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Origins and Development of the Welfare State 1880–1975

For many people, the welfare state is a product of the period immediately following the end of the Second World War. In the Anglo-Saxon world, it is widely identified with the (partial) implementation of the recommendations of Sir William Beveridge's celebrated Report on Social Insurance in the first years of the post-war British Labour Government. The very term 'welfare state' is widely associated with Archbishop Temple's wartime contrast between the *power state* of Nazi Germany and the *welfare state* which was to be the ambition and promise of post-war Allied reconstruction (Temple, 1941, 1942; Zimmern, 1934).[1] This common understanding may well be justified inasmuch as most of the developed capitalist world saw a quantitative and, at times, qualitative leap in the public provision of welfare in the twenty-five years following the war. Yet, while the world was profoundly altered by the experience of world war, after 1945 as after 1918, there were important elements of continuity with the pre-war order, not least in the provision of public welfare. In recent years, there has been a growing recognition that if we are to understand the experience of the 'Golden Age' of the welfare state after 1945 and the epoch of 'crisis' after 1970, we shall need to consider their common origins in a much earlier period of public welfare innovation. Correspondingly, this chapter offers a synoptic reconstruction of the history of the welfare state which runs from its origins in the last third of the nineteenth century through to the period of its much accelerated growth after 1945.

[1] Ashford (1986a) attributes the first use of 'welfare state' to A. Zimmern (1934). It is sometimes suggested that the term 'welfare state' was already in common usage in the UK by the late 1930s. For a differing explanation, see Hayek (1960), p. 502.

Before the Welfare State

In fact, welfare states are little more than a hundred years old and mass social democratic movements little older. Significantly, welfare states tended to emerge in societies in which capitalism and the nation state were both already well-established and these pre-existing economic and state formations have themselves prescribed the limits of subsequent welfare state development. Capitalism in its many forms has a relatively long history, stretching across several centuries and touching upon, if not penetrating, almost every quarter of the globe. This longevity and ubiquity of capitalism has often been seen to predominate over the comparatively modern and (territorially limited) influence of welfare administered through the state. A similar logic applies to the relationship between the welfare state and pre-existing state forms. Normally, the welfare state was a product of already existing (nation) states, which were themselves intimately related to the rise of capitalism. Accordingly, prior elements of state formation (territoriality, monopoly over the legitimate use of violence, underwriting of the rule of law) have often been seen to predominate over the commitment to welfare even within the more highly developed welfare states.

While it is the case then that most welfare states emerged under (liberal) capitalism and its corresponding state forms, this does not define the first or original relationship between state, economy and welfare. Pre-capitalist societies subscribed to quite different views of the responsibility for social welfare. In fact, the theorists of nascent liberal capitalism had considerable success in sustaining the belief that the laws of capitalism corresponded with the laws of nature and chimed with people's 'natural instincts'. [2] The brilliance of these accounts should not, however, blind us to the fact that liberal capitalism was not naturally given but historically created and often, if not universally, historically imposed. Taking up this argument, C. B. Macpherson insists that the pre-modern notions of 'fair prices', 'fair wages' and 'just distribution' – sustained by the external sanction of church or state – themselves arose as a defence of the pre-existing order against the novel encroachment of market relations (Macpherson, 1987). They endorsed the subjugation of economic relations to social and political ends *under which all previous human societies had operated*. Similarly, the mediaeval idea of a 'Christian duty to charity', while more honoured in the breach than in the observance, reflected a view of the nature of welfare which was quite different to the maximizing individualism of the advocates of liberal capitalism. Furthermore, if

[2] Definitively in Smith (1895, 1976), though Smith famously had his reservations about this belief.

we move forward to the early capitalist period itself, it was not the views of Adam Smith but those of the mercantilists, of whom he was so critical, that defined the prevailing view of state, economy and welfare. Under this mercantilist doctrine, the state was seen to have an active role to play in the promotion of national prosperity and a responsibility for the labouring poor, as the principal source of this national wealth. This, as seen, for example, in the Elizabethan reform and codification of the Poor Law, expressed itself in an almost modern disposition to coercion and control (Webb and Webb, 1927; Fowle, 1890; Fraser, 1981). Thus, the liberal capitalist view of an extremely limited entitlement to public welfare did not arise primordially from the state of nature but had, as Gaston Rimlinger and before him Karl Polanyi noted, itself to be created and sanctioned by the 'liberal break' in states' practice (Rimlinger, 1974; Polanyi, 1944). That is, the non-intervention of the state under liberal capitalism did not arise from a pre-ordained 'state of nature' but had consciously to be created by the state's *disengagement* from previous patterns of intervention in the securing of social welfare (albeit that the premodern state and its interventions were wholly different from those of its modern counterparts).

Nor did the 'minimal' nineteenth century state 'stand off' from involvement in the economy and the provision of welfare. Victorian Britain, sometimes depicted as the very essence of *laissez-faire* liberal capitalism and the 'nightwatchman' state, saw the implementation of a wide range of measures on the control of factory work, the quality of housing, the securing of public health, the provision of public education, the municipalization of basic services and compulsory workers' compensation following industrial accidents (Roberts, 1960; Mommsen, 1981; Ensor 1936; Evans, 1978). Even the definitively liberal USA made federal provision in the nineteenth century not only for public education, but also for the public support of the blind, dumb, insane and insane/indigent, as well as for public boards of health (Trattner, 1988; Katz, 1986). Other states, with a more paternalistic and activist state tradition saw still more and more intrusive public regulation of welfare. Thus, the prelude to Bismarck's innovative welfare legislation in a newly unified Germany was a tradition of (sometimes compulsory) welfare and insurance legislation in nineteenth century Prussia.[3] Again, states with a colonial background were often developmentally precocious in their welfare legislation. This in part explains the rapid and early development of the welfare state in Australia and New Zealand (Castles, 1985).

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[3] See Tampke (1981, pp. 72–5); Rimlinger (1974, pp. 102–15); Ritter (1985) argues that 'the 1854 law on miners' provident societies was of central importance in influencing the design of Germany's later social insurance legislation of the 1880s' (p. 22).

In practice, most of the developed capitalist countries considered here have institutional arrangements for the provision of public welfare dating back several centuries. Most had legislated some form of poor law, under which specified (generally local) public authorities were charged with the responsibility for raising and disbursing (often under pain of some civic penalty for the recipient) limited funds for the relief of destitution (Webb and Webb, 1910; Bruce, 1968; Henriques, 1979; Samuelsson, 1968, pp. 129–30; Axinn and Levin, 1975; Fowle, 1890). The concern of these earlier states was primarily with the maintenance of public order, the punishment of vagrancy and the management of the labour market, rather than the well-being of the poor.[4] With the increasing spread of industrialization, a number of nineteenth century states provided for the maintenance of public health, the regulation of conditions of employment and limited public education. These states also showed a growing interest in the day-to-day surveillance and management of their national populations (Giddens, 1985, pp. 172–97; Mitchell, 1975; Foucault, 1975).

Origins of the Welfare State

Abram De Swaan has argued that 'the development of a public system of social insurance has been an administrative and political innovation of the first order, comparable in significance to the introduction of representative democracy' (De Swaan, 1988, p. 149). Yet for all its importance, it was an innovation that was both gradual and rather mundane, and there are considerable difficulties in defining with any precision the dates at which national welfare states became established. The implementation of some measure of public control over welfare is hardly a sufficient criterion for such a definition, and few would want to characterize even the most developed of these nineteenth century capitalist states as welfare states. But identifying a point along a continuum of expanding public provision as *the* threshold of the welfare state is itself somewhat arbitrary. A substantial difficulty is that those traditional accounts through which 'the welfare state' moved into common usage have tended to describe it in terms of that state's *intentions*, that is, as a state principally concerned to realize the welfare aspirations of its subjects (see, for example, Hall, 1952). One obvious objection to this approach is that such an aspiration can *not* be taken to define the intention or purpose of the welfare state. A still more fundamental objection is that attributing a

[4] Graphically Fowle (1890) insisted that 'in England, France, Spain, and the German Empire, we read the same dismal tale of whipping, branding, the pillory, burning the ear, cropping the ear, couples chained together to cleanse sewers, long terms of imprisonment, and, finally, death itself, in hundreds every year in every country' (p. 43).

global *intentionality* to the state and seeking to define it in terms of this intention is itself unsustainable (Weber, 1968, p. 55). At the same time, there is clearly a qualitative difference between a comparatively tiny nineteenth century bureaucracy devoting a few hundred thousand pounds each year to the provision of poor relief and a modern state directing as much as half of its massively enhanced expenditure to the provision of social welfare. While offering no definitive resolution, in this study the origins of the welfare state are isolated around three sets of criteria:

1 *First introduction of social insurance* This is a widely used indicator of welfare state development. Although very modest by contemporary standards, in both breadth and depth of coverage, these are the programmes which have developed into the major institutional (and financial) elements of the welfare state. They entail the recognition that the incapacity to earn a living through contingencies such as old age, sickness or unemployment is a normal condition in industrialized market societies and that it is legitimately the business of the state to organize for collective provision against the loss of income arising from these contingencies (Flora and Heidenheimer, 1981; Flora, 1986; see also the reservations of Jones, 1985).
2 *The extension of citizenship and the depauperization of public welfare* The legitimization of social insurance means also a change in the relationship of the state to the citizen and of both to the provision of public welfare. First, the interest of the state in public welfare is extended beyond the traditional concerns with the relief of destitution and the maintenance of public order (albeit that these remain major elements within even the most developed welfare states). Secondly, the provision of social insurance is increasingly seen as a part of the assemblage of rights and duties which binds the state and the (expanding) citizenry. Thirdly (and correspondingly), the receipt of public welfare becomes not a *barrier* to political participation but a *benefit* of full citizenship.[5] Simple indices of this extension of citizenship are the dates of the inauguration of male and universal suffrage and the date at which the receipt of public welfare ceases to be a bar to full citizenship (i.e. no longer entails disenfranchisement).
3 *Growth of social expenditure* One of the most important aspects of the developed welfare state is the sheer quantity of public spending that it commands. Throughout the twentieth century (at least until the 1970s), the welfare state has commanded a sometimes rapidly growing proportion of a much enhanced national product. Clearly there is no critical threshold figure at which the welfare state may be

[5] On the importance of claims to welfare as rights, see R. Goodin (1988).

said to have begun, but as an indicator of this important quantitative aspect of welfare state development, we may take a social expenditure of 3 per cent of GDP as a notional indicator of the *origins* of the welfare state. It may be useful to compare this threshold with the date at which social expenditure exceeds 5 per cent of GDP.

The Birth of the Welfare State: 1880–1914

Cross-national evidence of these developments is varyingly approximate. We may be reasonably certain about dates for the extension of suffrage and for the first introduction of various measures of social insurance. However, these last cover programmes of very varying range, expenditure and funding criteria which may mask important differences in the social and political impact of seemingly similar initiatives. Of these differences, perhaps the most important was whether provision was tax-funded or contributory. These figures may also conceal the extent to which alter-

Table 4.1 Introduction of social insurance (OECD) countries

	Industrial accident	*Health*	*Pension*	*Unemployment*	*Family allowances*
Belgium	1903	1894	1900	1920	1930
Netherlands	1901	1929	1913	1916	1940
France	1898	1898	1895	1905	1932
Italy	1898	1886	1898	1919	1936
Germany	1871	1883	1889	1927	1954
Ireland	1897	1911	1908	1911	1944
UK	1897	1911	1908	1911	1945
Denmark	1898	1892	1891	1907	1952
Norway	1894	1909	1936	1906	1946
Sweden	1901	1891	1913	1934	1947
Finland	1895	1963	1937	1917	1948
Austria	1887	1888	1927	1920	1921
Switzerland	1881	1911	1946	1924	1952
Australia	1902	1945	1909	1945	1941
New Zealand	1900	1938	1898	1938	1926
Canada	1930	1971	1927	1940	1944
USA	1930	–	1935	1935	–

These figures include schemes which were initially voluntary but state-aided as well as those that were compulsory.

Sources: Flora (1987a, pp. 144, 210, 433, 559, 627, 777; 1987b, vol. 1, p. 454); Flora and Heidenheimer (1981, p. 83); Dixon and Scheurell (1989, pp. 151, 245, 192).

Table 4.2 Welfare state innovators: first introduction of major welfare state programmes

	First	*Second*	*Third*
Industrial accident insurance	Germany (1871)	Switzerland (1881)	Austria (1887)
Health	Germany (1883)	Italy (1886)	Austria (1888)
Pensions	Germany (1889)	Denmark (1891)	France (1895)
Unemployment	France (1905)	Norway (1906)	Denmark (1907)
Family allowances	Austria (1921)	New Zealand (1926)	Belgium (1930)
Male suffrage	France (1848)	Switzerland (1848)	Denmark (1849)
Universal suffrage	New Zealand (1893)	Australia (1902)	Finland (1907)

Sources: Flora (1987b, vol. 1, p. 454); Flora and Heidenheimer (1981); Dixon and Scheurell (1989).

native policies (for example, public works or retraining rather than unemployment compensation) represent a society's commitment to the public redress of the consequences of market disutilities by other means. However, these cautions having been sounded, the figures do reveal a striking historical pattern (see tables 4.1 and 4.2).

In the thirty years between Germany's initiation of health insurance in 1883 and the outbreak of war in 1914, all the countries cited, with the exception of Canada and the USA, had introduced some state-sponsored system of workmen's compensation. Even within the USA, considerable advances were made towards the end of this period in individual *states'* provision (Axinn and Levin, 1975, p. 131; Reede, 1947; Kudrle and Marmor, 1981).[6] In the same period, eleven of the thirteen European countries had introduced measures to support health insurance and nine had legislated for old aged pensions (as had Australia and New Zealand). Although compensation for unemployment was generally the last of the four initial measures of social insurance to be introduced, by 1920 ten of

[6] Kudrle and Marmor (1981) cite evidence that about 30 per cent of the US workforce was covered by workmen's compensation legislation by 1915.

Table 4.3 The expansion of citizenship

	Male universal suffrage	*Universal adult suffrage*
Belgium	1894	1948
Netherlands	1918	1922
France	1848	1945
Italy	1913	1946
Germany	1871	1919
Ireland	1918	1923
UK	1918	1928
Denmark	1849[a]	1918
Norway	1900	1915
Sweden	1909	1921
Finland	1907	1907
Austria	1907	1919
Switzerland	1848	1971
Australia	1902[a]	1902[a]
New Zealand	1879[b]	1893[b]
Canada	1920	1920
USA	1860[b]	1920

[a] with significant restrictions.
[b] largely restricted to Europeans/whites.
Sources: Flora (1987b, vol. 1); Mackie and Rose (1982); Taylor and Hudson (1983).

the European countries had acknowledged some form of state responsibility for protection against the consequences of unemployment. What table 4.2 also shows is that for most countries family allowances belong to a 'second generation' of welfare legislation. Only one third of the states cited had legislated for family allowances by the outbreak of the Second World War.

Turning to *the expansion of citizenship*, there is a strong correspondence (though, as we shall see, no straightforward causal link) between the coming of *male* universal suffrage and the earliest development of social insurance. In the quarter century between 1894 and 1920, eleven of the seventeen countries achieved (more or less) universal male suffrage (table 4.3). Notably, those that had achieved full male suffrage earlier (including Germany, France, Denmark and New Zealand) were also among the most precocious of welfare innovators. We might also note that New Zealand which was 'a generation early' in extending the vote to women (while restricting this right to Europeans) was also 'a generation early' in introducing family allowances. It is also towards the end of this period that we see the abolition of rules disenfranchising those who had been in receipt of public welfare. As late as 1894, universalization of the suffrage in Belgium explicitly excluded 'les mendiants et vagabonds internes dans une maison de refuge . . . par décision des juges de paix' (Orban, 1908, p. 24). However, many countries extending their suffrage in the early twentieth century reversed this disqualification of paupers from voting. The enfranchisement of paupers was effected during this period in, for example, the UK (1918), Norway (1919) and Sweden (1921) (Flora, 1987b, vol. 1; Rawlings, 1988, p. 98). This is an important indicator of the transition from public welfare as an *alternative* to citizenship to public welfare as one of the *rights* of citizenship. As we shall see later, this evidence does not, however, justify the unqualified claim that it was democratization that created the welfare state.

Figures for *the growth of social expenditure* in this early period must be approached with especial caution. Differing national criteria in defining 'social expenditure', differences in the calculation of national income, difficulties in aggregating national and subnational expenditures and the unreliability and paucity of figures before 1945 mean that these expenditure thresholds must be seen to be very approximate. Certainly, they should not be taken to define some international sequence of rising ex-

Table 4.4 The growth of social expenditure

	Social expenditure 3% + GDP	*Social expenditure 5% + GDP*
Belgium	1923	1933
Netherlands	1920	1934
France	1921	1931
Italy	1923	1940
Germany	1900	1915
Ireland	1905	1920
UK	1905	1920
Denmark	1908	1918
Norway	1917	1926
Sweden	1905	1921
Finland	1926	1947
Austria	1926	1932
Switzerland	By 1900	1920
Australia	1922	1932
New Zealand	1911	1920
Canada	1921	1931
USA	1920	1931

Sources: Flora (1986, 1987a, 1987b); Mitchell (1975); Taylor and Hudson (1983); US Department of Commerce (1975, Part 1, p. 340); Urquhart (1965); Commonwealth Bureau of Census (1910–); *New Zealand Official Year Book* (1882–).

penditure. Yet the overall figures do give compelling expression to the modest but consistent growth in social expenditure throughout this period. With the possible exception of Germany and Switzerland, it appears that none of these countries had reached social expenditure levels of 3 per cent by 1900. Yet by 1920, more than half had reached this threshold and by 1930 all had passed the 3 per cent figure. Indeed, about a third of these states passed the 5 per cent threshold during the 1920s and most of the others were to follow in the early and middle years of the 1930s (years in which increasing demands upon social insurance funds had often to be met from a *falling* national product under circumstances of depression).

Welfare States 1920–1975: The Epoch of Growth

In fact, this experience of the expansion of social budgets in the inter-war years helps to isolate the most consistent and remarkable feature of the welfare states in the whole of the period down to the mid-1970s, that is, the ubiquitous dynamic of *sustained growth.* By the 1970s, all of the welfare states we are considering were quite different from what they had been at the end of the First World War. Much else in the advanced capitalist societies had changed with, and sometimes because of them. Furthermore, the core institutions of the welfare state are now so commonplace that we are perhaps inclined to forget the sheer scale of the transformation wrought between 1920 and 1970. In fact, throughout this period, the pace of growth varied between differing phases, differing programmes and different countries. Here, as elsewhere, caution is required in talking about the generic experience of *the* welfare state. Yet so substantial and striking are the developments of this period that at least some generalizations are warranted.

The Growth of the Social Budget

First, there is the sheer scale and ubiquity of growth in the social budget. In 1914, only seven of the countries in table 4.4 had reached social expenditure levels of 3 per cent of GDP. By 1940, nearly all had reached social expenditure levels in excess of 5 per cent. In the early 1950s, this figure ranged between 10 per cent and 20 per cent. By the mid-1970s, among the European welfare states, between one quarter and something more than a third of GDP was devoted to social expenditure. Even the most 'reluctant' welfare states saw a wholesale transformation of their public budgets. In the USA, total social expenditure rose from 2.4 per cent of GDP in 1890 to 20.2 per cent in 1981. Even in Japan, where an exceptional proportion of welfare is organized and delivered through private corporations, the social budget has expanded from 1.4 per cent of

GDP in 1890 to 16.2 per cent in 1985 (Flora, 1986, vol. 1, p. xxii; Maddison, 1984; Minami, 1986, pp. 332ff; Oshima, 1965, pp. 368–71; OECD, 1985a, 1988; US Bureau of Statistics, 1975).

Much of the remarkable overall growth in public expenditure of the twentieth century can be attributed to the growth of the social budget, and this rapidly growing proportion of national wealth devoted to social welfare must be set against the background of a sevenfold increase in average per capita output in the cited countries over the past 100 years (Maddison, 1984, p. 59).

Incremental Growth and Demographic Change

A substantial source of this remarkable and general growth in the social budget was the maturing of rights and claims as pensions legislated in the take-off period came 'on stream'. This was substantially an incremental and inertial development which was the more pronounced because of certain demographic changes which were common to most of the advanced capitalist societies. The most important of these changes were the continuing increase in life expectancy and the decline in mortality rates. For example, life expectancy at birth of females rose between 1900 and 1967 from 49.4 to 74.1 (England and Wales), from 47 to 75 (France) and from 46.6 to 73.5 (West Germany). Crude annual death rates fell in the same countries between 1900 and 1950 from 18.2 (per thousand) to 12.5 in England and Wales, from 21.9 to 12.7 in France and from 22.1 to 10.5 in West Germany (Winter, 1982; Mitchell, 1975, pp. 104–24). What did constitute an authentically *political* intervention was the common practice of introducing (contributory) pensions *before* sufficient premiums had been collected to fund these on an actuarially-sound basis. The electoral call for 'pensions now' was a powerful one, even in the characteristically insurance-minded USA (Quadagno, 1988b; Fraser, 1973, p. 213; Rimlinger, 1974, p. 234).

It is possible that the severest demographic challenge to the welfare state lies in the future, but the growing aged population in advanced capitalism has certainly hugely extended the costs of the welfare state, not just in the provision of pensions, but in those other costly areas where the elderly are disproportionate users of services, as in public health provision. The proportion of the population aged 65 or over in the OECD countries has risen from 9.7 per cent in 1960 to 12.7 per cent in 1985, and is projected to increase further to 18.0 per cent by 2020 (OECD, 1988, p. 11). Meanwhile, Heikkinen notes that 'the use of [health and social] services among the aged is 3–4 times that expected on the basis of proportion of the population' (Heikkinen, 1984, p. 162).

In fact, the demographic structure of the several welfare states has varied. For example, the disproportionately youthful structure of the early twentieth century New Zealand and Australian populations (as 'new', immigrant-based nations), afforded unusually favourable circumstances for their early expansion. In other countries, notably in France, social policy initiatives have been related to the demographic consequences of the Great War (especially in the number of war pensions and later in the structure of natalist policy).[7] But overall, the number of aged in the population has grown throughout the industrialized world as life expectancy has increased. In the 1880s, only 5 per cent of the population was over 65. One hundred years later, the elderly constitute some 13 per cent of the population and a still higher proportion of the electorate. In Western Europe, the percentage of people aged 65 and over in the population is predicted to rise from 13.3 per cent in 1985 to 14.9 per cent in 2000 (Heikkinen, 1984, p. 162; OECD, 1984, pp. 3–6, 1986a, pp. 3–10). Still more importantly, the ratio of the economically inactive to the economically active section of the population (out of whose productive labour 'pay-as-you-go' pensions must be funded) is rising and set to continue to rise. Dependency ratios (the proportion of people aged 0–14 years plus the proportion of people aged 60 years and over to the proportion aged 15–59 years) actually *fell* in Western and Northern Europe in the 1980s because of the declining numbers of young people. But they are set to rise from 59.2 to 66.8 per cent in Western Europe and from 64.4 to 66.2 per cent in Northern Europe between 1990 and 2000. The UK Treasury estimates that whereas there were 2.3 economic contributors to each pension claimant in the UK in 1985, by 2025 this number will have fallen to 1.8 contributors to each pensioner (Heikkinen, 1984, p. 169; DHSS, 1985, p. 15). Overall, the OECD estimates that the old-age dependency ratio will have doubled by 2040 (OECD, 1988, p. 35).[8]

Sequential Growth of Welfare State Programmes

Most of the welfare states considered here have also expanded their social welfare provision in terms of a broadly shared sequence. Certainly, there have been differences between 'early' and 'late' adopters in terms of the comparative stage of industrialization at which social welfare was introduced, the sorts of funding regimes established and the generosity of initial coverage. There is some disagreement as to whether the spread of the welfare state is best explained in terms of *prerequisites* (with state welfare initiatives being a response to endogenous national developments) or *diffusion* (a process of international imitation of welfare state innovators). In

[7] The First World War saw losses of approximately 1.3 million among the French population and an equally large 'birth deficit' (McEvedy and Jones, 1978, p. 56). See also McIntosh (1983), esp. pp. 43–57; Ashford (1986a, pp. 112–13); Dyer (1978); Glass (1940).

[8] This demographic challenge to the welfare state is extensively discussed in chapter 6.

the period before 1908, the spread seems to have been from less industrially developed and more authoritarian regimes towards the more developed and democratic. In the period between 1908 and 1923, the principal determinant of innovation appears to have been geographical proximity to an existing welfare state rather than the level of industrial development. After 1923, there is a tendency for countries to adopt welfare state measures at a lower level than their own economic development, (with the notable exception of the USA). Paralleling the pattern of the spread of industrialization, 'late starters' have tended to develop welfare state institutions earlier in their own individual development and under more comprehensive terms of coverage (Collier and Messick, 1975, p. 1301; Schneider, 1982; Alber cited in Flora, 1986, vol. 1, p. xxiv; Alber, 1982; Kuhnle, 1981).

Wherever welfare states have emerged, the order of adoption and expansion of programmes has been broadly similar. We can identify three sequential patterns. In terms of *programmes*, workmen's compensation for industrial accidents was generally the first measure to be adopted. This was followed by sickness and invalidity insurance, (old age) pensions and finally unemployment insurance. Though some provision for maternity occurred quite early, family allowances were generally introduced rather later and were widely viewed as an 'endowment of motherhood' rather than as insurance against the contingency of having children. Secondly, *coverage* also followed a shared pattern. Initially, coverage was limited to workers in particularly strategic industries or in peculiarly dangerous occupations. Mining, for example, was often one of the first industries to be covered (Tampke, 1981, pp. 72–3). Legislation was subsequently extended to cover all industrial workers, thence to rural/agricultural workers and so to dependants and survivors of insured workers. Latterly, coverage was extended to the self-employed and thence characteristically to the generality of the population (or at least to all those recognized as citizens) without further discriminating criteria.

Thirdly, there were broadly similar patterns in the *expansion* of programmes. Earlier extensions tended to be built upon broadening of criteria of eligibility (making for more beneficiaries) and the legislating of more generous benefits. Characteristically, later enhancements were built upon the less restrictive application of definitions of eligibility and from the late 1950s and 1960s onwards upon the transition from fiat-rate to earnings-related benefits. There was also a general tendency for programmes to proceed from voluntary to compulsory provision.

The Periodization of Welfare State Growth

In fact, it is possible to think of not just a sequential but indeed of a shared historical pattern in the development of the welfare states of advanced capitalism. Clearly this is not a uniform pattern. The USA lacked basic federal provisions for social insurance down to 1935 and still lacks comprehensive measures for health care or family allowances. Some welfare states emerged early and then stagnated (e.g. Australia), some developed early and expanded before 1940 (e.g. New Zealand) while others were marginal before the Second World War but expanded rapidly after 1945 (e.g. Finland). Yet a significant historical pattern may be identified.

1918–1940: 'Consolidation' and Development

The period between the wars has often been described as a rather uneventful one for the welfare state, falling between the extensive innovations of the preceding twenty-five years and the period of remarkable growth immediately after 1945. Hamilton characteristically describes this period in the British experience as one of 'steady and purposeful social advance' (Hamilton cited in Bruce, 1968, p. 255).

Yet more recent commentators have tended to see the 1920s and 1930s as the seed-bed of post-war welfare state development. For Douglas Ashford, this was the period in which serious obstacles to 'the complete nationalization of social policy' were removed, making the expansion of the welfare state after 1945 comparatively uncontentious:

> First, the liberal refuge of private or charitable assistance proved totally inadequate. Second, the private insurers learned . . . that many serious social problems exceeded the capacity of actuarially sound insurance. Third . . . professional groups were gradually co-opted into national social security programmes. Fourth, the agricultural sector first received the protection of the state . . . before substantial aid went to urban dwellers. (Ashford, 1986b, p. 107)

In Britain, Sweden and the USA, for example, this is seen as the decisive epoch in establishing the institutions and practices of that more interventionist form of government in which the post-war welfare state was grounded. It also saw governments facing new choices about the macromanagement of the economy and the possibility of the active and interventionist pursuit of full employment. Thus Middlemas, in his study of *Politics in Industrial Society*, argues that it was in the inter-war years that a new system of 'managerial collective government', built upon the negotiation and compromise of the interests of the state, organized capital and organized labour, first emerged in the UK. This was a system oriented around the amelioration of class conflict and the avoidance of systemic crisis through, among other media, the promotion of social policy

(Middlemas, 1979).[9] As we shall soon see, in both Sweden and the USA, the Great Depression of the early 1930s triggered new forms of government intervention in social and economic life, new relationships between state, employers and trades unions and a process of political realignment which established new political forces at the heart of the state (Korpi, 1979, 1983; Weir and Skocpol, 1985).

Certainly in terms of coverage and cost, the inter-war welfare state often dwarfs provision in the period of innovation. As the figures for social expenditure indicate, while the period between 1880 and 1920 is properly understood as the epoch of *legislative* innovation in the welfare state, it is only after 1920 that the *fiscal* consequences of these initiatives become clear. Many of the early systems of social insurance offered, like Lloyd George's old age pensions in the UK, extremely modest benefits to 'the very poor [and] the very respectable' (Thane, 1982, p. 83).[10] Many programmes, notably those in Germany, envisaged a strictly limited financial involvement by the state, expecting benefits to be drawn from the premiums of potential beneficiaries or their employers (Alber, 1986, pp. 40–1). However, the growth of social expenditure in the 1920s and the early 1930s is what we might have expected as the legislative innovations of the pre-1914 period yielded to the maturing of insurance and pension claims in the post-war age. In fact, this tendency for innate or incremental growth of social expenditure – growth not through legislative or executive initiative but through the maturing of pension rights or demographic change – has been a marked feature of the whole period of the welfare state.

In many countries, this process was accelerated by the consequences of the Great War. First, it led to a major expansion of pension, health, housing and rehabilitation demands from those millions incapacitated or bereaved as a consequence of the armed conflict. In Australia in 1922, for example, war pensioners outnumbered old age and invalid pensioners in a proportion of more than two to one.[11] Secondly, it conditioned politicians, bureaucrats and tax-payers to new levels of public expenditure, from which there was no wholesale retreat once the immediate demands of wartime had passed (the 'displacement effect' described by Peacock

[9] Although primarily concerned with the UK, Middlemas comments that his 'propositions have an importance not only for modern Britain, but most western industrialized societies' (Middlemas, 1979, p. 23).

[10] New Zealand's innovative old age pensions, for example, cost £197,292 in 1900 rising to £362,496 in 1910 (*New Zealand Official Year Book*, 1919).

[11] In 1922, in Australia, there were 225,372 war pensioners, 110,278 claiming old age pensions and just 5,182 invalid pensioners. We shall see below (p. 115), that the early American welfare state was largely made up of Civil War veterans. Germany, France and the UK lost a total of 3.75 million soldiers in the 1914–18 war (*Official Year Book of the Commonwealth of Australia*, 1923; McEvedy and Jones, 1978, p. 34).

and Wiseman, 1961, pp. 52–61). Thirdly, it necessitated new forms of governmental control and administration which were again not to be abandoned in the post-war epoch (Middlemas, 1979, p. 19).

The late 1920s and early 1930s also saw what might be described as the first 'fiscal crisis of the welfare state'.[12] The depth of the economic recession of the early 1930s occasioned the earliest major cuts in social welfare provision and demonstrated (1) that it was impossible to sustain actuarially sound social insurance under circumstances of profound economic recession, (2) that demand for social expenditure (especially unemployment compensation) was inversely related to the capacity of the economy to fund it and (3) that to respond to this problem by cutting social expenditure would simply intensify rather than alleviate these economic problems. The scale of the difficulties of the 1930s also probably dealt the final death blow to the belief among the governing classes that the provision of social welfare or even the relief of destitution could be satisfactorily met from voluntary or charitable sources.

New Deal and Historic Compromise

The 1930s was also a decisive period in the development of two of the most widely differing and frequently contrasted welfare state regimes, those of Sweden and the USA. In comparative typifications of welfare state development, these two examples are often recorded as the most developed (Sweden) and the least developed (USA) welfare states and, given the centrality of this opposition, it is worth developing this contrast in some detail.

Ironically, in much contemporary scholarship, the *origins* of the modern American and Swedish welfare states, as a response to the consequences of the Great Depression, are seen to be remarkably similar. Thus, Weir and Skocpol contrast the shared response of the US ('commercial Keynesianism') and Sweden ('social Keynesianism') to the traditionally deflationary policy of the British government (Weir and Skocpol, 1985). Gosta Esping-Andersen has argued that 'at least in its early formulation, the New Deal was as social democratic as was contemporary Scandinavian social democracy' (Esping-Andersen, 1990, p. 28). In both countries, this period of welfare state enhancement also saw profound political realignment and the installation of the Democrats and the Social Democrats, respectively, as 'the

[12] In the UK, the 1931 May Committee Report 'compounded of prejudice, ignorance and panic' recommended a cut in public expenditure of £120 m., including a 20 per cent cut in unemployment benefit. In Australia, old age, invalid and some war pensions were reduced under the terms of the Financial Emergency Act, 1931. (Taylor, 1965, p. 287ff; *Official Year Book of the Commonwealth of Australia*, 1932, p. 30).

natural party of government'. Yet the contexts in which these 'similar' institutions were to be developed (and indeed the intentions of those who initiated and developed them) were profoundly different.

It is one of the many myths of the American welfare state that there was little or no public provision of welfare before the 1930s. In fact, 'American welfare practice has a very old history', but it is a practice that 'has always been mediated by the complex structure of American federalism'. Similarly, 'public welfare always has supported more dependent people than private relief'. Yet, in the 'protean mix' of public and private provision which characterizes every welfare state, the private and especially the corporate provision of welfare has always had an unusually prominent role (Katz, 1986, pp. xiii, x, 291).

At the turn of the twentieth century, such limited public relief as there was within the USA was largely locally administered according to local poor law customs (Quadagno, 1984, p. 635; Axinn and Levin, 1975; Katz, 1986). At the local level, public welfare rolls fluctuated wildly in response to changing social and political regimes (Katz, 1986, pp. 3–109). Federal provision was substantially confined to pensions for (Northern) veterans of the Civil War. However, by 1900 these federal veterans' pensions had come to constitute an extremely extensive system of surrogate social welfare. At this time, 'at least one of every two elderly, native-born, white Northern men and many of their widows received a pension from the federal government' and 'pensions were the largest expense in the federal budget after the national debt' (Katz, 1986, p. 200). In 1913, I. M. Rubinow, 'one of the nation's leading social insurance advocates', calculated that American pensions were costing three times as much as the supposedly advanced British system of old age pensions and covering 'several hundred thousand' more people (cited in Skocpol and Ikenberry, 1983, p. 97; Katz, 1986, p. 163). It is little wonder that Skocpol concludes that 'in terms of the proportional effort devoted to public pensions, the American federal government was hardly a "welfare laggard"; it was a precocious social-spending state' (Orloff and Skocpol, 1984, pp. 728–9; Skocpol, 1992). However, as the number of veteran claimants and their dependants declined in the early years of the twentieth century, and despite the mobilization of pensions advocates such as Rubinow, Seager and the American Association for Labor Legislation, there was no attempt to replace the veterans' programmes with a more universal system of old age pensions (see Orloff and Skocpol, 1984, p. 735; Skocpol and Ikenberry, 1983, pp. 95–100; Katz, 1986, p. 128).

There was some advance in other areas of welfare provision by the individual states in the years immediately prior to the First World War. Between 1909 and 1920, forty-three states enacted legislation on workmen's compensation and within two years of Illinois's 'Funds to Parents Act' of 1911, twenty states had provided similar cash relief programmes for widows and dependent children. Indeed, Skocpol argues that with the lapse of the veterans' pension programme, 'the United States looked briefly as if it would fashion an internationally distinctive maternalist welfare state' and we now have an extensive historical record of the major part played by professional women in forging a distinctive welfare regime for mothers and children in the 1920s and into the 1930s (Skocpol, 1992, p. 526; Gordon, 1994). Yet the financial impact of these measures was severely limited and although there was some programme enhancement in the 1920s, the prevalent welfare trend in the post-war New Era was away from the European model of social insurance towards a reliance on occupational welfare (employee representation, workers' shares, company welfare and pensions) under the rubric of welfare capitalism. However, this welfare capitalism was always largely confined to the 'progressive' corporate sector of American capital (to large companies such as Procter and Gamble, Eastman Kodak and General Electric). It was more important as a legitimating ideology than as an effective social practice and certainly wholly unable to respond to the scale of social need generated by the Great Depression (Axinn and Levin, 1975, pp. 130–4; Brody, 1980; Skocpol and Ikenberry, 1983).

Opinions as to which social, economic and political forces shaped and were served by the expanded social policy of the New Deal are vigorously divided. So are judgements as to whether it was the 'social' or the 'economic' side of the New Deal that had the most lastingly influential impact. However, there is near universal agreement that the 'social' side of the New Deal, embodied in the 1935 Social Security Act 'declared the birth of the [American] welfare state and established a basis for its growth and development' (Axinn and Levin, 1975, p. 195). It is also widely argued that this 'charter legislation for American social insurance and public assistance programs' set the parameters for virtually all further developments in America's 'Semi-Welfare State' (Skocpol, 1987, p. 35; Katz, 1986, pp. ix–xiv; Quadagno, 1988).

The 1935 Act legislated for:

1 a federal–state unemployment insurance programme
2 federal grants-in-aid to the states for assistance to:
    (a) needy dependent children
    (b) the blind
    (c) the elderly
3 matching federal funds for state spending on:
    (a) vocational rehabilitation
    (b) infant and maternal health
    (c) aid to crippled children
4 a federal old age insurance programme.

(Berkowitz and McQuaid, 1980, p. 103)

Although the 1935 Act brought the USA in some measure into alignment with the welfare states of Western Europe, it was still a quite limited initiative. The provision of welfare was largely devolved to the individual states, funded from (regressive) payroll taxation rather than from general tax revenue, and allowed for very considerable state 'discretion' and for very substantial 'exceptions'. (Initially, one half of the employed workforce, notably black southern farm workers, was excluded from participation in old age insurance). There was an emphasis upon actuarially sound insurance principles and 'earned benefits', the rhetoric of which long outlived its early compromise in practice. Generally, where entitlement was not earned through insurance payments, benefits were means tested and the 1935 legislation institutionalized the time-served distinction between social security entitlement and residual claims to 'welfare'. Traditional relief of destitution (among the able-bodied poor) remained a local responsibility. The legislation made no provision for either health insurance or a family allowance.

The 1930s was also a decade of major change in the Swedish welfare state and of a still more profound political realignment, the nature of which is no less fiercely debated than that surrounding the New Deal. In fact, the background of national public welfare was already more extensive in Sweden than in its North American counterpart. Sweden had a more developed national bureaucracy and a centralized state tradition dating back over several centuries. Schooling had been compulsory since 1842, state support of sickness and occupational injury insurance had been legislated around the turn of the twentieth century and Sweden had been the first state to introduce universal and compulsory (if minimal) old age pensions in 1913. At the start of the 1930s, Sweden's social expenditure as a proportion of GDP stood at 7 per cent, compared with 4.2 per cent in the USA (Olsson, 1986, p. 5). However, Swedish provision compared with that of its near neighbour Denmark, for example, was very modest. As Esping-Andersen notes:

> the long era of conservative and liberal rule [prior to 1932] had produced remarkably few social reforms. There was no unemployment insurance, except for financially weak union funds, and insurance coverage for sickness was marginal. . . . old age pension . . . benefits were meager at best. In addition, no system of public job creation was in effect when the economic depression led to explosive unemployment. (Esping-Andersen, 1985, p. 153)

It was under these circumstances, with unemployment rising rapidly, that the first Scandinavian Social Democratic government was elected in 1932. In fact, the Social Democrats, with 42 per cent of the popular vote, were reliant upon the coalition support of the peasant-based Agrarian Party, and were consequently obliged to compromise the interests of their own core working class constituency (in welfare reform and full employment) with policies for agricultural price support (in the interests of the rural peasantry). While 'social reform was a top priority [and] the party actually developed a long-range strategy for full social and industrial citizenship . . . by and large, political energies were concentrated on the immediate problems of crisis management and economic relief' (Esping-Andersen and Korpi, 1987, pp. 46–7).[13]

A still more important accommodation was that struck by the newly empowered Social Democrats and organized capital. Rather than pursuing the traditional (maximalist) socialist policy of pressing for immediate socialization of the ownership of capital, the Social Democrats, recognizing the stalemate between organized labour and organized capital that their election occasioned, pressed for a formalization of the division of economic and political control and a division of the spoils of continued and agreed capitalist growth. This celebrated 'historic compromise' ensured that capital would maintain intact its managerial prerogatives within the workplace, subject only to guarantees on rights to unionization, and capitalist economic growth would be encouraged. At the same time, the Social Democratic government would pursue Keynesian economic policies to sustain full employment and use progressive taxation to reduce economic inequality and promote provision for collective needs, such as education, health, and housing. When in the post-Second World War period the defence of welfare institutions and full employment threatened inflation and the loss of international competitiveness, the compromise was complemented by the adoption of the 'Rehn' model, which entailed (1) an 'active manpower policy', facilitating the redistribution and reallocation of labour and capital from less to more efficient enterprises, and (2) a 'solidaristic' wage policy, which would allow for the centralized negotiation of wages and the reduction of wage differentials, through a principle of equal pay for equal work, irrespective of a given company's capacity to pay. In this way, it was hoped that welfare provision and a rising standard of living for the working population could be reconciled with continuing non-inflationary economic growth.

Thus in the 1930s and beyond, the Swedish welfare state was secured as much by *economic* policy – the support of an active labour market policy, public works, solidaristic wage bargaining, deficit budgeting – as by social policy. Indeed, the Swedish social democrats have always shown an awareness of the intimate relationship between economic and social policy upon which the institutional or social democratic welfare state is

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[13] This 'labourist' reading of Scandinavian experience has been extensively criticized by Peter Baldwin in *The Politics of Social Solidarity*. He insists that 'decisions in favour of a solidaristic solution to social insurance were, in fact, taken at a time before the left had much say in the matter and often against its will' (Baldwin, 1990, p. 93).

dependent and which is recognized in the twin-termed Keynesian Welfare State (KWS).[14] Thus, job creation or full employment may be seen as a more desirable alternative to the payment of unemployment compensation. It may also be the indispensable basis of funding a 'generous' welfare system.

In Sweden in the 1930s, it was then probably Keynesian *economic* policies, rather than innovations in *social* policy, that were the most important component in the nascent welfare state. Nonetheless, there were significant and complementary social policy initiatives. Perhaps the most important of these was the 1934 legislation that increased the state's involvement in what had previously been exclusively a union-managed system of unemployment insurance (Esping-Andersen and Korpi, 1987). In addition, between 1933 and 1938, the Social Democratic government also legislated:

- new employment creation programmes
- a housing programme for families with many children including subsidies and interest-subsidized construction loans
- the indexation of pensions to regional differences in the cost of living
- maternity benefits to around 90 per cent of all mothers
- free maternity and childbirth services
- state loans to newly married couples
- the introduction of two weeks' holiday for all private and public employees.

(Olsson, 1986, p. 5)

A number of other states saw major developments in their welfare states between the wars. Denmark's 'Great Social Reform' of 1933, if less radical than its advocates have claimed, 'nevertheless, remained the fundamental administrative framework of the Danish welfare state for a quarter century' (Johansen, 1986, pp. 299–300; Levine, 1983). New Zealand, which had introduced the first comprehensive pensions for the needy old aged in 1898 and been among the first to introduce family allowances in 1926, created, through its 1938 Social Security Act, 'what could be argued to be, in late 1930s terms, the most comprehensive welfare state in the world' (Castles, 1985, p. 26). This unusually comprehensive measure was:

> to provide for the payment of superannuation benefits and of other benefits designed to safeguard the people of New Zealand from disabilities arising from age, sickness, widowhood, orphanhood, unemployment, or other ex-

[14] Ashford (1986b) stresses the general importance of the interrelationship between social and economic policy. He argues that historically this was recognized in France but not in Britain; this led to the French welfare state being the more effectively entrenched.

> ceptional conditions; to provide a system whereby medical and hospital treatment will be made available to persons requiring such treatment; and, further, to provide such other benefits as may be necessary to maintain and promote the health and general welfare of the community. (Cited in Castles, 1985, p. 27)

Elsewhere, there were substantial if less spectacular advances. In Canada, (means-tested) old age pensions were introduced in 1927 and the 1930s saw a succession of federal–provincial unemployment compensation schemes culminating in the 1940 Federal Unemployment Insurance Act (Bellamy and Irving, 1989; Leman, 1977). Britain, whose inter-war social policy was dominated by the spectre of unemployment, saw modest legislation on the social provision of housing and health care, education, contributory old age pensions, provision for widows and orphans and the steady break-up of the Poor Law (Gilbert, 1970; Fraser, 1973; Thane, 1982). Yet, writing of the UK experience, Parry concludes that 'the creative impulse of the welfare state progressed little from the 1910s to the 1940s' (Parry, 1986, p. 159).

Even where initiatives of this period were very modest, some have argued that the *underlying* changes which permitted the flowering of the welfare state after 1945 were secured in the inter-war years. Such a view is sometimes taken in describing the Beveridge Report not as the founding charter of a radically new British welfare state after 1945, but as a rationalization of existing pre-war legislation. Addison, for example, suggests that Beveridge's 'background assumptions' – full employment and a national health service – were much more radical and innovative than his 'fundamentally conservative' proposals on social insurance (Addison, 1977, p. 213). Similarly, Ashford argues that in France, where advances in pensions, health and accident insurance were limited and painfully slow between the wars, this was the period in which the political compromises and coalitions upon which the developed post-war welfare state was built were themselves fought over and secured. Indeed, he suggests that the very slowness and difficulty of achieving welfare advances in France compared with the UK made these victories and the welfare state thus constructed more secure and entrenched than its less contested British counterpart (Ashford, 1986a, 1986b, 1982). As we have seen, what remains the single most important innovation in the US welfare state dates from the 1930s.

Other significant developments of this period included the evolution in Germany and Italy of a pattern of social policy interwoven with the corporatist institutions of fascism. But everywhere, and particularly under the impact of the mass unemployment of the 1930s, the inter-war years were marked by growing welfare expenditures. Indeed, between 1920 and 1940, Flora and Alber's index of social insurance coverage in

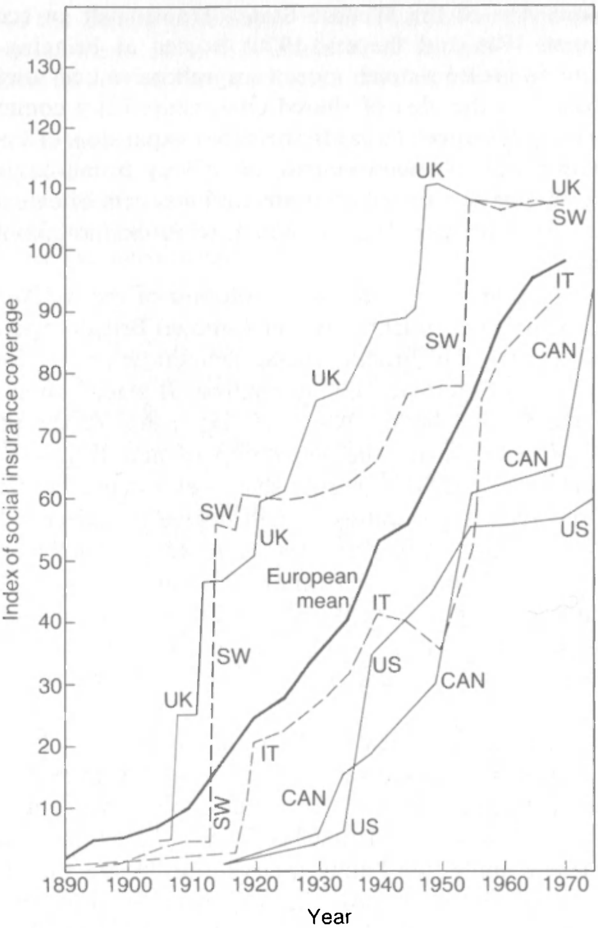

Figure 4.1 The growth of social insurance coverage in Western Europe
UK = United Kingdom, SW = Sweden, IT = Italy, CAN = Canada, US = United States
Source: Flora and Heidenheimer (1981).

Western Europe more than doubled (Flora and Heidenheimer, 1981, p. 85; see figure 4.1).

1945–1975: 'The Golden Age of the Welfare State'?

Just as the inter-war years have been seen as years of 'consolidation', so has the period after 1945 been widely characterized as ushering in a thirty years' 'Golden Age of the Welfare State'. Upon such an account, the period between 1945 and the mid-1970s is seen as bringing (1) rapid initial reforms to create a much more comprehensive and universal welfare state based on the idea of shared citizenship, (2) a commitment to direct increasing resources towards the rapid expansion of benefits and coverage within this extended system, (3) a very broad-based political consensus in favour of a mixed economy and a system of extended social welfare, and (4) a (successful) commitment to economic growth and full employment.

In fact, this model of the post-war evolution of the welfare state has always been heavily dependent upon the (unique) British experience, and indeed upon a particular, broadly social democratic and 'optimistic' understanding of this experience. Great emphasis is placed upon the consequences of the Second World War – its expansion of the powers and competence of government, the generation of new forms of collective provision and, above all, the broadly shared experience of austerity and mutual mortal danger generating a high degree of citizen solidarity in favour of radical reform. Also stressed is the 'messianic' quality of Beveridge and his proposed reforms, the radical break occasioned by the election of the post-war Labour government and the subsequent development of a broad cross-party consensus ('Butskellism') in favour of compromise of the interests of capital and labour, within which the welfare state was a crucial component.

Recently, this synoptic view of the post-war history of the (British) welfare state has itself come under increasing challenge. First, claims about the impact of the Second World War on the development of social policy have been questioned. It has been argued: (1) that the experience of government planning and state intervention in the war-time period was not an especially promising one, (2) that sympathy for collective provision arose not from the bonds of mutual citizenship but from the perceived threat of a commonly uncertain future and (3) that the pressure for social policy reform came less from a radicalized citizenry than from a trade union movement whose industrial muscle had been much strengthened by war-time full employment. Secondly, it is widely insisted that the social policy reforms proposed by Beveridge (and only partially enacted in the post-war period) represented not a radical charter for a new social order, but a tidying-up and codification of pre-war social legislation. Thirdly, it is argued that the consensus within which the post-war welfare state was said to have developed either never existed or else was much more limited than the traditional social democratic account has allowed (Barnett, 1986; Dryzek and Goodin, 1986; Addison, 1977; Taylor-Gooby, 1985; Deakin, 1987; Smith, 1986; Pimlott, 1988).

There are then serious doubts as to whether this model is fully applicable even to the British experience.[15] Yet it retains a significant (if varying) element of truth. In 1948, Article 40 of the newly founded United Nations' Declaration of Human Rights proclaimed that:

> Everyone has the right to a standard of living adequate for the health and well-being of himself and his family, including food, clothing, housing and medical care and the necessary social services, and the right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his control. (United Nations, 1948)

Similarly, Article 38 of the Constitution of newly independent India declared that 'the State shall strive to promote the welfare of the people by securing and protecting . . . a social order in which justice, social, economic and political shall inform all the institutions of national life' (cited in Brownlie, 1971, p. 43). Within the developed West, many countries other than Britain saw major social policy reforms immediately after 1945. In France and Ireland, for example, there was a period of rapid policy innovation in the late 1940s, and these policy changes had an immediate effect upon the proportion of GNP devoted to social welfare (Ashford, 1986a, pp. 255–65; Hage, Hanneman and Gargan, 1989; Maguire, 1986, pp. 246–7; Kennedy, 1975, p. 11). Indeed, throughout the developed capitalist world, the post-war period was one of unprecedented growth and prosperity, and of new and varied forms of government intervention in the economy.

By almost any criteria, these were years of rapid expansion in welfare state provision. Thus, for example, in Western Europe in the early 1930s, only about a half of the labour force was protected by accident, sickness, invalidity and old age insurance. Scarcely a fifth were insured against unemployment. However, by the mid-1970s, more than 90 per cent of the labour force enjoyed insurance against income loss due to old age, invalidity and sickness; over 80 per cent were covered by accident insurance and 60 per cent had coverage against unemployment. The average annual rate of growth in social security expenditure which stood at around 0.9 per cent in 1950–5 had accelerated to 3.4 per cent in the years 1970–4. Broadly defined, social expenditure which had in the early 1950s consumed something between 10 and 20 per cent of GNP had grown to between a quarter and something more than a third of a rapidly enhanced GNP by the mid-1970s (Flora, 1986, vol. 1, p. xxii). A further indication of this rapid growth after 1960 is given in table 4.5.

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[15] It has been very properly objected that 'intensive study of the British case' may not be 'the optimal way of starting to grasp the general characteristics of welfare state development' (Flora and Heidenheimer, 1981, p. 21).

Table 4.5 Growth in social expenditure (7 major OECD countries), 1960–1975, as a percentage of GDP (%)

	1960	*1975*
Canada	11.2	20.1
France	14.4	26.3
W. Germany	17.1	27.8
Italy	13.7	20.6
Japan	7.6	13.7
UK	12.4	19.6
USA	9.9	18.7
Weighted average	12.3	21.9

Source: OECD (1988, p. 10).

However we choose to explain this development, the sheer growth in social expenditure throughout this period is one of the more remarkable phenomena of post-war capitalist development.

For many commentators, these developments in social policy may only properly be understood in the much broader context of what in the USA was styled the 'post-World War II capital labor accord' and is more familiarly described in Britain and Western Europe as the 'post-war consensus' (Bowles and Gintis, 1982). In this view, the new social, political and economic order of the post-war world was to be secured around (1) Keynesian economic policies to secure full employment and economic growth domestically within the agreed parameters of an essentially liberal capitalist international market, (2) a more or less 'institutional' welfare state to deal with the dysfunctions arising from this market economy and (3) broad-based agreement between left and right, and between capital and labour, over these basic social institutions (a market economy and a welfare state) and the accommodation of their (legitimately) competing interests through elite-level negotiation (Bowles and Gintis, 1982; Taylor-Gooby, 1985; Kavanagh, 1987; Kavanagh and Morris, 1989). These liberal democratic or social democratic institutions were seen as the best guarantee of avoiding both the economic disasters and the concomitant political polarization of the inter-war years.

This post-war consensus may be thought of in two ways, as a consensus between *classes* or as a consensus between political *parties*. At the *class* level, consensus involved the abandonment by labour of its traditional aspiration for socialization of the economy and of the ideology and practices of 'class war'. For capital, it meant an acceptance of the commitment to full employment, to the public ownership of strategic utilities and support for the welfare state. Both labour and capital were to share in the common objectives (and rewards) of sustained economic growth. This compromise was to be managed by the overarching presence of the government, which would co-ordinate relations between unions and employers, secure the background conditions for economic growth and administer the welfare state. In its *party* form, consensus indicated broad agreement on the constitutional rules of the political game, the marginalization of the extremes of both left and right (both within and outside 'mainstream' parties), a political style of compromise and bargaining, the broad acceptance of predecessors' legislation and the 'mobilization of bias' in favour of certain interests and ideas, including organized capital, organized labour and Keynesian economics (Kavanagh, 1987, pp. 6–7).

In both formulations, there were certain core public policy elements around which the compromise was built. Internationally, there was an endorsement of the open international market and commitment to 'the collective defence of the Western world' (both under American leadership). Domestically, it meant a commitment to (1) the maintenance of a comprehensive welfare state, (2) support of the 'mixed economy' of private and public enterprise and (3) policies of full employment and sustained economic growth.[16]

For many commentators in the 1950s and 1960s, the coming of the post-war era of consensus politics seemed to herald 'an irreversible change'. Within the sphere of the welfare state, Tom Marshall argued in 1965 that there was now 'little difference of opinion as to the services that must be provided, and it is generally agreed that, whoever provides them, the overall responsibility for the welfare of the citizens must remain with the state' (Marshall, 1975, p. 97). Still more confidently, Charles Schottland proclaimed that 'whatever its beginnings, the welfare state is here to stay. Even its opponents argue only about its extension' (Schottland, 1969, p. 14). Much more recently, Mishra comments that 'state commitment to maintaining full employment, providing a range of basic services for all citizens, and preventing or relieving poverty seemed so integral to post-war society as to be almost irreversible' (Mishra, 1984, p. 1). We have already noted that recent scholarship has cast doubt upon the reality of the post-war consensus. Most sceptically, Ben Pimlott has written of 'the myth of consensus', while Deakin insists of the British experience that while 'real convergences in policy between the major political parties and individuals within them certainly took place . . . there was far less homogeneity than is usually believed' (Deakin, 1987; Pimlott, 1988; Taylor-Gooby, 1985). In Sweden, once identified by right-wing social democrats

[16] On consensus, see Kavanagh and Morris (1989) and Deakin (1987); for a sceptical view see Pimlott (1988).

as the definitive terrain of the consensual 'middle way', there has been an attempt to redefine the historic accommodation of organized capital and organized labour as a temporary and strategic compromise of irreconcilable differences of interest which are now becoming increasingly manifest (Childs, 1961; Crosland, 1964; Tingsten, 1973; Tomasson, 1969, 1970; Scase, 1977a, 1977b; Korpi, 1979, 1983; Stephens, 1979; Himmelstrand et al., 1981; Pierson, 1986, 1991).

Yet even for its most enthusiastic supporters, the politics of consensus was always recognized to be a *positive-sum* game. Agreement rested upon the capacity to generate a growing economic surplus with which to satisfy simultaneously a multiplicity of disparate claims. In this way, it was reliant upon the fourth element we have identified in the post-war period, that is, the commitment to economic growth and full employment.

Economic growth was seemingly the irreplaceable foundation of the traditional welfare state. It was the basis of Keynesian policies to induce capital investment, the stimulus to support economic activity at levels securing full employment and the fount of resources for increased expenditure on health, education, welfare and social services. It was economic growth that made a reconciliation of the opposing interests of capital and labour viable and sustainable. Fittingly, what has been described as 'the Golden Age of the welfare state' was also a period of unprecedented and unparalleled growth in the international capitalist economy.

Table 4.6 gives some general indication of this growth. In the seven major OECD countries (which at the start of the 1950s accounted for 90 per cent of OECD output) annual growth in GNP stood at 4.4 per cent in the 1950s rising to 5.5 per cent in the years between 1960 and 1973. There

Table 4.6 Annual growth in GNP (7 major OECD countries), 1950–1981, Annual average percentage rates of increase (%)

	1950–60	*1960–73*	*1973–81*
Canada	4.0	5.6	2.8
France	4.5	5.6	2.6
W. Germany	7.8	4.5	2.0
Italy	5.8	5.2	2.4
Japan	10.9	10.4	3.6
UK	2.3	3.1	0.5
USA	3.3	4.2	2.3
Weighted average	4.4	5.5	2.3

Sources: OECD (1966, p. 20); Bruno and Sachs (1985, p. 155).

Table 4.7 Unemployment rates (6 major OECD countries), 1933–1983, Percentage of total labour force (%)

	1933	*1959–67*	*1975*	*1983*
France	–	0.7	4.1	8.0
W. Germany	14.8	1.2	3.6	8.0
Italy	5.9	6.2	5.8	9.7
Japan	–	1.4	1.9	2.6
UK	13.9	1.8	4.7	13.1
USA	20.5	5.3	8.3	9.5
Weighted average	13.0	2.8	4.7	8.5

Source: Godfrey (1986, p. 2).

was substantial international variation in rates of growth. The UK struggled to achieve growth above 3 per cent even in the years of most rapid expansion, while Japan's remarkable growth exceeded 10 per cent per annum throughout the period. In the years after 1960, a number of previously 'underdeveloped' economies (for example, in Spain, Portugal, Greece and Turkey) achieved levels of growth in excess of 6 per cent per annum. Throughout the 1950s and 1960s average annual growth rates within the OECD economies as a whole stood close to 5 per cent while inflation, though rising slowly, stayed below 4 per cent until the late 1960s. This contrasts sharply with experience after 1973 when the average rate of economic growth was more than halved (falling as low as 0.5 per cent in the UK). At the same time, inflation became a persistent problem, peaking at 14 per cent in 1974.

Table 4.7 reveals a parallel pattern in terms of employment. The years of sustained, low inflationary economic growth were also years of particularly low levels of unemployment. The period between 1950 and 1967 in which the average levels of unemployment in six major OECD countries stood at 2.8 per cent contrasts markedly with the experience in 1933 at the height of the depression, when unemployment reached 13 per cent. In fact, the figure for the 1960s is distorted by the persistently high levels of unemployment in Italy and the USA, all the other countries showing averages significantly below 2 per cent. These figures from the 1960s also contrast sharply with the experience after 1970. Unemployment rose throughout the 1970s, peaking at about 8.5 per cent in 1983. This period also saw a particularly steep increase in youth unemployment and in long-term unemployment. In Britain, for example, youth unemployment reached 23.4 per cent in 1983, the proportion of those unemployed for more than a year rose above 40 per cent in 1986, while overall unemployment rates in the early 1980s came close to the worst levels of the 1930s.

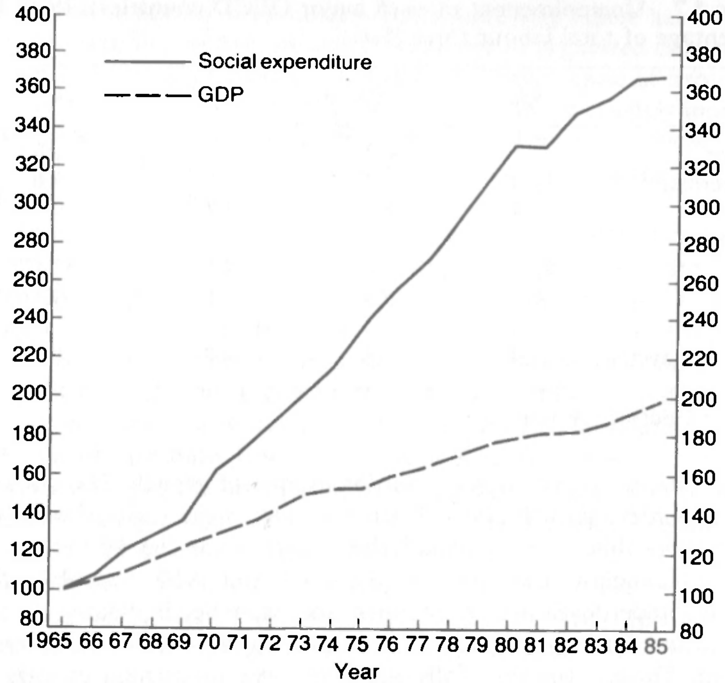

Figure 4.2 Real social expenditure and real GDP, 1965–1985 (1965 = 100).
Source: OECD (1988), p. 13.

Thus the 1950s and 1960s defined a period of sustained economic growth and full employment which contrasted not only with the pre-war years but also with experience after 1973.

Figure 4.2 illustrates the way in which this pattern of sustained economic growth was co-ordinated with an increase in the proportion of national product directed towards social expenditure.

'The Middle Class Welfare State'

Two further social and political consequences of this rapid growth of the welfare state in the post-war period are worthy of particular attention. First, expansion of the social budget brought with it some 'universalization' of the constituency of the welfare state. Tomasson has written of three characteristic phases in the development of the welfare state:

> Social welfare before the First World War was a concern of the political Right for the poor. Between the World Wars social welfare was adopted as an issue by the political Left, still for the poor. After the Second World War social welfare became a concern of both right and left but . . . 'not for the poor alone'. (Tommason, 1983, p. ix)

Rarely has the post-war welfare state served simply the interests of society's poorest and most distressed. Almost everywhere, 'the non-poor play a crucial role of (variously) creating, expanding, sustaining, reforming and dismantling the welfare state' (Goodin and Le Grand, 1987, p. 3). Consequently, the nature of *middle class* involvement has been one of the most important (if sometimes neglected) aspects of later welfare state evolution. In fact, the expansion of the welfare state in the post-war period has tended to benefit members of the middle class both (1) as *consumers*, giving rights of access to facilities in health care, education, housing, transport and so on which 'actually benefited the middle classes . . . in many cases more than the poor' and (2) as *providers*, increasing professional employment opportunities within the public sector (Goodin and Le Grand, 1987, p. 91). As Goodin and Le Grand's work on the British welfare state suggests (table 4.8), perhaps counter-intuitively, it is often middle class elements that have been the principal beneficiaries of such redistribution as the broad welfare state allows.

Table 4.8 The distribution of public expenditure on the British social services

Service	*Ratio of expenditure per person in top fifth to that per person in bottom fifth*
Pro-poor	
Council housing	0.3
Equal	
Primary education	0.9
Secondary education	0.9
Pro-rich	
National Health Service	1.4
Secondary education (16+)	1.8
Non-university higher education	3.5
Bus subsidies	3.7
Universities	5.4
Tax subsidies to owner-occupiers	6.8
Rail subsidies	9.8

Source: Goodin and Le Grand (1987, p. 92).

The Growth of Welfare State Employment

A second general consequence of the rapid expansion of the welfare state in the post-war period is to be found in the radical changes in the composition of the workforce that it has effected. The state, and more especially the welfare state, is now a major employer in all advanced societies. In the 1980s, the British National Health Service was the single largest employer in Western Europe with an annual wages bill in excess of £13 billion (Department of Health, 1989). Within the more general shift in employment from manufacturing to the service sector, state welfare has had a peculiarly prominent role. Studying changes in employment patterns in Germany, Sweden, the USA and the UK, Martin Rein concludes that between the early 1960s and the 1980s, social welfare and 'services to business' have been the only two areas of the service sector of the economy to experience real growth. By the latter period, the 'social welfare industry' accounted for between 11 per cent (Germany) and 26 per cent (Sweden) of overall employment, and social welfare jobs accounted for 20–40 per cent of all employment in the service sector (Rein, 1985, pp. 39–40).

OECD figures suggest that in Denmark by the mid-1980s, government employment (about two-thirds of which is in the social welfare sector) *exceeded* employment in manufacturing. In other countries (for example, Norway and Sweden) the two sectors were close to parity, while in *every* country reviewed, the gap between employment in manufacturing and government services had significantly narrowed since the early 1970s (OECD, 1989, pp. 120–2). Rein noted that the consequences of expanded welfare state employment were particularly pronounced for women, and especially for those women who had passed through higher education. In 1981, between 65 and 75 per cent of college-educated women in Germany, Sweden and the USA were employed in the 'social welfare industries'. The growth of the welfare state has clearly been a major area of growth in female labour force participation, especially for the growing number of professionally qualified women (Rein, 1985, pp. 43–5).

A number of profound (political) consequences have been seen to follow from this pattern of middle class involvement and expanded employment within the welfare state. Therborn, for example, takes it as evidence of the 'creeping universalism' of the welfare state, which has rendered New Right attempts to dismantle it electorally impossible. For the New Right itself, the growth of a highly unionized, middle class public sector workforce was a major source of economic and political crisis in the 1970s. Others have identified new lines of electoral cleavage developing around the welfare state (reliance on the public sector v. reliance upon the private sector), displacing traditional cleavages along the lines of social class (Therborn, 1987; Dunleavy, 1980). Claus Offe has argued that the secure employment and comparative affluence which first attached the middle classes to the 'welfare state project' are now increasingly threatening their defection to neo-liberalism and a consequent residualization of state welfare. These themes are further developed in chapter 6. For now, we return to a more detailed assessment of social policy changes in the post-war period.

1945–1950: Reconstruction

Within the very broad parameters of 'the Golden Age' or more soberly the era of welfare state expansion between 1945 and 1975, it is both possible and useful to offer some further periodization. Thus we may think of the immediate post-war period down to 1950 as defining a period of reconstruction following the debacle of the Second World War. In this period, a number of countries created that broad and systematic platform upon which the developed welfare state was based. In the UK, even before the end of the war, the coalition government had passed legislation to reform secondary education and to introduce family allowances. In the immediate post-war period, the Labour government (partially) implemented Beveridge's reform proposals with the setting up of the National Health Service, the final abolition of the Poor Law and the reconstruction of national insurance and national assistance. The essentials of the post-war British welfare state were in place by 1948.

In France, where social policy enhancement between the wars had been modest, there was a 'major commitment to social security in 1945 and 1946' (Ashford and Kelley, 1986, p. 257). This included a law providing sickness and disability insurance, pension legislation and a law providing for the aged poor. There was also an enhancement of the 1932 family allowances legislation, providing pre-natal payments, additional payments for the third child and a rising scale of benefits as families grew larger (Ashford, 1986a, pp. 183–4). In Finland, where pre-war provision had been still more limited, the years between 1945 and 1950 saw a spectacular average growth rate in social expenditure of 22.2 per cent. Social expenditure as a proportion of central government spending rose from 3 to 13 per cent in the same period. Most of this increased effort was directed towards children and families, health care, the organization of social services, benefits for war victims and state-supported housing construction (Alestalo and Uusitalo, 1986, pp. 202–3, 246). Similarly in Ireland, 'the period from 1945 to the early 1950s was a time of heightened interest and activity in the area of social policy'. During these years, the share of social expenditure in GDP rose by almost six percentage points. The reforms included the enhancement of public health provision, the expansion of social insurance coverage and improved state aid for housing in both the public and private sectors (Maguire, 1986, pp. 246–8, 252; Kennedy, 1975, p. 5).

Not every developed capitalist country participated in this rapid enhancement of social legislation after 1945. In Italy, for example, proposals for a systematic reform of social insurance were rejected following the election of a Christian Democrat-dominated coalition government in 1948, which opted instead to restore the pre-war institutional framework (Ferrera, 1986, p. 390, 1989, p. 124). In New Zealand, the major period of welfare state expansion had *preceded* the Second World War, while it has been said that 'by the end of the Labour administration in 1949 Australia hardly possessed a welfare state' (M. A. Jones, 1980, p. 36). However, the single most (strategic) nation in this period of international welfare state expansion was probably the 'laggardly' USA. While Bowles and Gintis (1982) identify the emergence of a 'capital labor accord' in a number of legislative initiatives in the immediate post-war years, additions to America's own 'semi-welfare state' were quite limited. It was, however, American military and economic power which underwrote the post-war reconstruction of Europe and the new political and economic order of which the welfare state was an essential feature. America was the guarantor and sponsor of Western Europe's 'embedded liberalism' (economic liberalism in a context of state intervention), and thus 'ironically, it was American hegemony that provided the basis for the development and expansion of the European welfare states' (Keohane, 1984, pp. 16–17).

1950–1960: Relative Stagnation

By contrast with the burst of legislative and executive action in the immediate post-war years, which for many commentators heralds the *real* coming of the welfare state, the 1950s was a decade of relative stagnation. In what was generally a period of sustained economic growth, the proportion of resources directed to social expenditure rose very slowly compared with both the years before 1950 and those after 1960. In Western Europe, the average growth in central government social expenditure as a percentage of GDP was something under 1 per cent for the whole decade (Flora, 1987b, vol. 1, pp. 345–449). Strong economic growth means that such figures often mask sustained growth in real social expenditure. Jens Alber writes of the period 1951–8 as the 'take-off' phase of the West German welfare state, but while average real growth in welfare expenditure rose over 10 per cent, its share in a rapidly growing GDP rose by just three percentage points in the same period. Social expenditure commanded a very similar proportion of national wealth at the end of the decade as it had at its beginning (Alber, 1988b; Alber 1986, pp. 15–16; Maguire, 1986, pp. 321–30). However, there were some countries in which the proportion of social expenditure actually fell during the 1950s. In Ireland, for example, central government social expenditure as a proportion of GDP fell by 3.6 percentage points between 1951 and 1960. The share of social expenditure in GDP did not recover its 1951 level until 1964. In the period between 1952 and 1966, public social security expenditure in Australia rose by two percentage points, but this was from 6.1 per cent of GNP to a still modest 8.2 per cent. In New Zealand, growth in the same period was less than 1 per cent (Kaim-Caudle, 1973, p. 53). Of course, these figures for proportionate social expenditure do not give an exhaustive description of welfare state developments. Political disputes over welfare policy – the Swedish pension reforms of 1957 or the introduction of health charges by the British Labour government in 1951, for example – are not captured by these statistics (Esping-Andersen, 1985; Sked and Cook, 1984, p. 96). Nonetheless, the contrast with the 1940s and the 1960s is quite clear.

A number of reasons have been advanced to explain this comparative decline in social expenditure growth. Some have suggested that need was adequately met by the levels of expenditure established in the late 1940s. Others point to the increased private affluence and low unemployment achieved in the sustained economic growth of the 1950s. For some, the element of mutual risk and austerity which war-time conditions generated had evaporated by the 1950s. Tom Marshall wrote that 'the welfare state reigned unchallenged while linked with the Austerity Society and was attacked from all sides as soon as it became associated with the Affluent Society' (Marshall, 1963, p. 282). Others argued that the succession of defeats of left-wing governments marked a political realignment towards the right and the end of the zeal for reform which had characterized the immediate post-war years.

1960–1975: Major Expansion

From about 1960 onwards, we enter a third phase in the post-war development of the welfare state, one that lasts some fifteen years and which is best characterized as an era of major expansion. In terms of the resources devoted to social expenditure, this is perhaps the most remarkable period in the whole evolution of the international welfare states. Thus, the proportion of GDP devoted to social expenditure rose from 12.3 per cent in 1960 to 21.9 per cent in 1975. Both absolute levels and rates of growth varied. By 1975, six countries – France, Germany, Belgium, Denmark, the Netherlands and Sweden – were devoting in excess of 25 per cent of their GDP to social expenditure. Amongst the seven major OECD economies, only Japan (13.7 per cent), the USA (18.7 per cent) and the UK (19.6 per cent) now devoted less than a fifth of GDP to social expendi-

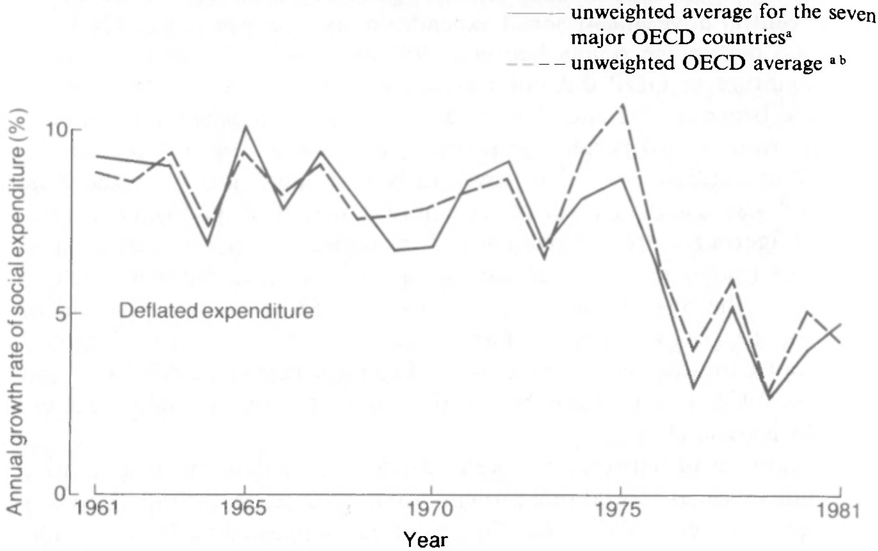

Figure 4.3 The growth of social expenditure in the OECD area, 1960–1981

[a] Prior to 1975 there are no figures for expenditure on education in France. Therefore, only the growth rates for the years after 1975 reflect the growth in expenditure on education in France. The pattern of growth rates over these later years is unaffected by their inclusion.

[b] Average for 17 countries (excluding Denmark and Switzerland except for 1981, when Belgium and Greece are also excluded).

Source: OECD (1985a, p. 19).

ture. In the 1960–75 period, average annual growth in deflated social expenditure was in excess of 8 per cent in Australia, Denmark, Japan and Norway. It fell below 4 per cent only in the UK and Austria. The overall average for the OECD countries throughout this period was 6.5 per cent per annum (OECD, 1988, p. 11).

As figure 4.3 illustrates, the annual growth rate of deflated social expenditure ranged between 7 and 10 per cent throughout the period 1960–75. It experienced a sharp rise in the period immediately after 1973 but fell sharply after 1975. The average growth rate for the years 1975–81 is little more than half of what it had been in the period prior to 1975.

Again, while there was some international variation, three areas – education, health and pensions – commanded some four-fifths of resources throughout this period. There was some change in the distribution of effort between these three areas as expenditure on education first rose and then declined, while expenditure on health and pensions increased steadily. Of the three, pensions appeared to be least vulnerable to retrenchment following the economic reverses of the mid-1970s. Even with the rapidly rising levels of joblessness in the late 1970s, unemployment compensation remained a minor programme, commanding on average less than 5 per cent of social expenditure (OECD, 1985a).

A number of reasons have been advanced to explain this remarkable growth. In part, these are demographic, reflecting not just the growing numbers of old age pensioners but also the rise in the ratio of elderly (who are also disproportionate users of health services) to the economically active. Some point to the central role of the growth of prosperity in this period as generating the necessary resources for the expansion of social programmes (Alber, 1988b). Others offer more political explanations of the growth of social spending stressing, for example, the mobilization of labour movements, socialist parties and others (including the civil rights movement in the USA) in favour of enhanced welfare; the essential role of social spending as a part of the 'capital-labour' accommodation of the post-war consensus; the growing density and capacity of interest groups to mobilize in favour of sectional interests within the welfare state; the increase in urbanization and educational provision leading to greater social and political mobilization.

Many commentators link these explanations of the rapid growth of the welfare state down to 1975 with its problems or 'crisis' thereafter. Indeed, in more or less apocalyptic terms, 1975 is often seen to mark the endpoint of nearly one hundred years of welfare state growth and to bring the threat or promise of its imminent dismemberment. It is to the distinctive theories and experiences of this most recent period that we turn in chapter 5.

5

After the 'Golden Age'

From 'Crisis' Through 'Containment' to 'Structural Adjustment'

Most commentators on the historical evolution of the welfare state have been agreed in identifying a break with a long-standing pattern of growth and development in international social policy from the early or middle years of the 1970s. Some have done no more than draw attention to the slackening pace of welfare state growth in this period (Flora, 1986; Alber, 1988a). Others, particularly those writing from the perspective of the 1970s, drew a much more alarming picture of 'crisis' and 'contradiction' in the welfare state, an unstable condition which challenged either the continuation of the welfare state or even the integrity of the democratic capitalist order itself. It was in this period of the early and mid-1970s that social democratic confidence in the competence of the mixed economy and the welfare state to deliver continuing economic growth allied to greater social equity came under increasing challenge. It was also, as we have seen, the period of the flowering of New Right and neo-Marxist accounts of the welfare state, both of which concentrated on the ubiquity of crisis arising from the inherently unstable and contradictory elements within the post-war welfare capitalist consensus. Twenty-five years later, these more apocalyptic visions of the 'end of the welfare state' seem misplaced. Yet contemporary social policy regimes do seem quite different from those that prevailed in the period down to the 1970s. In this chapter, we seek to make sense of this rather puzzling recent trajectory of the welfare state.

Even in the 1970s, the belief that welfare capitalism was beset by contradictions and vulnerable to crisis was not all that new. It is a view rooted in the work of the great classical political economists and it had continued to be voiced by a minority on both left and right throughout the post-war 'Golden Age' of welfare. What was new in the 1970s was not so much the arguments themselves as their remarkable authority. It seemed as if, in an instant, 'complacency about the momentum of the welfare state gave way to doom-mongering by many in the intellectual elite' (Heclo, 1981, p. 399). With astonishing speed, the warnings of a looming crisis (particularly those of the New Right) seemed to replace the benign assumptions of social democracy as a privileged discourse among governing and 'opinion-forming' elites.

Yet precisely what was intended by the newly authoritative discourse of 'crisis' and 'contradiction' is not entirely clear. Alec Pemberton complains that the meaning of 'contradiction' in Marxist analyses of the welfare state has always been 'notoriously imprecise'. He identifies two main variants: (1) contradiction as '*paradox*' (as in the claim that 'the working class struggles for welfare rights but this inadvertently strengthens the position of capital'), and (2) contradiction as '*opposite effect*' (as in the argument that 'the welfare state is introduced to assist the needy and deprived but, in practice, it worsens their position'). The principal difficulty identified in both usages is that it is unclear in what sense the relationships specified are truly 'contradictory'. The outcomes described may be perverse or even establish 'real oppositions', but they do not entail a contradiction which, properly speaking, is a description of the relationship between two logically inconsistent statements (of the kind, 'This is the final crisis of capitalism/This is not the final crisis of capitalism') (Pemberton, 1983, pp. 289–308; Benton, 1977; Offe, 1984, pp. 130–46). Although Pemberton's strictures are addressed to the neo-Marxist literature, the New Right employ the idea of contradiction in much the same way and the criticism may be applied with similar effect to their usage.

Similar difficulties surround the still more widespread usage, by both right and left, of the idea of a *crisis* of the welfare state. We can identify four distinct senses in which 'crisis' is regularly employed in contemporary discussions. The first (deriving from its medical and dramaturgical origins) sees crisis as a decisive phase in a process in which a long-standing or deep-seated struggle must be resolved one way or another. By analogy, this has been extended to describe any particularly strategic or decisive episode in the historical or social process (Rader, 1979, p. 187). A second usage understands crisis as 'a catastrophe caused by an external blow' (Moran, 1988, p. 397). Offe describes this as a *sporadic crisis concept*, in which the crisis is confined to one event or brief series of events. Offe himself prefers a third contemporary notion, that of 'a *processual* concept of crisis'. Here, crises are 'developmental tendencies that can be confronted with "*counteracting tendencies*" making it possible to relate the crisis-prone developmental tendencies of a system to the characteristics of the system'. On this reading, crises 'need not be seen as catastrophic events having a contingent origin', rather they relate directly to

Offe's (neo-Marxist) sense of contradiction as 'the tendency inherent within a specific mode of production to destroy those very preconditions on which its survival depends' (Offe, 1984, pp. 36–7). These contradictions, when seen within the capitalist mode of production, may call forth 'counteracting tendencies' (this is, indeed, very largely what the welfare state is) but the structural and systemic limitations upon such counteracting tendencies reveal a chronic likelihood 'that contradictions will finally result in a *crisis* of the capitalist mode of production' (Offe, 1984, p. 133). At the same time, all of these more or less technical uses of the term are overlain by the ubiquitous and devalued modern currency of 'crisis' used to describe any (and every) large-scale contemporary problem.

For all its advocates, the idea of a 'crisis of the welfare state' may thus have a wide range of meanings. We may isolate the most important of these as:

- crisis as *turning point*
- crisis as *external shock*
- crisis as '*long-standing contradiction*'
- crisis as *any large-scale or long-standing problem*.

The Crisis of the Post-war Welfare State

The idea of a crisis or of contradictions surrounding the welfare state is then neither entirely new, nor unproblematically clear. We can, however, isolate the early 1970s as the period in which (particularly in the Anglo-American context) the idea of a crisis of the welfare state achieved an unparalleled prominence. The late 1960s had seen the emergence of a growing discontent among both left and right libertarians about the enervating bureaucratic and statist aspects of social welfare (Illich, 1973, 1978; Lasch, 1978, p. 224). It had also been a period of growing political mobilization and renewed industrial action, notably within the public sector trade unions that had themselves been a by-product of welfare state expansion (Jackson, 1987; Hyman, 1989b; Giddens, 1981). All of these contributed to a climate in which social conflict was of renewed interest. But it was above all the end to uninterrupted post-war economic growth that undermined the incremental confidence of the social democrats and set the stage for 'the new pessimism' (Heclo, 1981, p. 398).

The nature of 'the Golden Age' of post-war capitalism is now itself much debated. There has been some tendency to redraw (and shorten) the parameters of the period of sustained economic growth and comparative social peace – on which both the 'end of ideology' and the perspective of open-ended economic expansion were premised – to cover little more than the fifteen years between 1950 and the mid-1960s.[1] But, wherever one places 'the beginning of the end' of this era, by the early 1970s the signs of economic difficulty were unmistakable and the five-fold increase in oil prices which OPEC was able to impose in 1973 precipitated (rather than caused) a severe slump throughout the western industrialized world.

A few figures will illustrate the scale of this economic 'crisis'. Between 1965 and 1973, the economies of the OECD countries showed an annual average growth rate of about 5 per cent. In 1974, this annual growth rate fell to 2 per cent and in 1975, nine OECD economies 'shrank', bringing the annual average growth rate below zero. Although there was some recovery from this low point, there was to be a second oil-price 'shock' in 1979, and for the decade 1974 to 1984, annual average growth was little over 2 per cent (Alber, 1988a, p. 187). Nor were these economic difficulties confined to sluggish growth. By 1975, unemployment in the OECD area had risen to an unprecedented 15 million, a figure that had doubled within a decade (OECD, 1989b). At the same time, inflation accelerated and there was a growing balance of trade deficit throughout the OECD. The 'misery index' (the rate of inflation plus the rate of unemployment) which, for the seven major OECD countries, had averaged 5.5 per cent through the 1960s had risen to 17 per cent by 1974/5. At the same time, levels of investment and levels of profitability fell, while the value of disposable incomes stagnated. Governments throughout the developed West were simultaneously failing to achieve the four major economic policy objectives – growth, low inflation, full employment and balance of trade – on which the post-war order had been based (Gough, 1979, p. 132; Goldthorpe, 1984, p. 2).

One of the clearest manifestations of this economic crisis was growing public indebtedness. As the economic recession deepened, so demands upon public, and especially social, expenditure grew, in part through the inertia of incrementalism, but also through costs that rose directly from economic decline (the costs of enlarged unemployment and social benefits claims). At the same time as demand grew, with the slump in tax-generating growth, revenue declined. This manifested itself in a 'yawning gap between expenditure and revenues' and a rapid growth in the public sector borrowing requirement (PSBR). Most acutely in the period 1973–5, as economic growth (and the capacity to fund state expenditure) declined, public expenditure increased (Gough, 1979, p. 132). About half of the 10 per cent growth in the share of GDP devoted to public expenditure in the OECD countries between 1960 and 1975 occurred in 1974 and

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[1] The earliest version of O'Connor's fiscal crisis theory appeared in 1970. On the post-war period, see Deakin (1987); Kavanagh and Morris (1989).

1975 (OECD, 1985a, p. 14). In the same period, specifically social spending (on education, health, income maintenance and other welfare services) had taken an increasing share of this enhanced public expenditure, rising from 47.5 per cent in 1960 to 58.5 per cent by 1981 (OECD, 1985a, p. 21). Consequently, concern about state indebtedness and public expenditure was above all concern about the costs of the welfare state.

Different governments responded to this challenge in differing ways and there was not only the customary discrepancy between what these governments *said* and what they *did* but also a divide between what these governments *did* and what people *widely believed them to have done*. But we now have sufficient evidence to place in context the 'crisis' theories of the early and mid-1970s, theories which were themselves a response to these profound economic difficulties and to the short-term reaction of government agencies.

Welfare Capitalism: from 'Contingent Crisis' to 'Systemic Contradiction'?

Perhaps the earliest response to the economic crisis of the early 1970s was to understand it, in Offe's terms, as a 'sporadic crisis'. Upon this view, the essentially sound and well-ordered international capitalist system had been subjected to an 'external shock' or series of shocks which had temporarily thrown it out of equilibrium. Most prominent among these shocks was the oil price increase of 1973 which had precipitated the deep recession of 1974 and 1975. Other candidates for disruption were the consequences of the longstanding US involvement in Vietnam, the rapid rise of (non-oil) basic commodity costs (notably of basic foods) and the breakdown of international monetary exchange relations. What was crucial about all these 'shocks' was that they were essentially *exogenous* (from outside the system) and if not non-replicable (after all OPEC could, and did, impose a second oil price hike) then certainly *contingent*. Paul McKracken's 1977 Report prepared for the OECD, probably the most celebrated statement of this position, concluded that the recession of the early 1970s arose from 'an unusual bunching of unfortunate disturbances unlikely to be repeated on the same scale, the impact of which was compounded by some considerable errors in economic policy' (OECD, 1977). Upon such an account, crisis was *external* to the welfare state in two senses. First, the source of (temporary) economic problems lay outside the prevailing international market order and second, insofar as there was a knock-on problem of funding for the welfare state, this was one which was wholly attributable to the shortfall in economic product and not to the (damaging) interrelationship between social welfare and economic performance.

However, this essentially optimistic view – of a 'hiccup' in economic growth leading to a temporary pause in welfare state growth – was increasingly overtaken in the welfare state area by studies which stressed the contradictions *within* the mixed economy (or liberal representative democracy or welfare capitalism) as the *real* source of crisis. The five-fold increase in crude oil prices was simply the dramatic precipitating event which disclosed the deep-seated *structural* weaknesses of the post-war political economy which had been in the making for twenty-five years, and was manifest to the discerning eye since at least the late 1960s. At the heart of this account was the claim that the end of the period of post-war economic growth was not externally caused but *inherent* in the social, political and economic order of the post-war consensus and especially in its ameliorating institutions for the management of economically based political conflict.

It will be recalled from chapter 2 that this was precisely the position adopted by both New Right and neo-Marxist commentators in response to the events of the early 1970s. For both schools, this crisis could not be understood as 'simply' economic. Rather it was a crisis of the social and political order established after 1945 under the rubric of the Keynesian Welfare State. For both, the problems of the early 1970s expressed the economic and political contradictions inherent in a democratic capitalist society. Such an analysis embraced two further senses of crisis. First, for all of these commentators the post-war order was threatened by the consequences of deep-seated and '*long-standing contradiction*'. Also, typically in its earliest, boldest and most apocalyptic formulations, this perspective raised the spectre of a historical *turning point*. That is, the contradictions of the post-war order were now so acute that a *radical* change was no longer simply desirable, it had become unavoidable. Whatever the radical alternatives, the status quo was not an option.

The neo-Marxist variant of this view was first stated with some force at the turn of the 1970s in O'Connor's *Fiscal Crisis of the State*. O'Connor's study centred upon the claim that 'the capitalistic state must try to fulfil two basic and often mutually contradictory functions – *accumulation* and *legitimization*'. On the one hand, the state must try to maintain or create the conditions under which profitable capital accumulation is possible; on the other, it must also try to maintain or create the conditions for 'social harmony'. He expands the contradiction thus:

> A capitalist state that openly uses its coercive forces to help one class accumulate capital at the expense of other classes loses its legitimacy and hence undermines the basis of its loyalty and support. But a state that ignores the necessity of assisting the process of capital accumulation risks drying up the source of its own power, the economy's surplus production capacity and the taxes drawn from this surplus. (O'Connor, 1973, p. 6)

In essence, these imperatives of accumulation and legitimation are *contradictory*. Expenditure to secure legitimization is essential, to defray the otherwise potentially explosive social and political costs of capitalist development, yet these costs must themselves be met via state revenues derived from the profits of capital accumulation. In this way the costs of legitimization, which are to secure circumstances for successful capital accumulation, themselves tend to undermine the very process of profitable accumulation. Correspondingly,

> The socialization of costs and the private appropriation of profits creates a fiscal crisis, or 'structural gap', between state expenditures and state revenues. The result is a tendency for state expenditures to increase more rapidly than the means of financing them. (O'Connor, 1973, p. 9)

This fiscal crisis is intensified by the pluralistic structure and accessibility of liberal democratic politics, which privileges the servicing of organized interests, furnishing 'a great deal of waste, duplication and overlapping of state projects and services'. Thus, 'the accumulation of social capital and social expenses is a highly irrational process from the standpoint of administrative coherence, fiscal stability and potentially profitable capital accumulation' (O'Connor, 1973, p. 9). By the early 1970s in the USA (which was the focus of O'Connor's study) these problems had become intense. Growing tax resistance, intensified hostility to the authority of government, growing mobilization by new social movements among welfare recipients, heightened politicization among a growingly unionized state workforce all intensified those pressures upon government, which generated fiscal crisis. O'Connor insisted that 'by the late 1960s, the local fiscal crisis was almost completely out of hand' and federal attempts to cope with this simply intensified the difficulties at national level (O'Connor, 1973, p. 212). O'Connor doubted that the crisis could be resolved within the parameters of the existing order. For him, 'the only lasting solution to the crisis is socialism' (O'Connor, 1973, p. 221).[2]

The New Right and the Crisis of Liberal Representative Democracy

Even more influential and dramatic as an account of the crisis of the welfare state in this period were the writings of the New Right. From the turn of the 1970s, the technical arguments of Hayek and the public choice

[2] It is worth recalling that there were other important neo-Marxist accounts of this process which were less functionalist in character and placed a greater stress upon welfare politics as an aspect of class struggle (see, for example, Piven and Cloward, 1971; Navarro, 1978).

theorists (discussed in chapter 2) were given an enhanced prominence by critics who insisted that the general contradictions underlying social democracy were now beginning to manifest themselves in an immediate and profound crisis of the existing political order. In a 1975 *Report on the Governability of Democracies*, Michael Crozier argued that within Western Europe

> the operations of the democratic process . . . appear to have generated a breakdown of traditional means of social control, a delegitimation of political and other forms of authority, and an overload of demands on government, exceeding its capacity to respond. (Crozier, Huntington and Watanuki, 1975, p. 8)

For the neo-conservatives, the core of this 'democratic distemper' lay in the decline in respect for traditional sources of authority and in the break with traditional constraints upon individual aspirations. At the same time as democratic publics made greatly increased demands of their governments, they were becoming less willing to accept the decisions taken by these public authorities. Indeed, the decline in respect for executive authority and the decline in support for mainstream political parties suggested a general decline in attachment to the traditional forms of representative democratic life. There was a growing mobilization of sectional demands with no recognition of a greater public interest, whether or not represented by the existing government. At the same time, sustained post-war economic growth, the institutionalization of the welfare state and the 'bidding-up' process of adversarial democratic politics had generated a 'revolution of rising expectations' among democratic publics. They were increasingly disposed to claim as non-negotiable 'rights', goods and services to which they had no sound claim. Decline of authority and mutual responsibility within the family meant that social welfare functions traditionally met within the private and family sector generated new claims upon the state – and a population increasingly dependent upon state beneficence.

If for the neo-conservatives, the major problem was one of declining social control and public authority, for the neo-liberals, following the public choice theorists, the major difficulties lay in the relationship between representative liberal democracy and the market economy. Thus, Samuel Brittan wrote in 1975 of the danger of the (self-)destruction of liberal representative democracy being precipitated by 'two endemic threats':

- the generation of excessive expectations and
- the disruptive effects of the pursuit of group self-interest in the market place.

In essence, the 'growth of expectations imposes demands for different kinds of public spending and intervention which are incompatible both with each other and with the tax burden that people are willing to bear' (Brittan, 1975, pp. 129–31). Marrying Schumpeter's account of democracy as the process of elite competition for votes to the insights of the public choice theorists, Brittan argued that liberal representative democracy is imperilled by two underlying weaknesses.[3] First, the process of political competition generates unrealistic and excessive expectations about the possibilities afforded by government action among a largely (and rationally) uninformed voting public. Parties and politicians are systematically disposed to promise 'more for less'. A party which reminds the electorate of the necessary relationship between income and expenditure is likely to prove unelectable. Secondly, the growth of well-organized sectional interests (most especially trade unions) and especially their willingness to use this power to achieve sectional ends intensifies the difficulties of reconciling liberal and democratic government with national economic solvency. In the short term, this contradiction is likely to manifest itself in rising inflation, but 'in the last analysis the authorities have to choose between accepting an indefinite increase in the rate of inflation and abandoning full employment to the extent necessary to break the collective wage-push power of the unions'. However, such governments may be forced 'to choose between very high rates of unemployment and very high rates of inflation, neither of which can be sustained in a liberal democracy' (Brittan, 1975, p. 143). Consequently, Brittan judged that 'on present indications', liberal representative democracy 'is likely to pass away within the lifetime of people now adult' (Brittan, 1975, p. 129).

There were other elements in these accounts of the 1970s. Some argued that the growth in resources and personnel directed towards the public sector as a consequence of the rise of the post-war welfare state had 'crowded out' the private sector investment upon which continued economic growth was dependent. Bacon and Eltis argued of the British experience that there was 'a strong case' for maintaining that 'the great increase in public-sector employment that occurred in Britain in 1961–75 [largely within the welfare state sector] played a significant role in the deterioration of Britain's economic performance' (Bacon and Eltis, 1978, p. 16). Some stressed the growing difficulties of government macro-management in a more open world economy. Others highlighted the particularly entrenched position of public sector trade unions (itself a by-product of expanded welfare state employment), whose wages were politically rather than market-determined (Rose and Peters, 1978, p. 23; Brittan, 1975).

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[3] On Schumpeter's account of democracy as elite competition, see Schumpeter (1976); Held (1987, pp. 164–85).

For many of these commentators, government overload was intimately related to the spectre of growing *ungovernability*. Rose and Peters, for example, argued that a number of Western governments faced the imminent prospect of 'political bankruptcy' should they fail to show 'the political will to limit growth' of public expenditure in times of declining economic growth and falling take-home pay. While such 'political bankruptcy' would not mean anarchy and fighting in the streets, it would lead to an increase in citizen hostility to the conventional political process, accelerate the process of citizen indifference to the conduct of government and, perhaps most seriously, aggravate the tendency towards tax resistance, with an accompanying growth in the black economy (Rose and Peters, 1978, pp. 31–7). Most apocalyptically, Peter Jay insisted that 'the very survival of democracy hangs by a gossamer thread' and that 'democracy has itself by the tail and is eating itself up fast' (Jay, 1977).

Not all these commentators were so iconoclastic (nor can they all be identified unproblematically with the New Right). Rose and Peters, for example, insisted that any 'attempt to dismantle the policies of the contemporary welfare state would be a response out of all proportion to the cause of the problem' (Rose and Peters, 1978, pp. 38, 232). Yet all were convinced that the continuation of the welfare state status quo was not an option.

Crisis? What Crisis?

By the end of the 1970s, it seemed clear that expectations of a system-threatening crisis – whether a legitimation crisis of welfare capitalism or a crisis of governability of liberal representative democracy – were ungrounded. Nowhere in the advanced capitalist world had the system of representative democracy broken down and certainly no-one could argue that the crisis of welfare capitalism had been resolved by a rapid transition to socialism! Certainly, there had been considerable resistance to retrenchment of public expenditure and rising levels of unemployment. There was some (extremely approximate) evidence of growth in the black economy (a 1986 OECD report placed it at between 2 and 8 per cent of total hours worked in the developed economies) and limited evidence of tax resistance, notably in the meteoric rise of the anti-tax Progress Party in Denmark in 1973 and in the passage of Proposition 13 statutorily restricting state taxation in California (OECD, 1986b). Yet none of this represented a real challenge to the prevailing order which had seemingly been endorsed by the electoral success of right-wing parties in the late 1970s and early 1980s. How then, with hindsight, should we evaluate the 'crisis' theories of the 1970s?

Welfare State Crisis as 'External Shock'

With the rise to prominence of the more dramatic accounts of the New Right and the neo-Marxists, it became commonplace to dismiss the idea of a 'one-off' crisis arising from the quintupling of oil prices as a naive hankering for the 'good old days' of social peace and economic growth of the 1950s and 1960s. Certainly, it was a view with very real weaknesses. First, its confidence in the early re-establishment of the political and economic *status quo ante* was misplaced. Secondly, it lacked a sense of the inter-relatedness of the political and economic problems of the advanced capitalist societies. Finally, it showed little awareness of the very real changes in the balance of economic and political forces that had been the consequence of twenty-five years of post-war economic growth. Yet it is an approach which, with the benefit of still more hindsight, can be seen to have had some substantial strengths. Certainly, the crisis presented itself to many contemporaries as a problem of inadequate economic resources (trying to pay for more welfare with a stagnating national product) and there is indeed good reason to think that the crisis of the early 1970s was, in some senses, much more 'purely economic' than later critics were to allow. Thus, much of the perceived 'spiralling' of welfare costs was due not to 'democratic distemper' but to the logic of demographic pressure and statutory entitlement under circumstances of recession. Further, as the more spectacular predictions of neo-Marxists and New Right analysts failed to materialize, it seems that the difficulties of the welfare state are indeed more substantially about the shortfall of resources available to fund further growth. Such a belief is buttressed by evidence that the best indicator of the capacity of national welfare states to weather the difficulties of the 1970s was not so much a reflection of their *political* complexion (the intensity of their democratic contradictions) as of a given nation's *economic* strength before the 1970s and of its capacity to absorb the oil shock of 1973 (Schmidt, 1983, pp. 1–26).

Even if we concentrate solely upon economic developments, however, it is clear that the changes observed in the early 1970s were both more profound and longer-lasting than the idea of a one-off 'shock to the system' suggests. This new economic context is not adequately defined by one or two hikes in the price of basic commodities but rather by a whole series of changes in the international political economy which cumulatively shattered the stability of the post-war economic order. Such changes include the decline in stable exchange rates, the loss of the hegemonic role of the USA, changing international terms of trade, the rise of newly industrialized countries, changing financial institutions and the sustained impact of new technologies.

The Welfare State and the Crisis of Liberal Democratic Capitalism

The theoretical poverty of the perspective of 'external shock' has often been contrasted with New Right or neo-Marxist critics who are seen to have penetrated the 'depth structure' of contradictions in the welfare state. Certainly, there are considerable strengths in the shared features of these accounts of crisis. They were among the first to develop a modern 'political economy' approach, indicating that while the *symptoms* of the difficulties of the 1970s were economic, their *causes* lay in the inter-relation of social, political and economic forces. They were also among the first to see that the recession of 1973–4 was not simply a 'blip' in the continuing process of unfettered post-war economic growth. They demonstrated that inflation had not just a political *consequence* but also, in part, a political *cause*. They drew out the political consequences of the growing complexity and complicity of government, of greater bureaucratic and organizational density and of the rise of organized and sectional interests, under circumstances of representative democracy and full employment.

The glaring weakness in this analysis, however, was that its claims about a challenge to advanced capitalism and/or liberal representative democracy went largely unfulfilled. In the UK, where the prognoses were often the most gloomy, there has been little real threat to the political process. There is evidence of growing electoral volatility (sometimes masked by the plurality voting system), of declining public deference to government, of the intensified prosecution of sectional interests and of a break with elements of consensus government. During the 1980s, there was an erosion of local government democracy, the circumscription of some civil liberties, the curtailment of trade union rights and quite substantial changes to the welfare state itself. All of these met with more or less fierce resistance. But there has been no real threat of a breakdown of liberal democratic government and, until the election of the Blair government, limited interest in major constitutional reform. In the same period, a right-wing government was returned to office four times, while welfare spending in the major areas (pensions, health and education) remained largely intact (Hills, 1997).

Why were analysts on both left and right so mistaken about the *consequences* of the welfare state structures they helped to reveal? First, there is an element of misunderstanding the nature of the welfare state. For the New Right, the welfare state was seen largely as an unproductive deadweight on the economy, imposed through the dynamics of irresponsible (social) democracy. In the prevalent Marxist account, the welfare state was the necessary legitimating trade-off for (the unacceptable social costs of) capital accumulation. For both, the inevitable outcome was fiscal crisis. But such a view is difficult to reconcile with the historical development of the welfare state outlined in chapter 4. The welfare state was *not* generally an imposition of organized labour through the pressure of electoral politics. It was as much (if not more) the product of conservative or liberal regimes. It was as frequently (if not more often) status-preserving or market-supporting as it was decommodifying. In fact, evidence that, as both New Right and neo-Marxists seem to assume, the welfare state dampens capitalist economic growth is limited at both 'micro' and 'macro' levels (Pfaller, Gough and Therborn, 1991). Similarly, the claims that public spending displaces private investment or that social benefits represent a real disincentive to labour are thinly grounded. Certainly, under some circumstances and as part of a broader constellation of forces, social spending might be complicit in poor economic performance. But this is something very different from the claim that social spending *causes* poor economic performance (Pen, 1987, pp. 346–7). Indeed, Nicholas Barr argues that the welfare state has a 'major efficiency role' and that, in a context of market failures, 'we need a welfare state for efficiency reasons, and would continue to do so even if all distributional problems had been solved' (Barr, 1987, p. 421; Blake and Ormerod, 1980; Block, 1987).

The British case is peculiarly instructive in this context. Britain was often portrayed in the literature of the 1970s as the country with the most pronounced problems of overload, ungovernability and welfare state malaise, so much so that this complex was often identified as 'the English disease' (see, for example, Jay, 1977). Yet we have seen that the UK was not an especially large welfare spender, nor were the terms of her social benefits either very generous or particularly 'decommodifying'. There were consistently more extensive and generous welfare states with a far better economic record. The size and disposition of the UK public sector and welfare state might contribute to Britain's economic difficulties, but only in a context of much longer established problems of economic growth and capital formation (Gamble, 1981). Conversely, as Mishra points out, New Right critics at least tended to neglect those welfare states with a good economic record (Austria, Sweden) or to attribute their success to fortunate and extraneous circumstances (Mishra, 1984, p. 56). In general, this 'Anglocentric' bias (which has long been observed by continental analysts of the welfare state) is also a clue to the weakness of the more apocalyptic theses of contradiction and ungovernability (Flora and Heidenheimer, 1981a, p. 21). Thus Anthony Birch maintains that the New Right thesis is only sustainable for Britain at a very particular historical moment. Seeking to extrapolate from these very particular circumstances, a general theory of the prospects for representative liberal democracy is quite unwarranted (Birch, 1984, pp. 158–9).

A number of more specific problems can also be identified in these accounts. New Right critics in particular have tended to overstate the powers of trade unions. Even at the height of their ascendancy in the early 1970s, unions were essentially the reactive and defensive organizations of labour (Clarke and Clements, 1977; Hyman, 1989a). All governments, and not only those who saw it as potentially therapeutic, have found it difficult to control unemployment. This, in concert with growing international competition and greater capital mobility, has radically curtailed even this limited power of trades unions. Similarly, the last fifteen years have seen no inexorable rise of social democratic parties, irresponsibly promising 'more for less'. Indeed, the British Labour Party consummated its electoral rehabilitation by insisting on every possible occasion that it had ditched the commitment to 'tax and spend'. Despite the ubiquitous talk of governments 'buying' electoral victories through irresponsible manipulation of the economy, such empirical evidence as there is, suggests that the impact of the 'political business cycle' has been greatly exaggerated (Alt and Chrystal, 1983).

Finally, it is worth drawing attention to the inadequacies of the accounts of legitimacy that underpin many of these accounts of crisis. Both left and right suggest that the difficulties surrounding the welfare state are likely finally to express themselves as a crisis of legitimacy of the democratic capitalist order (Habermas, 1976; Wolfe, 1979). But it seems clear that this is to operate with a conception of legitimacy which belongs to constitutional theory rather than to political sociology. The principle of legitimacy as the acknowledged right to rule is not one that has a prominent place in the day-to-day thinking of the democratic citizen. As Rose and Peters indicated, even 'political bankruptcy' does not mean fighting on the streets (Rose and Peters, 1978). Michael Mann has given definitive expression to the view that the 'social cohesion of liberal democracy' rests primarily upon an *absence* of considerations of legitimacy, upon the fact that the average citizen does not have a comprehensive view of the legitimate claims and limitations of governmental authority. It is a mistake to look to a legitimation crisis where legitimacy is not constituted in the way that analysts of its anticipated crisis suppose (Habermas, 1973; Wolfe, 1979; Mann, 1970).

Restructuring and Retrenchment: The Crisis Contained

As the crisis tendencies of the 1970s failed to precipitate sudden and dramatic change, attention gradually shifted towards an assessment of the ways in which the end of the post-war growth society had been 'managed' from within the parameters of existing economic and political institutions. At the end of the 1970s, Ian Gough raised the perspective of crisis as a process of *restructuring*, in which new circumstances could be established for the renewed accumulation of capital. Gough argued that such a restoration of long-term profitability was only possible through a systematic weakening of the power of working-class organizations and a *retrenchment* of the political and social rights that had been institutionalized in the post-war advanced capitalist world (Gough, 1979, pp. 151–2).

This perspective came to set the agenda for a second and distinctive species of theories that dominated discussion in the 1980s. Following Taylor-Gooby (1985, p. 14), we may think of these as '*crisis containment*' theories. In such accounts, it is argued that the challenge which seemed in the 1970s to be addressed to democratic advanced capitalism itself has, in practice, been displaced upon the social and economic policies that constituted the post-war welfare state. In practice, interventions in areas of social and economic policy have been successful in the limited though decisive sense that they have managed to contain and control, if not actually to resolve, those tendencies which earlier theorists had thought would imperil the very continuation of liberal democracy. If it was any longer appropriate to speak of a crisis, this was now a crisis *within* the institutions of the welfare state itself.

Three sets of claims are characteristic of this 'crisis containment' theory. First, it is suggested that throughout the advanced capitalist world there has been a break with the political consensus for a managed economy and state welfare that characterized the post-war period. Secondly, this change has been made possible by a 'sea change' in public opinion, which has moved from support for collective solutions to problems of social need to a preference for market provision to satisfy individual welfare demands. Thirdly, and most importantly, these changes have in their turn opened the way for cuts in welfare entitlements and a 'restructuring' of public welfare provision. This indicates a move away from the model of a universalist, rights-based welfare state towards a more residualist, needs-governed system of public relief. We should consider each of these claims in a little more detail.

The End of the Consensus

'Crisis containment' theorists argue that while critics were right to observe a severe challenge to the post-war consensus in the heightened social and political struggles of the early 1970s, they were wrong to identify this with an unmanageable threat to the prevailing democratic capitalist order. The perceived 'contradictions' of welfare capitalism have been, if not definitively resolved, then at least effectively managed. This has been achieved through a radical reconstruction of the social and political order of the advanced capitalist societies, a reconstruction in the interests of capital and parties of the right, achieved through an abandonment of the post-war consensus.

Although this process has taken different forms in differing countries, according to specifically local conditions, its definitive and most articulate expression was seen to be the rise of 'Thatcherism', both in the UK and, by extension, elsewhere. Despite its self-ascribed single-mindedness and conviction, the precise meaning of 'Thatcherism' remains unclear (see Jessop et al., 1988, pp. 3–56). For some, perhaps for Mrs Thatcher herself, it signifies, above all else, a rejection of the politics of consensus. According to Gamble, it represents 'a coherent hegemonic project', summarily constructed around the twin themes of 'the free economy and the strong state' (Gamble, 1988, p. 23). It is sometimes given a wider and international resonance, indicating a more generalized policy response to the perceived economic and social problems of the 1970s. Thus, Dennis Kavanagh writes that:

> economic recession and slow economic growth undermined popular support for the welfare consensus in a number of . . . states. The Thatcher governments' policies of tax cuts, privatization, 'prudent' finance, squeezing state expenditure and cutting loss-making activities has had echoes in other western states. (Kavanagh, 1987, p. 9)

It is not perhaps surprising that 'the Thatcher agenda' should have had an appeal for right-wing incumbents in the UK, the USA and perhaps West Germany in the early 1980s. What was seen as still more decisive for the proponents of 'crisis containment' was the extent to which avowedly socialist or social democratic governments were forced to adopt 'austerity' measures which mimicked the policies of right-wing governments. This might be taken to describe the experience of the Labour government in the UK in the late 1970s. To an extent, it even spread into the heartland of the welfare state in Scandinavia (particularly in Denmark). But perhaps most instructive was the experience of the Socialists in France, who, though elected on a radical socialist manifesto in 1981, were abruptly forced to 'U-turn' and embrace the politics of austerity. What seemed to divide this 'Thatcherism with a human face' from the real thing was a lack of enthusiasm for the policies adopted.

The 'Sea Change' in Popular Opinion

This *political* abandonment of consensus could not have been effected, it is argued, had there not been a wholesale erosion of popular support for existing welfare state arrangements. There are some who argue that the working class never had a strong attachment to the idea of welfare rights and social citizenship, and who trace 'the long hostility of working people to what is perceived as dependency on public provision' (Selbourne, 1985, p. 117). Certainly, most commentators concede that public attitudes to welfare have always been ambivalent and that even where support for the welfare state has appeared to be strong, such strength has often been 'brittle'. On this basis, the economic downturn of the early 1970s afforded an opportunity for 'a full-scale assault on the welfare consensus', a consensus which 'has never taken deep root, and [which] was therefore relatively easy to dislodge by the return of an incisive neo-liberal rhetoric in the wake of the significant material shifts in working-class experience in the mid-1970s' (Golding and Middleton, 1982, pp. 229, 205). According to John Alt, people's support for the welfare state was seen to be basically 'altruistic . . . supporting a benefit which will largely go to others'. In economic 'good times', when people's earnings are rising, they may be willing to afford such 'altruistic policies'. But times of 'economic stress', such as the 1970s, tend to be associated with 'less generosity' and a preference for 'spending cuts over taxation' (Alt, 1979, p. 258).

Perhaps the single clearest (and most widely challenged) statement of the case for a decline in public support for state welfare came from the Institute of Economic Affairs. In a survey of British public opinion on welfare, Harris and Seldon claimed to have isolated 'a large, latent but suppressed desire for change in British education and medical care among high proportions of people of both sexes, all ages and incomes, whether officially at work or not, and of all political sympathies' (Harris and Seldon, 1987, p. 51; see also Harris and Seldon, 1979, p. 201).

Further evidence of this decline in popular support for the welfare state was premised on the growing electoral difficulties of social democratic parties and the renaissance of the political right. Social democrats have long been identified as 'the party of the welfare state'. Their rise in the 1960s was often associated with the incorporation of the welfare state in advanced capitalist societies. Correspondingly, the decline in their popularity in the 1970s was seen as evidence of a decline in support for the welfare state itself.

Here again, the most familiar examples are those of the UK, the USA and West Germany. But perhaps more important were the examples of a shift to the right in the heartland of the welfare state. Of these, the most important examples were Denmark and, of course, Sweden where the return of a 'bourgeois' coalition in 1976 brought to an end 44 years of continuous social democratic government. But evidence of the decline in support for socialist parties was Europe-wide. The proportion of votes going to all left parties (social democratic, socialist and communist) fell from 41.3 per cent in the 1960s to 40.1 per cent in the 1970s. In the same period, support for conservative parties crept up from 24.6 to 24.9 per cent. In the early 1980s, the proportion of the conservative vote advanced to 25.3 per cent. Between 1977 and 1982, incumbent socialists were defeated in Britain, West Germany, Belgium, Holland, Norway, Luxembourg and Denmark. In 1975, there were more than twice as many socialist as conservative cabinet ministers in European governments (54.1% contrasted with 25.1%). By 1982, the Conservative parties had established a one percentage point lead over the socialists (37.6% conservative; 36.4% socialist). Lane and Ersson concluded that the socialist parties' position 'was reinforced during the 1950s and the 1960s; in the 1970s and early 1980s, however, a decline to a lower level set in'. For the parties of the right, by contrast, the data 'confirm the hypothesis of a conservative revival in the 1970s and early 1980s' (*Economist*, 1982a, pp. 35–6; Lane and Ersson, 1987, pp. 112–15).

'The Cuts'

The third, and possibly the most important element in the 'crisis containment' perspective was the spectre of cuts and 'restructuring' in social expenditure. On the basis of a change in popular and electoral opinion, and given the successes of parties of the right and the breakdown of the politics of consensus, it seemed that the 1980s must be a decade of welfare retrenchment. Many commentators, both advocates and opponents, anticipated a retreat from a universal welfare state based on citizenship towards a more modest policy of the relief of destitution upon the basis of demonstrated need in a context of declining resources for welfare.

The first public expenditure White Paper of the newly elected UK Conservative government in 1979 maintained that 'public expenditure is at the heart of Britain's present economic difficulties' and, as we have seen, the single largest (and fastest-growing) aspect of this public spending was social expenditure (HM Treasury, 1979). Accordingly, the welfare state looked particularly vulnerable to retrenchment and within a year of Thatcher's election, Ian Gough was arguing that:

> Britain is experiencing the most far-reaching experiment in 'new right' politics in the Western world. [A number of] policy shifts . . . contribute to this aim: legal sanctions against unions, mass unemployment by means of tight monetary controls, the cutting of social benefits for the families of strikers, a reduction in the social wage on several fronts, and a shift to more authoritarian practices in the welfare field. It represents one coherent strategy for managing the British crisis, a strategy aimed at the heart of the post-war Keynesian-welfare state settlement. (Gough, 1983, pp. 162–3)

Much the same process was identified in the USA. Here it was said in 1986 that 'the Reagan administration and its big business allies have declared a new class war' against the working class and those reliant on social assistance (Piven and Cloward, 1986, p. 47). Writing in the same year, Michael Katz insisted that:

> In the last several years, city governments have slashed services; state legislatures have attacked general assistance (outdoor relief to persons ineligible for benefits from other programs); and the Reagan administration has launched an offensive against social welfare and used tax policy to widen the income gap between rich and poor. (Katz, 1986, p. 274)

Perhaps even more telling were the prospects for retrenchment in the continental European welfare state. In September 1982, the *Economist* argued that 'during the 1980s, all rich countries' governments . . . are likely to make . . . big cuts in social spending'. Within a month, it was reporting 'the withering of Europe's welfare states'. In Germany, there were to be delays in pension increases, the collection of sickness insurance contributions from pensioners and an end to student grants. Holland faced 'a savage cutback', while the one-time leading welfare state, Denmark, was to seek a 7 per cent cut in public spending through reducing levels of unemployment compensation and introducing new charges for children's day care. Most saliently, the newly elected socialist government in France was introducing new charges to meet non-medical hospital costs and increasing social security contributions in a quest to curb spending by $12 billion in a full year. Only the perverse Swedes were 'the exception that proved the rule', re-electing a socialist government on an anti-cuts programme (*Economist*, 1982b, pp. 67–8).

Crisis Contained?

'Crisis containment' offered a clear account of the breakdown of the post-war consensus, of a popular political shift to the right and of an unpicking of the fabric of the welfare state. It suggested that this change had successfully addressed the threat of systemic crisis that had been identified in the mid-1970s and displaced it upon a more modest and piecemeal, if squalid, crisis for those in society who were most reliant upon the support of public services. How convincing is this second school of crisis thinking?

The End of Consensus?

We have seen that it is possible to define consensus as either inter-party or inter-class but that, in whichever form, it could be isolated in policy terms around (1) the maintenance of a comprehensive welfare state, (2) support of the 'mixed economy' and (3) policies of full employment and sustained economic growth. There were always those opposed to consensus, and though we are now inclined to think of the breach with consensus as an intervention from the right, it is worth recalling that some of the earliest mobilization against the social democratic consensus came from the left in the late 1960s and early 1970s. Similarly, while we think of the break being consummated towards the end of the 1970s, 'the beginning of the end of consensus' might be as convincingly retraced to the late 1960s. Even if we identify the demise of consensus with this later date, it is worth recalling that some on the left welcomed this as an opportunity to radicalize politics around the failure of the social democratic 'management of capitalism'.

One of the lessons of empirical research on the welfare state in the 1980s and 1990s has been to trace the *diversity* of developments in the last twenty years. Faced with similar difficulties, though under nationally variable circumstances, there has been a variety of responses within the Western welfare states. As the nature of the consensus varied among countries, so too has the process of its 'deconstruction' been far from uniform. Thus the consequences of the election of parties of the right committed to reform in Sweden (1976), the UK (1979) and Germany (1982) were widely different given the variation in national backgrounds. So, too, was the experience of reforming parties of the left, as the contrasting examples of the Labor administrations returned in Australia (1983) and New Zealand (1984) show (Castles, Gerritsen and Vowles, 1996).

The UK: The Definitive End of Consensus?

The most abrupt and conclusive 'end to consensus' is often ascribed to the UK, in which a quarter of a century of 'Butskellite' agreement between Conservative and Labour parties was seen to yield in 1979 to the radically anti-consensus politics of Thatcherism. Here is potentially the most fruitful ground for finding the 'end of consensus'. Certainly, the polemical hostility to consensus was clear. In 1981, Margaret Thatcher dismissed consensus as 'the process of abandoning all beliefs, principles, values and policies' (cited in Kavanagh and Morris, 1989, p. 119). In the 1979 election campaign, the Conservatives presented themselves as a party breaking with the exhausted legacy of post-war politics. This break extended to each of the major policy elements of consensus. In terms of the 'mixed economy', there was a commitment to return publicly owned industries to the private sector and to limit government interventions in the day-to-day management of relations between employers and employees. There was a commitment to sustained or enhanced economic growth, but this was to be achieved by an *abandonment* of Keynesian economics and the commitment to full employment in favour of monetarism and supply-side reforms. On the welfare state, there was to be a drive to cut costs by concentrating resources upon those in greatest need, to restrain the bureaucratic interventions of the 'nanny state' in the day-to-day life of citizens, a greater role for voluntary welfare institutions and the encouragement of individuals to make provision for their individual welfare through the private sector (encouraging private pensions, private health care and private education).

Certainly, the 1979 general election in the UK may be described as a 'watershed'. Labour had been in office for eleven of the previous fifteen years. This election brought to power a Conservative government that remained in office for eighteen years and won four consecutive elections. The 1979 election also saw a major defection of skilled working class voters from Labour to Conservative. Yet in judging the breach with consensus that it represented, one must be a little circumspect.

First, the break-up of consensus pre-dates the election of the Conservatives in 1979. The first two years of the Heath government (1970–2) had been committed to the sort of neo-liberalism that the 1979 Thatcher government promised. It was the Labour government of 1974–9 that presided over the earliest retrenchment in welfare spending and a (then) unprecedented rise in post-war unemployment. In so far as there was a kind of Keynesianism to be abandoned in Britain, the symbolic moment of change is often identified with Jim Callaghan's speech to the 1976 Labour Party Conference. With the shift in Labour policy after 1976 (and the imposition of cash limits), sentiment drifted away from the egalitarian revisionism of the post-war period (in which the welfare services were to be part of a gradualist strategy of equality) towards the more residualist aspiration of 'protecting the weakest in hard times'. In the great public services (such as health and education) the watchword was affordability; in terms of income maintenance and cash transfers, the ideology, at least, was to concentrate resources where they were most needed.

Turning to the record of the Thatcher government after 1979, political practice did not always match the radical party rhetoric. Certainly, unemployment was allowed to reach unheard of levels (officially in excess of three million), a string of major public corporations and utilities were returned to the private sector (notably British Telecom, British Gas, British Airways and water supply and sewerage services). There was a major (and popular) drive to sell off public housing and limited cuts in expenditure on education. Yet in the period of the first Thatcher administration total social expenditure showed a significant growth of about 10 per cent, rising as a proportion of GDP from 21.7 to 23.6 per cent. Much of this increase was the consequence of extremely high levels of unemployment and low economic growth (Taylor-Gooby, 1985, p. 72). In 1985–6, social expenditure stood at £36 billion, a third higher than its 1979 level (Kavanagh, 1987, p. 217).

It was only under the third Thatcher administration (after 1987) that major reform of the welfare state (beyond the transformation of public housing) was attempted. The period between 1988 and 1990 has been described as initiating 'the most decisive break in British social policy since the period between 1944 and 1948', the years in which the modern British welfare state was created (Glennerster, Power and Travers, 1991). As well as the implementation of the government's Social Security Act 1986, these years witnessed the passage of the Education Reform Act 1988, the Housing Act 1988, the National Health Service and Community Care Act 1990 and the wholesale reform of the NHS following the publication of the White Paper *Working for Patients* in January 1989.

These changes were certainly hugely consequential and, at the time of their introduction, were vigorously contested both by the opposition parties and by organized interests within the public sector as an assault upon the welfare state. Yet we should be clear that what was transformed by this flurry of legislation was, above all, the accepted *modes of delivery* of public services. There was certainly an aspiration to control costs, above all by improving the 'efficiency' of the public sector, and this was often presented in terms of the capacity of the market to extract a much-enhanced output from a more-or-less static input (or, rather less glamorously, to increase workloads and squeeze the pay of public sector workers). But this was not the classical New Right response to inefficiency and illiberalism in state welfare (which is to transfer the provision of welfare services from public administration to private markets). Although there has been a significant privatization of welfare effort over the past twenty years, this has more commonly been transferred to women in families rather than to markets and (again with the partial exception of housing) there has been no wholesale transfer of state welfare provision into the private sector.

At the most generic level, the strategy of reform in the public services since 1987 – sometimes referred to as the *new public management* – has been to introduce private sector management, organization and labour market practices into the public sector in the expectation that the sector can thus be made to deliver the sorts of service and efficiency that it is supposed the private sector (and its competitive environment) has already realized. More specifically, and most clearly in the areas of health and education, there has been an aspiration to introduce 'internal markets' within the domain of public provision. In these reforms, public funding has been retained but steps have been taken to divide the *purchasers* from the *providers* of services. The intention is that individual units (schools, colleges or health care trusts) should compete for consumers of their services. The purchaser of these services (parents, patients or their surrogates) should be able to move their custom between providers with relative ease. Greater information (examination results, waiting list times, proportion of successful procedures, prices) should make it possible for consumers to make effective choices. With resources broadly following consumer choices, competition should encourage efficiency and reward the most successful producers.

Although the techniques of new public management have also been applied within the Department of Social Security (by far the single largest area of government administration), the idea of the 'internal market' has rather less purchase in the field of income maintenance. Here, the policy changes of the last decade have been less innovative and more incremental. Although the government has sought 'value for money', its overwhelming concern has been to constrain absolute levels of spending. This is unsurprising. The social security budget constitutes the single largest item of social expenditure: at around £100 billion nearly one-third of all public spending. An increasingly important secondary theme has been the impact of benefit levels and entitlements upon the (changing) labour market. Conservative governments were committed to greater labour market flexibility, not least by making it more attractive to be in low-paid work than in receipt of unemployment benefit or income support (a rather ancient principle of 'less eligibility' which can be retraced at least to the Poor Law Amendment Act of 1834). The carrot has been some form of income supplement for families with a low-waged breadwinner, while the sticks have been a repeated tightening of entitlement to state support and constraint upon the level of improvement of benefit rates. Most recently this tightening of terms and conditions has included the replacement of unemployment benefits and income support by a more stringently administered Job Seeker's Allowance and closer medical supervision of entitlement to Incapacity Benefit.

Our overall judgement on the end of consensus needs to be nuanced. First, there is reason to think that the post-war consensus was much more short-lived and provisional than some accounts of its 'Golden Age' would suggest. It was unravelling long before the arrival of Mrs Thatcher. The erosion of the policy elements of consensus is quite uneven and some of the welfare components of consensus (public education and the NHS) have survived better than, for example, the commitment to full employment or the governing apparatus of 'corporatism'. At the same time, and after a period of more or less real contestation, we can see the emergence of a rather differing consensus amongst 'governing opinion', well represented by the policy stance of Blair's New Labour on 'welfare to work'. In so far as there is an emergent 'new consensus', it is certainly more 'market-driven' and 'to the right' of the post-war regime. Yet it is not really built around the New Right agenda which informed so much Thatcherite rhetoric, but rather around the social policy elements of what has been called the 'Washington Consensus' (see Williamson, 1994). We can take the Washington Consensus to refer to the views of those very senior policy makers in international organizations such as the IMF, the World Bank and the OECD who 'advise' governments throughout the world on the best (or as it may seem only) means of securing the great desideratum of long-term economic growth. Of especial importance for social policy are the following key priorities:

- *Fiscal discipline* government budget deficits should be small or preferably non-existent
- *Tax reform* tax regimes should be broadened and redesigned to reduce marginal rates and spur economic participation
- *Public expenditure* government spending should be concentrated on those areas which are economically productive (giving priority to 'investment' in health and education rather than 'redistribution' through social transfers)
- *Deregulation* governments should reduce regulation to promote economic activity (including the deregulation of labour markets and a reduction of social costs for employers).

It is worth observing that, whilst the 'post-war consensus' applied in differing ways to a range of affluent and democratic liberal democracies, the 'Washington Consensus' is seen to apply to a much wider constituency – anyone who wishes to see their nation prosper in an increasingly global economy and society.

Changes in Public Opinion

A second element in the 'crisis containment' thesis was the claim that, in contrast to the period in which the post-war consensus was constructed and sustained, popular opinion has now shifted away from support for equity and citizenship through the welfare state. Crudely put, public welfare was something which people would support in economic 'good times', when both public and private consumption could rise, but to which they were much less sympathetic in times of economic stagnation. A strictly temporary and provisional support for the welfare state had been dissipated through an appeal to traditional and much more deep-seated hostility to the poor and indolent.

The fullest review of international public opinion on the welfare state is still Coughlin's *Ideology, Public Opinion and Welfare Policy*. Across a sample of eight rich nations he found that:

> public attitudes toward the principles of social policy have developed along similar lines both of acceptance and rejection. The idea of collective responsibility for assuring minimum standards of employment, health care, income, and other conditions of social and economic well-being has everywhere gained a foothold in popular values and beliefs. And yet the survey evidence suggests a simultaneous tendency supporting individual achieve-

> ment, mobility, and responsibility for one's own lot, and rejecting the elimination of aspects of economic life associated with capitalism. (Coughlin, 1980, p. 31)

Levels of support varied between 'big spenders', such as Sweden and France, and 'low spenders', such as the USA and Australia but broadly similar patterns emerged. The same areas – pensions, public health insurance, family/child allowances – were most popular (and expensive), and the same sort of provision – unemployment compensation and public assistance – the least popular. Not only between nations, but between social classes and across political sympathies, it seemed that everyone likes pensions and no-one likes 'scroungers' (Coughlin, 1980, p. 52).

Taylor-Gooby's (1989) review of the international evidence from six developed countries a decade later revealed lower absolute *levels* of popular support, but a similar *ranking* of both countries and programmes. The survey material recorded majorities everywhere for increased state spending on health care (88% in the UK and 81% in Italy), and a clear (unweighted) majority for increases in old age pensions (with support highest again in the UK and Italy, with positive responses of 75% and 76% respectively) (Taylor-Gooby, 1989, p. 41). Overall, Taylor-Gooby concluded that:

> the attitudes of the citizens of the six nations correspond more closely to the traditional post-war settlement than they reveal any enthusiasm for change, although within this framework there are substantial national variations . . . Social welfare that provides for mass needs is warmly endorsed, but provision for minorities, whose interests challenge the work ethic, receives meagre approval. Direct social engineering to advance equality of outcomes is not endorsed. (Taylor-Gooby, 1989, pp. 41, 49)

Tang's later (1997) review of public attitudes to the welfare state in Britain and the USA across three decades shows continuing popular support for social programmes continuing within both jurisdictions. Most remarkably, a Eurobarometer survey (1993, p. 82) of opinion in the European Union found huge majorities in favour of quite radical welfare rights: 'By 96% to 3%, everyone must have the right to suitable accommodation at reasonable cost . . . By 87% to 9%, the right to work should be guaranteed . . . By 94% to 4%, everyone must be able to be cared for, without the costs of care preventing it'.

Overall, the pattern of popular attitudes to state welfare is complex but stable. There is public hostility to certain areas of state provision, probably some repressed demand masked by state compulsion, hostility to certain categories of beneficiary and some support for private/market provision of welfare services. These views are not new, however, and they coexist with widespread popular endorsement of the most expensive and extensive elements of state provision. There is little evidence here of large-scale popular backlash against the welfare state.

The Decline of the 'Welfare State Party'

We have seen that, however doubtful is the *historical* basis of such a claim, the welfare state has come to be strongly identified with socialist and particularly social democratic parties. Another source of evidence of decline in popular support for the welfare state is thus to be found in the decline of these parties of the welfare state. Evidence of such a decline was considered above. It included (1) a series of defeats of social democratic governments in Europe and North America between 1977 and 1982, (2) a long-term decline in left voting after 1960 and (3) a fall of more than a third in socialist participation in government between 1975 and 1982. It is clear that there was a movement (perhaps more properly a counter-movement) against the left in this period. However, obituaries for 'the strange death of social democracy' are surely premature (Kavanagh, 1987, pp. 4–5). The combined electoral strength of the left in Western Europe which had stood at 40.1 per cent through the 1970s advanced to 42.5 per cent in the period 1980–3. In the 1980s, while the right captured or retained power in the UK, the USA and West Germany, the left retained or reclaimed office in Sweden, Norway, France, Spain, Portugal, Greece, New Zealand and Australia (Mackie and Rose, 1991; *Electoral Studies*, 1989).

In the 1990s, the record continued to be a mixed one. The French Socialist Party rode a roller-coaster with its catastrophic defeat in the National Assembly elections of 1993, actually being outstripped by the Canadian Conservatives, whose vote tumbled from 43 per cent in 1988 to just 16 per cent in 1993 (and from 154 MPs to just 2). In 1992 and 1996, the Republicans lost the US Presidential elections, whilst in 1997 the British Conservative Party after eighteen years in office went down to its worst defeat of the twentieth century. Meanwhile, in Australia, New Zealand and Spain, which had spent much of the 1980s under Labor or Socialist rule, electoral ascendancy passed to the right. Lane, McKay and Newton's long-term survey (1997) showed surprisingly little movement in overall levels of support for parties of the left (and the right) between the 1960s and the 1990s. The view, sometimes expressed in the 1980s, that parties which called themselves Labour or Socialist or Social Democrat could never get elected has proven to be quite unfounded (though parties have generally given up on the attempt to win office under the label 'Communist'). Much more salient is the issue of whether such parties can still pursue distinctively social democratic policy objectives and whether it is still appropriate to style them 'welfare state parties'. This is an issue to which we return in chapter 6.

'The Cuts'

We have already reviewed the general evidence of cuts in welfare state provision since the early 1970s. A fuller survey of the evidence reveals important changes underlying a seemingly rather stable pattern of expenditure. Certainly the very dramatic patterns anticipated by the proponents of fiscal crisis in the 1980s have not emerged. Over the past fifteen years, social spending in most countries has continued to grow faster than GDP. Certainly, there has been a major restraint in the levels of *growth* of social expenditure. Between 1960 and 1975, real growth in social expenditure stood at about 8 per cent a year. Between 1975 and 1981, this rate of real growth was halved to just over 4 per cent (OECD, 1984). During the 1980s, the proportion of GDP devoted to social expenditure rose on average across the OECD by about 2 per cent, although most of this growth had been achieved by 1983 (OECD, 1994, p. 69). Only three countries (Ireland, Belgium and West Germany) saw reduced social expenditure ratios in the 1980s, while these ratios continued to increase substantially in nine countries (Canada, Greece, France, Norway, Denmark, New Zealand, Spain, Italy and Finland). Overall, the pattern was similar to that experienced in the European Union:

> Between 1980 and 1983 social protection expenditure as a percentage of GDP continued the upward trend of the 1970s. The efforts of governments to reduce the burden of social protection were fairly successful between 1983 and 1989. After 1989, under the combined effect of increased demand on the social protection system and the economic recession, social protection expenditure as a percentage of GDP again began to grow rapidly. (Eurostat, 1996b, p. 133)

In the severe recession of the early 1990s, average expenditure on social protection throughout the European Union rose from 23.7 per cent of GDP to 26.5 per cent (Eurostat, 1996c, p. 168).

Yet this gross pattern of marginal long-term increases in social expenditure overlain by cyclical fluctuations relating to the state of the economy gives us a very partial picture of what is happening. For we have to relate this incremental growth in social spending to a changing pattern of demand for social protection. The welfare state is quintessentially a form of provision for the elderly. Even in the depth of recession in the early 1990s, unemployment (and related job-creation measures) accounted for less than 10 per cent of social expenditure throughout the European Union. Expenditure on the elderly and health care (which is disproportionately concentrated upon older people) accounted for four-fifths of social spending. The world's population is ageing and with it comes a growing demand for effective forms of income maintenance (and health care and housing provision) for those who are no longer economically active. At the same time, other social changes – the growth in single-parent families, the increase in part-time and 'non-standard' employment, long-term mass unemployment and so on – place increasing pressure upon social budgets.

There are also important changes in the distribution of the *costs* of this welfare provision. Whilst governments' capacity to raise taxes has not collapsed (indeed the average across the OECD has risen from 34 per cent in 1980 to 37.4 per cent in 1996), there has been a change in the incidence of the tax burden (*Economist*, 1997). In general, governments have decreased their dependence upon (progressive) income tax and taxes on corporations in favour of a greater reliance on indirect (sales) taxes and user charges. There is a widespread belief in governing opinion that we have reached the limits of what democratic publics are willing to pay in direct taxes (although these levels vary quite widely between states) and that, for example, more of the costs of employment-related benefits must be met by employees' social security contributions rather than by employers or general taxation. Similarly, across a range of jurisdictions, there have been moves to transfer part of the costs of the residential care of the infirm elderly towards these elderly people themselves or their families and there is, as we shall see in chapter 6, an almost desperate search to find alternative forms of pension provision which will relieve the state of part of its present burden.

As Paul Pierson's (1994) work has shown, even the most committed neo-liberal governments (under Reagan and Thatcher in the 1980s) found it extraordinarily difficult to 'roll back' welfare state expenditures. There have been real cuts. The first Bolger administration in New Zealand implemented benefit cuts of unprecedented severity in its 1991 budget (Kelsey, 1995, p. 276). Still, it was forced to back down on its plans to curtail (comparatively generous and expensive) state superannuation for the elderly, and social expenditure actually *rose* between 1989 and 1993 from 20.2 to 23.9 per cent of GDP. This reflects a more general pattern. There have been real cuts in some forms of welfare provision (reduction in levels of benefit or the elimination of public services). More generally, the value of benefits has been allowed to fall (through a failure to upgrade in line with general inflation), access to services or benefits has been made more difficult (more means testing and tighter eligibility criteria) and recipients have had to pay for more of the services they receive (reducing government subsidies to service providers, more asset testing, a greater reliance on co-contributions). This pattern of retrenchment is reflected in table 5.1.

Table 5.1 Retrenchment of benefits in OECD countries

Type of benefit	*Change*	*Examples*
Old age pensions	Raising retirement age	UK, New Zealand, Italy, Japan
	Increase in qualifying period for a full pension	France, Portugal, Ireland, Finland
	Lowered basis for upgrading of benefits in line with inflation	UK, France, Spain
	Income testing of pension	Austria, Denmark, Australia
Disability	Stricter test of incapacity	UK, USA, Netherlands, Norway
	New time limits, reduced benefits	UK, USA, Netherlands
Unemployment	Reduction in duration of benefits	Belgium, UK, Denmark, USA
	Reduction in level of benefits	Germany, Ireland, New Zealand, Switzerland
	Reduced eligibility	Netherlands, UK, Belgium
Family allowances	Declining real value or decreasing eligibility	UK, Spain, Netherlands

Source: Ploug (1995, pp. 65–7), *International Social Security Review*, 2 (1996, pp. 20–5).

Conclusion

Talk of a 'crisis' in the welfare state shows no sign of abating. Yet evidence of crisis in any of the principal senses in which it has been addressed in this chapter is extremely thin. Claims about the destabilization of liberal democracy, the decimation of social expenditure, the withdrawal of public support for major welfare programmes have been poorly vindicated. By contrast, the experience of the past twenty years and, in particular, the governing response of the past decade, is perhaps best seen in terms of the process of *structural adjustment* (see, for example, OECD, 1987b). Although often thought of as a process of retrenchment recommended by First World bankers to Third World governments, structural adjustment actually describes a much broader repertoire of strategies which have been pressed upon governments across the globe. In the face of profound changes in the national and international economic environment, governments are seen to have 'adjusted' their social policy regimes. Echoing the arguments about post-Fordism, governments have sought to adapt their national economic regimes to a changed climate for investment and to promote movement in the direction of greater 'flexibility' and enhanced 'competitiveness'. In general, this has meant promoting micro-economic reform (more flexible labour markets, privatization, flatter tax regimes, greater openness to foreign investors), bearing down on public expenditure (by reducing the level and incidence of public services and introducing 'efficiency gains' in the public sector) and trying to move from a 'passive' (social transfers) to an 'active' (retraining and work placement) welfare state. Although the policy agenda is seen increasingly to be set by (global) markets, this is not quite the response that those on the New Right anticipated (and would have welcomed). For while the state may increasingly act through *regulating* rather than actually *delivering* services, at the same time it may actually become more active and intervene more intensively (and intrusively) in the day-to-day life of (at least its dependent) citizens. There has certainly been no straightforward 'withdrawal' of the state in favour of markets.

Yet the consequences of structural adjustment are still likely to be profound. Exposing national economies and national corporatist arrangements to a largely unregulated world economy has transformed the circumstances under which any government might seek, for example, to pursue a policy of full employment or to redistribute wealth through a progressive taxation system. Secondly, changes in the economy nationally and internationally (and the social policy reforms that follow from this) may transform the configuration of individuals' interests and the political articulation of those interests. The character of a welfare state cannot be adequately measured by levels of aggregate spending. Long-term high levels of unemployment amidst societies of generally rising affluence, increasingly segmented labour markets and new patterns of consumption may change the disposition of social expenditure. Rising levels of social spending and continuing public endorsement of the popular elements of the welfare state may well be consistent with an internal transformation from a solidary, universalistic, citizenship-based welfare state towards a system based on the more generous provision of insurance-style entitlement and a further deterioration in the position of the poor and stigmatized (Alber, 1988a, pp. 187–9; see also Parry, 1986, pp. 155–240). This is reflected in the concerns of those who have written of the emergence of a '40–30–30 society' in which the opportunities and circumstances of those in the bottom third of society increasingly diverge from those of the most affluent 40 per cent (Hutton, 1995).

Finally, what may remain in the face of all our evidence is an *intellectual* crisis of the welfare state. That is, the social democratic vision of the welfare state as the mechanism for taming capitalism through redistributive social policy is losing its authority. Its core elements, the commitment to economic growth, the enabling capacity of the state bureaucracy, the attempt to exercise indirect control over capital, are increasingly under challenge. The 'welfare state malaise' of which Therborn writes, is identified not only by the New Right or neo-Marxist left but also by 'supply-side socialists' and ecologists (Therborn, 1986). Can, or indeed should, social democrats still strive to be 'the party of the welfare state'? It is to such questions about the future of the welfare state that we turn in the final chapter.