



# The Welfare State in Capitalist Society

Ramesh Mishra



# **The Welfare State in Capitalist Society**

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# **The Welfare State in Capitalist Society**

**Policies of Retrenchment  
and Maintenance in  
Europe, North America and  
Australia**

**Ramesh Mishra**

*York University, Ontario*

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To the memory of Sumita

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## Series editors' preface

This is the fifth volume in Harvester Wheatsheaf's *Studies in International Social Policy and Welfare* series. Committed to the advocacy of a global perspective in social policy research, the series seeks to publish work which transcends developments in specific countries. By abstracting general trends and issues from local experiences, scholars gain powerful insights into phenomena that cannot be adequately interpreted within the framework of domestic realities. Ramesh Mishra's new book, *The Welfare State in Capitalist Society*, is a prime example of this genre, and of the advantages of a methodological approach that draws extensively on comparative material. His analysis of the fortunes of the modern welfare state in conditions of economic and ideological adversity is able to generate propositions of significance because it sweeps masterfully over developments on three continents, distilling a multiplicity of discrete domestic events into a coherent, comprehensible account. In this way, Mishra not only fosters a deeper understanding of the forces that impinge on modern welfare systems, shaping their character and future, but also contributes to the growth of social policy as an academic subject. As social policy ventures increasingly into unexplored comparative terrains, its scholarly standing is enhanced. The series is committed to the task of widening the subject's perspective, and Professor Mishra's book serves it well. We are proud to publish the work of this distinguished scholar.

Stewart MacPherson  
Professor of Sociology  
University of Papua New Guinea

James Midgley  
Dean of the School of Social Work  
Louisiana State University

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## Introduction

It is more than fifteen years since the first oil-price shock sent inflation soaring and gave rise to a new economic phenomenon in the West – stagflation. It is over ten years since the first neo-conservative government came to power in Britain on the basis of an ideology that repudiated the post-war consensus around a mixed economy and the welfare state. As we enter the 1990s, neo-conservative regimes remain in office in Britain and in the United States. However, contrary to what many people on the left feared and many on the right (and perhaps the far left) hoped, the welfare state has not been dismantled by neo-conservatives. Much of the building stands intact even though cracks are beginning to show, upkeep and maintenance have been minimal and the furnishings are beginning to look shabby. At the other end of the spectrum, Swedish social democracy also remains in power, wedded as much as in the past to the policy of full employment and social welfare. Again, contrary to what many had expected both on the far left and the right, social democracy as a political compromise has not been undermined. This is particularly true of ‘corporatist’ social democracy as practised in countries like Sweden and Austria. What is more, public support for mainstream universal services remains strong in all Western countries. Much of this suggests continuity and stability and lends credence to the idea that the welfare state has become an irreversible development. What, then, are we to make of the ‘crisis’ that seemed to have hit the Keynesian welfare state in the mid-1970s? Has the storm blown over and are we once again

sailing in calm waters? Is it business as usual, with only a little less cash to go around, and rather more modest expectations for the future as far as social welfare is concerned? And if not, then what *has* changed? What is the state of the welfare state as we enter the 1990s?

This book is an attempt to answer these admittedly rather large questions. Put simply, the recent history of the welfare state is seen here in terms of three phases: pre-crisis (before 1973), crisis (the mid- to late 1970s), and post-crisis (the 1980s and beyond). The pre-crisis phase was represented by a relatively stable Keynes–Beveridge paradigm. The crisis phase saw a sharp decline in the credibility of the Keynesian welfare state as a paradigm and the emergence of neo-conservatism. The post-crisis phase began with the election of neo-conservative governments pledged to break with the objectives and methods of the Keynesian welfare state. The post-crisis phase therefore appears to be one in which the ideological spectrum in social welfare policy has widened, albeit mainly in a rightward direction. Neo-conservatism and social-democratic corporatism appear to be two fairly distinct responses to the predicament of welfare capitalism in the 1970s, the former seeking to retrench the welfare state, the latter seeking to defend it. But do these two responses differ chiefly in their political ideology and rhetoric or are substantial differences in policy and outcome also involved? This book argues that the latter is the case and that these two types of regime represent different clusters of values and interests associated with major class groupings in capitalist society – capital and labour. In short, substantial questions of policies, values and social consequences are involved. In practical terms these two types of regime represent the ideological limits within which the contemporary drama of social welfare is being played out. This follows on the argument outlined in my book, *The Welfare State in Crisis*, which saw the rise of neo-conservatism as the response from the right and the corporatist ‘integrated’ approach of social-democratic welfare states as the most effective response on the left. The present work, which examines these two social policy models in action in some detail, can thus be seen as a sequel to *The Welfare State in Crisis*.

Chapter 1 outlines the emergence of neo-conservative and social-democratic corporatist responses in the post-1973 period, seen as representing the objectives of welfare state retrenchment

and maintenance, respectively. It also sketches the theoretical perspective of the book, which revolves around the notions of class, crisis, ideology and policy. Chapter 2 looks at the strategy of retrenchment in action in two countries, the United States and the United Kingdom, and, in light of the findings, considers the argument that the welfare state has become irreversible. Chapter 3 looks at the strategy of maintenance at work in two countries, Sweden and Austria, and highlights the differences in policies and their outcome between these countries and neo-conservative regimes. It considers briefly various criticisms levelled against social corporatism by the left, notably that it is biased in favour of organized producer interests. Chapter 4 looks at Canada and Australia, two countries which have sought in recent years to emulate the strategies of the new right and social corporatism, respectively. The aim of this chapter is to extend the range of available evidence on the working of the two approaches beyond the classic cases of the United Kingdom, the United States, Sweden and Austria. Chapter 5 summarizes the results of the country studies and considers their implications for the main argument of the book. It offers a critical review of some of the main interpretations of the welfare state in light of the arguments and evidence presented in the earlier chapters. Finally, it suggests new analytical perspectives for a better understanding of current developments in social welfare.

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## **The end of post-war consensus: strategies of retrenchment and maintenance**

The post-war consensus around the mixed economy and the welfare state, to which almost all advanced Western countries subscribed to a greater or lesser extent, weakened a good deal in the 1970s. The reasons for this breakdown were primarily 'material' rather than 'ideational'. True, in the United States from the late 1960s social scientists and philosophers on the right had begun denigrating the Great Society reforms and were cultivating disillusionment with social engineering itself.<sup>1</sup> More generally, neo-conservative philosophers had begun to counterpose the idea of the minimal state against the liberal Rawlsian notion of social justice which implied a larger role for the government in economic and social matters.<sup>2</sup> In the United Kingdom, it should be noted, a comparable groundswell of right-wing ideas did not appear until the mid-1970s or even later. On both sides of the Atlantic, however, what enabled neo-conservative ideas to gain a hearing and what eventually created a market for them was the change in material conditions – in short, the advent of stagflation. The combination of inflation and recession was something new and not easily amenable to Keynesian solutions. As economic conditions deteriorated in the West from about the mid-1970s and failed to recover or return to anything like a 'normal' situation, general confidence in the mixed economy and the welfare state pretty much evaporated. Above all, the apparently benevolent role of the state in managing the economy and in financing an ever growing range of social services came under direct attack. This much is history.<sup>3</sup>



## 2 *The welfare state in capitalist society*

What is important from the viewpoint of this book is the fact that the neo-Keynesian orthodoxy of the post-war years has not been replaced thus far by a new orthodoxy – whether of the right, centre or left. No new ‘settlement’, or even its lineaments, are in sight. Rather, we have a situation where regimes have responded in a variety of ways to economic problems. On the one hand, we have seen neo-conservative governments in the United Kingdom and the United States apparently determined to carve out a new path for their nations – one which allows more scope for private enterprise and the market and reduces the scope of the state in respect of its economic and social activity. On the other hand, we have the social-democratic corporatist approach (which for convenience we will refer to as ‘social-corporatist’), for example in Austria and Sweden, whose main feature is concerted action involving major economic interests and the state, based on a broad consensus on the maintenance of the mixed economy and the welfare state. At the same time it should be pointed out that this is not a new departure in the manner of neo-conservatism. These countries have been following a more or less social-corporatist route since about the late 1960s. However, the significance of this particular approach to managing welfare capitalism has become much more apparent since the collapse of Keynesianism and the resurgence of the New Right.<sup>4</sup> Thus neo-conservatism and social corporatism may be seen as two distinct responses to the problems and difficulties of welfare capitalism in the 1970s and beyond. Leaving aside purely ideological responses (i.e. Marxism) to the problems of welfare capitalism, the situation in which Western welfare states now find themselves could be summed up as follows. On the right there is the model of neo-conservatism, with its rhetoric and ideology of retrenching social welfare, relying on the private sector and market forces for economic growth and for the provision of various human services. Its objective is to reduce substantially the ‘welfare’ element of welfare capitalism. On the left, in a practical and not merely theoretical sense, we have the model of social corporatism which has refused to abandon the goals of the post-war welfare state, notably full employment, economic growth and social welfare.

As far as social welfare is concerned, the former might be described as the strategy and policy of *retrenching*, the latter that of *maintaining* the welfare state. These two extremes, so to speak, can be seen as the end points of a continuum on which most other