

in brief...

Blair's economic legacy

Blair leaves behind an economy in better shape than any previous Labour leader

The economy is probably the most successful legacy of the Blair years. Ironically, New Labour's economic policies have been set by his heir, Chancellor Gordon Brown.

Britain has enjoyed 15 years of continuous growth combined with low inflation. The labour market has absorbed a large number of new entrants, especially from the wave of migration from Eastern Europe, yet unemployment has remained at historically low levels. Even on the Achilles' heel of productivity, Britain has narrowed the gap with her major competitors and kept up with the American productivity miracle.

So why does Labour have trouble converting these economic gains into the political currency of popularity? Leaving Iraq aside, forgetfulness, fiscal policy and fairness are the main reasons.

First, the public appears now to take economic prosperity for granted. People seem more likely to give credit for success to the Thatcher reforms, to the Bank of England, to being outside the euro or to cheap Chinese imports than to the government. With the exception of globalisation, however, these were policy choices of the government. Independence of the Bank was a bold and successful early move. Overall, Labour has accepted the importance of competitive markets and labour market flexibility for economic success.

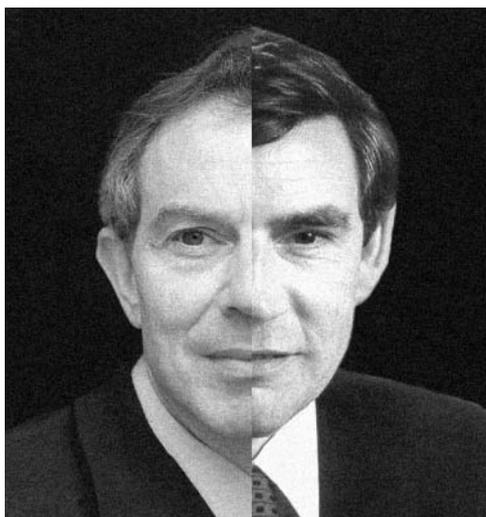
Second, Labour has significantly raised tax as a share of national income and spent the money on public services. 'Tax and spend' is

exactly what socialist governments are supposed to do, of course, but unlike previous Labour governments, neither Blair nor Brown have boasted about it. Nor have they overspent in the early years of power only to be forced by circumstances to cut back and increase taxes in later years (as happened most notoriously in 1976 when the then Labour Chancellor, Denis Healey, had to turn to the International Monetary Fund).

The government's problem is that the public expects greater improvements in hospitals, schools and policing from their tax pounds than they have seen. It also remains to be seen if the increased complexity of the tax system – coupled with more labour market regulation – could undermine long-term growth.

Third, unlike the 1980s, the long growth period has not been accompanied by rapidly growing inequality. There has been a panoply of redistributive policies such as the National Minimum Wage and tax credits for the low paid, which have reduced poverty, especially for working families. But although inequality in the bottom half of the income distribution has narrowed, inequality at the top has continued to widen. On the left, this has led to pressures for more aggressive redistribution.

Blair leaves behind an economy in better shape than any previous Labour leader. But will the voters give his successor, the man who has overseen the current prosperity, the benefit of the doubt when the next recession comes? At the moment it looks unlikely.



Brown has overseen the current prosperity – the question is how voters will treat him when the next recession comes

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