working life is more heavily regulated than in the US.

No one can predict the future with certainty, but it is likely that as European firms learn how to use the new technologies, they will start converging with the US once more. This has been the historical experience of capitalism, with the leading country pulling away for a period through innovation but the followers imitating the innovation and catching up again. After all, Britain led in the 19th century before being leapfrogged by the US in the 20th century.

It is also worth remembering that the productivity growth race is a bit like the Mad Hatter's tea party. So long as everyone is growing, there really are 'prizes for all'. All countries benefit from a surge of innovation, even though some may temporarily benefit more than others.

This is little comfort for the political elites who want to be in the largest and fastest growing nation. However, life for the average citizen will still be better from faster growth even if income is not growing quite as fast as in the leading country. ■



# TRANSNATIONAL CITIZENS AND THE SHADOW STATE

Voluntary organisations are providing vital services for migrants

**T**HE TERM 'SHADOW STATE' was coined by US professor Jennifer Wolch to describe the emergence of voluntary organisations charged with providing services previously provided by the state. This is something that has been happening increasingly in Britain since Labour came to power. Voluntary organisations are seen as having a comparative advantage in being able to work among groups that, by their own admission, the state and its agencies often find difficult or impossible to reach.

Perhaps unsurprisingly in these days of mass migration, there is a large and diverse network of voluntary sector organisations involved with new arrivals to this country. Research by Professors Nicholas Fyfe and Allan Findlay has been examining the role of these organisations in providing support for refugee and labour migrant communities.

Their work has focused on migrants settling in London, Manchester and Glasgow. In each city, Iraqis and Somalis were the focus of research on refugee communities, and Filipino nurses were used as an example of labour migrant groups.

So who are the voluntary organisations involved? They range from formally constituted, not-for-profit agencies with paid staff, such as the Refugee Council, to local organisations supported by the communities they serve.

The researchers note that labour migrants are allowed to earn a living from the moment they arrive in Britain, so their relationship with the voluntary sector and the state is very different from that of asylum seekers.

Various voluntary groups offer the chance for migrants to be with people of their own kind or with similar needs. Others, such as churches, help them meet people from the host country. Some Filipinos were also interested in union activities, not only to improve work conditions, but also to change their status in society. This contrasts markedly with the much more limited ambitions of asylum seekers.

The survey reveals that many voluntary organisations working with migrants have only started doing so in the past 10 years, often because of financial incentives from local or central government: "Our study provides interesting evidence of Britain experiencing two parallel and related trends over the past decade," says Professor

Fyfe. "On the one hand, migrant numbers have grown rapidly, reflecting in part government policies to attract global talent, whether already trained or in the form of foreign students. On the other hand, the government's neo-liberal agenda has boosted the size of the voluntary sector to help meet the needs of this growing population of non-British citizens."

With the government clearly seeing voluntary organisations playing a key role in delivering welfare advice, and many indicating in the survey that they received a significant proportion of funding from the state, to what extent are these groups forming Professor Wolch's 'shadow state'?

The evidence points to a complex set of relationships. Voluntary organisations clearly have to respond to a rapidly changing environment in which many activities are increasingly shaped by the government's policy agenda. For example, dealing with hardship cases is an increasingly important part of the welfare service provided by the Refugee Council, linked with government policy changes that have led to an erosion of welfare entitlements for asylum seekers.

And one refugee training organisation in London told the researchers: "It has definitely become more bureaucratic. If I compare it to how it was when I first started working here, it's just endless really, now. Forms for this, forms for that. And the funding we get is so short-term, it seems we are always applying, writing reports, it just never stops..."

Professor Fyfe adds: "Most organisations are relatively small, and around two thirds either have no paid staff or between one and 10. Some 39 per cent have 10 or more volunteers, indicating the potential that they have for allowing the state to tap into communities at low or no cost, and to deliver services and support through this channel."

More than half of voluntary groups depend on the government for funding – and the state is the single largest source of money. Tellingly, those mainly funded by the state had more staff.

And Professor Fyfe concludes: "The relationships we have revealed suggest that the state itself has chosen to withdraw from delivering many services to those who live within its boundaries who are not citizens, and to leave it to the voluntary sector to provide much of the support sought by these communities." ■

## AT A GLANCE

A diverse range of voluntary sector organisations are providing services for migrants. Although more than half rely on state funding, research reveals that the government is increasingly withdrawing from actively providing services itself.

# STRIKING A CHORD: POP MUSIC AND POLITICAL ACTION

Do musicians play a vital role in highlighting political issues?

**J**ULY 2005 SAW THOUSANDS of people – young and old, working-class and ‘county’ set, nuns and atheists – marching on Edinburgh to make a political statement on the occasion of the G8 meeting at Gleneagles.

In the era of mass social movements, there is nothing unusual in that, says Professor John Street from the Non-Governmental Action Programme. Nothing, he adds, apart from the fact that the marchers’ ‘leaders’ included some of the western world’s most famous pop musicians, and the political participation involved little more than watching an array of pop performers.

There must be many in Britain today who, if pressed, would struggle to name more than one or two songs by Bob Geldof or Bono. Yet in the guise of entertainers turned ‘celebrity politicians’, they have a huge impact on governments and millions of ordinary and concerned people around the globe.

People went to Edinburgh for a Live 8 concert at Murrayfield Stadium, the culmination of the campaign to ‘Make Poverty History’. Geldof and

a star-studded cast of musicians and performers organised it to urge the world’s most powerful politicians to end global poverty.

Surprisingly, perhaps, until now little detailed research has been done into the processes involved in this relationship between the worlds of politics and popular entertainment, one that has existed for longer than many realise. This is where Professor Street and his colleagues come in, with a research project that is part of a larger study into public action by non-governmental organisations (NGOs).

Focusing on two examples – *Rock Against Racism* (RAR), which began in 1976, and *Jubilee 2000*, which started in 1996 and ended with *Live 8* – they have conducted a thorough examination of the whole phenomenon, interviewing on the way record company bosses, founding members and trustees of campaigns such as *Band Aid*, managers of bands, musicians and political activists.

Professor Street says: “We have been asking three questions about the relationship between music and public action. First, how does it happen

The mainstream media took Bono and Geldof seriously as commentators on Africa leading to accusations of them ‘hijacking’ the debt relief cause.



in practical terms? Second, how do musicians acquire the 'authority' to speak out on politics and claim to represent causes and groups? And third, what part does the music itself play in mobilising people?" These questions are set against a background of perceptions which, in the opinion of the researchers, pay too little heed to the ways in which this relationship actually works.

The study argues that if we are to claim that music and musicians do play a significant role in political action, three conditions have to be met. Musicians have to be regarded as legitimate or authoritative representatives of their cause. There has to be an infrastructure that allows musicians and political activists or NGOs to work together. And finally, there has to be some means by which the music conveys the message or sentiment of the movement or cause to the public.

*Rock Against Racism*, says the study, depended on both politics and music: 'It is often supposed that RAR was a musical wing of the Socialist Workers Party. There was a close connection but, especially in London, RAR also depended on the existence of local anti-fascist/anti-racist organisations and, perhaps more importantly, on local musical networks. RAR was as much an opportunity for local bands to play as for political activists to mobilise.'

*Jubilee 2000/Live 8* was very different, according to the research: 'Here we are talking about elite negotiations between managers, musicians, NGOs, music industry executives and television companies to create particular kinds of media events. *Live 8* cost £10 million to organise.'



Rock Against Racism was perceived by many as being a musical wing of the Socialist Workers Party.

The research also reveals how the media give credibility to musicians as political representatives or spokespeople: 'The *New Musical Express*, in particular, was crucial to RAR. And there is a back story here – how it turned itself into a publication as much concerned with politics as with music.'

With *Live 8*, the issue was the way in which mainstream media took Geldof and Bono seriously as commentators on Africa – almost to the exclusion of the NGOs. This led to accusations that Geldof, in particular, had 'hijacked' the debt relief cause.

### ***In the guise of entertainers turned 'celebrity politicians', Bob Geldof and Bono have a huge impact on governments and millions of people***

But what about the music itself? The researchers have tried to draw out the different ways in which the two movements linked their form of musical performance to the cause. RAR was especially sensitive to the way its politics was represented on stage, and drew extensively on various theories about art. *Live 8* was concerned too, but with an eye to the market rather than to aesthetic theory – hence the decision not to include African bands in Hyde Park.

Other findings to emerge from the research include the extent of downloading by NGOs as part of their fund-raising and awareness-boosting activities; the use of music for educational and other purposes, such as therapy for children in war-torn areas; and how music can, quite literally, choreograph political protest – through the use, for example, of marching bands.

Finally, Professor Street and his colleagues raise the intriguing question that if we are going to recognise the possibility that leisure activities such as listening to music can constitute a form of political participation, does this commit us to treating the buying of a record by Bono, Billy Bragg or Joan Baez as political? And if so, does the same apply to records by James Blunt or Celine Dion? ■

#### **AT A GLANCE**

Does music play a political role in mobilising people? Studies suggest that musicians have to be regarded as authoritative if they are to be taken seriously and that there should be an infrastructure that enables musicians and NGOs to work together.





## MUSLIMS IN BRITAIN

How are they perceived and is there significant cultural separatism?

**T**HE EUROPE-WIDE DEBATE over Muslim women wearing veils has highlighted the dangers of using negative stereotypes when describing people with diverse attitudes and experiences. The ‘veil’, for example, covers a range of garments, from the headscarf to the body-concealing ‘burqa’, which are worn by a minority of women from different ethnic groups with very different attitudes and religious practices.

But to certain elements of our society, the veil has become a symbol of cultural separatism and a threat to ‘Britishness’, regardless of whether these actually go hand-in-hand.

Little research has been done as yet to explore the experiences and attitudes of different religious groups in Britain, but early findings from a study by Dr Saffron Karlsen and Professor James Nazroo of the Understanding Population and Trends Programme reveal that there are wide differences between the different groups who might be considered ‘Muslim’.

“My personal concern is that focusing on a particular representation of Islamic identity might lead to a sense of isolation among people who perceive themselves as ‘Muslim’ but do not identify with this depiction,” says Karlsen. “For some such people, the veil could be worn as a political statement: a way of reclaiming an identity by individuals who feel their faith is being misrepresented. This use of the veil would have different implications than that of those who follow a more radical form of religious orthodoxy.”

The 2001 census indicated that there are around 1.5 million Muslims living in England and Wales, along with 35 million Christians, 500,000

Hindus and 300,000 Sikhs. Last October, the Muslims in London report found that Muslims, who make up 8.5 per cent of the capital’s population, faced several barriers to employment, including educational under-achievement, lack of affordable and appropriate child care, lack of suitable training, travel costs and housing costs. A report by the Greater London Authority also said that Muslims faced serious discrimination and prejudice, with more than 1,000 religiously aggravated attacks reported in the capital in 2005/6.

Dr Karlsen and Professor Nazroo have analysed data from a range of sources to map differences in the experiences and attitudes of different religious groups in England, focusing on how these patterns vary according to ethnicity and socio-economic status. They’ve also drawn on European data sets to explore differences in the attitudes and experiences of Muslims in Britain, Germany, and Spain.

The findings confirm that Muslim groups in general are significantly disadvantaged compared with other religious groups living in Britain. They are more likely to be unemployed or badly paid, in lower social classes and with fewer qualifications than members of other faiths. Muslims also suffer disproportionately from poor health.

Around 11 per cent of those interviewed said that they had been the victim of racially motivated verbal abuse or physical attack, or had had their property vandalised, in the last year. Up to 21 per cent said that they felt the majority of British employers were racist in their recruitment procedures.

But the results reveal a number of significant differences within the ‘Muslim’ group. Dr Karlsen says “Bangladeshi and Black African Muslims tend

### AT A GLANCE

Although Muslim groups in general are disadvantaged compared to many other minorities, it is important to take into account ethnic, socio-economic and other differences within the ‘Muslim’ group as a whole when formulating future policies.

to have a lower standard of living than Pakistani and Indian Muslims, and there are differences in health. It is clear that important information on health and socio-economic inequalities is disguised if we fail to take account of ethnic, socio-economic and other differences within the 'Muslim' group, and this will affect our ability to develop appropriate policies."

The researchers also looked at the influence of religious belief among various Muslim groups. Around 90 per cent of Muslims said they held strong religious beliefs that were important to the way they lived their life. But a majority of between two-thirds and three-quarters also said that they thought of themselves as 'British'.

Similarly, while 90 per cent of the interviewees felt that they should be able to preserve their culture and way of life, 70 per cent supported the adoption of the lifestyles of other groups in Britain. "These positive orientations to British identity and the lifestyles of other groups could suggest that any recognised desire for social isolation may be encouraged by the negative attitudes of wider society," says Dr Karlsen.

The researchers also looked at three Muslim groups living in different urban centres in Europe to compare the extent to which they feel 'at home': Bangladeshi Muslims living in London, Moroccan Muslims living in Madrid and Turkish Muslims living in Berlin. There are some important differences between the three groups. Turkish Muslims migrated to Germany as guest workers from the late 1950s, and Bangladeshi migration to

Britain, which was also economically motivated, began in the 1960s, with migrants offered British citizenship. In contrast, Moroccan Muslims began migrating to Spain only recently, and as asylum seekers. As a consequence, the Bangladeshi and Turkish communities are larger and longer established than the Moroccan community.

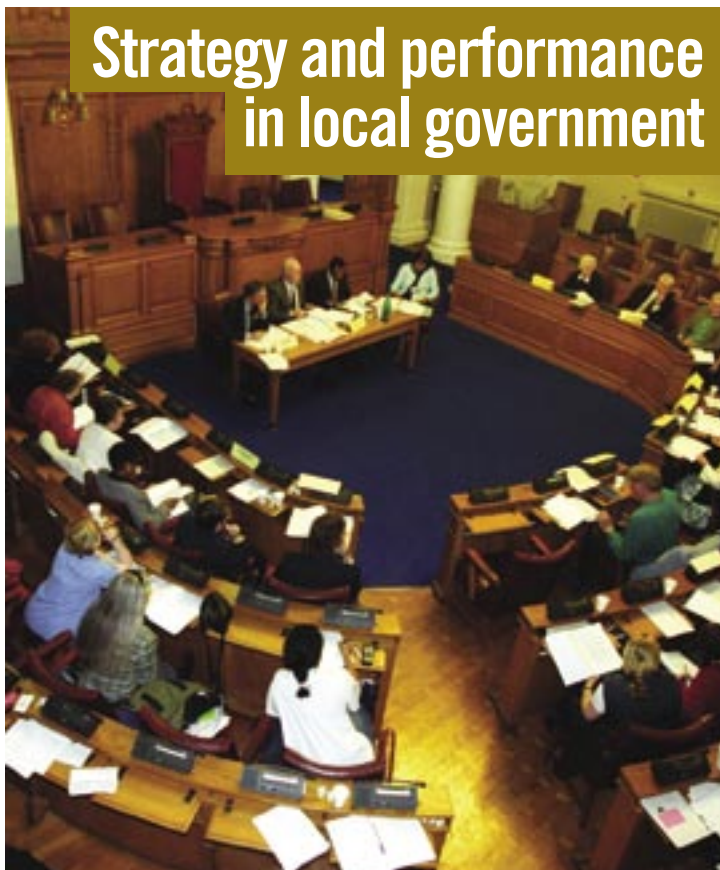
Almost all of the Bangladeshi Muslims and three-quarters of the Turkish and Moroccan Muslims reported feeling 'at home' in their country of residence. Analysis of factors associated with this feeling suggests that having citizenship of your country of residence, having trust in formal and informal national and international institutions and not being racially victimised were all important.

Religion and religiosity do not appear to influence feeling 'at home'. The extent of reported religious involvement, being proud to be a Muslim,

### ***Muslim groups are significantly disadvantaged compared with many other religious groups living in Britain***

and behaviours such as fasting during Ramadan each year were unrelated to feeling at home.

Dr Karlsen concludes: "These findings suggest that feeling settled and secure where you live may be more closely related to people's relationships with their country of residence than their religious practices or involvement with any 'country of origin' or minority community." ■



**CONSIDERING THE PRIORITY GIVEN** by the government and devolved administrations to improving the quality of their services, surprisingly little research has been done on the impact of organisation planning in the public sector. So a new study that suggests a need to move away from the 'one size fits all' approach should be required reading from Whitehall to the nation's town halls.

Dr Rhys Andrews, Professors George Boyne and Richard Walker, and Dr Jennifer Law have investigated strategy and performance in English and Welsh local authorities. They find that while a coherent strategic management approach can lead to better performance, a range of other influences also come into play, such as local socio-economic factors and the role of public sector regulators.

Dr Andrews explains: "In reality, councils vary in how much they focus on innovation, defend existing activities and wait for external pressures to force change. The impact of these different strategies on service performance is contingent on a host of additional factors.

"Councils with diverse service demands find it harder to perform well, while those that are large and prosperous are more likely to do well. Unless this is recognised in central government, there is a risk of some organisations being praised for 'success' that simply reflects good fortune, and others blamed for 'failure' that is really due to an intractable environment." ■

# The Chancellor's economic legacy

## A DECADE OF SIGNIFICANT CHANGE

ROBERT CHOTE,  
Director, Institute  
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**G**ORDON BROWN HAS RETOOLED the machinery of British economic management, handing interest rates to an independent monetary policy committee at the Bank of England and imposing rules limiting government borrowing. With his Chancellorship drawing to a close after 10 years, it's a good time to reflect on the impact of these changes – and possible future reforms.

Central bank independence is widely hailed as one of New Labour's policy triumphs, insulating monetary policy from political short-termism. Inflation has been remarkably stable around its target level, while the ups and downs of the economy have been muted by comparison with the boom-and-bust of previous decades.

But was independence a stroke of genius? No: it was part of a well-established international trend and had been proposed by at least four of Brown's Conservative predecessors. The surprise in 1997 was not that a Chancellor advocated independence, but that a Prime Minister agreed to it.

Whoever deserves the credit, the timing could not have been better. Britain's recessionary membership of the European exchange rate mechanism (ERM) had done the hard work of getting inflation down in the early 1990s. The devaluation of sterling in 1992 turned out to be much less inflationary than expected, while global competition has kept downward pressure on many prices.

As a result, the monetary policy committee's job has essentially been to keep inflation stable. This is by no means trivial, but is much less challenging – both economically and politically – than engineering a significant decline. Research published by the Bank itself suggests that the breakthrough to more stable output and inflation came with leaving the ERM in 1992 rather than with its own independence in 1997.

But there has been more to the Bank's success than favourable initial conditions. Despite what we might expect from committee decision-making, it has not been sluggish when action has been needed on rates. This may be because the committee has been tolerant of dissent, which may in turn reflect specific features of the framework for which Brown deserves credit: an unambiguous and symmetric inflation target, publication of votes, accountability of individual members and appointment of economists rather than representatives of interest groups.

Given the record, it's hard to argue that the current monetary framework needs fixing. But there is a case for opening up the appointment process, extending committee members' terms and encouraging them to explain their votes more systematically. And unforeseen events might yet fracture the consensus on monetary policy.

By contrast with monetary policy, the fiscal policy framework has received fewer plaudits. The public finances are still in pretty good shape compared with the largest industrial economies. But Brown has been accused of moving the goalposts to avoid making painful decisions at politically inconvenient times.

Labour had several complaints about its fiscal inheritance from the Conservatives: they had borrowed too much and invested too little, and their tax and spending decisions had contributed to macroeconomic instability.

Reflecting this critique, Brown famously adopted the 'golden rule' – to borrow only to pay for investment – and a ceiling on the ratio of government debt to national income. Having criticised vague Conservative promises to balance the budget 'over the medium term', he said that the golden rule should be met on average over the course of a clearly defined economic cycle.

But what the Treasury clearly defined in the 2005 budget as a seven-year cycle ending in 2006 was lengthened to nine years in July 2005 and 12 years in the 2005 pre-budget report, before being shortened to 10 years in the 2006 pre-budget report.

It is debatable whether these successive re-datings have been justified, but most have made the golden rule easier to meet, and thus undermined the credibility of the target. Mervyn King, the Governor of the Bank of England, has raised the more fundamental question of whether it is possible to identify a cycle in a modern economy, let alone use it as a timeframe for fiscal targets.

There is certainly a case for a more forward-looking target. In addition, the framework should depend less on being able to estimate precisely where we lie in an economic cycle. To maintain credibility alongside such changes, it might be desirable to have greater independence in the process of making official forecasts for the public finances.

Forecasting the public finances is difficult, as Brown has been only the latest Chancellor to discover. A falling stock market severely dented tax revenues early in Labour's second term and the Treasury was repeatedly over-optimistic in predicting the scale of the rebound. Partly as a result, Labour has trodden a far from optimal path for public spending – a very tight three-year squeeze, a six-year splurge and now the prospect of gradual retrenchment.

It is certainly hard to argue that the fiscal framework has taken the politics out of budget decisions. It is no coincidence that big tax increases and signals of spending cuts have come in the 12 months after Labour's general election victories rather than before them.

Throughout the 2005 campaign, Brown insisted that the experts were wrong to predict the need to raise taxes or cut spending plans by £10 billion plus, only to do just that a few months later. Unfortunately for him, further disappointment on tax revenues has required another tax increase in the 2006 pre-budget report.

The next Chancellor is likely to inherit a politically unpopular fiscal tightening over the next five years that, on the Treasury's figures, will combine a £9 billion rise in the tax burden and a £9 billion cut in public spending. Whether he or she will be willing and able to refine the frameworks for monetary and fiscal policy as well remains to be seen. ■