Clinton and Blair: The Political Economy of the Third Way by Favio Romano.


The Clinton administration in the USA and the Blair government in the UK have often been identified in a variety of literatures as Third Way governance. It is not clear whether and to what extent the identification refers to the economics or politics or both aspects. Neither is it fully clear whether the “Third” aspect refers to the positioning between a planned versus a capitalist economy or between the Keynesian post WWII consensus and the neo-liberal surge of the Reagan and Thatcher eras. Most commentators—including the author of this book—position the Third Way in the latter category: a new way between Keynesianism and Thatcherism. As regards the first aspect, Romano identifies the Third Way largely with economics and he interprets evidence on it to suggest that “politics drives economics” (p.120).

The book sees two main elements in the Third Way economic strategy: (a) endogenous growth driven by investment in physical and human infrastructure; and (b) fiscal discipline. Following an introduction, the next two chapters present the theoretical underpinning of these two elements. These are the best chapters in the book because they offer a clear, comprehensive yet succinct exposition of the main theories in their historical contexts. On growth we are presented with: the evolutionary theory and its Schumpeterian underpinning; the neoclassical Solow growth model; and the endogenous growth theory. Regarding the latter, the role of education and of investment in R&D in strengthening National Innovation Systems are emphasized. On the public finance side chapter three presents the neoclassical theory and its “imperfectionist” twists. The
relationship between the two chapters and related sets of theories are presented in terms of approaches in which public expenditure crowds-out private activity—the neoclassical approach—and in terms of those in which public intervention crowds-in private activity: the endogenous approach. The reliance of Third Way economics on supply side policies is highlighted.

The main thesis of the book is that the Third Way strategy is based on fiscal discipline and endogenous growth theory; however, these twin sides of the strategy are not compatible and eventually one prevails: in both the Clinton and Blair governments sound public finance prevailed at the expense of growth and performance. Chapters four and five present empirical evidence from the USA and UK to support this thesis; the last chapter summarizes the arguments and sketches a possible alternative strategy for a different Third Way, one that marries Schumpeter with Keynes and puts a stronger emphasis on the demand side.

The evidence in the two empirical chapters is not fully satisfactory. There are elements missing, for example no evidence is given of unemployment rates in the UK during and before the Blair government; in the short section on redistribution (pp. 93-4), the concentration on the incomes of the poorest and richest hides the more complex nature of increased income and wealth inequalities under Blair. There are also more serious data flaws that impact on the conclusions. In the UK case, much is made of stagnation in public expenditure for infrastructure. However, two points are crucial here. First, the series stops at 2001 and 2002; this cut-off point may be due to the publishing and production process for the book, but it is rather crucial to the argument because Chancellor Brown has increased public investment post 2002. Second, some increase in
infrastructure investment paid for by the state has taken place but it does not show in the public expenditure figures because of the privatization and reorganization of public services via the PPP (Public Private Partnership) system. This means that public infrastructure is delivered by private sector and funded by the public sector but not through capital expenditure accounts but rather through current and future payments (to banks for the loaning of funds and to contractors for the supply and management of the infrastructure) which show in the accounts from which the relevant services are funded. Thus, fiscal discipline today is being bought at the expense of lower core services today and in the future. As borrowing on the private market and paying for private provision is much more expensive than public borrowing and provision, the impact on current and future core public services are and will be very severe for many more years.

Support for the main thesis in the book crucially depends on claiming that growth was sacrificed to sound public finance; we read on page 51 that the Third Way addressed the conflict “…by sacrificing its program for economic growth, namely its public investments, in favour of the fiscal discipline required by standard neoclassical theory”. While there is plenty of evidence that a strategy of fiscal discipline was paramount in both governments, the evidence of low growth is not there. The difficulty the author has boxed himself in is evident from the fact that the language used shifts from growth to performance in terms of public investment, long working hours and stagnating incomes (p. 88) to education policy and investments in general (pp. 89, 96, 106). Moreover, in the last chapter we read that there has indeed been growth but the author’s quarrel is not with whether there has been growth, because in his view—at this point in the book though not elsewhere—there has been, but with the name Third Way which “is a misnomer because
it is not a third way at all but is in fact the first (neoclassical) way” (p.118). So, we are now told that the problem is not with the performance of the economy but with the labels we economists attach to the strategy. Why should politicians and the public worry about our labels?

The book starts very well, is full of good intentions in its desire to find out what, if anything, is wrong with Third Way governance but fails in giving us an answer: why? I believe it is because it neglects a key socio-economic-political ingredient to the strategy, an ingredient that is not openly spoken in manifestos and sound bites but is there in the policies: the role of government in shaping the relationship between labor and capital. The Blair policies leave little doubt that he follows a strategy of support and strengthening for the shift in the balance of class forces away from labor: from keeping the Thatcher punitive legislation against trade unions to privatizations; to support for the private sector via the outsourcing of public services; to the shift in the structure of taxation from direct to indirect taxes thus making the fiscal system more regressive and contributing to the increased inequalities in income and wealth; to overall policies that lead to the fragmentation of labour and the decrease in its bargaining power. The so-called modernization strategies for the UK public services, particularly health care, achieve some of these aims, from supporting the corporate sector via public expenditure (a handing out more than a crowding-in scheme), to reducing the bargaining power of labor as health workers in a fragmented and privately-run system will be in a weaker position, to claiming fiscal discipline as money for the infrastructure is borrowed from banks rather than weighing on the public capital expenditure accounts. The end result is increased inequality of income and wealth, erosion of social cohesion, and great
discontent with the standard of key public services such as education, transport and health. One key element of the Blair, strategy compared to Thatcher, is that the shift in the balance of class forces is being achieved while—and indeed partly through—increasing public expenditure because the latter is targeted and organized in such a way as to widen the profit generating part of economic activity. It is only by considering this third, often unspoken of element, of the so called Third Way that we can understand what has been going on.

Nonetheless, the book is very interesting and stimulating not only because it is very clearly written but mainly because it tackles an important issue in a rigorous way, an issue which has been much talked about by apologists but rather neglected by academics with a more critical perspective. I recommend it to enlightened readers who can then reach their own conclusions on the merits of Clinton and Blair. The book as a whole makes good reading for researchers; however, the first two chapters may also be included in reading lists on macroeconomics for final year undergraduate or graduate students.

Grazia Ietto-Gillies
Professor Emeritus of Applied Economics
Director, Centre for International Business Studies
London South Bank University
iettogg@lsbu.ac.uk