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THE UNIVERSITY OF CHICAGO

**THE POLITICS OF FREE MARKETS:
THE RISE OF NEOLIBERAL ECONOMIC POLICY
IN BRITAIN, FRANCE, AND THE UNITED STATES**

VOLUME ONE

**A DISSERTATION SUBMITTED TO
THE FACULTY OF THE DIVISION OF THE SOCIAL SCIENCES
IN CANDIDACY FOR THE DEGREE OF
DOCTOR OF PHILOSOPHY
DEPARTMENT OF SOCIOLOGY**

**BY
MONICA PRASAD**

**CHICAGO, ILLINOIS
AUGUST 2000**

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CHAPTER ONE

INTRODUCTION

The speaker, the leader of Britain's ninety-year-old Labour party, the party born to overthrow capitalism, the party that announced its goal of "common ownership of the means of production, distribution and exchange" on every membership card, entered the climax of his speech: Margaret Thatcher's emphasis on the market economy would be continued in the next Labour government, he said; the Tories' anti-union strike ballot laws would not be repealed, and "No one believes" they should be; full employment could not be immediately expected, and we should not "pretend we can deliver it overnight"; the Labour constitution would be overhauled to exclude the commitment to nationalization. "It is not the socialism of Marx or state control," he declared. Within six months he had won the battle to overhaul the party's goals. In later speeches he would say: "I believe Margaret Thatcher's emphasis on enterprise was right," "Britain needs more successful people who can become rich by success through the money they earn," "People don't want an overbearing state." Meanwhile, his counterpart, the leader of the left across the Atlantic, was proclaiming that "the era of big government is over"; he had already led a successful fight to lower barriers to free trade and would soon sign provisions dramatically curtailing anti-poverty programs.

Tony Blair and Bill Clinton exemplify a remarkable transformation in the political economy of the western world: they are leaders of left-wing political parties that have abandoned the left's traditional stance of mitigating the distributional inequalities of market capitalism. Their policies signal the decline of a long tradition of state intervention in the functioning of the market.

The rise of the market at the expense of the state is an unprecedented phenomenon in the history of the west. In 1950 T.H. Marshall predicted that the role of the state would soon include providing economic security to all citizens: there was a natural progression, he thought, from "civic rights" like rights of free speech and protections against tyranny, to "political rights" like the right to vote and organize politically, to "social" rights, like the right to minimum economic protection or even full economic equality. Social scientists in the 1960s and 1970s agreed: comparing the U.S.'s high poverty levels to the much lower levels in Europe, they concluded that the U.S. was a "laggard," that it was just a matter of time before it caught up with the pattern set by the other countries and instituted policies of economic redistribution.

An evolutionary framework underpinned both academic and popular conceptions of the proper role of the state, and the rise of large welfare states in all of the advanced industrial democracies in the post-war period seemed to bear out this framework until the 1970s.

But in the last quarter of the twentieth century the belief that states should ensure the welfare of their citizens at the risk of interfering with the free market came under increasing attack, and the degree to which states did behave in this way declined--most

prominently in the Anglo-American democracies, but to some degree all over the world. The U.S., instead of following the path of the European welfare states, instead witnessed a series of changes that moved it further away from Marshall's model of a state guaranteeing economic security to its citizens--and indeed, the European welfare states now began to be seen as following a path laid out by the U.S. Instead of wondering when the U.S. will catch up to Europe, today the speculation is when, and whether, the "excessive" welfare states of Europe will shape up and follow the American model. High unemployment in the welfare states of Western Europe, together with Japan's long recession and recent crisis, have trained political-economic attention on one thesis: perhaps the model of a free market with minimal redistribution and state intervention is the only model capable of providing the continual economic growth and rapid innovation that keep capitalist systems stable. Since the 1970s, conservative parties with explicit government-cutting agendas have come to power in several countries. More revealingly, liberal and socialist parties have rejected their traditional policies of seeking increasing levels of welfare for an increasing number of citizens, and have embraced the new market wisdom. In the words of a pair of observers of these developments: "[f]ew doubt that this conservative resurgence represents a major development in the political economy of advanced capitalism" (Pierson and Smith, 1993:487).

The question of whether minimal state intervention is the only or best way has received a great deal of attention, proportionate to its importance. But a related question has been surprisingly neglected: when and why do states choose the free-market model?

That is, much scholarship has been devoted to asking which model of advanced capitalism produces better results--the free market model or the European model with greater state intervention--but very little to the question of which model actually gets chosen, and why.

This dissertation is devoted to the latter question: Why do some states adopt market-friendly policies, while others resist them?

Although the free market revolution has been widespread, it has not been universal. In this dissertation I compare the successful free-market revolutions of the U.S. and Britain in the 1980s with the failed free-market revolution of France in the late 1970s to isolate the factors conducive to market-friendly economic policy. By "market-friendly" policies I mean taxation structures that favor capital accumulation over income redistribution, industrial policies that minimize the presence of the state in private industry, and retrenchment in welfare spending. Under Ronald Reagan and Margaret Thatcher, the U.S. and Britain ushered in a new regime of economic policy that has been particularly friendly to aggregate economic growth, at the expense of goals of equitable distribution; under Valéry Giscard d'Estaing, an avowed believer in the free market, France did not see similar changes. While the U.S. was already to some degree devoted to a free market model, Britain was not: over the course of a decade the British state went from being closer to the European model, to closer to the American.

These outcomes present a puzzle for political analysts: the highly divergent institutional and interest-group structures of the British and American states did not prevent remarkably similar changes from taking place, while the "strong" French state

could not impose market-oriented policies. Moreover, France, where labor has historically been weak and fragmented, saw little move towards the market, while Britain, which has historically had one of the strongest labor movements in the western world, implemented a free-market revolution greater than that of almost any other country. If explanations highlighting the strength of rival political groups or the strengths and capacities of states are unable to explain the divergences in these cases, neither are explanations that refer to economic crisis and economic necessity: all three countries experienced economic stagnation in the seventies but only two of them moved in a free market direction.

The “free market resurgence” thus presents a theoretical puzzle in addition to a historical one. This dissertation begins with a modest reformulation of state theory that rejects the search for “ultimate” causal forces in historical explanation, but nevertheless defends the role of the transformation of social resources into political power as a key mechanism in explanations of policy change. The approach is inspired by Theda Skocpol's investigation of the role of "state formation" in social change in Protecting Soldiers and Mothers (1992).

The argument of this work is that the free market revolutions of the 1980s were triggered by economic crisis, but economic crisis was not a sufficient factor; the way was prepared for change in states in which the political economic structure (1) pitted the interests of the majority against those of the economically disadvantaged--providing the potential to ally the middle classes with market-friendly policies--and arrayed capitalists against the state rather than in pro-growth developmental coalitions, and (2) provided

incentives to politicians to seek out and exploit issues that would be potentially popular with the majority.

“Free market revolutions” in advanced industrial democracies succeed when market measures can be allied with the interests of the majority middle classes, and thus depend both on the way in which the majority middle classes are integrated into political economic structures and on the sensitivity of the polity to majority opinion. In the U.S. and Britain, post-war tax structures, industrial policy, and welfare state policy all tended to divide the middle classes from the poor on the one hand, and business from government on the other; this led business to define itself in opposition to the state, and provided business-backed and business-identified politicians with opportunities to appeal to the newly prosperous majority against the interests of economic minorities. Those policies that did not create these exploitable divisions--universal programs like old age pensions in the U.S. or the National Health Service in Britain--proved resilient. In France, meanwhile, invisible and targeted taxation, a middle-class welfare state, and a post-war industrial policy that put the state at the service of capital all combined to create a highly resilient political economic structure.

Furthermore, in the U.S, social pressure to give “power to the people” in the 1960s and 1970s led to a series of changes that weakened the power of congressional committees and the importance of seniority in congress. Combined with weaker parties and a resulting “candidate-centered” political system, this change produced a class of “entrepreneurial politicians” (Aldrich and Niemi, 1996) who were dependent on social sources to develop their power bases, and actively sought out issues on which to develop

stable followings. This resulted in a dynamic of legislators who were particularly sensitive to issues that would be popular with large majorities. Making the state more responsive to society made state actors more responsive to *non-poor majorities* and sources of campaign financing, and less able to protect the interests of disadvantaged minorities--an ironic outcome, given the leftist motivations of the 1960s changes in state structures that wanted to give politics back to the people. Because economic policies such as targeted programs put the interests of majorities at odds with the interests of the poor, giving power to the people meant weakening autonomous state structures that had served as a bulwark against social sources of power, and these social sources of power--campaign donations and appeals to non-poor majorities--made it possible for an ideologically committed Republican to benefit from PAC financing and popular resentments to enact politically salable market-friendly policies.

In Britain, Margaret Thatcher's rise to power and retention of power reflected the increasing popularity of right-wing measures and the increasing incentives to politicians to exploit this popularity. Increasing popularity of right-wing measures was triggered by the economic crisis, and prepared for through the deindustrialization of Britain and the dynamics of a residual welfare state. Increasing incentives to politicians to exploit this popularity resulted from the rise of issue voting and the decline of class voting that deindustrialization and increasing prosperity among the working and middle classes helped to bring about.

In France, the tax structure, industrial policy, and welfare state policy all worked to benefit business and industry, as well as middle classes and the rich. Thus, there were

no coalitions for right-wing change, and no pressure for right-wing change. Moreover, there was no dynamic of politicians seeking out policies potentially popular with the majority, so Giscard's neoliberalism never attained the dynamic quality of his trans-Channel and trans-Atlantic successors.

The question of when states pass policies that benefit the market is related to the question of when states pass policies that reduce poverty. The policies that reduce poverty--redistributive taxes, welfare spending--are the same policies that, economists argue, restrain the free market. To the extent that this is true, the corollary of the argument that free-market policies succeed when they can be aligned with the interests of the majority, and are more likely to be promulgated when politicians have incentives to engage in a lively search for salable propositions, is this: policies that reduce poverty are more likely to survive when they are aligned with the interests of the majority; if they are not aligned with the interests of the majority, they are especially vulnerable when state actors have incentives to seek out popular issues, and are less vulnerable when state actors are insulated from the majority, that is, in states that are *less* democratic.

The role of the majority in determining policy--and especially the fear of the tyranny of the majority--was a classic concern of early democratic theoreticians.

Tocqueville wrote:

What is a majority, in its collective capacity, if not an individual with opinions, and usually with interests, contrary to those of another individual, called the minority? Now, if you admit that a man vested with omnipotence can abuse it against his adversaries, why not admit the same concerning a majority? Have men, by joining together, changed their character? By becoming stronger, have they become more patient of obstacles? (1969 [1835]:251).

Indeed, one of the primary motivations of the American Constitutional Convention was the fear that a poor majority was taking advantage of the extensive egalitarianism of the Articles of Confederation. John Adams recalls the happiness of a client of his, a debtor frequently hauled before court, at the closing of the Massachusetts courts just before the Revolution:

Is this the object for which I have been contending? said I to myself. For I rode along without any answer to this wretch. Are these the sentiments of such people and how many of them are there in the country? Half the nation for what I know; for half the nation are debtors, if not more, and these have been, in all countries, the sentiments of debtors. If the power of the country should get into their hands, and there is great danger that it will, to what purpose have we sacrificed our time, health and everything else? Surely we must guard against this spirit and these principles, or we shall repent of all our conduct. (quoted in Madison et al., 1987 [1788]:24)

Adams had cause to worry: all over the young country the powerful state legislatures were filled with representatives of the 70 to 90% of white males who had been given suffrage between 1776 and 1789, the majority of whom were of moderate means, if not actually poor: "This presence of new men, common men, in the politics of revolutionary America was one of the most striking features of the years preceding the Constitutional Convention. It was continually noted by the traditional leaders of American life" (Kramnick in Madison et al., 1987[1788]:23). More alarming still, these new men were passing redistributive policies such as acts of debtor relief and debt postponement, confiscation of property, printing of paper money, and other policies that worked to the interest of those without property. It was precisely this problem that led Madison to complain in *Federalist 10* of "the superior force of an interested and overbearing majority" (Madison et al., 1987[1788]:123). Madison specifically believed that a new

Constitution would prevent against “a rage for paper money, for an abolition of debts, for an equal division of property, or for any other improper or wicked project” (quoted in Madison et al., 1987[1788]:26). It was this fear of a poor majority seizing the wealth of a productive minority that is encapsulated in the old libertarian joke about democracy being two wolves and a sheep voting about what to have for dinner.

The problem of the tyranny of the majority was a pressing empirical possibility in the eighteenth century, and received careful scrutiny from early theorists. In the nineteenth and twentieth centuries, however, this question came to be eclipsed by research traditions that investigated the power of organized groups. A curious feature of the historical development of democracy has thus remained unexamined: since Tocqueville and the Federalists worried about the “tyranny of the majority,” the characteristics of that majority have dramatically changed.

Where the tyranny that was once feared was of a *poor* majority rising up and seizing for itself the fruits of the labor of a productive minority, in the advanced industrial countries of the western world the majority has increasingly been brought to an unparalleled level of prosperity, and under certain circumstances, associates this prosperity with the free market. Under certain conditions, the majority benefits from-- and sees itself as benefiting from--market-friendly policies. The majority can therefore be aligned in favor of the market--in favor of property rights, debt collection, the enforcement of contracts, sound money, and all of the other principles that the brahmins of Boston feared would be lost if power were extended too widely.

This situation presents a new opportunity for those who favor the free market, and a new problem for those who favor the reduction of poverty. The problem of poverty in rich societies is not an economic or sociological problem, it is a political problem. The capacity to reduce poverty to minimal levels is available in all of the countries of the west, but not so the political will to implement policies that will benefit only a minority of people at the expense of the majority. Thus the tyranny of the majority that is of concern today is the difficulty of passing policies that help the minority of people who lose out in free market competition when this minority's interests are opposed to those of the majority.

The postwar history of western states suggests three approaches. The cultural solution is a culture of majority responsibility for the welfare of all citizens; in the absence of better sociological understanding of the underpinnings of cultural beliefs, however, we know neither how to bring about this cultural condition, nor how to maintain it. The statist solution is to insulate the state from the majority, that is, to give state actors more latitude by protecting them from too-frequent elections, fragmentation of power requiring coalition-building, etc.; this approach too is imperfect, because nothing guarantees that insulated state actors will behave in the interests of the poor rather than in their own interests. The universalist solution--the reason 6% of French children are in poverty compared to 21% of American children (Bergmann, 1996)--is to align the interests of the majority with those of the poor.

Conversely, for those interested in promulgating free-market policies, one strategy is to align the interests of the majority with free-market measures, and then to

establish incentives for politicians to seek out and respond to majority interests. This dissertation is devoted to an examination of this process as it played out in Britain and the U.S. in the 1980s, and of the reasons why it did not take place in France.

Chapter 2 provides a theoretical overview of the relevant theories of political sociology, and develops the alternative theoretical framework that is employed here. Chapters 3 to 5 take up the American, British, and French cases in turn, Chapter 6 summarizes the findings, and a Methodological Appendix discusses and defends the methods used in the study.

CHAPTER TWO

THEORETICAL OVERVIEW

The province of political sociology is the relationship of “the political” to “the social”-- “who rules” in social systems where political power does not automatically derive from social status, and *how* such ruling is done. In the less than one hundred years in which this question has received systematic scholarly attention, three models have been proposed of how “society” influences “the state”: (1) social groups affect state action when they organize along issues of particular interest to them (the pluralist or “interest groups” answer); (2) economic needs determine state action in the last instance (the Marxist or economic determinist answer); and (3) the state is an autonomous sphere, whose workings have more to do with its own internal logic than with the interests of non-state actors or with economic needs (the state-centered or institutionalist answer).

The interest groups tradition has been most developed in American departments of political science; it was originally a response to Marxist traditions coming from Europe and from sociologists elaborating a “conflict” paradigm via C. Wright Mills. In recent decades political scientists and sociologists have coalesced around the institutionalist alternative. Can any of these traditions make sense of the free-market revolution in the U.S. and Britain, and its absence in France?

Interest Groups

A version of the interest groups answer has been dominant in the literature on the Reagan administration in the U.S.: scholars have argued that business groups mobilized on an unprecedented scale in the 1970s and were thus able to push through policies favorable to business. This has become the orthodox explanation of the Reagan era (Piven and Cloward, 1982; Edsall, 1984; Ferguson and Rogers, 1986; Himmelstein, 1990; Akard, 1992). But this argument cannot fully explain the phenomenon, for three reasons: (1) some of the most influential measures, such as Reagan's across-the-board income tax reductions, were not favored by business groups; indeed, business groups feared the deficits that this tax cut would cause and therefore opposed it; (2) one of the most consequential policies was deregulation; however, deregulation began before business groups had begun to mobilize, and ended when business groups were at the peak of their mobilization; (3) some measures that were highly consequential for the poor, such as cuts in means-targeted spending, had little or no effect on business, and business groups were indifferent to them.

For the British and French cases, the interest groups argument would predict the opposite of what actually happened: in Britain in the 1970s labor was highly organized and, by most measures, extremely powerful; in France, on the other hand, labor has always been fragmented and weak. Thus the interest groups model would predict that, faced with economic crisis, France would have embraced market measures while Britain resisted them--the opposite of the historical record.

Economic Necessity

Two versions of economic-determinist arguments are relevant to this study. First is the argument that state actors pass policies that favor economic growth because the state itself depends on economic growth and because state actors are popular when the economy is growing. This argument cannot explain why, although all three countries were experiencing economic decline in the 1970s, only two of them embraced market solutions. Furthermore, although state actors are under democratic pressure to keep the economy growing, they are also under countervailing democratic pressure to increase social spending, and it is not clear in this contest that they will always favor the market.

A second version of the economic determinist argument has become highly popular in recent sociological literature: this is the “capital flight” argument, that the increasing mobility of capital forces states to take action that will attract capitalist investors. According to this argument, state actors are forced to adopt pro-market policies such as lower corporate taxes to attract footloose capital, despite their own ideological preferences. This argument has seen a resurgence among students of “globalization,” and has rapidly entered popular understanding of contemporary power structures. However, it does not receive empirical confirmation in the cases under study: capital was not flying prior to Reagan’s and Thatcher’s arrival to power; on the other hand, it *did* fly directly afterwards. Therefore Reagan and Thatcher were not forced to behave in the ways that they did by capital flight, nor did their policies prevent capital flight. Finally, capital *was* flying from France before and during the Giscard years, but this did not lead to Giscard adopting a Reagan-style tax cut, privatization, or lower social spending.

Institutions

No attempts have been made by “institutionalist” and state-centered scholars to explain the rise of free market policies.¹ Following the logic of institutional arguments, we might attempt to elaborate such explanations, as follows.

First, state actors, it is argued, do not merely react to the interests of social groups; they may be acting in the interests of the society as a whole. Thus, state actors may have passed free market policies because they believed such policies were truly in the interests of the society as a whole. While it can be argued that Reagan and Thatcher did believe this, at the time the majority of economists (also committed to the goal of economic growth) opposed the policies that Reagan and Thatcher were proposing. Thus, these particular state actors could only adhere to their beliefs by ignoring expert opinion-- suggesting that they were not neutral arbiters seeking out what would be best for their societies. Moreover, in the case of free-market policies it is not clear which course of action *is* “best” for society as a whole: the course that the U.S. and Britain took has benefited the majority of their populations, particularly those at the top of the income distribution, but has worsened income inequality and worsened the life chances of those at the bottom of the income distribution; France and other countries that resisted the free market revolution have paid for it with high unemployment, but have much lower levels of poverty and inequality. Thus, in this case--as far as economic analysis has been able to understand--a zero-sum trade-off exists, and any state action is necessarily partisan. We must, therefore, still explain why some state actors, faced with the same evidence, decide that one course of action is “best” while others decide differently.

¹ Paul Pierson (1994) has examined the results of the Reagan and Thatcher efforts at welfare state retrenchment from an institutionalist perspective, but not their causes.

Second, state-centered scholars argue that state actors have their own interests in preserving their privileges *as* state actors. Thus, we might argue that the entrenched bureaucracies in France prevented reductions in the size of government, while the lack of such bureaucracies in the U.S. permitted it. While this argument is borne out in some cases (particularly the case of spending cuts in the US), it does not explain where the impetus to change comes from, it only explains why it might be resisted or not resisted. Moreover, the historical record does not bear out the hypothesis that French bureaucrats resisted changes that Giscard suggested.

Third, the strengths and capacities of states are thought to influence the content of policies that can be passed. However, as has been noted above, the highly divergent institutional structures of the British and American states did not prevent remarkably similar changes from taking place, while the “strong” French state could not impose market-oriented policies.

These strands of state-centered scholarship are not able to explain the outcomes of free-market revolutions. However, as we will see below, other strands in this group of arguments are useful in building an explanation, and particularly when combined with attention to the role of unorganized majorities, they present a more satisfying alternative to the popular explanations of business dominance or capital flight. They are thus given more extended treatment here, through a critique of the most sophisticated exposition of these arguments, Theda Skocpol's Protecting Soldiers and Mothers (1992).

Skocpol's Primary Locus of Action

In Protecting Soldiers and Mothers Theda Skocpol investigates the origins of social policy in the United States and comes to a surprising conclusion: the U.S. welfare state was not a laggard, she argues, it was in some respects a “precocious” spending regime if one considers the welfare provisions for Civil War veterans instituted in the late 19th century and the various benefits for mothers and children instituted during the Progressive Era. The irony is that these early efforts prevented future attempts at instituting a more generous welfare state: the corruption generated by Civil War pensions gave pension policies a bad name and hampered the development of a German or British-style welfare state. Skocpol explains the successes and failures in her revisionist reading of American history through a theoretical model that she calls a “structured polity” or “polity-centered” perspective. The hallmark of this perspective is:

attention to four kinds of processes: (1) the establishment and transformation of state and party organizations through which politicians pursue policy initiatives; (2) the effects of political institutions and procedures on the identities, goals, and capacities of social groups that become involved in the politics of social policymaking; (3) the “fit”--or lack thereof--between the goals and capacities of various politically active groups, and the historically changing points of access and leverage allowed by a nation's political institutions; and (4) the ways in which previously established social policies affect subsequent policies.
(1992:41)

Skocpol uses this model to extraordinarily good effect. Each of its elements is deployed in the historical explanation: (1) the competitive parties of the late 19th century dispensed Civil War pensions as a kind of patronage, (2) early universal male suffrage hindered the formation of working class consciousness in America, while the exclusion of women

from the formal polity fostered the development of a specifically feminine kind of politics that resulted in geographically broad, cross-class networks of activists united by a moral rather than self-interested understanding of their cause, (3) this feminine politics was uniquely capable of overcoming the resistance to change generated by the fragmented nature of the U.S. state, and (4) the precocious experience with welfare spending hampered the U.S.'s development into a "full" welfare state.

Skocpol's historical argument has been subjected to intensive scrutiny by many scholars; here I want only to examine whether her theoretical model and its application support her argument that "the polity [is itself] the primary locus of action" (43) in policy change, and whether it was in the particular case she examines.

First, the role of competitive parties is crucial to the increasing scale of Civil War pensions: but political parties are not obviously part of "the state." Skocpol's own definition of the state is "any set of relatively differentiated organizations that claims sovereignty and coercive control over a territory and its population, defending and perhaps extending that claim in competition with other states" (1992:43). In this definition, political parties are not a part of the state at all, they are a vehicle through which particular actors achieve control of the state thus defined. Indeed, early American legislators feared parties would separate the American citizenry into "factions" and thus did not include provisions for parties in their blueprints of the American polity. Parties, and the competitive party system, developed for organic reasons: they helped legislators channel their resources into control of the state (Aldrich, 1995), and they allowed social movement such as abolitionism a platform from which to attain their goals. As such they

may best be conceptualized as a particular technique, a *social practice* through which power is exercised.

Second, Skocpol notes that absence of female suffrage ironically led to a successful form of female political activism. But granting suffrage to men while withholding it from women is a political procedure that is conditioned by social understandings of gender. A policy history that set aside these social forces would be unable to predict this particular structuring of the polity, and thus could not have predicted the ironic result--refuting any suggestion that previous policies are the only, or even the most important, influence on subsequent policy.

Third, Skocpol argues that this female brand of activism was particularly successful because at the moment that these female reformers were organizing, "male-only U.S. political parties were weakened...state legislators were [thus] more sensitive to moralistic waves of public opinion than to partisan party controls" (57). That is, a particular change in the structure of the polity, the weakening of political parties, made state actors *less* autonomous from social pressure in the form of public opinion favoring protections for women and children: particular changes in the polity can make social pressures more or less relevant.

Finally, Skocpol argues that Civil War pensions hampered further welfare efforts because they turned public opinion away from welfare policies: that is, the "previously established social policy" affected "subsequent policy" because pensions were now culturally understood as corrupt. But this means that the "feedback loop" from the previous policy to the subsequent policy passed through society, and through particular cultural constructions of the scope and capabilities of government (Steinmetz, 1999).

It is therefore difficult to sustain the claim that “the polity” is the primary locus of action in policy change: Skocpol’s own historical study belies the theoretical claim to primacy, and suggests that the formal polity is in dialectic with social processes and understandings. Indeed, another analyst could find equal support in this history for a “society-centered” explanation by making the points that social forces affect the establishment and transformation of state structures (e.g. denial of suffrage to women), the structure of the U.S. state makes it remarkably open to societal influence, particularly when political parties are weak (as in the case of successful maternal policies), whether political action succeeds or fails depends crucially on public opinion, social understandings, and the legacy of socioeconomic change (e.g. the failure of Samuel Gompers to support the AALL because of union traditions that differed from Britain’s), and the like.

We are in closer accord with evidence if we conclude that a close examination of this case reveals that *nothing* is the “primary locus of action” in complex societies, and that the search for such a “primary locus of action,” an ultimate causal force like “class” or “gender” or “state structure,” is a red herring.

The move away from the search for ultimate causal forces is an emerging consensus among historical sociologists (see e.g. Abbott 1992; Sewell 1996; Somers 1998; Steinmetz 1998), but it raises several questions. First, if there are no ultimate causal forces, how can we account for the startling regularities that we witness in diverse social phenomena, such as the stability of class structures or the persistence of predictable variations among national political outcomes? Second, if there are no ultimate causal forces how is it possible to systematically study the phenomena that interest us?

We can begin to answer both of these questions in a backhanded way by asking, if there are no “primary loci of action” then why is Skocpol’s historical discussion nevertheless convincing? For it is quite clear that Skocpol has identified crucial points where political institutions and procedures have *autonomous* effects: for example, regardless of *why* women were excluded from voting, the *fact* that they were had autonomous effects on the form in which they mobilized and thus their chances of success. Although caused by social processes, these dynamics cannot be reduced to society-level explanation, because the effect of women’s exclusion from voting functioned counter to the very principle that excluded women from voting. Thus, the key point is that the way in which one does politics, the *form* of the political process, can autonomously influence the *content* of policies one can pass.

A more complete theory of policy change should therefore combine the insight that political procedures have autonomous dynamics, with the observation that political procedures are socially constructed, have social effects, and make the state more or less open to societal influence. I propose such a theory by attempting, with some help from Durkheim, to combine Skocpol’s polity-centered model with a “society-centered” approach to the state advanced by Timothy Mitchell, then by showing how this combined framework explains what it is that is particularly crucial to Skocpol’s historical explanation, and finally by using this framework to develop a theory of policy change that does not seek ultimate causal explanations but can still account for the patterns and regularities of policy change.

Mitchell's State Effect

Timothy Mitchell argues that "the state" is difficult to define not because analysts are not smart enough to come up with a good definition, but because "the state" is not a thing at all so much as "a set of powerful yet elusive methods of ordering and representing social practice" (1992:1017). The difficulty of defining the state arises from the nature of the object of study, and the inability to pin down the boundaries of the state arises from the actual vagueness of these boundaries. Thus, Mitchell suggests that scholars of the state begin with an analysis of the seeming boundary between state and society itself, and the mechanisms that produce and reproduce it.

Mitchell employs this framework to criticize "statist" scholars such as Stephen Krasner and Theda Skocpol. He argues that both these scholars finesse the question of "state autonomy" by defining as the state only those agencies that are autonomous (1991:84-88), and neglect the ways in which the state is thoroughly societal. Mitchell reanalyzes Krasner's case study of the relationship between the U.S. state and Aramco, and concludes that a

collusion between government and oil companies, oblig[ed] U.S. citizens to contribute unaware to the treasury of a repressive Middle Eastern monarchy and the bank balances of some of the world's most profitable multinational corporations, [which] does not offer much support for the image of a neat distinction between state and society... The Aramco case illustrates how the institutional mechanisms of a modern political order are never confined within the limits of what is called the state" (1991:89-90).

This analysis shows that it may in practice be impossible to draw a line between state and society (in this case between the government and the oil companies), and shows

moreover that the ways in which such a boundary is *believed* to exist can themselves contribute to a certain ordering of power.

Mitchell's framework is also used to good effect to criticize Skocpol's analysis of state breakdown in revolutionary France. Skocpol argues that the French state's constant engagement in war contributed to the breakdown, and concludes from this that the condition of the state is a necessary predictor of revolution. But Mitchell argues that the *reasons* for the constant warring were primarily commercial, the competition "for markets, trade routes, and colonies" (87). Whether or not this is the whole story--commercial success was in turn desired partly because it would contribute to the glory of the French monarchy and its aggrandizement through further wars, which Skocpol would consider in the "state's" interest--it does point to the impossibility of separating "private" societal interests and "public" state interests: commercial success benefited elements defined as part of the state *and* elements considered outside the state, such as French capitalists.

However, fruitful as Mitchell's approach is in these instances, there are several flaws in it. Consider Mitchell's analysis of Skocpol's explanation for the failure of Roosevelt's more radical New Deal policies:

The principal reason for this failure was that popular support for FDR's reform program was not reflected in Congress, where conservative interests were powerfully entrenched. This entrenchment was due to the influence of southern Democrats (reflecting, of course, political and economic arrangements in the South that excluded blacks from participation) and in general to the local control of congressional elections by "machines or special agglomerations of organized interests"...The conservatives in Congress blocked spending on social programs for the poor, and led the opposition to administrative reforms for fear that they "would disrupt existing symbiotic relationships among Congress, bureaucrats, and organized interest groups in society at large"...Despite

the election of a president with a program of popular reform, the power of conservative and other organized interests in society was sufficiently represented within the state to derail the reforms. Skocpol interprets this as evidence for the argument that state institutions are essentially independent determinants of political outcomes. In fact the case offers an excellent example of how conflicts within the state reflect the penetration of wider social forces. [1991:88-89]

Mitchell argues that the influence of conservative southern Democrats should be seen as an example of the thoroughly societal nature of the American state. But he misses a key point: the southern Democrats were able to be influential primarily because of a particular institutional rule, the rule of seniority. Because legislators received important committee memberships in order of seniority, those legislators from "safe" seats and districts, i.e. those from the one-party districts of the south, were more likely to head the powerful committees because members from competitive districts were likely to lose their seats before they had acquired the requisite seniority.

But seniority is not *necessarily* a conservative procedure: it is a neutral procedure that works to the advantage of any region that lacks vigorous political competition. Under certain circumstances absence of vigorous political competition can be a progressive force, as it frees legislators from constant sensitivity to their constituents.² Moreover, the *end* of seniority had conservative results: in the 1970s the end of seniority created a state structure in which committee heads, who were now often drawn from unsafe districts, were highly sensitive to the wishes of their middle class constituents and the campaign contributors who helped them keep their seats. Because seniority ended in the 1970s, policies such as tax cuts that pleased the prosperous majority resulted; had

² This was not the case for the Southern Democrats, of course, but it is a theoretical possibility that is occasionally realized in states with concentrated power structures (for example, the abolition of the death penalty in all of the countries of Europe despite majority support for it).

seniority ended in the 1930s, the result may well have been radical, soak-the-rich welfare policies pleasing the impoverished majority.

Thus, in the case of the New Deal a particular institutional rule that is not in itself progressive or conservative refracted socio-economic patterns to the benefit of southern Democrats. Mitchell's framework underestimates the independent effects of the (socially produced) procedures and practices that constitute the "state effect."

This is a general flaw in his argument. Mitchell writes that it is a "mistake" to take "the effect [of the state] for something real and reify the state as a self-contained entity" (1992:1017). But his own analysis commits this "mistake" when he writes--in response to a criticism that his argument does not define the agents who produce the state--"Why assume that every explanation must lead back to agents who stand outside the machinery and produce or maintain it? Why must our theories recreate the impression that subjects produce difference, never difference, subjects?" (1992: 1018) In this quotation Mitchell is suggesting that the "effect" is something real that produces subjects, exactly what he has warned a page ago we ought not to do.

The trickiness of the argument is underscored when Mitchell writes, in discussing the organizations of the modern state such as standing armies and the effect they produce of being separate entities, "What kind of articulation...could now seem to separate mechanically an organization from the *individual men* who composed it?" (1991: 92, emphasis added). Here Mitchell is saying that there are, in fact, agents who compose state organizations, and furthermore that to ignore this is to mystify the nature of the state--exactly what the "Why assume" quote above argues *against* doing.

Mitchell's difficulties with his own argument point to an interesting tension that, in fact, suggests that his larger argument is correct: it is impossible to talk of the state without talking of it as if it exists apart from society, even while showing the ways in which this separateness is not true.

A Durkheimian Reconciliation

Rather than a contradictory dead-end, however, this is a promising avenue of research if we remember an elementary lesson from Durkheim:

The hardness of bronze is not in the copper, the tin, or the lead, which are its ingredients and which are soft and malleable; it is in their mixture. The fluidity of water and its nutritional and other properties are not to be found in the two gases of which it is composed but in the complex substances which they form by their association. [1966 [1938]: xlviii]

Social phenomena, like biological ones, may be constituted of simpler units the combination of which produces something that is not contained in the simpler units: ingesting two parts of hydrogen and one part of oxygen will not produce the same effects that drinking an equivalent amount of water will, because the particular combination of the hydrogen and oxygen produces an object that is not the sum of its constituent units. Indeed, certain combinations of simple units--such as the combination of carbon, oxygen, hydrogen, nitrogen, and other elements that make up a human body--can act back upon the constituent elements in extremely complicated ways. It would be incorrect, and inappropriately dualistic, to think of this human body as something "separate" from the elements that compose it, and yet properties have emerged from this combination that are not present in the elementary units.

Similarly, the complex of procedures and practices that produce the modern “state” are indeed produced by socially embedded agents, and these agents are themselves produced by these procedures and practices. It is, as Mitchell argues, inappropriately dualistic to think of these agents and these structures as “separate” entities--just as a human body is not a separate thing from the atoms that compose it--and yet the combination of the constituent units produces something that is not contained in them.

This Durkheimian understanding suggests a dual approach to the state: (1) the state is composed (as Mitchell argues) of social practices and procedures; nevertheless (2) these practices and procedures combine (as the state-centered scholars argue) into something that cannot be reduced to the social elements that produced them.

Although Durkheim’s biological analogy is useful in reconciling Skocpol and Mitchell, it should not be pushed too far; it should, particularly, not be pushed to the point of a functionalism that is at odds with what we know of the histories of actual states. It is not the case that the constituent units of a state system work in the evolutionarily produced harmony of biological units, and forgetting this may lead us to underestimate the capacity of change in states, and to overestimate the possibility of identifying universal social “laws.” Moreover, because the “boundaries” of a physical system are more easily identified than the boundaries of social systems, we should be even more wary of dualistic thinking, and because the constituent units of social phenomena are themselves complex, they are produced *by* the phenomena they produce in ways in which simple physical units are not.

Despite these problems, the advantage of thinking of the state as a Durkheimian “social fact”-- a product of society but not reducible to it--is that it allows us to accept the possibility of supra-individual state effects while acknowledging that the state is made up of individual, thoroughly social, agents.

Moreover, this Durkheimian framework can be used to identify what it is that is particularly convincing about Protecting Soldiers and Mothers. If we remain unconvinced, for the reasons adumbrated above, that the polity is “the primary locus of action” in policy change, it is nevertheless the case that Skocpol draws attention to and magnificently explains several anomalies in the history of American social policy: the role of patronage-oriented political parties in the exceptional growth of Civil War pensions, the role that fear of corruption played in the hindrance of an American welfare state, how absence of a state bureaucracy fed that fear, and the surprising ways in which an ideology of “separate spheres” led to the successful political engagement of women.

But the unifying characteristic of these insights is not that they focus (as Skocpol claims) on state structures or “the polity” to the exclusion of society. Rather, they focus (as Mitchell argues we should) on the *boundary between state and society*, or (in the Durkheimian understanding) on how societal elements and socially embedded agents combine to constitute a state with characteristics that cannot be reduced to its constituent elements. Skocpol analyzes how patronage was used to mobilize social support for parties, in other words how political power was generated through a particular mechanism of providing resources to particular actors; on how cultural ideologies can result in specific, counterintuitive practices of power, in other words on how cultural conceptions are a resource that can be transformed into political power; and on how state

actors can at different historical moments be variably susceptible to the wishes of their constituents, that is, on how different structures mediate the transformation of social resources into political power. The central question that is implicitly answered in Skocpol's work is: how is political power generated in modern societies, and what effect does the form of this generation have on the content of political action? She examines how policymakers acquire and keep (or lose) the power to make policies (e.g. whether they are dependent for their campaign resources on party structures or big business, or sensitive to the wishes of their constituents) and what effect this has on the policies they can make.

This is the particular strand of state-centered theory that motivates this work: examine how policymakers and other state actors acquire and keep, or lose, the power to make policies and other state decisions, what effect the form of this acquisition has on the policies and decisions they can make, and what changes in the procedures by which social resources are transformed into political power imply for policymaking. This is a modest reformulation of state-centered theory that preserves the attention to state structure and state formation, but instead of focusing on any particular set of institutions, investigates the role of the mechanisms through which social resources are transformed into the power to make policies.

Concentrating on the ways in which social resources become political power is not quite the same thing as saying that "the polity" is the "primary locus of action" in policy change. Rather, I suggest that the social construction of the polity is a principle site at which the economic, social, and political forces that *combine* to produce policy change can be examined. It is this that makes Skocpol's work so convincing: she uses

the social construction of the polity (in her terms, the process of "state formation") as a central site from which to analyze a complex set of changes motivated by forces both *inside and outside* the formal polity.

Studying the social construction of the polity is a procedure analogous to Mitchell's injunction to study the "elusive boundaries" between state and society, although it suggests that we should not think of "boundaries" between separate entities so much as mechanisms through which power is constructed. Mitchell himself would be suspicious of the decision-making focus of this procedure, but it should be stressed that this focus is methodological, not ontological: the state does not exist in those decisions, but--as an analysis of atoms and the ways in which they combine can reveal characteristics of human bodies--so an analysis of those decisions and the mechanisms by which they are produced can reveal characteristics of the state.

This Durkheimian understanding of the state gives us both a theory of how the state is related to society, and a method of how to study it: the state is produced by society and yet is not reducible to it; a way to study the state is to study the combination of social elements that produce the power to make state decisions. Furthermore, this understanding of the state offers a way to place previous theories in a more overarching framework. If we understand the state as composed of, but not reducible to, social elements, and if we study the state by studying the mechanisms of this composition--and particularly how individual state actors remain in the state--we can put previous theories of state-society interactions into a more encompassing framework. If there is a minimal degree of competition for political position, we can see from this framework that (1) interest groups affect policymaking to the degree that they can provide policymakers with

resources (money, time, devoted volunteers) that will help them maintain themselves in power; (2) economics matters for the same reason: to the degree that successful economic growth helps policymakers acquire and maintain power, policymakers will favor successful economic growth, and (3) state structures can make state actors more or less autonomous from constant challenges to their power--e.g. frequent elections will decrease this autonomy, and strong party structures that counterweigh the influence of mass opinion by limiting policy options and providing resources can increase it. If, on the other hand, competition for political position is limited, we would expect interest groups and economic growth to be less important in policymaking, because state actors do not need their aid in acquiring and keeping state power,³ and state structural autonomy to be less relevant in influencing state actors' decisions.

Thus, this framework asks us to analyze *when and why* interest groups or economic necessity matter, and the *mechanisms through which* state actors are autonomous or not. The procedure is necessarily historical: it does not "disprove" previous theories of the state so much as put them in a context and shift the focus to a historical examination of the circumstances under which interest groups, economic need, or state autonomy become more relevant. It does not seek "ultimate causes," but, by focusing on specific historical mechanisms, does give us a way to identify patterns and regularities and their consequences. Finally, the framework also demands an inductive, rather than deductive, method, because the social sources of political power are infinite and manifold (everything from money to membership in racial or religious groups to possession of firearms to disciplinary discourses to a famous family name); although they are generalizable within narrow historical limits, these sources of power can only be

³ Although they may still be vulnerable to *persuasion* by interest groups.

discovered, not deduced (see the Methodological Appendix for a fuller discussion of these points).

For our purposes here, this framework allows us to see what it is that previous examinations of the turn to the right have missed: the role of formal representative democracy in policymaking and policy change. Sociologists of the state know little about whether and how formal democracy translates into substantive control of the political process. This is a legacy of sociology's nineteenth-century suspicion of the "formal" mechanisms of liberal democracy and preference for analysis of "substantive" categories like class. Indeed, much of the sociological project, and much of what sociology does best, has to do with showing how formal structures are permeated by social sources of power, for example, how supposedly neutral tests of merit almost perfectly reflect class differences, or how "neutral" legal procedures are powerless to confront the effects of the unequal resources that adversaries bring into the courtroom.

But if, as Skocpol and the "institutionalists" have shown--and Durkheim himself has reminded us--social structures can have their own autonomous, irreducible logics, then we need to subject to empirical test the proposition that the "formal" structures of liberal democracy interact with "substantive" sources of social power like class or race, and we need to investigate the mechanisms of this interaction. Indeed, the drift towards totalitarianism of societies without the formal structures of liberal democracy suggests that an investigation of the effect such structures may have is urgent in our historical moment. Moreover, such an investigation has to be at the heart of the project of sociology itself, for a "sociological vision" includes *both* the idea that social phenomena are irreducible to individual elements (and thus may have their own autonomous logics)

and the idea that individual elements are socially constructed (and thus cannot be examined separately from their substantive social context). That is, the sociological vision includes both what I have been calling the “formal” and the “substantive” conceptions, and although it is the “substantive” conception that has received the most attention, a clarification of the interaction of the two is in order.

The Role of Unorganized Majorities in Social Change

We can begin this task in the present context by analyzing the interaction of the formal mechanisms of representative democracy with the substantive sources of social power. In particular, a systematic study of the role of unorganized democratic majorities in social change is necessary for a more complete theory of policy change in formal democracies.

It should be obvious that in democracies votes affect power, and the opinions of unorganized majorities affect votes; a long research tradition should already have developed around this question. But as Burstein (1998) shows, political sociologists have almost completely neglected the role of public opinion in policy change. And although the analysis of voting and public opinion is the largest subfield of American political science, with research journals wholly devoted to the issue, most of this research focuses not on the question of how votes and public opinion affect policymaking, but on the question of how people decide who to vote for, and what opinions they hold and why: in its 63-year existence the Public Opinion Quarterly, for example, has published several hundred articles examining the *causes* of public opinion and how best to measure it, and exactly 8 articles examining the *effects* of public opinion.

In the last twenty years there has been increasing attention to this question in political science: about twenty studies have been conducted attempting to analyze whether public opinion has an independent effect on policymaking. This emerging body of work raises an interesting puzzle: studies of the effect of public opinion invariably find that public opinion does have an independent effect on policymaking (e.g. Page and Shapiro 1983; Wright et al. 1987). On the other hand, descriptive studies of public opinion uniformly find that voters and citizens are ill-informed, inattentive, and hold inconsistent and quickly shifting opinions on most policies (e.g. Luttbeg and Gant, 1985). Thus we are presented with a picture of state actors who are highly responsive to a muddled and vague set of opinions. It is the dynamics of policy change in this situation that the following chapters attempt to make sense of.

The particular theoretical contribution to the understanding of the mechanisms of formal democracy that this work makes can be thought of as an extension of Anthony Downs's Economic Theory of Democracy (1957): Downs argues that politicians take political positions to maximize votes, thus following the wishes of the majority of voters. The specific position taken depends on the underlying distribution of voter preferences. This work amends this theory by beginning with the observation that multiple issues compete for political attention, so a one-dimensional voter distribution gives little information on which to base a prediction on the course of policy. Investigation is necessary into how some issues become more salient than others, and on the conditions under which politicians *make* some issues more salient than others. The cases examined here allow us to develop answers to this question.

The methodological approach this dissertation takes, defended in an appendix, is comparative and historical. Data are drawn from three sets of sources. First, when I make comparisons across the three cases I have relied on data from the OECD and the World Bank. Second, when I refer to dynamics within a particular country, the data come from governmental sources (primarily the Office of Management and Budget and the Institut Nationale de la Statistique et des Etudes Economiques) and from contemporary media sources and memoirs. Third, for the American and British cases I have been able to draw on a rich secondary literature that has grown up around the Reagan and Thatcher periods. This has not been possible for France: the Giscard period has been understudied (perhaps because it is only in comparative context that this period begins to look important, and French sociologists remain suspicious of comparative work). Thus, for the French case, in addition to supplementing the official statistics with media sources and memoirs, I have drawn especially on a set of several years' worth of opinion polls from the late 1960s to the late 1970s.

CHAPTER THREE
POWER TO THE MIDDLE CLASSES:
ENTREPRENEURIAL POLITICIANS, SOCIAL MOVEMENTS, AND MIDDLE
CLASS CONSTITUENCIES IN THE REAGAN REVOLUTION

In the early 1980s the administration of President Ronald Reagan passed a series of pro-market policies that had dramatic consequences for the American economy over the next two decades. These policies--broad tax cuts, deregulation of industry, and cuts in government programs--were animated by a vision of the creative powers of individual enterprise and a fear of the tyrannical potentials of the state. Together they comprise what some scholars have called the "Reagan Revolution." Reagan's policies have been partly responsible for the economic boom of the mid-1980s to 1990s that maintained increasing standards of living for the *majority* of the population. On the other hand, these policies have also been partly responsible for the increase in poverty and inequality, and the decline in living standards for a *minority* of people, that have made the U.S. the most inegalitarian country in the western world. For the most part, Reagan's changes have not been undone, and the direction he took has been followed not only by his immediate successor, the Republican George Bush, but by Democrat Bill Clinton as well. Indeed, Clinton's ability to reform the Democratic party in a pro-business direction, thus implicitly endorsing the Reagan policies, is widely considered key to his presidential

victories. There is little to suggest that Reagan's policies will be undone in the near future. All major political actors in the U.S. have adopted them as the new status quo.

In retrospect, it is hard not to see the Reagan Revolution as inevitable, a natural outgrowth of the radical individualism and distrust of government that is said to be ingrained in the American character. This sense of inevitability is itself part of Reagan's success. There is indeed some truth to the argument that Reagan's policies represent an intensifying of trends that had begun before his term, but it is important not to underestimate the context in which Reagan came to office. For example, the economic crisis of the mid to late 70s had brought political actors to discuss with some seriousness measures that would today be considered hopelessly radical, such as shortened workweeks, nationalization of key industries, large public works projects, and wage and price controls. In this context, attempting to reduce the size of government was one among many proposals for dealing with the economic crisis.

Moreover, although Reagan had worked out a general anti-government credo by the mid 1970s, the *specific* policies that made up the Reagan Revolution were not formulated until just before and just after Reagan's 1980 victory. Reagan himself was a late convert to the cause of lower taxes, and cuts in anti-poverty policies were brought into the 1981 budget almost by accident. There was nothing that in the mid-1970s could have led to a confident prediction of the extensiveness of the changes that took place a few years later.

If they were not inevitable, where did the Reagan changes come from? The orthodox sociological wisdom on the Reagan years sees these policies as essentially a

class struggle resolved in favor of business and the wealthy. As I will argue below, this interpretation is incomplete: business groups were not the main influence behind the Reagan policies, indeed in some cases they were openly opposed to the policies.

The roots of the Reagan policies are to be found instead in two separate but interacting processes. First, the policies that were passed had potential majority appeal. Because of the manner in which the majority of the American population was integrated into the political economic structure, broad tax cuts, deregulation of industry, and cuts in welfare spending were all potentially popular: most people had more to gain from these policies than to lose, and certain political circumstances and events increased the general perception that this was so. However, this *potential* popularity may have remained dormant without a second factor: a set of changes in the structure of the state that made the state more open to societal influence, and particularly to the influence of unorganized majority groups, making *potential* popularity of policies a key resource with which state actors could build their bases of power.

In the 1960s and 1970s, movements to give “power to the people” and make hidden sources of power more transparent culminated in a series of changes in the structure of the state, including weakening of congressional committees and rules of seniority. These changes, combined with the weakening of party structures, had the effect of making American politicians “entrepreneurs” who were extremely sensitive to constituent interests and actively sought out issues on which to make their name, particularly issues that would be popular with the majority of their constituents. But because the interests of the majority were not aligned with those of poor minorities,

making the state more responsive to society made state actors more responsive to *non-poor majorities* and sources of campaign financing, and less able to protect the interests of disadvantaged minorities--an ironic outcome, given the leftist motivations of the 1960s changes in state structure that wanted to give politics back to the people. Giving power to the people meant weakening autonomous state structures that had served as a bulwark against social sources of power.

Therefore, this chapter concludes that pro-market actions in advanced industrial democracies are not necessarily the result of the influence of business groups over the political process. Rather, they raise a more fundamental question that arises at the heart of the meeting of democracy and capitalism: how to protect the interests of economically disadvantaged minorities when the majority is not poor, and the majority rules. The "weak" U.S. state is more sensitive to the wishes of non-poor majorities, particularly after the 1970s reforms, and thus less likely than the stronger states of Europe to take action in the interests of the losers in market competition. In situations in which the interests of the majority are opposed to those of economically disadvantaged minorities, these minorities are more likely to be protected under state structures that are *less* democratic (more autonomous from the majority as well as from business groups) and historically committed to the disadvantaged.

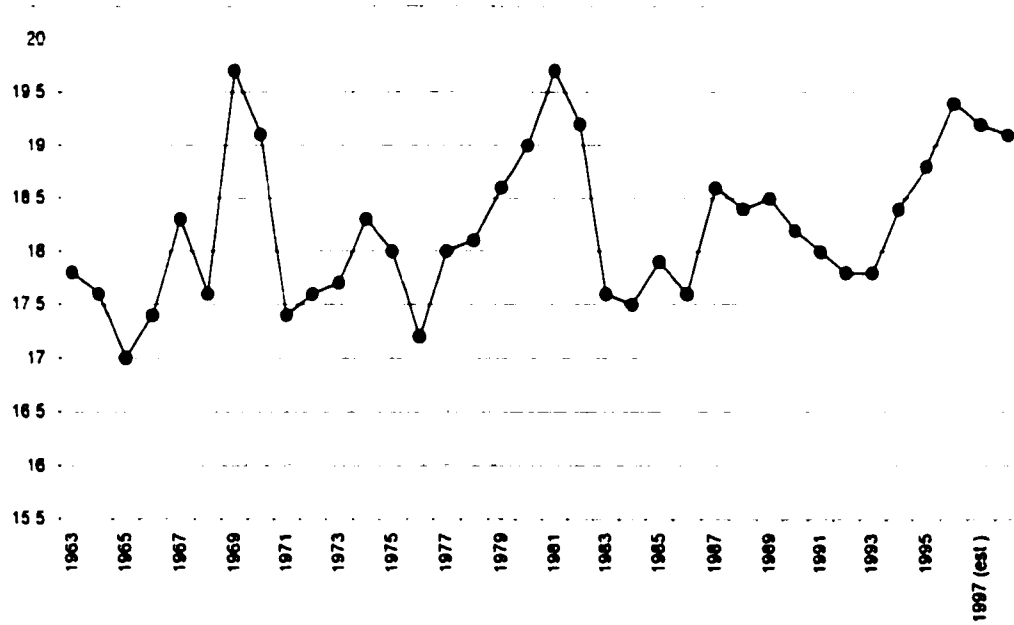
Taxation

The Economic Recovery Tax Act of 1981 (ERTA) is the tax cut that created the deficit that ended "welfare as we know it" in America. The ERTA indexed tax brackets

to inflation and reduced corporate and income tax rates, thus decreasing revenue in a time of increased spending; the resulting deficit would go on to constrain economic and social spending for the next two decades, and was responsible for the climate of penny-pinching that made cuts in certain means-tested programs popular in the 1980s and 1990s. The Reagan administration's later attempts to reduce the deficit did not restore pre-1981 levels of financing, and by the time these later attempts were instituted the deficit had already ballooned. Herbert Stein calls 1981 the year of the "Big Budget Bang": "Fiscal policy in all the years since... was dominated by efforts to deal with the consequences of that event" (Stein, 1996:266). Paul Pierson (1994), whose controversial work argues that the welfare state is largely intact in America (for a dissenting argument on this point see Clayton and Pontusson, 1998), nevertheless acknowledges that the Reagan administration's greatest long-term success was in "defunding" the welfare state through the reduction of tax revenue and the generation of debt. The late-1990s success in ending deficit spending has not reduced the debt generated in the 1980s (Figures 3.1-3.2). Approximately 12% of the budget currently goes toward interest on this debt.

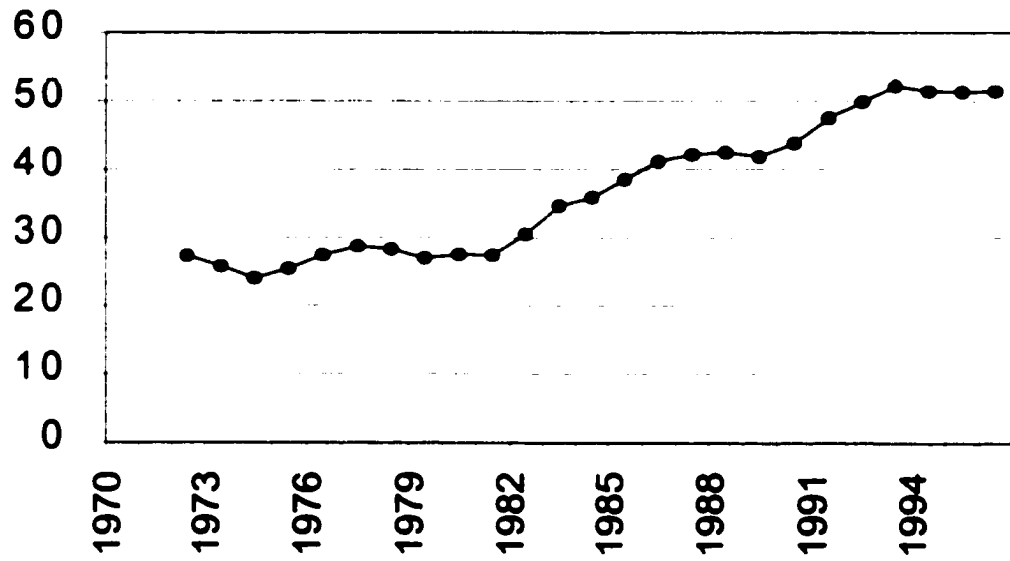
Of course the early 1980s increases in military spending were also necessary to the creation of the deficit. But military spending had also skyrocketed in the 1940s, and led then not to a deficit, but to a vastly expanded state structure: the taxes used to finance World War II military spending did not come back down to pre-war levels after the war, and therefore effectively financed the new American welfare state (Steinmo, 1993). The different outcomes in the two instances are due not to different patterns of military spending, but rather to the different tax policies enacted. Given its importance in the

Figure 3.1: Total Tax Revenue as Percent of GDP, 1963-1997, United States



source: Office of Management and Budget, Budget of United States Government

Figure 3.2: Central Government Debt as Percent of GDP, 1970-1996, United States



source: World Bank, World Development Indicators

transformation of the American economic and political system, then, how did this massive tax cut come about?

In addition to its substantive interest, the case of the ERTA is theoretically compelling, as it requires an analysis of when state actors engage in state “unbuilding”: when and why do states take action that *decreases* state capacity? Until the ERTA, income tax brackets had been calculated in nominal terms, and not indexed for inflation. Therefore, a worker whose wages were nominally higher in 1975 than in 1970 would be pushed into a higher tax bracket, even if in inflation-adjusted terms the wages were the same, or even lower, than before. In the high-inflation environment of the 1970s, revenue levels rose steadily and invisibly.

Such a situation is a politician’s dream. As Paul E. Peterson and Mark Rom explain:

tax increases occurred silently with inflation, filling government coffers with new revenues without any explicit action by Congress. Tax “cuts” could be enacted with great fanfare and enthusiasm because they usually did little more than partially offset quietly occurring “bracket creep.” If the tax cuts turned out to be excessive, yielding a shortfall in government revenues, this created no permanent problem. Gradually, individuals would shift into higher tax brackets, revenues would increase, and deficits would slowly disappear (Peterson and Rom, 1988:219).

Indeed, bracket creep was an expedient answer to what Susan Hansen (1983) identifies as a democratic politician’s main problem: how to find the revenue to finance the social spending that the public clearly wants, without raising taxes that the public clearly does not want to pay. Bracket creep was an excellent “fiscal illusion,” in Italian economist Amilcare Puviani’s phrase, dispersing blame and allowing for concentration of political

credit for spending increases and occasional tax cuts. It was one pillar of the post-war “Era of Easy Financing” (Brownlee, 1996b).

Clearly such a situation is in the interest of state actors; why, then, would state actors end it? The indexing of tax rates to inflation meant that politically popular tax cuts could no longer be ritually enacted, and that “political leaders could no longer solve the problem of fiscal deficits by quietly waiting for revenues to increase little by little each year as individuals shifted into higher tax brackets. The problem of how to collect more revenues, which had once solved itself, became the dominating political issue of the 1980s” (Peterson and Rom, 1988:220). Why did state actors take action that was against the state’s interest in revenue collection and against individual politicians’ interest in credit-claiming?

Despite its substantive and theoretical interest, very little scholarly attention has been devoted to the ERTA, and its dynamics remain poorly understood. This section begins by showing how economic and pluralist theories of state power cannot explain the ERTA, and then shows how changes in state structures, motivated by social changes, contributed to the passage of this legislation. Social changes in the U.S. in the 1960s forced polity changes that weakened party influence and led to a “candidate-centered” political system in which candidates developed their own bases of support from within their constituencies, thus making the state more responsive to society. But a state more responsive to “society” was incarnated as state actors more responsive to *non-poor majorities*, and less able to protect the interests of disadvantaged minorities--an ironic outcome, given the leftist motivations of the 1960s changes in state structure that wanted

to give politics back to the people. In fact, giving power to the people meant weakening autonomous state structures that had served as bulwarks against social sources of power. The resurgence in the late 1970s of these social sources of power brought the tax reduction issue onto the agenda, increased the size of the tax cut, and aided its passage.

Previous Explanations

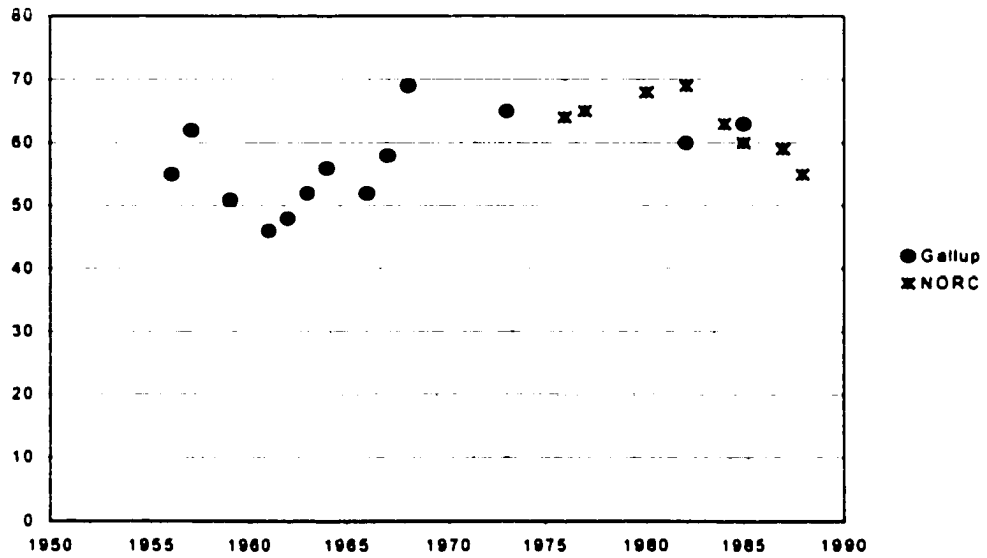
Very few studies of the determinants of tax changes exist. One of the most systematic is John L. Campbell and Michael Patrick Allen's attempt to correlate various economic and political variables with changes in the U.S. tax regime over the course of the twentieth century (1994). In addition to showing that war is correlated positively with tax rates, Campbell and Allen conclude that economic development is correlated *negatively* with tax rates (contrary to the theoretical expectation that taxes are cut in recessions) and that labor unity is correlated positively with tax rates. It is difficult to interpret the ERTA tax cuts within the framework of these results, as there was no change in the country's at-war status in this period, and the tax cuts did indeed occur during a time of recession. Campbell and Allen's stated aim is an "exploratory" one (645), that is, to produce preliminary correlations that might guide future study; thus they do not attempt a systematic causal narrative of changes in tax structure. For example, the correlation between labor unity and tax rises might mean that labor unity *causes* tax rises, as Campbell and Allen assume (664). But it may equally well be the case that a third variable, technological change, is producing both decline in labor unity (by automating away manufacturing jobs) and cuts in taxes (by making capital more mobile and therefore

more in need of wooing with tax breaks). Such external variables may actually change the relationship between labor unity and tax cuts: when automation is a serious threat, labor may become more quiescent, even if it is highly organized. Thus broad correlations, while necessary in establishing the parameters of a field of inquiry, must be supplemented with research into historical process. Indeed, this is particularly necessary in this case, as we must explain why the positive correlation that Campbell and Allen find between economic development and tax cuts runs counter to the case of the ERTA.

Perhaps the most common explanation for the tax cut among scholars of the period is that taxes had risen to such a high level that the public was crying out for relief; in this explanation, the Reagan administration merely responded to a popular demand. There are three kinds of evidence in support of the "democratic demand" hypothesis: (1) opinion polls showing that large majorities thought taxes were "too high" in the mid to late 1970s, (2) a series of "tax revolts" in the states, and (3) the landslide election of Ronald Reagan on a heavily anti-tax platform.

Figure 3.3 presents Gallup and NORC data which show increases in the percentage responding that taxes were "too high" in this period. The series show high points in the late 60s and early to mid 70s. But to move from this to a conclusion that people were demanding tax cuts, we must also be able to show that the tax issue was highly *salient* to the public (Ferguson and Rogers, 1986)--and the weight of the evidence is against this conclusion. Although citizens agreed that taxes were too high when specifically asked about taxes, cutting taxes was *not* a high priority for them. Penn and Schoen Associates asked in 1980 what the causes for economic decline were, and got

**Figure 3.3: Gallup and NORC Polls: Percent of Respondents Finding Taxes “Too High,”
1955-1990, United States**



sources: Gallup, NORC

back the responses shown in Table 3.1. A CBS/New York Times poll of April 1980 asked for solutions to cutting inflation, and found a balanced budget topping the list, at 49%, wage/price limits next at 29%, and reducing taxes at 14%. An NBC News/AP poll in June 1980 found 63% favoring a balanced budget and only 30% favoring Governor Reagan's tax cut. (All reported in Public Opinion, August-September 1980). And finally, Gallup's long-term question of "What is the most important problem facing the nation today" has never gotten more than a few percentage points saying "high taxes," even in the period when most respondents were saying that taxes were "too high." (NES, GSS)

The editors of Public Opinion summed up the tax attitudes in the late 1970s this way: "These figures do not suggest that taxpayers are opposed to tax cuts. Many surveys indicate that tax cuts per se are popular. The public seems to be saying, 'We want to balance the budget by cutting spending and if we can cut taxes, too, that's even better. But start by putting the government's house in order.'" (Public Opinion, August-September 1980). That is, tax cuts were popular, but not particularly salient. Citizens did not in this period ascribe the nation's ills to high tax rates, and they evidenced fiscal conservatism, a preference for "putting the government's house in order," over tax cuts. When offered tax cuts they didn't reject them, but this was passive acceptance, not active pressure.

There is however one set of taxes that in the 1970s saw quite clear and active rejection by citizens; a series of "tax revolts" against property taxes occurred across the nation beginning with the passage of California's Proposition 13. This episode has

**Table 3.1: Penn and Schoen Poll: Respondents' Analysis of Causes of Economic Decline,
1980, United States**

| | |
|------------------------------|-----|
| poor governmental leadership | 33% |
| corporate greed | 18% |
| governmental interference | 14% |
| union power | 8% |
| poor management | 7% |
| poor productivity | 5% |
| high business taxes | 4% |

source: Public Opinion, August-September 1980

passed into legend as the beginning of the turn to the right, “conveniently separating the New Deal-Great Society era from a newer, leaner period that finds the public far stingier with tax dollars and increasingly skeptical about government’s basic competence to solve problems” (Kuttner, 1980:7). But there are several reasons to be suspicious of this reading. First, although the momentum of the California victory led to several similar measures getting on the agenda in other states, only one other state, Idaho, eventually passed a Proposition 13-like tax cut in this time period. Second, Proposition 13 addressed property taxes, which are local, not federal, and had risen to much higher levels than income taxes; it cannot be concluded that revolts against property taxes were calls for cuts in income taxes. Nevertheless, Proposition 13 did put taxes on the map, so to speak, in the 70s; if politics is as much about symbols as it is about substance, the passage of Proposition 13 brought “taxes” onto the political agenda. It would not be unlikely to think of Proposition 13 being metonymically linked to the later income tax cuts, even if the revolt fizzled out and even if there were two different sets of taxes at issue. As we will see below, the symbolic role of Proposition 13 did indeed have important repercussions on the perceptions of politicians; but even so, was this sudden introduction of taxes onto the political agenda really indication of democratic pressure? Clarence Lo argues that even though working class and middle class homeowners were active in the beginning, the property tax revolt was largely “a movement of suburban businesses and professionals who used their skills, resources, and influence in their community to organize a campaign directed against the higher levels of government and other corporatist institutions” (1990:197). Business interests saw to it that “business

property received most of the benefits from Proposition 13" (21) and that the eventual result was an upward redistribution of income. And it must be noted that a revolt against property taxes must after all mostly concern those who have property—in Robert Kuttner's phrase, it was a "revolt of the haves" rather than evidence of grass-roots pressure for tax cuts.

Finally, in favor of the claim for democratic pressures on taxes is the landslide election of Ronald Reagan, who had made low taxes a key component of his campaign. Susan Hansen (1983) has formulated a rough measure of the importance of tax issues in campaigns by counting sentences devoted to tax issues in campaign platforms. Her findings for recent elections are given in Table 3.2. Taxation issues were more central to the Republican campaign in 1980 than they had been for either party in this period (indeed, Hansen's data from 1844 show that they had *never* before been so central, according to this measure). If Reagan campaigned on a tax cut, and if Reagan won in a landslide, did the tax cuts win in a landslide? The triumphant administration certainly took its victory as a mandate to cut taxes. But scholars who have examined the 1980 election are in agreement on the conclusion that this was not the case; the election was not a victory for Reagan's policies or platform so much as a judgement on Carter:

[in exit polls] only 11 percent of the Reagan voters said they chose him for being a "real conservative"... The overriding reason for their choice, they said, was that "it's time for a change." The second most important factor given was Reagan's image of strong leadership, his ability to get things done...It does not automatically follow... that a genuinely "conservative" electorate had emerged. The electorate had only two choices--more of the same or something new. (Harwood, 1980:331)

**Table 3.2: Number of Sentences Concerning Tax Issues in Party Platforms, 1960-1980,
United States**

| year | Democrat | Republican |
|-------------|-----------------|-------------------|
| 1960 | 9 | 2 |
| 1964 | 5 | 7 |
| 1968 | 15 | 3 |
| 1972 | 27 | 13 |
| 1976 | 20 | 12 |
| 1980 | 47 | 115 |

source: Hansen, 1983:90

A CBS/New York Times election day poll asked “Which issues were most important in deciding how you voted today? (up to two answers)” and got the results shown in Table 3.3. The same poll asked for opinions on the statement “Cutting taxes is more important than balancing the federal budget” and found that only 30% of respondents agreed, while 53% disagreed. All together, the data suggest that Carter was voted out rather than Reagan voted in, and that Reagan’s mandate did not include radical tax cuts at the expense of budgetary balance.

In short, although citizens supported tax cuts when offered, they were not clamoring for them; they were passive in accepting the cuts, rather than active in demanding them.

If pluralist explanations, based on majority demand, do not explain the cut, scholars have also attempted to explain them with reference to pressure from business groups. Two arguments particularly common in discussions of neoliberal change can be investigated in this case as well. First, scholars argue that the increasing mobility of capital (“capital flight”) forces states to take action that will attract capitalist investors, such as tax cuts, deregulation and privatization, and decreases in social spending (Teepie, 1995). This argument is allied to the “structural” Marxist theory of the state, which argues that the dependence of state actors on economic growth will force pro-capitalist actions, despite the actors’ own ideologies (Block, 1987; see Barrow, 1993), and it has seen a resurgence in recent scholarship among students of “globalization.” Second, scholars argue that in the American setting business groups organized on an unprecedented scale in the 1980s and pushed through business-friendly policies,

Table 3.3: CBS/New York Times Election Day Poll: "Which Issues Were Most Important in Deciding How you Voted Today?" 1980 Presidential Election, United States

| | |
|---------------------------------------|------------|
| Inflation and economy | 33% |
| Jobs and unemployment | 24% |
| Balancing the federal budget | 21% |
| U.S. prestige around the world | 16% |
| Crisis in Iran | 14% |
| Reducing federal income taxes | 10% |
| ERA/abortion | 7% |
| Needs of big cities | 2% |
| Don't know/None | 20% |

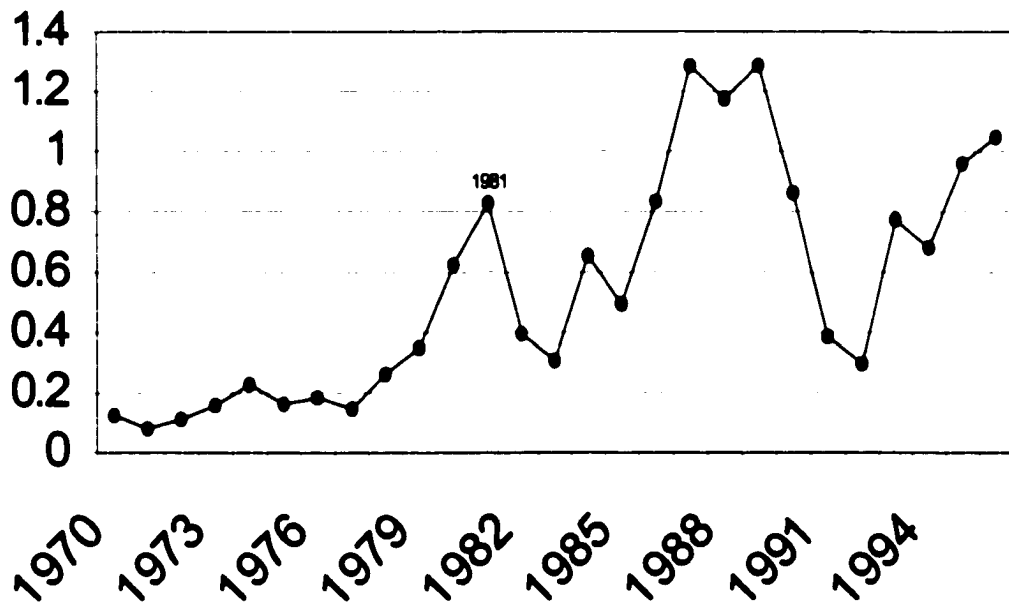
source: Schneider, 1981

including tax cuts (Akard, 1992; Ferguson and Rogers, 1986). Such an explanation is in line with “instrumental” Marxist theories of the state, which argue that the passage of particular policies depends on which groups control the state (Domhoff, 1970, 1990; Quadagno, 1984, 1985, 1987).

Neither of these explanations receives empirical confirmation in the case of the ERTA. Figures 3.4 and 3.5 show that in the years preceding the ERTA, foreign capital was not fleeing the U.S., and domestic capitalists were not disinvesting. Indeed, the highest years of capital flight directly *follow* the passage of Reagan’s first-term policies, because both foreign and domestic capitalists were wary of the deficit: high levels of central government debt make treasury bonds increasingly attractive, decreasing the amount of money invested in productive economic growth and thus returns to investment. On the other hand, France was witnessing a steady decrease of domestic capital investment in the mid-1970s. The thesis of capital flight would lead to expectations of tax reduction in France in the 1970s, but French tax revenue grew throughout this time. Moreover, even if capital flight had been a perceived pressure, it is not clear that tax cuts would necessarily result; for this pressure to be translated into policy, those committed to ensuring economic growth would need to have identified tax cuts as a solution. But in fact, the majority of leading economists were opposed to the idea of large tax cuts (U.S. Congress, 1978). Structural Marxist explanations that observe politicians’ need to ensure economic growth may be correct in the general point that *something* had to be done in response to the economic crisis; however, it is not at all clear that that something had to be drastically lower taxes. In fact, the political and economic consensus was against lower taxes.

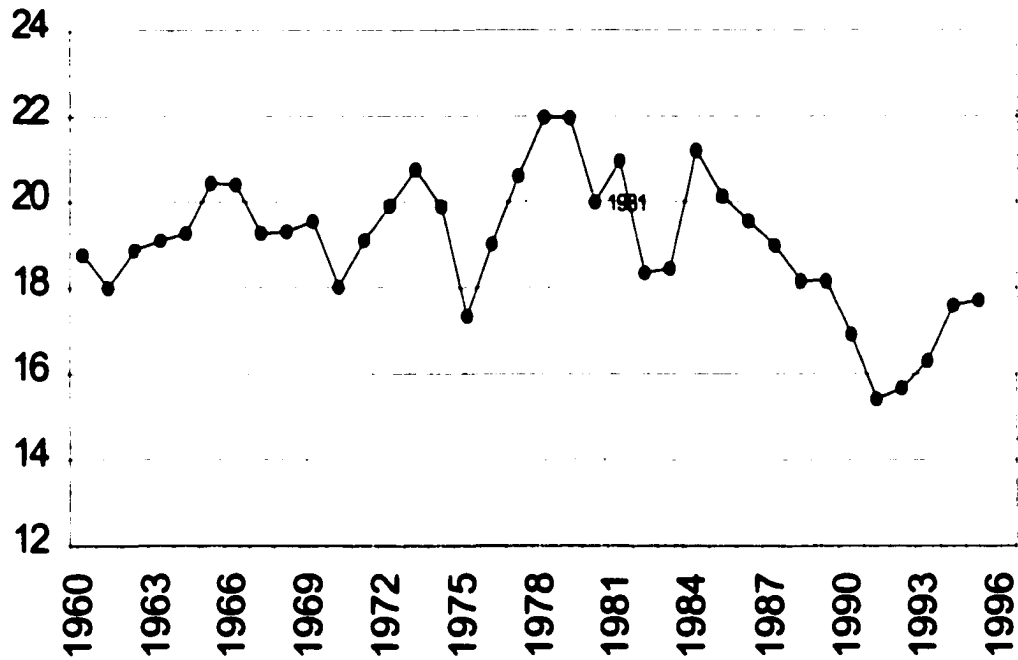
Figure 3.4: Foreign Direct Investment: Net Inflows as Percent of GDP, 1970-1996,

United States



source: World Bank, World Development Indicators

Figure 3.5: Gross Domestic Investment as Percent of GDP, 1960-1996, United States



source: World Bank, World Development Indicators

Many scholars have developed a variant on the capital flight argument that suggests that what is important is not capital flight itself, but the threat of capital flight, or disinvestment more generally. In this argument, the rise of conservative policies can be traced to the ability of business groups to unify as a class and make this threat credibly to politicians. Indeed, this argument, which sees the key factor to be not globalization but business group pressure perhaps brought on by globalization, has become the orthodox wisdom from sociologists of the Reagan era (Piven and Cloward, 1982; Edsall, 1984; Ferguson and Rogers; 1986; Himmelstein, 1990). Ferguson and Rogers write:

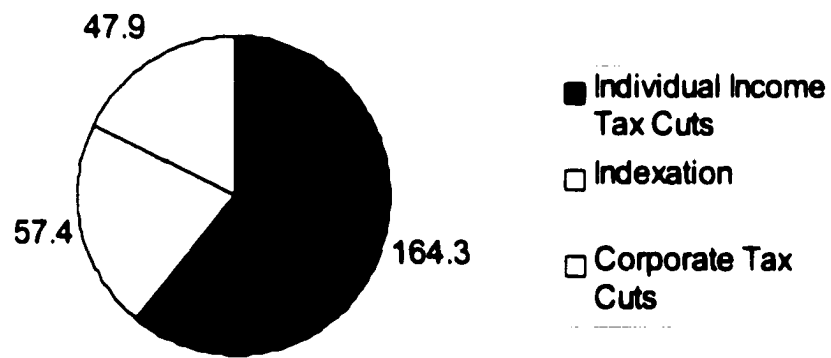
pressures for reducing taxes came overwhelmingly from those whose rates were already falling—the business community...the chief reason for this...was the increasing integration of the United States in the rest of the world economy. As that integration occurred, more firms found themselves competing in truly international markets, and an enormous section of the American business community was forced to be sensitive to foreign prices. This new exposure to international prices transformed the economics of taxation for many large corporations. Because they now faced prices set in world markets, they could no longer pass through corporate (and their portion of social security) taxes, as many probably could in a more closed economy. Almost inevitably, corporations began pressing for further reductions in their rates (1986:101-2).

Patrick Akard explicitly formulates this thesis in terms of the “instrumental Marxist” paradigm, and adds that business interests unified on a class-wide basis, *as a group*, because they perceived growing social spending as a common threat: “a general consensus emerged between big and small business, industrial and finance capital...based on a common perception of the costs imposed on capital by labor and the state. From the perspective of business, 30 years of government expansion had absorbed a growing share of the nation’s economic resources for unproductive social expenditures that created a

shortage of capital for private investment and fueled inflation” (Akard, 1992:601). This common threat allowed different fractions of the business community to override their usual fragmentation, and even their occasional direct conflicts of interest. They combined in groups such as the Business Roundtable, the Carlton Group, and the Chamber of Commerce to lobby for cuts in corporate income tax (Akard, 1992; Martin, 1991). Business groups were instrumental both in bringing the specific details of the tax cuts they wanted to the agenda and in pushing them through: it was the Carlton Group, in association with others, that drafted the business tax cut proposal that was eventually adopted, and the same group successfully threatened to rebel to keep these business tax cuts from being reduced at a later stage in the negotiations (Akard, 1992:608).

It is clear from the documentation of the above scholars that business groups were indeed instrumental—in bringing about *corporate income tax cuts*. But the ERTA was not limited to corporate income tax cuts. In fact, the corporate income tax cuts produced only a minority of the ERTA’s total revenue losses (Figure 3.6). The quantitatively more important pieces of the legislation were the individual income tax cuts: both the across-the-board reduction in individual taxes over 3 years, and the tax indexation, to be started in 1984. By fiscal year 1990, the individual tax cuts produced a loss in revenue of \$164.3 billion, and the indexation a loss of \$57.4 billion; the corporate tax cuts meanwhile produced a loss of \$47.9 billion (Steuerle, 1992:186-7). Moreover, the Reagan administration’s later tax increases made up some of the revenue lost in individual and corporate cuts, but indexation was not repealed.

**Figure 3.6: Revenue Loss Caused by the ERTA as of 1990, billions of dollars,
United States**



source: Steuerle, 1992:186-7

Akard writes--without developing the implications for his thesis of the importance of business group pressure--that business groups were not behind the individual income tax cuts: "The tax cut for individuals was a modification of the Kemp-Roth bill that had been pushed in Congress by Republican enthusiasts of 'supply-side economics' since 1977 and prominently displayed in the 1980 election campaign...The Roundtable and the financial community were...wary of the possible inflationary and deficit-enlarging effects of the Kemp-Roth 30-percent cut in individual income tax rates...Though ambivalent about the proposed tax cuts for individuals in the Reagan plan, the [Carlton] Group agreed to support them in return for the inclusion of accelerated depreciation" (Akard, 1992: 607-608). Business groups did not stand to gain from these cuts, and stood to lose from their possible deficit-generating and inflationary effects; consequently they did not support them, but only acquiesced to them.

Scholars are indeed correct in noting the central role of business groups in getting any kind of tax cuts passed, for without the help and influence of these groups tax legislation may not have gotten on the agenda at all; Martin goes so far as to suggest that business groups orchestrated the "overwhelming support" for the tax cuts generated by the president's July 27 television appearance: "individuals involved on the corporate side have admitted that there was a concerted effort by the business community with the tacit participation of the administration to flood the offices of less-than-sympathetic congressmen. Employees of participating firms were directed to 'tie up the lines' of the targeted congressional offices, thus preventing the expression of opposing views" (Martin, 1991:132). Whether or not this specific claim of behind-the-scenes

orchestration is correct, clearly the evidence shows that the support of business brought the legislation onto the table and helped to get it passed.

But once it was on the table because of the actions of corporate groups, why did the tax cut expand into a bill radically cutting *income* taxes? The business groups involved had to be talked into supporting the individual income tax cuts, the quantitatively more important piece of the legislation. Indeed, they were wary of the deficit that would likely ensue. If business influence over the legislation had been paramount, the individual income tax cuts would have been much smaller, and indexation not an issue. The final legislation must therefore be understood as the result of a process of negotiation between those who wanted corporate tax cuts and those who wanted individual income tax cuts.

But if business groups were merely acquiescing to the individual income tax cuts, to whom were they acquiescing? What led to the individual income tax cuts and the indexation--the parts of the legislation that contributed more to the deficit than the corporate income tax cuts? To answer this question the next section recreates the history of the income tax cuts through three phases: the birth of the idea, the moving of the idea onto the agenda, and its victory in the decision-making arena--to watch the third, second, and first "faces" of power at work.

Origins

The original proposal for tax cuts arose from both traditional and new right-wing sources. Although the idea was "in the air" generally in the early 1970s (Roberts, 1984),

most accounts trace its precise formulation to a specific meeting between the economist Arthur Laffer and the Wall Street Journal journalist Jude Wanniski (Himmelstein, 1990; Stockman, 1986). Laffer demonstrated to Wanniski the tenets of supply-side economics, particularly the idea that taxes create disincentives to work. While this is a standard principle of microeconomics, Laffer's elaboration of this was that taxes in the U.S. were so high, creating such major disincentives, that cutting taxes would lead to greater work effort, greater economic growth, and therefore higher tax revenues for the government. Mainstream economists dismissed this idea, pointing out that it is not known at what point the disincentive effects of high taxes become so large that cutting taxes will increase government revenue; most economists agreed that the U.S. had not reached that point. However, because this had not been *proven*, supply-side economics could not be *disproved*. Lack of disproof was enough to justify it for political use, despite mainstream economists' skepticism. Wanniski popularized supply-side on the pages of the Wall Street Journal, and, funded by the American Enterprise Institute, the Smith Richardson Foundation, the Scaife Foundation, and the Olin Foundation—think tanks which increasingly supported conservative causes—Wanniski and Laffer and other supply-siders brought their ideas to political elites, notably Congressman Jack Kemp and presidential candidate Ronald Reagan (Himmelstein, 1990).

Why did this particular policy proposal arise? Social scientists suggest two competing theories for examining how policy proposals originate. First, in Edward Carmines and James Stimson's words:

Accounting for "ultimate" issue origins is not a difficult problem. Like the origins of species, we can readily postulate the interaction of a

complex environment and chance processes as the source of more numerous raw material in issue innovations than can ever develop. (Carmines and Stimson, 1989:5)

In a complex society like the U.S. we should see all manner of suggestions for how to define problems and how to solve them. An alternative view of the origins of problems and proposals has been suggested by scholars such as Steven Lukes and John Gaventa, who argue that processes of ideological hegemony prevent certain issues or certain ideas from even being *formulated*. In the case of the U.S., we might think that the dominance of liberal ideology would prevent any radical, non-liberal solutions from even being advanced. Or, we might expect the rise of new right-wing sectors, such as the think tanks funded by corporations and individual entrepreneurs, to bias the development of ideas such that business-friendly economic proposals are more likely to be generated (Ricci, 1993).

In fact we find that all of the usual measures with which socialist democracies have traditionally attacked recession and inflation were also on the table in the U.S. in the mid to late 70s: shortened workweeks, nationalization of key sectors, large public works projects, and wage and price controls (Industry Week, 1975, Levitan and Belous, 1977; Bourgeois, 1978, Business Week, 1978; Galbraith, 1977, Martin, 1977, Klausen, 1978, Vaughan, 1976, Vernez, 1977, U.S. Congress, 1977, U.S. Congress, 1978; Shultz and Dam, 1977, U.S. Congress, 1978, U.S. News, 1978, Whiteman, 1978). The sources of these left-wing proposals were the traditional sources of left-wing thinking in the U.S.: the academy, unions, government bureaucrats, and certain media outlets. The various measures received varying degrees of support, but in terms of the mere *formulation* of

policies it is clear that supposed liberal ideology did not prevent some very non-liberal policies from being suggested--supporting the Carmines and Stimson view of policy formulation over the Lukes and Gaventa.

But the Laffer-Kemp meeting raises another question: why was Congressman Jack Kemp involved in the issue at all? Elected only in 1974, Kemp was relatively low on the House totem pole, and did not hold seats on either the Budget or Ways and Means committees, the two areas in the House where tax issues are handled. As a newcomer, what he should have been doing is quietly aiding his district and managing his networks to be able to win reelection until he had climbed into a more powerful position; instead, he was setting the national agenda.

The Laffer-Kemp meeting reflects the rise, in the late 1970s, of a new breed of legislator, the "policy entrepreneur." The weakening of party structures in the 1960s increasingly forced candidates to turn away from dependence on parties, and to oversee their own campaigns. In the early part of the century, the mass party was the medium through which politicians acquired and used power; starting in the 1970s politicians increasingly began turning to social sources of support to be able to build their own personal campaign machines: "In the past, contenders depended upon the ongoing party apparatus to wage campaign battles, and in some places this is still done. But today most party organizations have neither the permanent workers nor the financial wherewithal to mount effective campaigns. Citizen or interest group activists and hired campaign consultants have replaced the old party pros" (Davidson and Oleszek, 1985:86). In this system, candidates are "in business for themselves" (Davidson, 1981:131), and more

beholden to voters to keep them in power than to party elites. This vulnerability to voters increases dependence on media outlets that can help a candidate attract voters, and this in turn increases vulnerability to sources of campaign funding who can help a candidate finance an expensive media onslaught. One of the techniques for ensuring visibility in voters' eyes is immediate engagement with substantive issues. The Congressmen elected in the mid-1970s were significantly more likely to become immediately involved in substantive issues than their predecessors (Table 3.4). This was necessary to maintain their position in the public eye, newly crucial to political success.

Thus, the weakening of party structures created a generation of legislators who actively *sought out* issues on which to make their name; one such legislator was Jack Kemp. There is no question that Kemp benefited from the early exposure: his success in setting the national agenda on supply-side policies made him one of very few legislators to be able to mount a bid for national office from the House. A large number of such "policy entrepreneurs" creates a state structure more open to society: as each entrepreneurial legislator seeks out new policy issues as a means to establishing and maintaining an ideological and political base, a large number of social issues that are potentially popular with the majority will be addressed. Even in the absence of democratic *pressure* to enact certain policies, in the presence of a large number of policy entrepreneurs, the *potential* democratic appeal of issues may be enough to bring them onto the agenda. The weakening of party structures combined with new developments such as the rising ability of politicians to appeal directly to voters over the heads of party organizations. These changes were directly responsible for the proliferation of attention

**Table 3.4: New Members Participating in House Leadership Activities, percent,
1965-1976, United States**

| | 89th Congress (1965-1966) | 91st Congress (1969-1970) | 94th Congress (1975-1976) |
|---|---|---|---|
| Floor manager of major bill or amendment | 0 | - | 37 |
| Offered floor amendments | 12 | 40 | 86 |
| Committee amendments offered | 24 | - | 96 |
| Served on conference committees | 6 | 17 | 69 |
| Made "major" floor speech | 30 | - | 72 |

source: Loomis, 1988: 40

to new issues and the movement of some of these, such as the Laffer tax cut idea, onto the policy agenda, in this case through the medium of ambitious junior Congressman Kemp.

Agenda-Setting

Kemp's interest and personal ambition brought the issue into the national spotlight, where a conservative president was supportive of it. But given the proliferation of issues that were being brought into the national consciousness by "policy entrepreneurs," why did this particular issue become selected for inclusion in a presidential agenda? As discussed above, Reagan adopted it as a quite explicit part of his 1980 platform, which devoted more sentences to tax issues than any previous campaign platform. The question of why he adopted the issue breaks down into two sub-questions: first, why was Reagan in a position to approve of this policy--that is, why was there an extremely conservative president in the White House in the first place? Second, why did this president approve of this proposal but not other supply-side proposals?

The role of Ronald Reagan in the tax cut legislation is crucial. The combination of recession, corporate lobbying, and procedural changes were all present before 1980, but it was only after the election of Ronald Reagan that they led to a massive reduction in taxes. As Douglas Arnold notes, it was the President who set the tax cut "bidding war" in motion, offered the supply-side rationale, and threatened to veto any legislation that did not offer enough tax reduction; and when the President is bent on enacting a policy that is popular with voters, resisting it can be politically risky, while enacting it means that the

President can be blamed for any negative consequences (Arnold, 1990:207-209). We know from Reagan's speeches what his personal rationale for the tax cut was; rather than being a straightforward concession to business demands, it was part of a strategy to reduce government spending later. As he put it in his February 5, 1981 speech on the state of the economy:

Over the past decades we've talked of curtailing Government so that we can then lower the tax burden. Sometimes we've even taken a run at doing that. But there were always those who told us that taxes couldn't be cut until spending was reduced. Well, you know we can lecture our children about extravagance until we run out of voice and breath. Or we can cure their extravagance simply by reducing their allowance. [quoted in White and Wildavsky, 1989:80]

While the tax cuts were perceived to be popular with voters, Reagan himself liked them for a different reason--they would place a constraint on government spending. There is no systematic evidence that Reagan intended to produce a deficit that would constrain spending in the *future*, but he does seem to have wanted to constrain spending in the 1981 budget by using tax cuts as a disciplinary tool.

From the way that Reagan managed to put his agenda into practice, one might be led to interpret the tax cuts in the light of a theory of history that isolates the behavior of specific individuals as the motivator for political and social changes, or in favor of theories that ascribe causal primacy to state actors; in this case, that Reagan by force of personality and strategic acumen won the election and stamped his own free-market vision on events. These explanations would be inappropriate here for two reasons. First, the "stagflation" of the mid to late 1970s meant that the current Democratic incumbent of the White House was likely to be voted out; second, the unusual importance of social

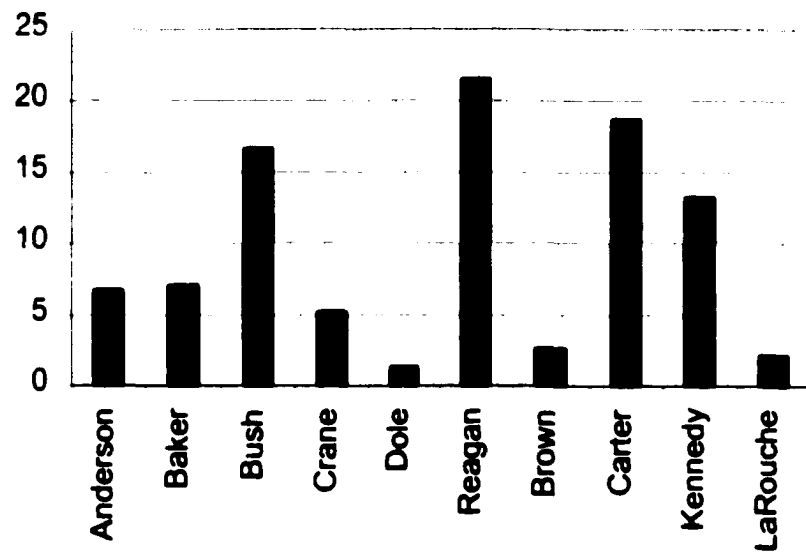
sources of campaign financing in the election of 1980 gave politicians friendly to business a distinct advantage. As many commentators have noted, the 1980 election represented the beginnings of the explosion of the era of Political Action Committee (PAC) financing, and more specifically, the beginnings of the corporate financing of politics. Labor union PAC donations to political candidates grew from \$201 million in 1974 to \$297 million in 1980, but this growth was nothing compared to growth in corporate donations, which went from \$89 million in 1974 to \$1204 million in 1980 (Alexander, 1983:126). Even more important than these was the development of "ideological" PACs, which donated \$38,613,000 in 1980, of which \$27,275,000 came from conservative PACs (Alexander, 1983:128-9). On the average, PACs donated only 14% of their money directly to the candidate; 86% was spent by the PACs themselves. Much of this was spent on organizational costs, but of the part of this money that was spent on candidates, Reagan received the largest share. Of money spent on behalf of Republican candidates, Reagan received more than 40% of the total (Alexander, 1983). In addition, Reagan had formulated his own PAC, Citizens for the Republic, to avoid some of the campaign spending limits. Moreover, several corporate groups made it clear that they preferred Reagan's free-market rhetoric to that of any of his opponents (Maxwell, 1980; Perry, 1980), although they did not in the end actually spend the large amounts of money that they had planned to spend. The three largest PACs—the National Conservative Political Action Committee, Jesse Helms's Congressional Club, and the Fund for a Conservative Majority—did manage to spend \$17 million on Reagan's behalf between January 1979 and November 1980 (Robinson, 1981:187). Because recent

changes in campaign finance laws allowed unlimited spending on behalf of a candidate, and because of the growing expense of media campaigns, PAC spending could have an exponential effect.

Scholars in the business group pressure tradition are thus correct to note the role of campaign financing in the 1980 election, but it is crucial to note two qualifications. First, the bulk of this money came to Reagan *after* he had already secured the nomination of the Republican party; second, money from businesses and wealthy individuals became particularly important *because of* the inability of party structures to raise the amounts of money necessary in presidential campaigns.

First, most of the large amounts of money that Reagan benefited from came to him after he had already secured the Republican nomination: that is, business money helped insure that a Republican would be voted in, but it did not guarantee that an extreme right-wing Republican would get the nomination. How, then, did it happen that Reagan not only won the Republican nomination, but did so decisively--winning, for example, seven of the first nine primaries? What seems to have been crucial to Reagan winning the nomination was a fundraising organization that successfully raised money *from individuals* during the prenomination phase of the campaign. Figure 3.7 shows that Reagan had raised more money in the prenomination phase, i.e. *before* business contributions became an issue, than any other candidate. Moreover, NES data show that in 1980, Republican voters in the highest income brackets were more likely than in any previous campaign to have contributed money to a political campaign, i.e. wealthy *individuals* were better targeted by the Reagan campaign than they had ever been before.

Figure 3.7: Pre-Nomination Spending, 1980 Election, United States



source: Alexander, 1983

Reagan was so much more successful at raising money than any of the other Republican nominees because he had already run for the presidential nomination once, in 1976, and had leftover funds from that campaign which provided seed money for the next one: "An FEC audit completed in 1977 determined that of the \$1,616,461 in surplus funds with which Citizens for Reagan [late Citizens for the Republic] ended the campaign, \$580,857 represented matching funds that were repayable to the U.S. Treasury. In November 1977, the Reagan committee repaid the amount to the Treasury, but by that time the funds had already helped provide CFTR with seed money to mount its own fund-raising drive...CFTR maintained a full-time staff that eventually reached nearly thirty and executed most of its fund raising through direct mail, initially using a mailing list of more than 100,000 names that had been developed during Reagan's 1976 prenomination campaign...In the process of raising funds, CFTR developed a mailing list of more than 300,000 contributors who would be good prospects for fund-raising appeals by a Reagan presidential committee" (Alexander, 1983:146). Bush, Dole, and Connally also established their own fundraising PACs, but these were dwarfed by Reagan's: while CFTR spent \$4.5 million in 1977-78, Bush's PAC spent only \$228,321, Dole's \$197,399, and Connally's \$133,940, and the latter three closed down before their candidates had announced their run for the presidency (147-8).

The surprising answer is that Reagan had the edge because his operation had successfully turned a failed 1976 bid into a long-term organization designed to raise funds and generate a useful mailing list. But the difference seems to be not in the amounts of money raised, so much as in the organization that the money was used to

create--John Connally, who raised almost as much money as Reagan, did not turn this wealth into an organization capable of mobilizing constituents and nudging "independent expenditures" on behalf of, but not generated by, the candidate.

But this raises a second question: why was Reagan's organizational success with individuals, his fundraising organization's efficiency, and his appeal to corporate groups, important? Scholars have analyzed the "supply" side of the rise in corporate funding of elections, but not the "demand" side--that is, that starting in the 1970s politicians increasingly turned to mass solicitations from individuals as well as solicitations from corporate groups because of the weakening of party structures and the consequent inability of parties to serve as the bases on which individual politicians built their careers. As discussed above, party organizations were less able to fund politicians' campaigns starting in the 1960s. This combined with new changes in campaign finance legislation to pave the way for the rise of the social sources of funding of political campaigns. Reagan's organizational success and success at attracting corporate backers became particularly important *because* of changes in the way that political campaigns are waged.

Most analyses of the tax cuts stop at the point of showing the role of conservative think tanks and corporate money in funding the supply-side revolution. But if these think tanks and business influences were so powerful, why did another supply-side idea, the return to the gold standard, *not* make it onto the agenda? The unsuccessful attempt to return to the gold standard offers a revealing comparison with the successful tax cut: the two cases hold *almost* everything constant except the policy itself. First, both the gold standard and the tax cut issues arose at the same time and in the same political context:

Reagan adopted both of them in his 1980 campaign platform, but while the tax cut became law, the gold standard issue was first referred to a commission, then dropped entirely. Second, the same actors responsible for the successful movement of the tax cut onto the agenda--Arthur Laffer, Jude Wanniski, and Jack Kemp--were also pushing for a return to the gold standard. Third, the majority of mainstream economists were against both developments. Fourth, both issues offered "ideological" benefits from an anti-government standpoint: reducing tax revenues would put pressure on government spending, while returning to the gold standard would reduce governmental ability to manipulate the market. Finally, both issues were strongly supported by business groups; but while PAC financing played a role in getting the tax cut issue onto the agenda, heavy lobbying from "gold bug" groups did not manage to move the gold standard issue onto the agenda.

The theoretical justification for the gold standard is that it prevents governments from taking short-term measures in their individual interest that interfere with long-term domestic and international economic growth. First, if governments tie their currencies to the amount of gold reserves available domestically, they will not be able to print paper money to cover short-term debts and thus drive up inflation. Second, because gold reserves are fixed, different currencies will be automatically tied to each other, preventing governments from manipulating exchange rates to their favor and thus stabilizing the risks of rapid exchange rate fluctuations for investors. These anti-inflationary and anti-fluctuation benefits should, in theory, lead to a domestic and international economic environment more conducive to investment and growth. Market mechanisms--the supply

and demand for gold and other goods--rather than the politically motivated decisions of individual governments will determine the rates of individual currencies (Eichengreen, 1985). As the economy grew, demand for goods other than gold would increase, causing a fall in the price of gold and (equivalently) an increase in the effective money supply without inflation.

A gold standard was in effect internationally from 1880 until the outbreak of World War I. Empirical evaluations give no clear evidence of its superiority in terms of price stability, but the pre-war gold standard period is clearly associated with a period of exchange-rate stability for countries at the center of the world economy. The interwar gold standard did not work so well, because in this period governments were more likely to devalue their currencies to attain export advantage. After the Second World War the international economy entered the Bretton Woods period, when only the dollar was pegged to gold, and other currencies floated against the dollar. However, because the dollar was held internationally, foreign reserves of dollars outgrew U.S. reserves of gold: "the system relied on dollars for liquidity, but...the very accumulation of dollars abroad was undermining confidence in the dollar's convertibility" (Eichengreen, 1985:27). Fearing a run on the dollar, the Nixon administration officially ended the system in 1971, and the world entered a period of floating exchange rates.

The economic consensus in the late 1970s was against a return to the gold standard, even the modified version of it in place before 1971. Several practical problems with a gold standard were presented: the price of gold would not necessarily be determined by market forces, since Soviet Union and South African gold reserves were

likely to be subject to political will; if other countries did not follow suit the anti-inflationary and anti-exchange rate fluctuation benefits of the U.S. pegging itself to gold would be swallowed by cross-border flows; and new discoveries of gold would lead to inflation. But the main argument against a return to the gold standard was political rather than technical: gold would not bring about the benefits of price and exchange-rate stability, it was argued, because governments always had the option of going off the gold standard by devaluing their currencies against gold. In other words, to stay on a gold standard is a political decision--as political as the decision to print money or manipulate exchange rates. As a New York Times editorial put it, "Imposing a gold standard is like a dieter putting a lock on the refrigerator door. If one has self-discipline, it isn't necessary. If one does not, there is always a way to find the key" (New York Times, August 23, 1981). Economist Herbert Stein echoed others who pointed out that a gold standard had not prevented price swings in the pre-World War I period, nor did it prevent the Great Depression, and may actually have contributed to prolonging the Depression by tying governments' hands.

However, a minority of vocal proponents of the gold standard were making themselves heard in the Republican party in 1980--a group which included the same trio who so successfully advocated for a tax cut: Arthur Laffer, Jude Wanniski, and Jack Kemp. Also supporting the minority position were Robert Bartley, editor of the Wall Street Journal, Robert Mundell of Columbia University (later a winner of the Nobel Prize), and particularly Congressman Ron Paul and businessman Lewis Lehrman, who both served on President Reagan's Gold Commission. The argument of this group was

that the inflation of the early to mid 1970s had been caused by the 1971 abandonment of the gold standard, and could only be remedied by a resumption of fixing the dollar to gold. If the U.S. should do so, Wanniski argued, other countries would have no choice but to follow, since if they did not, investments would flow into the U.S. because of the anti-inflation properties of the fixed dollar. New discoveries of gold would get absorbed into the price rate through regular market mechanisms, the supporters argued, and the Soviet Union and South Africa had only 1% of the world's gold reserves. The supporters could not answer the political objection, but they argued that the benefits of a gold standard were so great that governments *ought not* to politically manipulate adherence to the gold standard, and that if they did not do so, then the gold standard would work. Of course, it could easily be argued that governments ought not to print money in the first place, or manipulate exchange rates for local gain, and if they did not do so a gold standard would not be necessary.

But even if it was not airtight (perhaps no more or less so than the case for a massive tax cut) the case for gold had strong financial backing. In 1983, the lobbying group that spent the most amount of money on Capitol Hill was the Free the Eagle National Citizens Lobby, whose "goals were to restrict Federal authority, to deregulate the economy, to balance the budget and to return to the gold standard" (New York Times, November 27, 1983). The case for the gold standard had strong institutional backing, with supporters at the highest reaches of Congress and the Administration as well as in the media, the academy, and the business communities. It was an implicit part of the Republican party platform in 1980, though not as important a part as the tax cuts. And

the case for gold had ideological benefits from a neoliberal standpoint: it would lessen governmental ability to manipulate the market, at least until further positive government action could be taken to undo it. Moreover, the gold standard had one major “state structural” advantage that tax cuts did not: while a return to the full gold standard required legislative action (which Reagan could probably have gotten in 1981), opening a “gold window” required only administrative decree. As Nixon had unilaterally taken the dollar off of gold, Reagan could unilaterally put it back on gold by committing the government to buy and sell gold at a fixed dollar price.

Given all of these advantages, why did the gold standard not become law? The comparison between the case of the gold standard and the case of the tax cut draws attention to the causal role of the differences between the two issues. First, the tax cut issue benefited from the “focusing event” (Kingdon, 1995) of the Proposition 13 tax movement; no such event crystallized public attention on the gold standard issue. Second, the tax cut provided clear and easily understood benefits to the majority of voters, while the gold standard’s anti-inflation benefits were not so clear. This comparison suggests that social sources of support for issues are crucial in their adoption, even given a president in favor of them and heavy lobbying from moneyed sources.

John Kingdon’s analysis of agenda-setting in politics (1995) suggests that in the competition for political attention, proposals, no matter their sources of support, must be marketable to voters; moreover, proposals are moved rapidly onto the agenda in response to “focusing events,” sudden crises in the political or social environment that seem to call for a response from policy-makers. These concepts help us explain why it was tax cuts

rather than the gold standard that moved onto the political agenda: tax cuts have an appeal to voters that a return to the gold standard does not. In addition, tax cuts tapped into what was *perceived* as a taxpayer revolt:

The passage of Proposition 13...became symbolic of a perceived restiveness among taxpayers, a shift in public opinion. Politicians had felt something like a taxpayer revolt coming for some time, but Proposition 13 became their shorthand way of referring to it. They would refer in an offhand way to a "Proposition 13 mentality" or a "Proposition 13 atmosphere," meaning a severe public opinion constraint on government spending, higher taxation, and new, expensive programs. Indeed, the symbol diffused very rapidly, probably because it captured the mood rather convincingly, at least as politicians saw it. Proposition 13's passage came in the midst of my 1978 interviews. It was discussed by name as being important in only 2 of the 26 interviews taken before its passage. But 15 of the 38 postpassage interviews (39 percent) contained a spontaneous, nonprompted mention of Proposition 13 by name, quite a remarkable diffusion of a symbol among policy elites over a short period of time. (Kingdon, 1995:97)

Politicians interpreted Proposition 13—a localized instance of revolt against one set of taxes, led by a specific class of people—as a symbol of a general citizens' revolt against all taxation. We have seen above that there was not in fact much pressure from citizens to cut taxes. But there was *potential* restiveness about taxes, as indicated by the rise in percentages of people indicating taxes were "too high." This, and the drama of Proposition 13, led politicians to suspect the potential to exploit anti-tax sentiment. Taxation in the U.S. is highly visible and dispersed; on the other hand, the benefits received from taxation are largely invisible and taken for granted. Compared to the French system for example, in which the benefits of taxation are highly visible and widely dispersed, while taxation is invisible and/or concentrated, the American tax

structure was much more amenable to political change. The combination of these two factors, a dramatic focusing event plus a clear political payoff, brought the issue of tax cuts onto the agenda.¹

To answer why the tax cut issue became such a prominent part of the agenda, then, two things must be kept in mind. First, the weakening of party structures allowed the resurgence of social sources of power, which brought a conservative president, one popular with corporate groups and wealthy contributors, into office because of his successful organization of a personal fund-raising effort. Second, given these changes, the exploration of why the gold standard issue did not move onto the agenda, despite its similarity to the tax cut issue, shows that public opinion on issues continues to be a key intervening variable.

Decision-Making

Once it moved onto the agenda, the victory of the ERTA could by no means be taken for granted: Congress was controlled by Democrats, who had a comfortable margin in both houses. When the tax cut bill first arrived on the scene, commentators predicted a sure defeat for the president: "Ronald Reagan's \$48 billion package of budget cuts is

¹ Reagan himself was one of the American citizens to whom the benefits of a tax cut were much clearer than the benefits of a gold standard:

"They told him about the 'Laffer curve.' It set off a symphony in his ears. He knew instantly that it was true and would never doubt it a moment thereafter.

He had once been on the Laffer curve himself. 'I came into the Big Money making pictures during World War II,' he would always say. At that time the wartime income surtax hit 90 percent.

'You could only make four pictures and then you were in the top bracket,' he would continue. 'So we all quit working after four pictures and went off to the country.'

High tax rates caused less work. Low tax rates caused more. His experience proved it. And stated that way, he was right." (Stockman, 1986:10)

steaming through Congress, but his three-year 10-percent tax cut proposal seems to have run aground" wrote Newsweek; the Speaker of the House thought "There's no support out there, even among the Republicans," and a Republican Congressman worried that "the administration is in the ditch on tax cuts" (all quoted in Stockman, 1986:232). So the victory, when it came, was even sweeter for Reagan and his supporters. In July 1981, 48 Democrats "defected" to vote for the tax cuts, while only 12 Republicans voted against. The outcome was much more lopsided in the Senate: 89 of the 100 senators voted in favor.

The victory in the House was particularly significant, as the House had been much more hostile to the original idea than the Senate. Crucial to the House victory were the Southern Democrats: 45% of the 80 Southern Democrats in the House of Representatives voted in favor of the tax cuts, compared to only 7.3% of the 160 Northern Democrats. The Southern Democrats provided the swing votes; without them, the 12 Republican defectors exactly canceled out the 12 Northern Democratic defectors. The 36 Southern Democrats who voted in favor of the tax cuts provided a margin large enough to overwhelm the Democrats' numerical advantage.

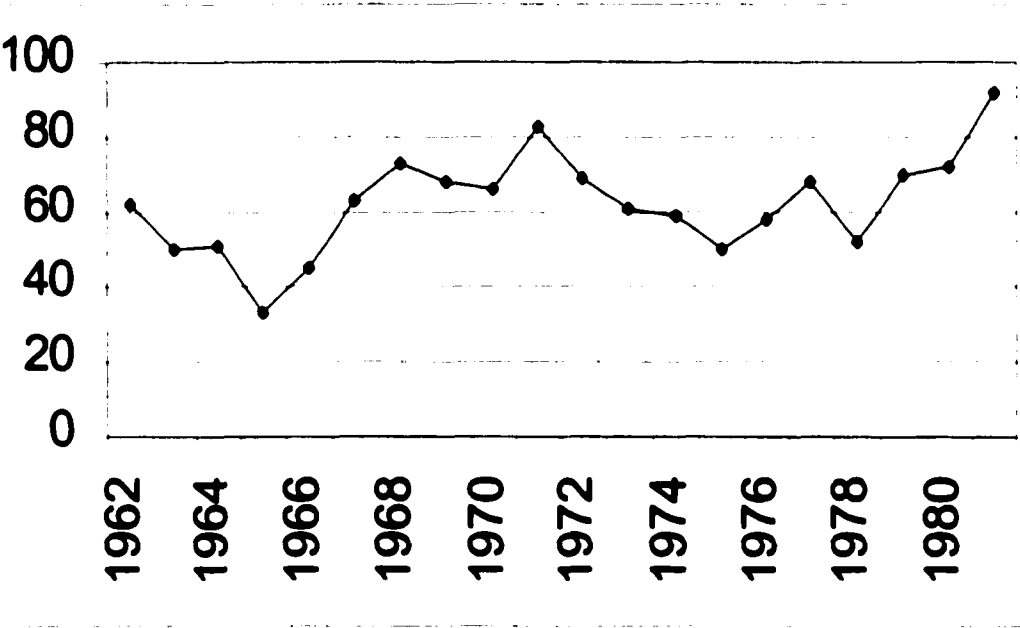
Why did the Southern Democrats vote in favor of the Republican-led tax cut? And why did they do so in such overwhelming numbers when their northern counterparts by and large voted the party line?

There is both a historical and a policy-specific answer. First, although the south had been solidly Democratic since the Civil War (because of the Republican party's role in abolishing slavery and imposing a punitive Reconstruction on the south), the region's

attachment to the Democratic party had been weakening since the 1940s, and dropped precipitously beginning in the 1960s, because of the Democratic party's increasingly receptive stance on civil rights for blacks and the beginning of racial gerrymandering, which lessened the pressure towards progressive stances among southern Democrats (Bass and DeVries, 1995). This was reflected first in the rise of Republican candidates and successful office-holders in the South, and second in the increasing detachment of the Southern Democrats from the national party organization. Figure 3.8 shows percentage of votes on which a coalition of Republicans and Southern Democrats outvoted Northern Democrats in the always Democratically-controlled Congress of the 1970s, on issues on which Southern Democrats and Republicans were opposed to Northern Democrats. This figure is well above half for the entire period since the late 1960s, signaling the rise and importance of the coalition; but note also the sharp rise in 1981, when the conservative coalition won 92% of issues on which it appeared. What happened in this year to make the Southern Democrats vote so often in the Republican President's favor?

To attract swing supporters to the tax cuts, Reagan and his Republican supporters in both House and Senate increased the scope of the tax bill by adding eleven separate amendments that benefited particular constituencies (Table 3.5). Other additions included tax relief for oil land owners, deductions for trucking companies and special allowances

Figure 3.8: Conservative Coalition Victories, 1962-1980, United States



source: *Congressional Quarterly* 1982:38

Table 3.5: Amendments to 1981 Tax Bill: Major Amendments Added to Original Individual Income Tax Cuts and Corporate Income Tax Cuts, United States

| |
|---|
| <p>"The maximum rate on unearned income would be reduced from 70 to 50 per cent...Although the change would benefit only wealthy individuals receiving investment income, the proposal has won bipartisan support because it is viewed as a step to encourage investment."</p> |
| <p>"Employers would be given a 25 per cent tax credit for increases in direct wages attributable to research and development. The proposal has been urged by high technology industries, many of them in the South and West."</p> |
| <p>"Persons employed overseas would be permitted to exclude for U.S. tax purposes the first \$50,000 of their income taxable by other countries and half of the next \$50,000. The change would weaken a law enacted in 1976 to tax foreign earnings but postponed since then because of opposition from businesses and employees working abroad."</p> |
| <p>"A married couple could exclude 5 per cent of the lower wage earner's income (up to \$1,500) in 1982 and 10 per cent (up to \$3,000) thereafter. This provision, designed to give two-earner families a break from the so-called marriage penalty, has won strong support in Congress."</p> |
| <p>"The ceiling on estate income exempt from taxes would be raised gradually from \$175,000 to \$600,000, and the annual exclusion on gifts would be hiked from \$3,000 to \$10,000. The change has been backed by farmers and small-business executives who say they cannot afford to keep their assets within their families because of the high taxes."</p> |
| <p>"The \$1,500 ceiling for annual tax-exempt contributions to individual retirement accounts (IRAs) would be increased to \$2,000. Advocates back this step as a savings incentive and a way to help taxpayers plan their retirement."</p> |
| <p>"Persons already participating in a private pension fund would be allowed to contribute \$1,000 annually to an IRA."</p> |
| <p>"Self-employed persons would be allowed to double to \$15,000 their annual tax-exempt contributions to a Keogh retirement plan."</p> |
| <p>"The temporary increase to \$200 for individuals and \$400 for couples in the amount of interest or dividend income would be made permanent in 1983. As with other savings features, this proposal has been backed enthusiastically by Sen. Lloyd Bentsen, D-Texas, a Finance Committee member."</p> |
| <p>"Oil-royalty owners would be granted a credit increasing to \$2,500 in 1983 against the "windfall profits" tax on oil revenue. Members from oil producing states contend the tax was designed primarily to affect the major oil companies."</p> |
| <p>"Persons rehabilitating old buildings would be permitted an investment tax credit up to 25 per cent."</p> |

source: Cohen, 1981: 1061

for six distressed industries. Politicians who were “in business for themselves” took action to protect their constituencies, and were not bound by the discipline of the Ways and Means Committee that had kept earlier tax cuts, such as the Kennedy-Johnson tax cuts of 1964, within budgetary bounds.

Of the provisions added, one turned out to be crucial in its effect on the votes of the Southern Democrats: the raising of the exemption ceiling on estate taxes, which affected family farms and small family businesses. Table 3.6 shows the rate of voting for the tax cut broken down by party and constituency. Southern Democrats from farm districts, in particular, were more likely to vote for the ERTA than northern Democrats and all other southern Democrats: only 7.3% of northern Democrats voted for the ERTA, while over 1/3 of Southern Democrats from non-farm districts did, and almost 60% of Southern Democrats from farm districts did.

The dynamic of legislators needing to be individually attracted to vote for the legislation with benefits for their particular constituencies shows the influence of a territorially instantiated democratic process on the victory of the ERTA. The *reason* legislators needed to be individually attracted, and the ways in which this was done, again have to do with recent changes in the structure of the state: the congressional budget reforms of 1974 had weakened the power of centralized budget-making committees. The result of this was lack of careful review or deliberation on the ERTA by the Ways and Means committee:

The reforms had a devastating effect on Ways and Means. As its autonomy was diminished, the committee was weakened. Without its function of assigning members to committees and the virtually automatic closed rule, Ways and Means had few resources for imposing its will on

Table 3.6: Voting for 1981 Tax Cut in House of Representatives by Party and Constituency, United States

| | total | number voting for ERTA | percent voting for ERTA |
|---|-------|------------------------|-------------------------|
| all Democrats | 244 | 48 | 19.7 |
| Northern Democrats | 164 | 12 | 7.3 |
| Southern Democrats | 80 | 36 | 45 |
| Southern Democrats from non-farm districts* | 46 | 16 | 34.8 |
| Southern Democrats from farm districts* | 34 | 20 | 58.8 |

*farm districts = southern districts with percentages of residents involved in farming greater than the southern district average

source: Barone and Ujifusa, *Almanac of American Politics*, calculations by author

the House. The committee was opened up, not only by opening its meetings to the press but also by enlarging its membership and altering its composition. It now has a larger proportion of members from unsafe districts, who are more responsive to constituency-based interest groups than to the chairman or the ranking minority member. Since many members feel electorally insecure, the absence of committee constraints has had an adverse effect on the entire membership, not only on those who have experienced close elections. With the power of the chairman significantly curtailed, the inclination of members to pursue their own goals rather than those of the committee or their party has been encouraged. (Rudder, 1983:204-205).

The 1970s reforms thus resulted in “change in the direction of less carefully crafted decisions that reflect greater attention to servicing clientele groups and more distribution of particularistic benefits to members’ constituencies” (Strahan, 1990:55). The dynamic of members pursuing their own goals, particularly the goals of their constituencies, had two effects on the passage of the ERTA: first, it further unlinked tax issues from spending issues by removing the Ways and Means committee’s power to bring these issues out of the sphere of public influence; second, by removing the committee’s power to set the *terms* upon which tax and budget issues would be decided, it opened the way for appeals from individual entrepreneurs to seek particular favors for their constituencies.

Thus, in the case of the ERTA, changes in the structure of the state had the effect they were intended to have—they made state actors more responsive to “the people,” and they made the state *less* autonomous. But the irony of this is that this lack of autonomy meant state actors were increasingly oriented toward short-term, populist causes benefiting their particular constituencies that may not have been in the long term general interests of the state or of the society. In the case of the 1981 tax cuts, state actors who were “in business for themselves” needed to be individually attracted to the tax cuts

because of the absence of a centralized decision-making and –enforcing body like the Ways and Means Committee in the House. Once a “big tax bill” was on the agenda, it could only be pushed through by adding tax breaks to attract more and more of these individual political entrepreneurs. What resulted has been characterized as a “bidding war” or in David Stockman’s disillusioned tale of the triumph of democratic politics over free-market ideology, the hogs feeding at the trough. The final bill included eleven separate amendments intended to attract particular constituencies, especially the Southern Democrats. The need to attract more votes explains the size of the tax cuts: they grew in response to the need to attract more and more supporters in the legislature. Indeed, indexation—the issue that more than any other gave the 1981 tax cuts a permanency not seen before or since—was voted in in the House because of this frantic bidding activity, without receiving *any* debate or committee consideration: it was included as part of a Republican package that “reflected less a consistent philosophy than the result of a fierce bidding war between the administration and House Democrats to demonstrate who controlled the floor of the House” (Weaver, 1988:203) by offering alternative proposals that outbid each other in the size and particular distribution of tax cuts offered. Notice the neat political reversal in the floor dynamics of the 1981 tax cuts: in the post-war period this has usually been the dynamic of “pork barrel” politics, gaining support by giving each individual representative something for her or his district. Because of the declining influence of the Ways and Means Committee, the President could offer tax cuts as pork in reverse.

The story of the 1981 tax cuts argues against a reading of the Reagan Revolution as a result of the influence of business groups. Business groups were wary of the deficits that such a large tax cut would produce. Instead, the tax cuts originated in, and moved onto the agenda and were passed because of, the increasing sensitivity of American politicians to majority interests and the structure of those interests in opposition to those of the disadvantaged majority: most Americans had more to gain from the tax cuts than to lose. The structure of majority interests in itself did not lead to majority demands for tax cuts, but entrepreneurial politician Jack Kemp took up the banner of the issue, the rise of an anti-tax movement focused politicians' attention on it, and concessions to individual politicians, particularly Southern Democrats, aided its passage. At each step, the key dynamic was the *active* openness of the American state structure to the wishes of constituents, and particularly of middle class majorities: politicians did not simply respond to majority demands, but actively sought to anticipate, discover, and even generate them.

Industrial Policy: Deregulation

Between 1981 and 1983 the Reagan administration scaled back the role of government in enforcing corporate responsibility to workers, consumers, and the environment to levels not seen since mid-century. These policies, collectively called deregulation, aided business during the economic boom of the mid-1980s to 1990s; they were also responsible for the S&L crisis, the largest economic fiasco in the history of the nation.

Despite the importance of deregulation to the political economy of the country, it has never been studied by political sociologists. Political scientists have given the phenomenon some attention, but a curious feature of American academics has, as I will show in this section, obscured a fundamental feature of the rise and fall of deregulation: because the study of economic policy is a separate academic sub-discipline from the study of social movements, the sources of Reagan's deregulation in the social protests of the 1960s have been largely unrecognized, and never systematically explored. Investigating these sources leads to an interesting conclusion about the dynamics of politics in late 20th century America: the "new social movements" of the 60s are tied in complicated but predictable patterns with the "old" class politics that saw a resurgence in the 1980s. This conclusion is surprising because research on new social movements has only now begun to systematically address the consequences of social movements and the question of how new social movements fit into broader political patterns (Pichardo, 1997; Giugni, 1998), and also because the orthodox wisdom on the rise of the right in the 1980s sees it as a class struggle resolved in favor of the wealthy (Piven and Cloward, 1982; Edsall, 1984; Ferguson and Rogers; 1986; Himmelstein, 1990; Akard, 1992). This section revises the empirical and theoretical pictures by demonstrating how some of the policies that made up the rise of the right had roots in the populist American *left*; in particular, the left's ambivalence towards the role of the state fed directly into Ronald Reagan's full-scale attack on government.

Historical Background

In the U.S., state interference in economic activity is as old as the republic. The early American state was aggressively interventionist on a local level in matters that affected the “public interest,” such as the operation of public utilities. It was only with the arrival of railroads, however, and the creation of the Interstate Commerce Commission in 1887 to regulate them, that regulation became a major national issue. The Depression spurred another round of regulatory reform designed to stabilize capitalism, in which major regulatory agencies such as the Securities and Exchange Commission and the Federal Deposit Insurance Commission were inaugurated. In the 1960s a new type of regulation began to be passed, “social regulation” that attempted to protect the public from the “externalities” of private production such as industrial risk and environmental pollution. (Eisner, 1993; Novak, 1996; McCraw, 1984)

If regulation has always been part of the economic history of the U.S., it has always coexisted with its opposite; U.S. economic policy has always included important critics of regulation. This was no less true for the most recent period: the 1960s burst of regulation carried alongside it a developing critique of regulation, and the issue of deregulation remained on the political agenda for the entire decade of the 1970s. Even as he signed into law the Environmental Protection Act, which would create the largest single regulatory agency to date, President Richard Nixon indicated a desire to contain “regulatory sprawl.” President Gerald Ford took up the banner of deregulation as an anti-inflationary measure, and passed an Executive Order that new regulations be assessed for their impact on inflation before being implemented. It was in President Jimmy Carter’s

term that deregulation first began to make headlines. Following a series of dramatic congressional hearings led by Senator Edward (Ted) Kennedy, the Civil Aeronautics Board was deregulated out of existence and Carter established the Regulatory Analysis Review Group (RARG) to examine and comment on the effect of regulations on the economy. When Reagan took office airlines, railroads, and interstate trucking had all been deregulated; Reagan's contribution was to implement cost-benefit analysis as a standard for all new regulations, put the Office of Management and Budget in control of regulatory oversight, and create a Task Force on Regulatory Relief chaired by the Vice President (Friedman, 1995). These innovations extended the Carter-era economic deregulations into the sphere of social regulation, most particularly into the Occupational Safety and Health Administration and the Environmental Protection Agency.

The puzzle in the story of deregulation is why it was supported by Democrats as well as Republicans. Ted Kennedy is not usually associated with right-wing policies, indeed, in the latter part of the twentieth century he has been one of the most reliable standard bearers for the left in American politics. The picture becomes more puzzling still when we realize that Kennedy's involvement was partly a result of consumer advocate Ralph Nader's activism: Nader is generally considered to be on the extreme left of American politics, and has been one of the left's most successful social activists. Existing explanations of deregulation do not take this oddity into account, and as I will show, they therefore miss the key dynamic in the process of deregulation as it worked out in the 1970s and 1980s: deregulation in the 1970s was a populist phenomenon, protecting consumers at the expense of particular industries; that is, deregulation in the 1970s was

not in the interest of business, and was not meant to be. Reagan inherited the deregulatory movement but turned it in a pro-business direction. Existing explanations ignore this important difference between deregulation in the 1970s and deregulation in the 1980s, and they therefore also miss one of the key elements in the rise and eventual decline of deregulatory policy--the role of the "new social movements" in the "old" class struggle of regulation and deregulation.

Previous Theories

Two themes are common in previous explanations of deregulation. Many analysts see it as the result of the rise and class-wide coordination of business in the late 1970s and early 1980s (Eisner, 1993: 174-178; Pertschuk, 1982). The problem with this explanation is one of timing. As Patrick Akard notes, business lobbying between 1974 and 1978 was primarily defensive, attempting "to block a number of legislative initiatives proposed by labor and liberal groups" (Akard, 1992:603). It was in 1978 that business moved into the ideological and policy offensive; but by then, deregulation had already been endorsed and implemented in varying degrees by three presidents. Table 3.7 presents a measure of business concentration and a chronology of the major deregulatory initiatives, and figures 3.9-3.17 give various measures of the strength of regulatory agencies: agency budgets both as a percent of GDP and in constant terms, and agency employment. Economic deregulatory agencies are those agencies charged with making the market function better and fostering competition; social deregulatory agencies are those charged with limiting the functions of the market in the interests of protecting

Table 3.7: Chronology of Corporate Mobilization and Deregulation, 1968-1992,

United States

| year | membership of U.S. Chamber of Commerce | chronology of deregulatory initiatives | agencies and industries deregulated |
|------|--|--|--|
| 1968 | 32,000 | | |
| 1969 | | | |
| 1970 | 34,000 | | |
| 1971 | | Nixon: "Quality of Life" regulatory review process | |
| 1972 | 40,000 | | |
| 1973 | 40,000 | | |
| 1974 | | Ford: Council on Wage and Price Stability, Executive Order No. 11821 "inflationary impact statement" | |
| 1975 | 40,000 | | |
| 1976 | 40,000 | | |
| 1977 | 56,000 | | Civil Aeronautics Board |
| 1978 | 64,000 | Carter: Regulatory Analysis and Review Group, Executive Order No. 12044 "unnecessary burdens on the economy" | airlines |
| 1979 | 69,000 | | air transportation |
| 1980 | 77,000 | | railroads, freight trucking, financial services, natural gas |
| 1981 | 96,000 | Reagan: Presidential Task Force on Regulatory Relief, Executive Order 12291 cost-benefit | EPA, OSHA, mining |
| 1982 | 200,000 | | |
| 1983 | 250,000 | | |
| 1984 | 200,000 | | |
| 1985 | | | |

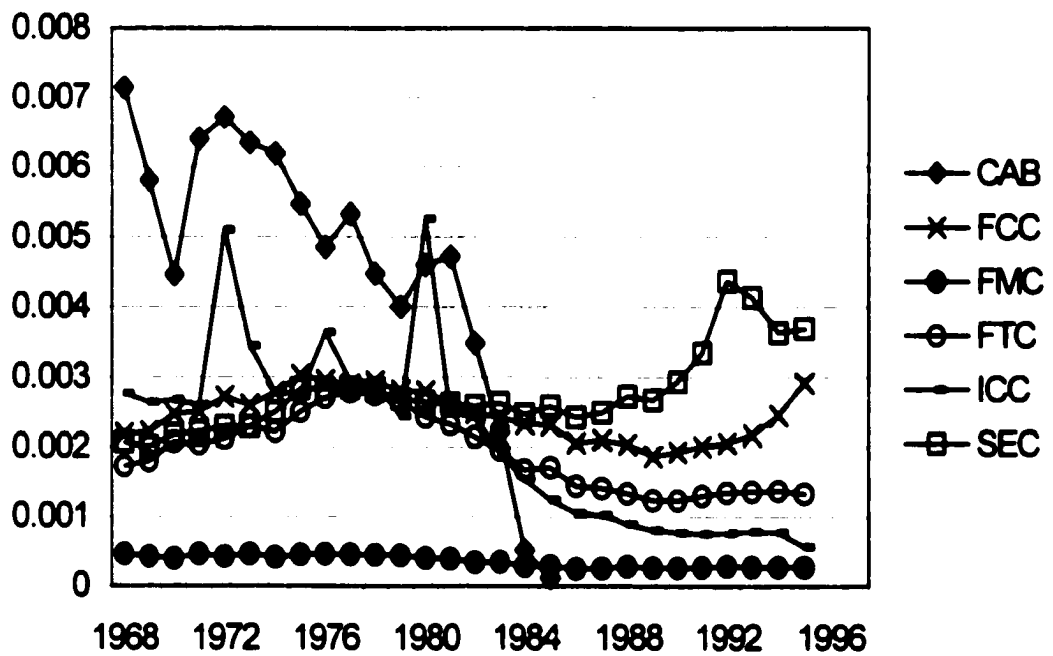
Table 3.7 continued

| year | membership of U.S. Chamber of Commerce | chronology of deregulatory initiatives | agencies and industries deregulated |
|------|--|--|-------------------------------------|
| 1986 | | | |
| 1987 | | | |
| 1988 | | Bush: Council on Competitiveness | |
| 1989 | | | |
| 1990 | | | |
| 1991 | | | |
| 1992 | | Bush: moratorium on new regulations | |

sources: Encyclopedia of American Associations 1959-1989, Derthick and Quirk 1985,

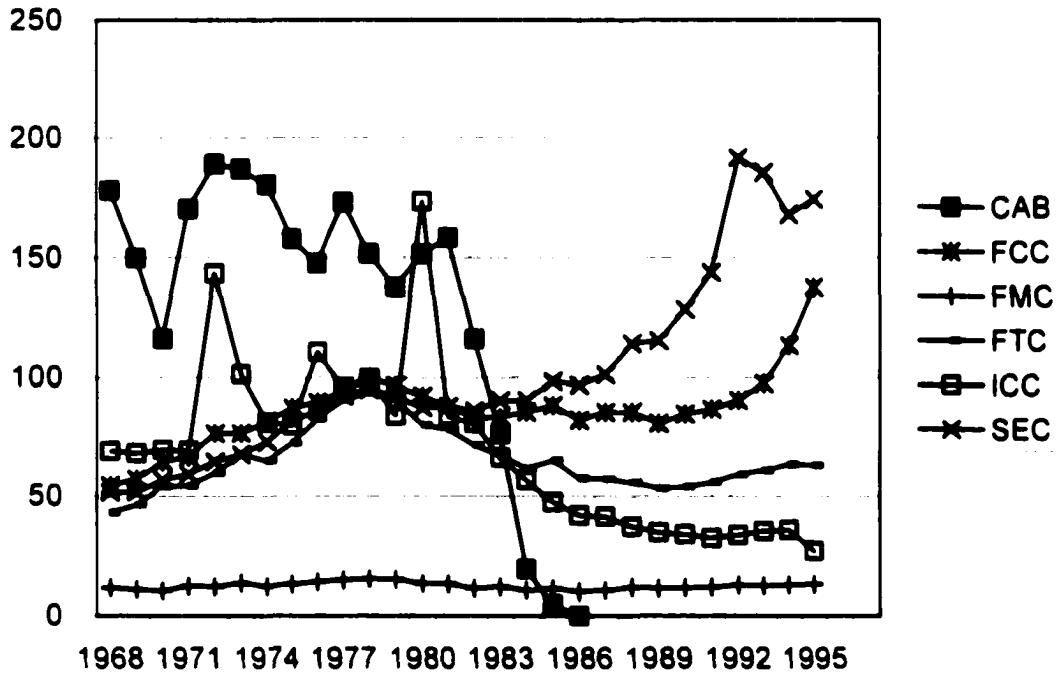
Eisner 1993, McCraw 1984

Figure 3.9: Budgets as Percent of GDP, Economic Regulatory Agencies, 1968-1996,
United States



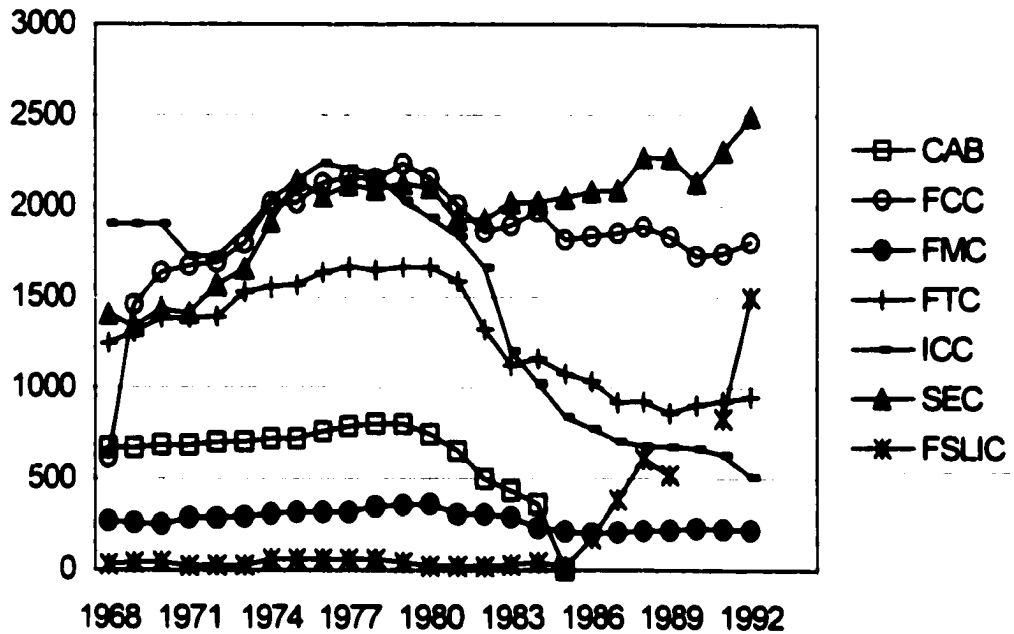
source: Office of Management and Budget, *Budget of the United States Government*

Figure 3.10: Budgets in Millions of 1983 Dollars, Economic Regulatory Agencies, 1968-1996, United States



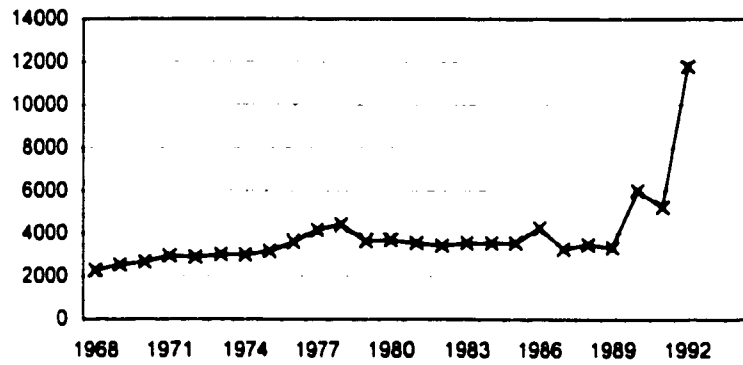
source: Office of Management and Budget, *Budget of the United States Government*

Figure 3.11: Employment, Economic Regulatory Agencies, 1968-1992, United States



source: Office of Management and Budget, *Budget of the United States Government*

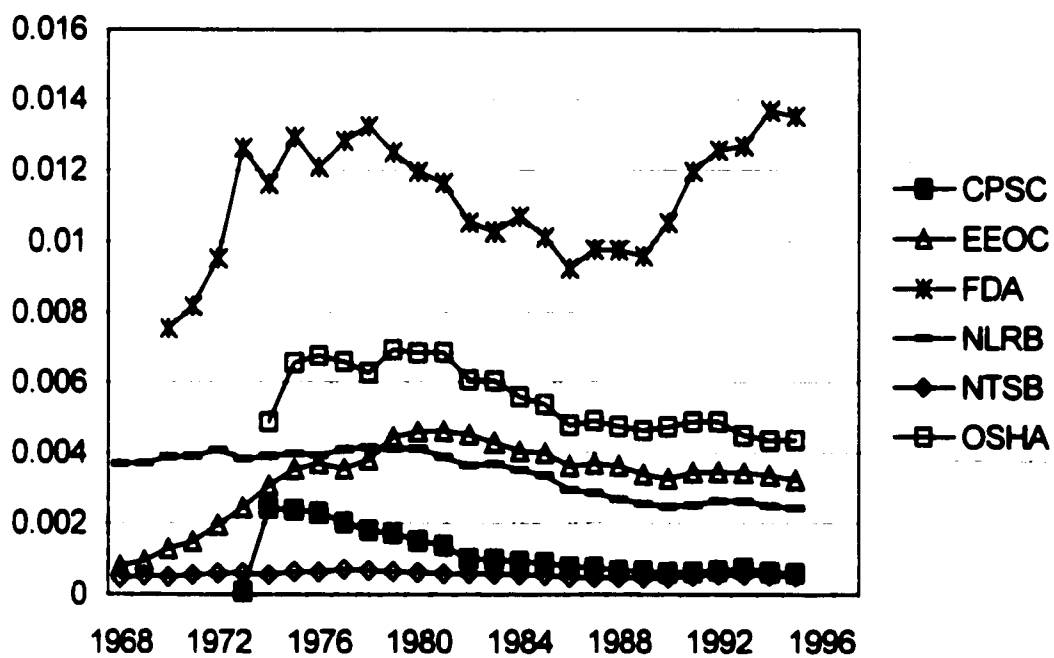
Figure 3.12: Employment, FDIC, 1968-1992, United States



source: *Office of Management and Budget, Budget of the United States Government*

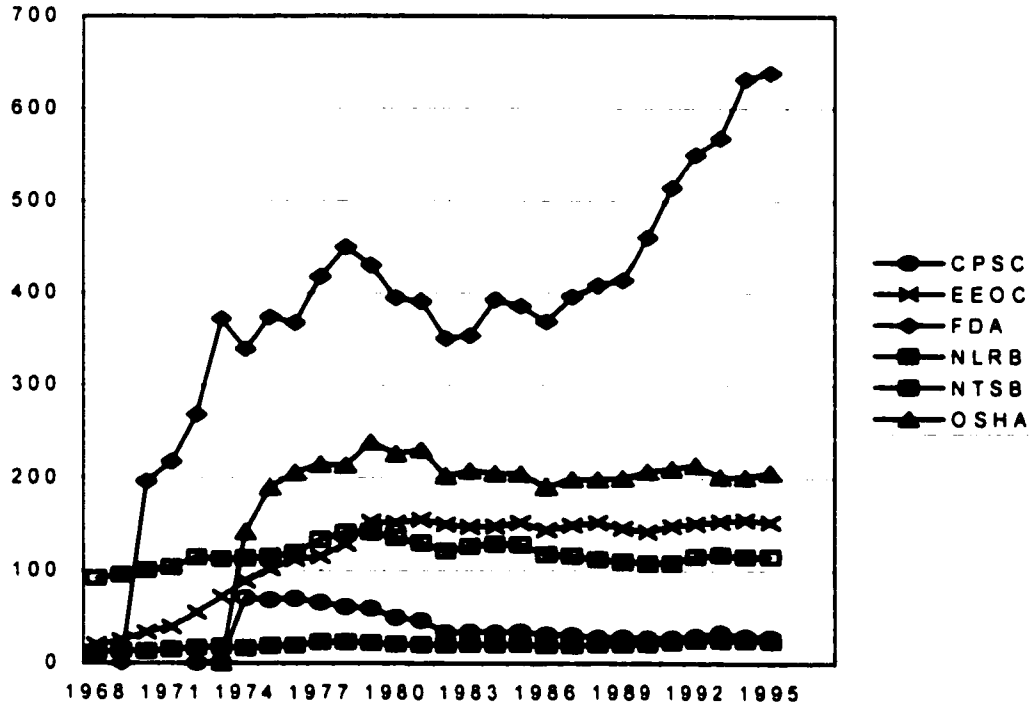
Figure 3.13: Budgets as Percent of GDP, Social Regulatory Agencies, 1968-1996,

United States



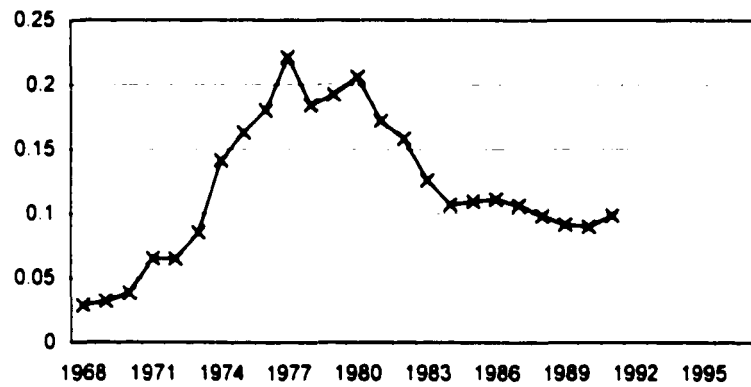
source: Office of Management and Budget, *Budget of the United States Government*

Figure 3.14: Budgets in Millions of 1983 Dollars, Social Regulatory Agencies, 1968-1996, United States



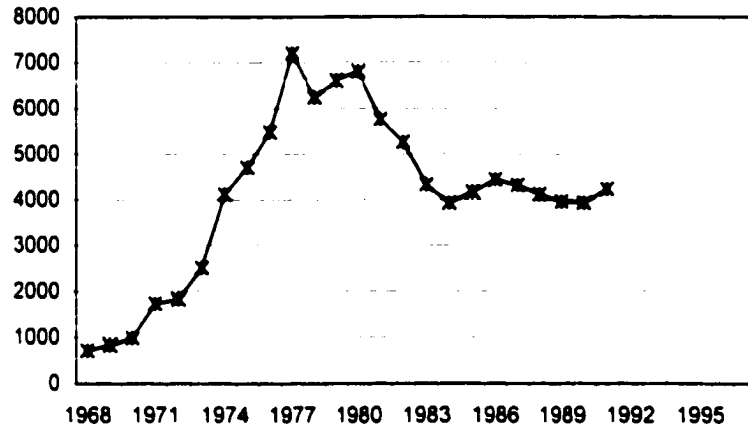
source: Office of Management and Budget, *Budget of the United States Government*

Figure 3.15: Budget as Percent of GDP, EPA, 1968-1992, United States



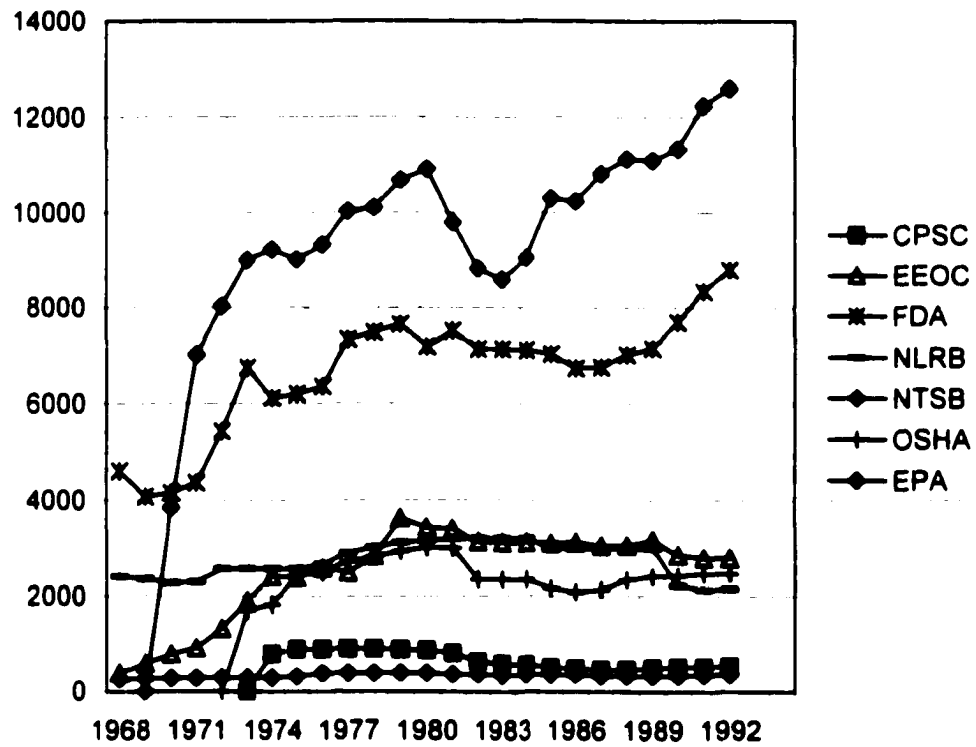
source: Office of Management and Budget, *Budget of the United States Government*

Figure 3.16: Budget in Millions of 1983 Dollars, EPA, 1968-1992, United States



source: *Office of Management and Budget, Budget of the United States Government*

Figure 3.17: Employment, Social Regulatory Agencies, 1968-1992, United States



source: Office of Management and Budget, *Budget of the United States Government*

citizens and workers (FDIC, an economic regulatory agency, and EPA, a social deregulatory agency, are shown separately in the figures because of scale differences).

The table and figures show that economic deregulatory policy was already being considered and implemented before the big wave of corporate mobilization in the late 70s: the CAB and the ICC in particular had already begun to lose budgets and personnel by the late 1970s. On the other hand, corporate mobilization was not *enough* to initiate social deregulation, which only picked up steam with the arrival of Ronald Reagan: although the small CPSC was in a slow decline, the large social regulatory agencies—the FDA, EEOC, OSHA, EPA, and NLRB--were all holding their own before 1980. Despite intensive business-group lobbying, Carter remained a supporter of social regulation. A final problem with the business group explanation is that it does not explain the end of the deregulatory push. Business group pressure intensified in 1981 and 1982, but deregulatory initiatives ended in 1983, and by the late 80s several agencies were witnessing increases in budgets and personnel.

The second theme common in explanations of deregulation is exemplified by Martha Derthick and Paul Quirk's contention that deregulation represents the triumph of the "politics of ideas," particularly of academic economic analysis: "our cases demonstrate the role that disinterested economic analysis can play in the formation of public policy" (1985:246). Since the mid-1960s, microeconomists had been arguing that regulation increases costs, reduces supply, and hampers economic growth. Thomas McCraw documents the rise of economic analysis in the sphere of deregulation in the person of Alfred Kahn, Carter's choice to head the Civil Aeronautics Board and then the

Council on Wage and Price Stability. An economist by training and a liberal Democrat by temperament, Kahn did not believe deregulation was in the interest of business. In a memorable debate with a member of the Air Line Pilots Association who accused him of being anti-labor, Kahn snapped:

If I'm anti-anything, I'm anti-excessive government interference...And I am *particularly* against government being used to protect powerful business interests by giving them special grants of monopoly privilege...Lower prices induced by more competition mean *more* jobs, not fewer: don't you forget that when you say it is you who speak for labor, and not I. (quoted in McCraw, 1984:288)

In the "ideas" explanation, then, the force of microeconomic analysis, which convincingly documents the economic costs of regulation, overwhelms policy.

There are several reasons why this argument is incomplete. First, as McCraw himself notes, the problem with making an argument that "ideas" or correct analysis alone forces policy is that it cannot explain how mutually incompatible ideas can be implemented:

"the disparate sets of ideas underlying the initial imposition of regulation in airlines and trucking during the 1930s, and the later deregulation of these same industries in the 1970s and 1980s, could not both have been correct, in the absolute sense. Yet both sets of ideas became institutionalized" (McCraw, 1984:304). It cannot be "correctness" of these ideas by itself that makes policy; one must explain why different ideas appeal at different times--particularly since the "ideas" that had led to social regulation were also popular during this period. In Derthick and Quirk's words, ideas may matter but:

Economists had begun making the bullets of procompetitive regulatory reform fifteen years before politicians found them to be usable in particular battles they wished to fight...the existing stock of ideas shapes

the response of political leaders to events by defining the conceptual alternatives from among which they choose (Derthick and Quirk, 1985:56-57).

The economic critique of regulation was an important factor in the rise of deregulation, but cannot by itself explain it.

Second, like the corporate mobilization explanation the “ideas” explanation also gets the timing of deregulation wrong, but in the opposite direction. The microeconomic critique of regulation emerged in the 1960s but did not capture the political process until a decade later; a theory of the process of economic policy-making ought to be able to explain the reasons for this lag.

Third, as Derthick and Quirk note, if ideas and consensus among economists were enough to move policy, we would have seen another measure move onto the political agenda in the 1970s: the use of effluent taxes (1985:247). Economically, the use of measures which distort incentives in a desired direction are as useful as regulatory measures in bringing about certain behaviors. But deregulation had advantages that effluent taxes did not: “Both liberals and conservatives found in the proposals the opportunity to assert their principles...these intrinsically rather obscure proposals could be linked rhetorically to larger public concerns—inflation and big government—which gave them potential to be widely noticed” (1984:247). Effluent taxes, on the other hand, were repellent to *both* liberals and conservatives—to liberals because they could be portrayed as licenses to pollute, to conservatives because they could be seen as punishing the most successful businesses. The examination of why deregulation moved onto the

agenda when other microeconomics-approved measures did not also highlights the necessity of political marketability.

Finally, like the business group explanation, the “ideas” explanation cannot explain why the deregulatory movement ran out of steam in 1983. The “ideas” and the economic arguments were the same as they had been a few years ago, but deregulation as a sustained policy effort petered out. To explain this, we must again investigate the different appeals of ideas at different times.

In short, the “business mobilization” and the “ideas” explanations get the form and timing of deregulation wrong, and leave much unexplained about the process of deregulation. In particular, neither can explain why economic deregulation gained popularity in the mid-1970s—a decade after the microeconomic critique but several years before corporate mobilization—and why social deregulation only took off after 1980 despite intensive lobbying in 1978 and 1979, but was no longer pushed after 1983.

The next sections of this chapter show that the dynamics of the deregulatory movement, both rise and fall, are explained better by an examination of the activities of the non-business, non-state-actor public, particularly that part of it that gathered in support of two social movements. Economic deregulation arose in the mid-1970s on the back of Ralph Nader’s consumer movement; Reagan broadened the deregulatory scope to include social deregulation, but he was forced back by rising support for environmental concerns. Much has been written on how the “new social movements” represent an alternative to class-based movements that concentrate on economic issues, and in the

academy the study of social movements is a distinct area from the study of economic policy. But in the case of deregulation, these two new social movements were tangled inextricably in the “old” class politics of regulation and deregulation.

Rise

In the post-war period a new interpretation of regulation was gaining ground in the academy. Economists such as George Stigler and Marvin Bernstein and social scientists from Gabriel Kolko to Samuel Huntington began to argue that regulatory agencies were inevitably “captured” by the industries they purported to regulate: daily contact, revolving doors from government to industry, and mutual interest in survival created “iron triangles” of association between agency, industry, and representatives in Congress which functioned to the benefit of industries and to the disadvantage of consumers (Friedman, 1995). This interpretation of regulation was one of the seeds around which the consumers’ movement crystallized (or rather, recrystallized, after the passing of the muckraking era that had produced the Food and Drug Administration). The second seed was a developing disillusionment throughout the 60s with big government *and* big corporations. This disillusionment, documented in every poll that concerns itself with this issue (see Mayer, 1991, for a thorough summary), was created by a confluence of factors, from the handling of the Vietnam War to racial crises in the cities; it found a public especially receptive to populist, anti-elite appeals. Third, the issue of consumer protection was dramatized early in the 1960s because of the Thalidomide drug scare of 1962. At that time Senator Estes Kefauver had been holding

hearings on prices in the drug industry as Monopoly and Antitrust Subcommittee. When it was discovered in 1962 the FDA had narrowly prevented pregnant American women from taking Thalidomide, a drug later found to produce profound birth defects in babies, the hearings quickly turned into an investigation of drug safety and resulted in the passage of consumer protection legislation. (Nadel, 1971)

But the most important force in the genesis of the consumers' movement was Ralph Nader (Creighton, 1976; Mayer, 1989). Nader, a lawyer and self-styled consumer advocate, began his career with the publication of the best-selling Unsafe at Any Speed, an attack on the safety of General Motors's "Corvair" car. The book became even more popular, and Nader even more influential, when a Senate Committee discovered that General Motors had hired private detectives to try to find something with which to discredit Nader. The resulting negative publicity for GM catapulted Nader into fame; of more long-term consequence, Nader filed an invasion of privacy suit against GM, which GM settled for \$425,000. The settlement allowed Nader to finance an array of organizations that became the backbone of the reborn consumers' movement. Nader attracted a group of well-educated protégés who quickly popularized the consumerist critique in a series of texts criticizing particular regulatory agencies. The ensuing consumers' movement resulted in a spate of "consumers' interest legislation," from the National Traffic and Motor Vehicle Safety Act and the Fair Packaging and Labeling Act—the effects of which continue to reach every consumer, every day—to the Occupational Safety and Health Act and the Consumer Products Safety Act, which inaugurated now-entrenched regulatory agencies to protect workers and consumers. The

movement also established several long-lasting “public interest” organizations, such as the Public Interest Research Group and Public Citizen. It is hard to overestimate the effects of Ralph Nader and the consumers’ movement on the everyday lives of Americans: everything from the cars we drive to the pajamas we wear has been touched by Ralph Nader. In the mid and late 1970s Nader and his supporters became important voices in the political sphere. (Creighton, 1976)

Despite Nader's reputation as being on the extreme left of American politics, the consumers' movement was populist rather than anti-market or pro-state. In the mid-1970s the union between big government and big corporations that the “capture” theory of regulation envisioned was a perfect battle ground to showcase the movement's populism: by fighting against certain regulatory agencies, Nader and his supporters could fight concentrated public *and* concentrated private power at the same time. Given Nader's affinity for, and success with, causes usually identified as on the left of the political spectrum, his role in the inauguration of deregulation is ironic. It was the movement's successful espousal of the cause that first brought deregulation onto the agenda:

Nader was news. He was an unusual personality, conflict surrounded him, and, as one writer shrewdly observed, the press, though inhibited by professional norms from putting out its own populist critique of America, was quick to respond when others skillfully supplied one...Eventually the idea that government regulation served business interests penetrated mass attitudes. In 1977 a poll for U.S. News and World Report showed that 81 percent agreed and only 8 percent disagreed with the statement that “large companies have a major influence on the government agencies regulating them.” (Derthick and Quirk, 42-3).

By arguing for *pro-consumer* deregulation, the movement attempted to speak in the interests of the average citizen against the interests of both big government and big corporations.

Nader also represents the arrival of a new kind of social movement. As R.

Douglas Arnold explains it:

Before Nader, legislators could ignore the consumers' point of view, confident that no one would ever be able to rally the unorganized masses against them. Nader's contribution was not to organize consumers—a nearly impossible task—but rather to label legislative votes as pro- or anticonsumer. The media then disseminated these messages, challengers helped citizens reach the proper political conclusions, and suddenly a formerly inattentive public was alive. Once Nader had demonstrated his ability to mobilize an otherwise inattentive public several times, he no longer had to do so regularly; simply labeling legislative votes as anticonsumer provided ammunition that others could use, and the mere existence of this ammunition was threatening to some legislators. (Arnold, 1990:69)

Nader's technique was to use forces latent in the American political process—the media, with an appetite for dramatic human interest stories of consumers wronged by large corporations, and the constant presence of political challengers looking for potentially explosive issues—to signal the existence of a movement to legislators. The tactic was copied by the environmental movement.

Scholars of the era agree that Nader's influence was instrumental to the rise of deregulation. Louis Harris, for example, attributes a 50% drop in trust in the nation's major companies to the influence of consumerism. In addition to raising the salience of deregulation as an issue and contributing to the dissemination of a populist critique of

economic regulation, consumerism prodded Ted Kennedy to adopt deregulation as a cause for “his” Congressional subcommittee to advocate.

In 1974 Ted Kennedy had distant presidential aspirations, but as the youngest son of the Kennedy clan he had acquired a reputation for frivolity. In part to dispel this, when Kennedy found himself leading the Senate’s Subcommittee on Administrative Practice and Procedure (AdPrac), he consciously looked around for a good, serious issue on which he could make his name. He brought in Harvard Law professor and future Supreme Court Justice Stephen Breyer, an expert on administrative law, with a mandate to discover what issue AdPrac should devote itself to. Breyer composed a memo discussing the pros and cons of devoting the committee to deregulation issues vs. devoting it to reforms motivated by Watergate, and another more extensive memo detailing what might be gained from an effort at deregulation.

An analysis of these two memos shows how deregulation was being seen on the left at this time. The first memo explains that “The major issue in these hearings is whether the CAB should allow more price competition among airlines” (Breyer, 1974). That is, in this memo economic deregulation is not framed as an issue of “getting the government out of industry.” Indeed, Breyer suggests that government oversight of industry is necessary, but that regulation is the wrong instrument in this case. The fundamental issue that the deregulation hearings would be part of, Breyer notes, is how the government should best address industrial “problems”:

The government has four sets of weapons at its disposal: 1) antitrust, 2) classical regulation (prices, allocations), 3) forms of nationalization, 4) systems of taxes and subsidies. Which weapon suits which problem? -- a

basic question over the next 20 years, which Ad prac would set out to explore. (Breyer, 1974)

Implicit in this discussion is that the government *has* a role to play in shaping industry. Moreover, Breyer goes on to say that the expertise the committee develops in these hearings can be used in the future to address “more complicated problems, involving energy shortages, possible nationalization, etc.”

He again clarifies what the main purpose of the hearings would be: “The ultimate statute should lead to lower prices.” He thinks the hearings would not get much publicity, because “the consumer, the main beneficiary, is not very interested in the issue; the industry knows only too well what is going on.” He speculates on some possible themes for the hearings: “ ‘Help the consumer?’ ‘Free the captive agency?’ ‘More competition?’”

In short, while Breyer addresses anti-government themes in speculating on how to sell the hearings, he sees the real purpose of deregulation as benefiting consumers, and is suspicious of industry--the same position (though less extreme) than that advocated by Nader and the consumers’ movement. A subsidiary benefit of the hearings, according to this memo, is that they would provide expertise on industrial policy that would be useful for AdPrac in the future, when it addresses other issues where government needs to intervene in industry.

The second, longer memo is similar. It begins: “An investigation of the CAB would focus upon the question whether existing CAB regulatory policies or increased competition is more likely to produce lower prices.” Eight of the eleven pages of the memo are devoted to discussing “the price issue,” that is, the question of whether more

deregulation would lead to lower prices or would harm the airline industry. Other consumer issues, such as overbooking flights and lost luggage, are also addressed. Thus, at its debut on the political stage, deregulation was framed as being in the interest of the consumer. Kennedy's opening statements in the hearings continued this framing: "Regulators all too often encourage or approve unreasonably high prices, inadequate service, and anticompetitive behavior. The cost of this regulation is always passed on to the consumer. And that cost is astronomical" (U.S. Senate, 1977).

Although it is impossible to prove Kennedy's motivations in choosing deregulation as the particular issue AdPrac would investigate, the coincidence of the rising success, visibility, and popularity of the consumers' movement, and Breyer's and Kennedy's framing of deregulation in consumerist (rather than anti-government) terms, is suggestive.

Airline regulation was a particularly vulnerable target because prices and services in regulated inter-state markets could be compared, unfavorably, with prices and services in unregulated intra-state markets. Thus in airline deregulation Kennedy saw an opportunity to announce his efforts in favor of consumers and average citizens. In 1975 AdPrac held hearings on deregulating the CAB. Kennedy's opening statement rehearsed the theoretical expectations about the economic losses of regulation, and his staff gathered reams of evidence to show that the CAB furthered anti-competitiveness in airline routes and fares (U.S. Senate, 1977). The hearings received major attention in the media, especially when a CAB director committed suicide just before he was scheduled to testify (Derthick and Quirk, 1985). Senator Howard Cannon oversaw another set of

hearings, increasing the attention to the issue, particularly because by this time the chairman of the CAB himself agreed with the need to deregulate. The combined result of the hearings was to give the deregulatory movement unprecedented exposure, with the CAB eventually shut down completely and a general deregulation of airlines legislated in 1978.

Airline deregulation was a stunning success, providing both lower fares and higher profits, and thereby guaranteeing the continuance of deregulatory efforts. Kennedy would go on to repeat the performance with deregulation of trucking, four years later, and for a short while deregulation seemed to be unstoppable.

President Ford entered the deregulatory camp as a symbolic anti-inflationary gesture: "whereas Senator Kennedy had hewed consistently to a proconsumer theme, Ford's criticisms of regulation were variously addressed to consumer interests, business interests, the traditional American attachment to free enterprise, and popular hostility to big government" (Derthick and Quirk, 47). Ford's main contribution was Executive Order 11,821, which required that "[m]ajor proposals for legislation, and for the promulgation of regulations or rules by any executive branch agency must be accompanied by a statement which certifies that the inflationary impact of the proposal has been evaluated" (Gerston et al., 1988:44).

The combination of motivations for supporting deregulation--as proconsumer, probusiness, or anti-inflation--thus led to a remarkable, if mainly symbolic, bipartisanship on the CAB issue. Democrats favored procompetitive deregulation, but wanted to keep social deregulation in place; Republicans wanted broader deregulation. This ambivalence

about what deregulation *meant*-- whether it was truly in the interests of the little guy, or whether it was in the interests of business--made espousing deregulation an unusually effective strategy for politicians on both sides, who could energize their core constituencies, reach out to new ones, and build bipartisan support, all at once. The ambivalence of the deregulatory movement made bedfellows of Edward Kennedy and Gerald Ford, of Ralph Nader and Ronald Reagan. It was this politically useful ambivalence, underpinned by the academic criticisms of regulation and made political reality by the rise of the consumers' movement, that explains the rapid rise of deregulation onto the economic agenda in the mid-1970s. But as we shall see, this ambivalence had further consequences: once deregulation was on the agenda, a right-wing Republican could use the ambivalence to turn deregulation into a distinctly pro-market direction.

Turn

Carter's victory did not make a significant difference to the forward motion of the economic deregulatory push. Under the Carter administration the economic deregulatory thrust accelerated, but given its *independent* sources of bipartisan support, it was likely to have accelerated even if Ford had won. The main difference was that Carter, unlike his predecessor and his successor, opposed social deregulation. Carter's proclivities became apparent in dramatic form in the "cotton dust" incident. In late 1976, the Occupational Safety and Health Administration issued a proposal to protect workers in textile industries from exposure to cotton dust, which had been implicated in a rare but

potentially fatal lung disease. Economists from Carter's own Council of Economic Advisers and the Council on Wage and Price stability argued that the proposed OSHA standards were too drastic, and appealed to Carter to intervene. Carter did so, but in the politically heated atmosphere, with labor and business groups in firm opposition on the issue, he eventually sided with OSHA. Although he had instituted deregulatory initiatives like the establishment of the Regulatory Analysis Review Group, the cotton dust incident made clear the boundaries of Carter's commitment to deregulation: he would support economic deregulation, but not necessarily social deregulation. (Noble, 1986)

It was only with the arrival of Ronald Reagan onto the national scene that deregulation took the new turn into *social* deregulation, that is, deregulation of social regulatory agencies like the EPA and OSHA. Regulation, unlike taxation or welfare spending or most other major economic policies, is centralized in the executive branch; Reagan's first initiative was to increase the degree of this centralization by strengthening the Office of Management and Budget. The OMB, originally envisioned as a limited secretarial agency that would present information on federal expenditures, had been gradually extended to acquire greater and greater authority. By executive order, Reagan authorized the OMB to oversee the regulatory agencies, especially by performing cost-benefit analysis on proposed regulations. The OMB:

was given enhanced authority to grant final approval to regulatory proposals, and by 1985 it was authorized to approve initial action as well. Sometimes these moves sidetracked regulations already under way...Others...were modified more in accordance with the wishes of the business community. Some proposed rules that the administration

avored, such as the prohibition of local restrictions on the transport of nuclear waste, were permitted to proceed. (Hays, 1987:495)

Decision-making through the OMB could therefore short-circuit the checks and balances of more traditional policy-making. But more interesting than the OMB's explicit power was the effect it had on the regulatory agencies' calculus of rule-making: "OMB statistics indicate that agencies took the probability of OMB review into consideration *before* issuing any rules...Perhaps hundreds of regulations were dropped *before* the preliminary proposal stage because the agencies anticipated their rejection by OMB" (Gerston et al, 1988:56).

In addition to centralization of power, Reagan made his approach to deregulation central and visible by appointing Vice President George Bush to head a Task Force on Regulatory Relief. The Task Force forced delays in the implementation of environmental regulations and worked out so many loopholes for industries that offshore drilling and timber cutting actually increased and new wilderness areas were sold and opened to industry (Sale, 1993:52).

Reagan's turning of the deregulatory movement into a pro-business direction was made possible by, and reveals, a fundamental ambiguity at the heart of the vision inspiring the leftist "new social movements" of which Ralph Nader is a part: these movements embraced a populist vision that has an ambivalent relation to the state and to the poor. This ambivalence is most dramatically revealed by the strange bedfellows created by the deregulation issue. As Derthick and Quirk write:

the symbolic, evocative power of the term 'deregulation' did not lose much from the fact that the Democratic and Republican leaders of the gathering drive were far from fully agreed on their goals. Ambiguity is a

great advantage in political symbols, and here was one that in a single phrase could be made to serve in two quite different ways. It could be used to affirm the traditional values of competition, free enterprise, and limited government, which were still widely held among conservatives and were enjoying a modest rediscovery among liberals. In a more polemical fashion, it expressed a deep cynicism about government institutions that was central to the ethos of consumerism, was fast spreading to the public at large, and was injecting a new ambivalence into the policy positions of liberals (Derthick and Quirk, 52-53).

By advocating deregulation, Ralph Nader and the consumers' movement were criticizing a *particular* kind of government, a government that unfairly advantages business to the detriment of the majority. This is seen in Alfred Kahn's words above also, and was common in the left movements of the sixties; for example, when SNCC leader John Lewis says "We all recognize that if any social, political and economic changes are to take place in our society, the people, the masses, must bring them about" (Harris and Milkis, 1989).

But this populist position overlaps with a position that sees government as, in Ronald Reagan's famous words, "the problem." Symbolically, the position that government is *contingently* a problem (because at the moment it happens to be advantaging business or the upper classes, or behaving somehow unjustly) overlaps with the position that government is *necessarily* a problem (because it is always powerful enough to interfere with the workings of the market at any time). That is, the populist critique of government elites that resonates on the left overlaps with the business critique of government that resonates on the right. The populist position is not at all committed to the market, and indeed, can be turned against economic elites as well as governmental

elites. But there is an important and politically explosive area where the two intersect, and Ronald Reagan's genius was to be able to exploit this intersection.

Scholars of social movements talk about the "frames" that movement leaders construct to attract adherents, the "schemata of interpretation that enable individuals to locate, perceive, identify, and label occurrences within their life space and the world at large", and they argue that a crucial component of movement success is "frame alignment," the process of "linkage of individual and [social movement organization] interpretive orientations, such that some set of individual interests, values and beliefs and SMO activities, goals, and ideology are congruent and complementary" (Snow et al., 1986:464). Research has been particularly fruitful on the role of the media in constructing movement frames (Gitlin, 1980; Gamson and Modigliani, 1989; Beisel, 1993; Binder, 1993); but such a tradition, by analyzing frames as if they were primarily the result of the intentions of particular actors, neglects two issues that are central in the case under study here: the frame may contain a logical structure that is not under the control of the actors, and the frame may evolve in ways that are contrary to the intentions of the actors. Particularly when the issues involved are as central and laden with conflicting interests as economic policy, multiple actors will struggle to resolve frames in accordance with their own beliefs and interests, and the eventual resolution may bear little resemblance to the intentions of the original actors.

This was the case with deregulation. In Breyer's memos above we saw that at its introduction into the political arena in 1974 deregulation was framed in pro-consumer terms. As Table 3.8 shows, this was true until 1977: between 1974 and 1977 pro-

Table 3.8: Dominant Frame (Pro-Consumer or Anti-Government) of Pro-Deregulation Opinion Pieces in the New York Times, 1974-1980, United States

| date | author | dominant frame | quotations |
|----------|---------------------|---|--|
| 1/7/77 | Robson | pro-consumer | "no Federally regulated scheduled airline ever sought to reduce regular coach fares throughout its route system" "in the long term, [deregulation] should foster a more efficient air-transportation system that can be reflected in fare levels, can stimulate growth, can enable airlines to attain more consistent profitability, and meet the demands of the flying public" |
| 4/11/77 | Quittmeyer | anti-government <i>framed as</i> pro-consumer | "I hope we will soon add to the growing list of liberation movements one to liberate consumers from their self-appointed 'protectors' in and out of government." "If you scratch an advocate of regulation you are likely to find, very close to the surface, an arrogant desire to substitute some personal vision of order for the apparent disorder of the marketplace." "perhaps the solution is...the liberation of the consumer through the wider acceptance of an almost forgotten idea called humility." |
| 7/8/78 | Machan and Reynolds | anti-government | "An...individualist morality, more in keeping with America's cultural and political tradition, does not lend automatic support to government regulation. Indeed, [in some areas] we make implicit use of moral notions that would appear to be equally applicable to deregulatory efforts." |
| 12/22/79 | Cohen | anti-government | [critics who complain that deregulation led to higher prices] "misconstrue the goal of deregulation...The simple premise of deregulation is that a naturally competitive industry will perform at least as well--and probably much better--without Government intervention." |
| 3/12/80 | Eberle | anti-government | "For too long, Government has found it difficult to resist the temptation to 'do something' every time a possible imperfection in the market is perceived." |
| 5/28/80 | Boren and Levin | anti-government | "Combined public- and private-sector costs of regulation...come out of the pockets of taxpayers and consumers. They blunt our creativity and they reduce our economic productivity." |

deregulation editorials in the New York Times were framed in “pro-consumer” terms, even when, as in one case, the hidden argument was pro-market or anti-government; starting in 1978 however, the anti-government frame became dominant.

The anti-government frame came to dominate partly because of the efforts of political actors who re-conceived the deregulation effort to resonate with their own beliefs in limited government, but also because the frame of “pro-consumer” deregulation is *logically* ambiguous. Pro-consumer deregulation implies that government agencies have been captured by special interests; but from this point of view there is no logical basis from which to say that government might not *always* be captured by special interests, feeding into a general anti-government position. Thus a frame of “populism” is inherently ambivalent as to whether the state is a progressive force. It is also ambivalent as to whether this populism is directed against elite minorities or disadvantaged minorities, as would be important in other issues the Reagan administration took on.

In the short term, the Reagan administration's most effective anti-regulatory action was to appoint anti-regulatory personnel to the heads of the major regulatory departments and agencies, particularly those involved with social regulation. Businessman Thorne Auchter was appointed to lead OSHA, Republican legislator Anne Gorsuch the EPA, and James Watt, head of a business lobbying organization, the Department of the Interior. Their efforts in favor of business bore quick fruit: under Auchter OSHA dramatically reduced the number of serious workplace safety violations cited and penalties assessed and proposed (Gerston et al., 1988:187-189); the E.P.A.'s budget declined, and Watt attempted to change regulations so drastically that no

successor "would ever change them back because he won't have the determination that I do" (quoted in Hays, 1987:495).

Reagan's extension of the deregulatory agenda to include social deregulation was made possible by the centralization of regulatory policy in the executive branch, particularly the ability of the President to appoint the heads of regulatory agencies and departments; but it was also made possible by the role of the consumer movement in pushing deregulation onto the agenda. As Michael Pertschuk notes, "Nader's attacks on the unresponsive regulatory bureaucracy had the unintended side effect of feeding public disaffection and distrust of government...The deregulatory yeast, once risen, was hard to contain" (Pertschuk, 1982:64). Because deregulation was already on the agenda and was a popular political symbol, Reagan could use it for his own purposes. And in order to extend economic deregulation, which had bipartisan support, into the arena of social deregulation, which did not, Reagan did not have to pass legislation that would run the gauntlet of Congress and the Courts. He could act alone, by extending the powers of the OMB, appointing an executive task force, and appointing anti-regulatory heads of regulatory agencies. The result, as seen in figures 1-9, was long-lasting. Previous administrations had ensured the downward slope of budgets for several economic regulatory agencies; Reagan extended these efforts into the Environmental Protection Agency, the Equal Employment Opportunity Commission, the National Labor Relations Board, and the Occupational Safety and Health Administration.

But it was precisely this ability to act alone, and the suddenness of action that it allowed, that created the backlash that would lead to the demise of the Reagan administration's regulatory efforts.

Decline

In August 1983, the Reagan administration surprised both pro- and anti-deregulation forces by announcing that the Task Force on Regulatory Relief would be disbanded. In quick succession, the pro-business, anti-regulation heads of OSHA, EPA, and the Interior were replaced by more moderate figures, and observers were noting the "end of an era of deregulation" (quoted in Gerston et al, 1988:58). In the 1984 campaign deregulation played no significant role, and Reagan gave no more attention to deregulation in his second term. George Bush inaugurated a "Council on Competitiveness" and declared a moratorium on new regulations, but in fact regulation of business increased under the Bush administration with the passage of the Americans with Disabilities Act. The early 1980s momentum for deregulation was never regained.

Given the centralization of deregulation, and Reagan's own commitment to it, why did the deregulatory push end almost as soon as it had begun? Scholars have long argued that the U.S.'s unique fragmentation of governmental power explains the inability of the state to take strong action. But in the case of deregulation, policy-making power was concentrated in the executive. Why then did the administration back away from strong action?

The end of deregulation is a revealing lesson in the interplay of society and political institutions. Although it is true that regulation was not as high an administration priority as other policies, the main reason for the end of the deregulatory effort was the opposition that it generated in Congress, the media, and the public. In particular, Anne Gorsuch and James Watt's attempts to reduce environmental regulation resulted in scandal and contention and energized the environmental movement; the resulting atmosphere of distrust of the administration was so great that the administration felt constrained to tone down its probusiness rhetoric.

The backlash began in 1982. Gorsuch's administration was under congressional investigation for mismanaging the "superfund" program to clean up toxic waste sites, including inability to account for nearly one-third of the \$1.6 billion fund. Gorsuch withheld documents the Justice Department had requested for this investigation, and in December the House of Representatives, inflamed by the increasing centralization and Gorsuch's secretive and combative management style, voted to cite her for contempt of Congress. Gorsuch fired three of her key staff members, and the deputy responsible for the mismanagement of the fund was jailed, drawing intense media attention to the issue. When Rep. John Dingell claimed to have evidence of criminal conduct at the EPA, the crisis came to a head:

Guards were posted outside [EPA] offices to prevent removal of documents, and a small army of FBI agents roamed the headquarters building conducting interviews as part of the Justice Department's investigation. The Wall Street Journal quoted a chemical company lobbyist's description of the agency: "There's a bizarre quality to the whole place. It's turned into a never-never-land of rumor, innuendo and constant bureaucratic upheaval." (Davies, 1984:155)

The crisis ended with Gorsuch's own resignation, accompanied by the resignations of twenty-one senior EPA officials, but by then the narrow scandal at the EPA had forced attention to environmental issues into the national spotlight and created the beginnings of a broader distrust of Reagan's deregulatory agenda. (Davies, 1984; Vogel, 1989)

James Watt was doing his bit to increase the atmosphere of distrust. At the head of the Department of the Interior, Watt was embroiled in legal and political maneuvers to open areas of the west to mining interests, and it was one of these attempts that led, in a strange way, to his resignation. The House Interior Committee had barred a particular sale of coal (that is, sale of the rights to mine government-owned coal mines) because of a recent Government Accounting Office audit that had determined that a previous coal sale had been made at below fair market prices. Watt proceeded with the sale despite the ban, leading to the creation of the Linowes Commission to investigate his action. Watt guaranteed intense negative publicity for himself by referring to the Linowes Commission's membership as composed of "a black, a woman, two Jews, and a cripple." More than any of his many pro-mining industry, anti-environment policies, it was this comment that forced Watt from office. Less than three weeks after he had made it, he was gone.

Samuel Hays notes that more than the particular policies that Gorsuch and Watt espoused, it was their combative, undiplomatic styles of management that led to resentment and eventually to their downfall. But although these served as the catalyst for the resignation of each, Gorsuch's and Watt's missteps gave the opening to an opposition

that had begun to coalesce in 1980 in alarm at Ronald Reagan's platform and policies. The environmental movement, which had been growing slowly throughout the 1970s, found itself re-energized with the arrival of the Reagan administration and its open hostility to environmental policy--so much so that one environmental lobbyist said of Watt's resignation: "We're sorry to see him go...he was the best organizer we ever had" (quoted in Sale, 1993:53). Membership in the national organizations continued to grow, with a marked uptick in the early 1980s (Table 3.9), and the administration's hostility forced the growing environmental movement to professionalize and develop a legislative focus. Grass-roots activism took off, and a new, less compromising strain of environmentalism, "deep ecology," was attracting supporters. (Sale, 1993)

Polls in the early 1980s were showing very high, and increasing, support for environmental protection measures. In addition to the Roper poll showing one in three Americans calling for stricter environmental laws in the late 70s and early 80s (figure 2), a Harris survey in 1982 found 95% of respondents considered hazardous waste removal a serious problem, an ABC News-Washington Post survey found 3 out of 4 agreeing that environmental laws are worth the cost to business, and between 1981 and 1983 the percentage agreeing that environmental protection standards "cannot be too high" rose from 45% to 58% (all quoted in Vogel, 1989:262).

The support for environmental legislation spilled over into other regulatory areas: further deregulation of the CPSC and the FTC halted in Congress, the courts invalidated several environmental deregulatory measures and deregulatory efforts from the NHTSA

**Table 3.9: Membership in Four Largest Environmental Organizations, thousands,
1960-1990, United States**

| | Sierra Club | National Audubon Society | Wilderness Society | National Wildlife Federation | total |
|------|-------------|--------------------------|--------------------|------------------------------|-------|
| 1960 | 15 | 32 | 10 | | |
| 1969 | 83 | 120 | 44 | 465 | 712 |
| 1972 | 136 | 232 | 51 | 525 | 844 |
| 1979 | 181 | 300 | 48 | 784 | 1313 |
| 1983 | 346 | 498 | 100 | 758 | 1702 |
| 1989 | 493 | 497 | 333 | 925 | 2248 |
| 1990 | 560 | 600 | 370 | 975 | 2505 |

source: Mitchell et al., 1992

and OSHA, and OSHA, the NHTSA , and the Transportation Department passed costly new regulations. (Vogel, 1989:265).

Several societal forces were now arrayed in response to the Reagan administration's deregulatory efforts; moreover, 1984 was an election year. Seeing this, the administration called a halt to deregulatory efforts in 1983. The administration had learned what the polls were showing all along: although "deregulation" might be a popular symbol *in the abstract*, once the issue moved to specifics like environmental pollution or product safety, and once people started to pay attention to the administration's efforts, deregulation efforts quickly became not only unpopular, but actually a threat to the administration's survival: as one administration official explained, "there's an election coming, and how can we be for cancer or be seen as being in the pocket of big business?" (quoted in Vogel, 1989:268)

The administration's handling of the EPA controversy in particular was unpopular and highly salient: the issue stayed in the front pages for several weeks, and it was leading to a public perception that the administration was reckless with the environment: a Times/CBS News Poll found that in the wake of the crisis, respondents believed Reagan was "biased in favor of industries that pollute" by a margin of two to one (Shabecoff, 1983). Republicans both inside and outside the White House were worried: in March "nine House Republicans wrote to Reagan, suggesting that he appoint [as Gorsuch's replacement] 'someone who has a strong record of experience and interest in environmental protection'" (Peterson, 1983) and according to the New York Times:

The aspect [of the controversy] that White House officials fear the most is that, amid all the confusion, there may be a general suggestion of favoritism to polluters in the Reagan Administration. That, they fear, could cost Mr. Reagan and the Republicans dearly in 1984 if Democrats succeed in pinning on them a label of playing politics with something as deadly as toxic waste (Weisman, 1983).

Reagan defused the issue in March by appointing a moderate, William D. Ruckelshaus, to replace Gorsuch. This was seen as a major shift of course. A House Republican said "You'll get a much more aggressive E.P.A....Bill Ruckelshaus isn't going to suck his thumb" and Democrats and Republicans in Congress saw in this appointment a symbolic shift away from social deregulation (Smith, 1983). This symbolic shift turned into a definite end to the deregulatory efforts a few months later, when Reagan disbanded the Task Force on Regulatory Relief.

The most common explanations of the turn to the right in deregulation have emphasized the role of corporate mobilization and of "ideas." But these accounts cannot explain the timing or the process of deregulation, nor why the deregulatory push ended. New social movements played key roles in the rise, turn, and decline of deregulation. Public opinion in favor of the populist consumers' movement, and this movement's late-60s to mid-70s salience, lit the torch under the deregulatory effort. Executive control of deregulation and the "frame ambiguity" of the cultural left allowed Ronald Reagan to turn this effort in a pro-business direction. Congressional and judicial reassertion of power, and a renewed spotlight on the negative effects of deregulation generated by the environmental movement, called deregulation to a halt. The history of the rise and fall of

deregulation is a lesson in the relation of state institutions to societal trends, as well as in the interaction of new social movements with economic policy. Reagan's "old" class effort to help business was generated, and ultimately defeated, by the new social movements of the 60s, 70s, and 80s.

This examination of the rise and fall of deregulation yields two conclusions about American politics, both left and right, at century's end. First, the interpretation of the rise of the right under Ronald Reagan as a victory for business in a class struggle is incomplete: the roots of certain right-wing policies are to be found in the populist "new social movements" of the 1960s, and benefited the majority of Americans at the expense of the disadvantaged minority. Second, born in rebellion at foreign policy, the American left embraced in the 1960s a populist vision that moved it further from the pro-government left of the social democratic states of Europe; the result of this was the manipulation of the left by right-wing politicians for their own ends. The consumers' movement was one of the strands of the left that, in its *contingent* anti-government stance, fed the rise of the right. But the populist left can also be harnessed to "old left" purposes, as happened when the rise of the environmental movement spelled the end of Reagan's deregulatory efforts.

Welfare State Policy

Anti-poverty policies in advanced industrial countries confront a tension at the heart of the idea of democracy: because the majority of voters in rich countries do not need them, such policies are consistently vulnerable. This is particularly the case in

“residual” welfare states that target the poor as a separate category in need of aid; while in France, and to a lesser degree in the U.K., the poor receive benefits under the umbrella of universal welfare policy, this is not the case in the U.S. except with regard to old-age pensions. This section compares the fate of old age pensions under the Reagan administration to the fate of means-tested programs to make two arguments. First--as has been emphasized elsewhere in this dissertation, and has been noted previously by scholars--programs that benefit the majority are resistant to retrenchment; in this case old age pensions survived not because organized interest groups rallied to their defense, but because politicians self-censored themselves and never truly attacked Social Security. Second, the story of the unraveling of means-tested anti-poverty policies in the U.S. is the story of the consequence of the absence of a strong centralized and concentrated state. It is not the story, or not only the story, of the rise of business interests, the role of race in undermining the New Deal coalition, or the rise of a new set of conservative "ideas."

Recent Changes in Anti-Poverty Policies

Scholars agree that the conservative attack on the welfare state was much less successful than the implementation of free-market policies in other areas such as taxation and deregulation. Despite a sustained attempt by the Reagan administration to cut welfare spending and dismantle the package of New Deal social legislations that make up the American welfare state,

claims of a conservative revolution in social policy are suspect. Compared with reforms engineered in other arenas...the welfare state stands out as an island of relative stability. Compared with the preceding decades, moreover, the 1980s did not bring particularly radical change in social

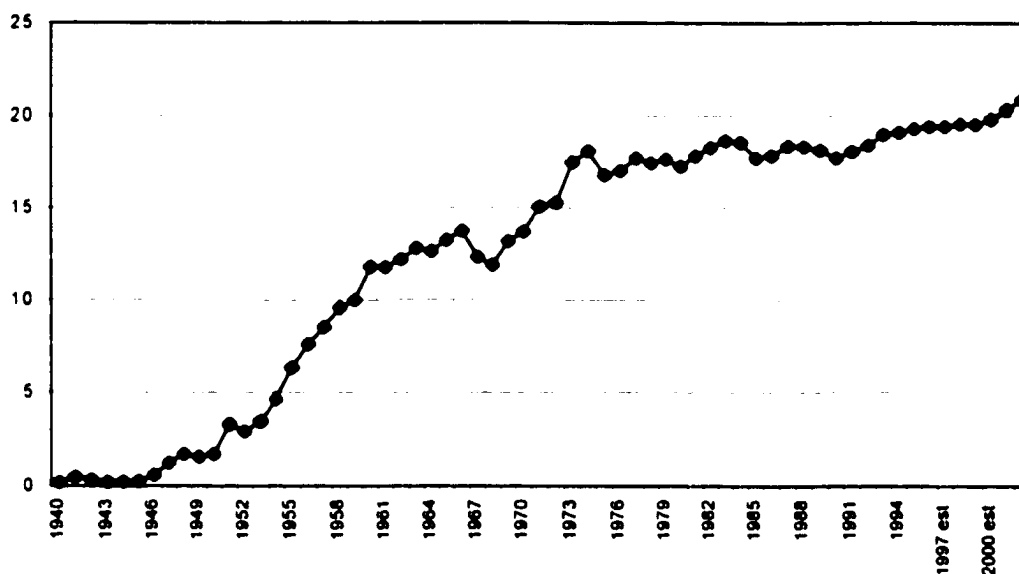
policy...social policy remains the most resilient component of the postwar order (Pierson, 1994:5).

This conclusion, however, is more true for some parts of the welfare state than others. As the historian Michael Katz (1989, 1996) has argued most systematically, the American welfare state is not one cohesive thing that can be built up or dismantled together; rather, there is a dualism at the core of the welfare state that determines differing loyalties to different programs, and in the 1980s determined different outcomes.

The larger segment of the American welfare state is old age pensions and medical care for the elderly constituting a third of the entire budget (Figures 3.18-3.19); this portion of the welfare state is not means tested, and, as pension benefits are indexed to lifetime earnings, this portion of the welfare state reproduces the class structure rather than undermining it. For these reasons--universality and reinforcement of the merit ethic--old age benefits have generated widespread support.

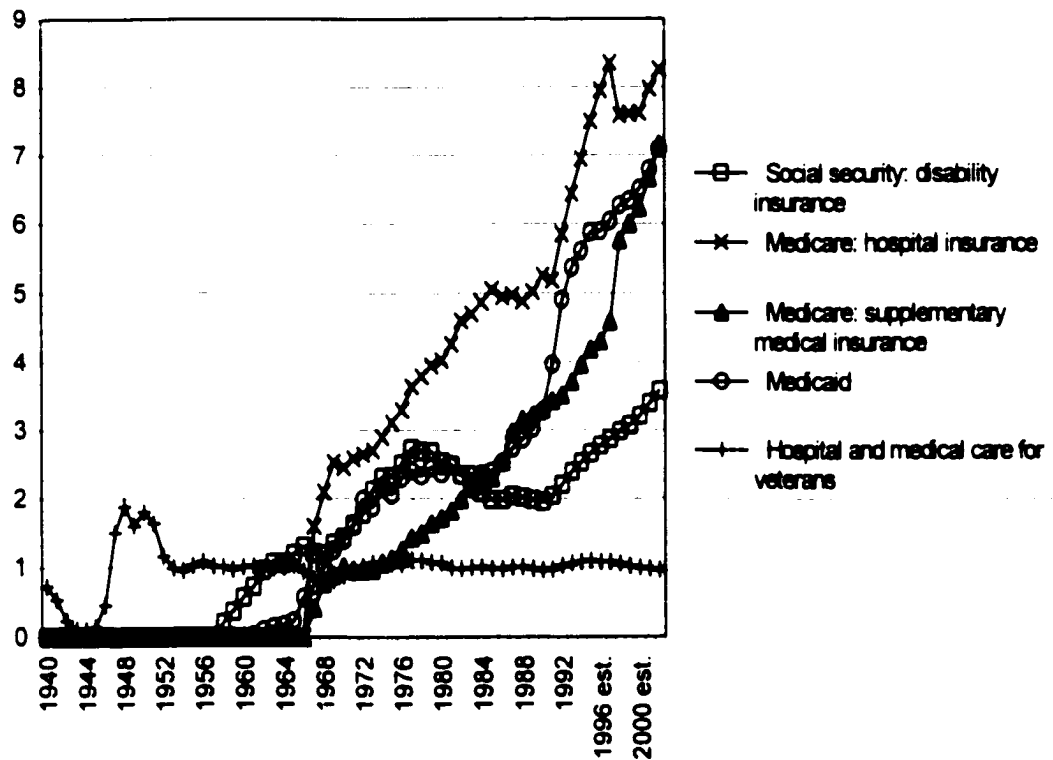
Support for the second part of the welfare state, means-tested benefits, is considerably more ambivalent. These programs provide benefits for the poor, particularly children, and together constitute approximately 14 percent of the budget (Figures 3.20-3.21); different programs shown separately because of different scales), though it should be noted that many of these programs disproportionately benefit the elderly, including 2/3 of by far the most costly, Medicaid. Polls measuring support for these programs produce widely varying results depending on how the question is phrased: the American public feels warmly towards "poor people," less so towards "people on welfare," indicating an underlying ambivalence towards the poor in the minds of the citizenry and making these policies a political and symbolic battle ground in the Reagan

Figure 3.18: Social Security: Old Age and Survivors Insurance as Percent Total Outlays, 1940-2000, United States



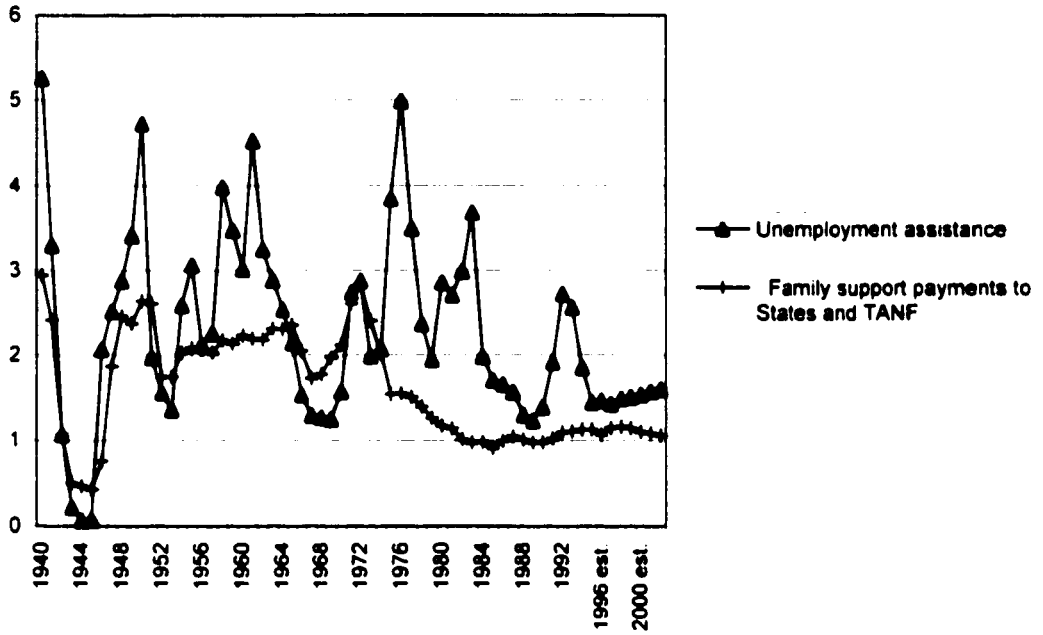
source: *Office of Management and Budget, Historical Tables*

Figure 3.19: Health Spending as Percent Total Outlays, 1940-2000, United States



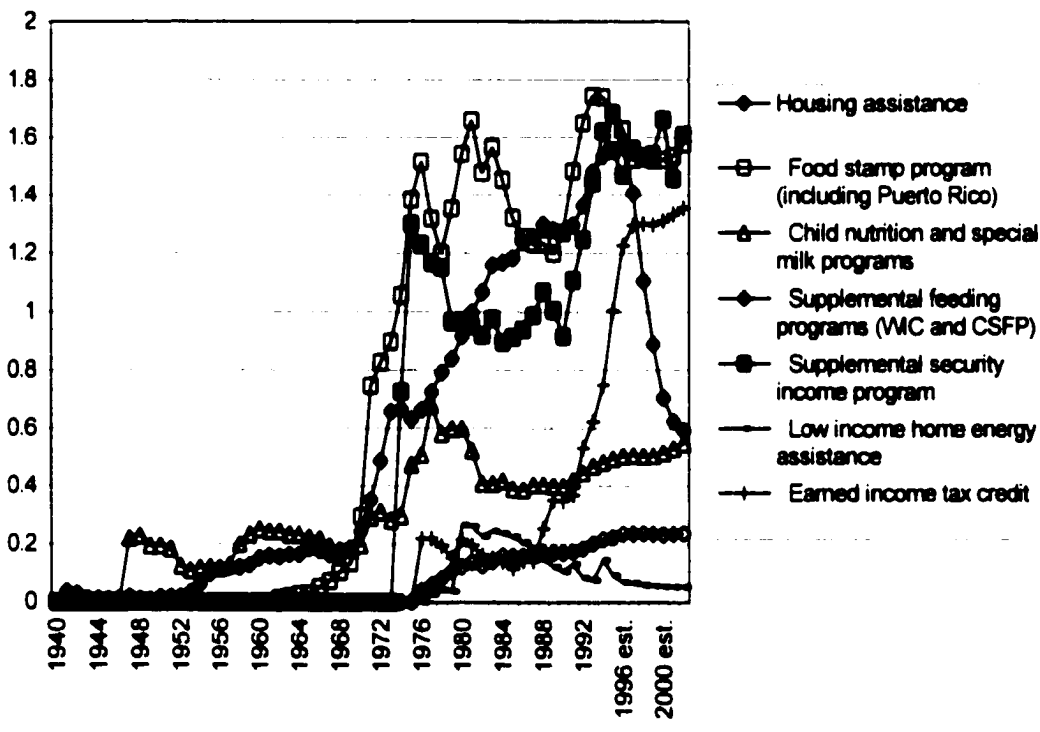
source: Office of Management and Budget, Historical Tables

Figure 3.20: Unemployment and Family Support as Percent Total Outlays, 1940-2000,
United States



source: Office of Management and Budget, Historical Tables

Figure 3.21: Other Welfare Spending as Percent Total Outlays, 1940-2000, United States



source: Office of Management and Budget, Historical Tables

revolution. Unemployment assistance, a small part of total spending, straddles the two segments of the welfare state--the unemployed are ambiguously deserving, because their unemployment may or may not be their own fault, and the variations in unemployment assistance show this ambiguity. Finally, spending on education is a large portion of the American welfare state, but it is conducted at the state level; there is little national commitment to public education.

The conclusions of scholars who argue that the welfare state has "survived" its crisis (cf. Pierson, 1994; Piven and Cloward, 1988; Schwab, 1991; Ruggie, 1996) are undeniable if what is being discussed is the first segment of the welfare state, old age pensions: Reagan's positions on cutting Social Security were so unpopular that he quickly drew back from any sustained attempt to reduce it, and Social Security not only maintained its strength, it actually grew in size. As Pierson succinctly explains it:

Welfare states have created their own constituencies. If citizens dislike paying taxes, they nonetheless remain fiercely attached to public social provision. That social programs provide concentrated and direct benefits while imposing diffuse and often indirect costs is an important source of their continuing political viability. (Pierson, 1994:2)

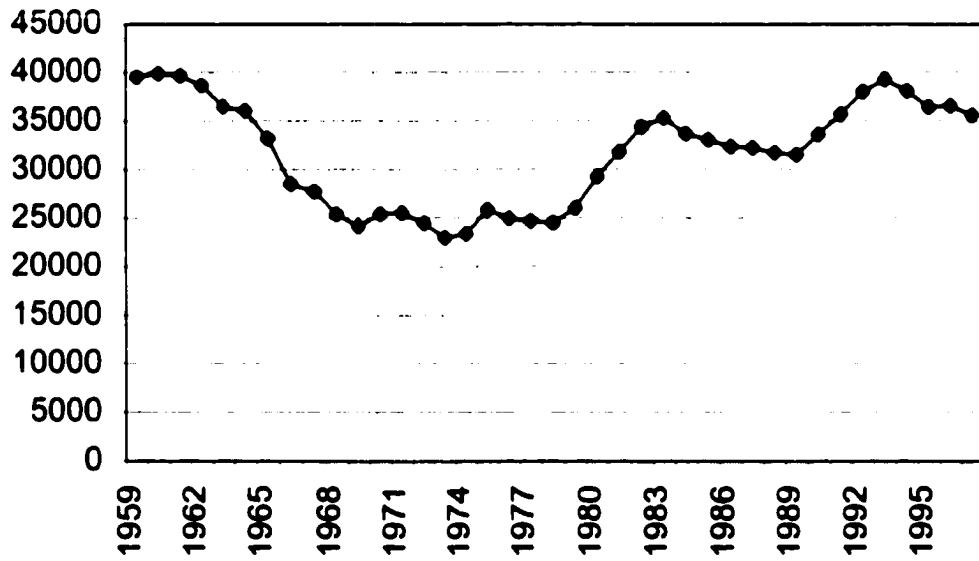
Of course this is only true for those programs that *do* concentrate benefits and diffuse costs, like Social Security. The opposite is the case for those programs that benefit a minority by taxing the majority, like means-tested AFDC, for better or worse the symbol of the other part of America's welfare state. The Reagan administration managed a first strike against AFDC in the form of the Omnibus Budget Reconciliation Act of 1981 (OBRA), which tightened program eligibility and put a time limit on the "30 and 1/3 rule," the rule whereby AFDC recipients were allowed to keep the first \$30 of

their earnings and one-third of the remainder; work-related expenditure deductions were disallowed, and states were allowed to implement a "workfare option"; this cut AFDC expenditures by 14%. In addition to AFDC, Reagan achieved cuts in the food stamp program, subsidized housing, the school lunch program, child care and housing assistance, public mental health and counseling services, legal aid, and other smaller means-tested programs. (Rocheft, 1986; Trattner, 1999[1974])

That these cuts were not larger has led most scholars to conclude that the conservative attack was not successful: "these programs remained substantially larger in 1985 than in 1966--the Reagan Revolution was a skirmish when viewed in its historical context" (Gottschalk, 1988). This is the conclusion that one would come to after a careful examination of spending levels: as figures 3.20-3.21 show, although there are some declines, expenditure levels on most programs either held steady or climbed back up after the Reagan years.

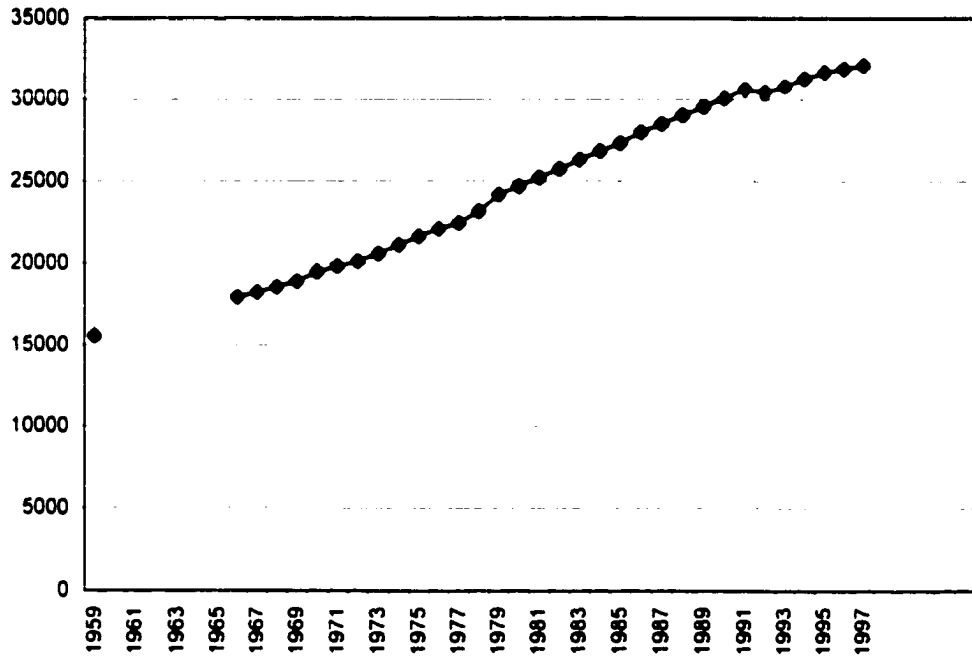
Spending levels, however, do not tell the whole story, as Gøsta Esping-Andersen (1990) has reminded us. Two states that have equivalent levels of welfare spending are not equivalent if poverty levels in one are double poverty levels in another--that is, if the *need* for spending is different in the two contexts. Figure 3.22 indicates that although spending held constant on the means-tested programs in the 1980s, the *need* for such spending as calculated by the poverty rate skyrocketed. Compare this figure to the rate of poverty among the elderly, which did *not* go down despite a steady increase in the elderly population (Figures 3.23-3.24), and the outlines of what actually happened in the 1980s become clear: the conservative success consisted of holding the means-tested segment of

Figure 3.22: Total Number in Poverty, thousands, 1959-1995, United States



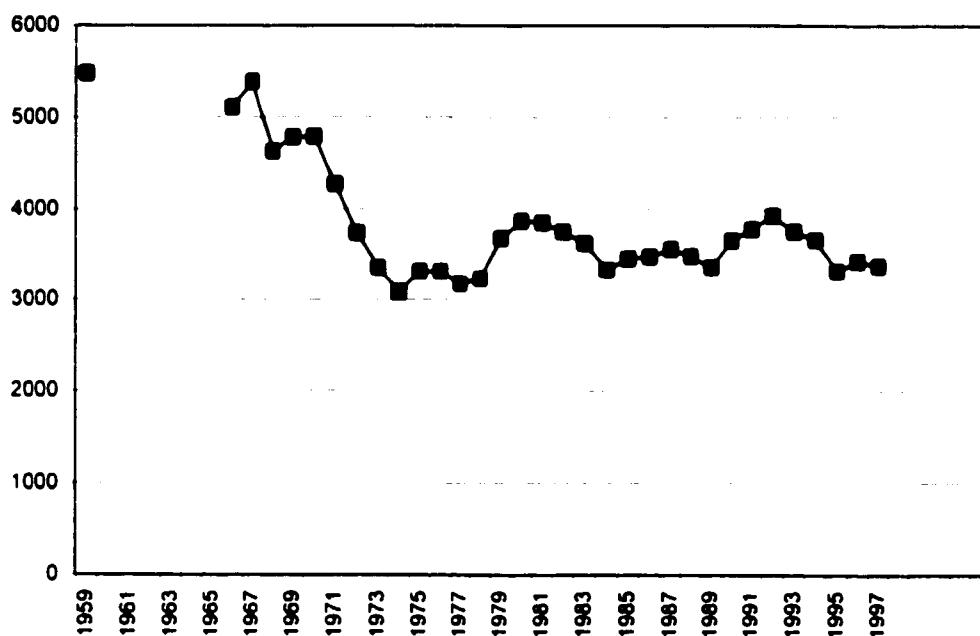
source: U.S. Bureau of Census

Figure 3.23: Total Population Over 65, thousands, 1959-1995, United States



source: U.S. Bureau of Census

Figure 3.24: Total Over 65 in Poverty, thousands, 1959-1995, United States



source: U.S. Bureau of Census

the welfare state constant at a time when the objective need for it among the poor increased; poverty among the elderly, however, did not increase, probably because of the rapid growth of health spending.

Analysts identify four interacting causes of the increase in poverty in the 1980s, an increase that occurred despite strong aggregate economic performance. First, in the 1980s a "skill mismatch" developed between the jobs on offer in the American economy—high tech, high skill jobs—and the low skills that those most at risk of becoming poor could offer; technological innovations have largely eaten away the low-skill jobs that once might have afforded a livable wage. Second, the low-skill jobs that have opened up are being created in the outlying suburbs of large cities, far from where the chronically poor live—in the inner parts of cities, without means of transportation, or in rural areas. These two factors were exacerbated by the rising incidence of divorce in American society, which increased the number of families with only one worker, and especially the number of families headed by low-skilled women (though this was only a minor part of the increase in poverty). Finally, because of the large influx of low-skilled women into the work force, the low-skill jobs are also low-wage jobs which do not allow a worker to rise out of poverty. These factors combine to detach the poor from the "rising tide" that lifted the economic fortunes of the rest of the population in the 1980s. In not meeting this "new poverty" with new anti-poverty policies such as federally funded child care or more public transportation, or comparable worth programs, the Reagan administration missed the chance to reduce poverty in the 1980s; more aggressively, what would have been the minor effects of the new OBRA rules escalated in the new situation to major poverty-

generating policies, accounting for about half of the rise in poverty (Gottschalk, 1988:132). (Note that this is in fact quite different from what happened in the mid-90s: Bill Clinton ended AFDC at a time of decreasing poverty.)

The Reagan administration did, then, achieve a limited degree of success in implementing its convictions. As Pierson comments, "measuring the extent of [welfare state] retrenchment is a half-empty/half-full question" (Pierson, 1994:5). The half-empty part of the retrenchment is that Reagan did not achieve cutbacks in Social Security, and did not leave a legacy that would stop future politicians from raising benefit levels on means-tested programs. The half-full part of the retrenchment is that millions of people in poverty in the mid-1980s learned not to look to government to help them out of it. As Charles Noble writes, "This legislation marked a major turning point in the recent social history of the United States, going far to reduce or abolish governmental support for the most politically unpopular Great Society programs of the sixties...it served notice that the United States government, under Ronald Reagan's symbolic leadership, was well disposed to aid and support the most powerful and wealthy elements in the country at the expense of those least able to fend for themselves" (1998:95).

Causes of the Success of OBRA

If taxation and deregulation are understudied by sociologists, the same cannot be said for issues of social policy; there are as many proliferating explanations for the success of the conservative attack on means-tested welfare policies in the U.S. as there are schools of thought on what drives social change. The explanations for the success of

anti-poverty policies can be placed into three camps: (1) scholars like Michael Katz emphasize the importance of the rise of a new set of *ideas* that legitimized the attack on welfare by questioning both the state's right to tax some to provide for others and the moral effects of welfare on its recipients; (2) some analysts, primarily Jill Quadagno, have pointed to the role of *race* in the unraveling of the New Deal coalition; and (3) as with taxation and deregulation above, a large number of scholars, of whom Thomas Byrne Edsall is one of the most cited, point to the resurgence of organized *business* in the 1980s.

Ideas

In the 1970s several developments of concern to the welfare state occurred in philosophy and were mirrored in American culture. First, in response to John Rawls's defense of progressive liberalism, Robert Nozick published a critique of the state's appropriation of the private property of citizens even with beneficial intent. Second, Lawrence Mead extended the "contractual" basis of American democracy into the heart of the practice of welfare, arguing that welfare should be ended because to give recipients assistance without expecting anything in return is to treat them as less than full citizens of the state. These two ideas were popularized in several books, most notably Charles Murray's bestseller Losing Ground, which also attempted to show that welfare creates disincentives to work and marriage. Scholars point to this new, developing ideology as one of the causes for the success of some of the attacks on the welfare state (Katz, 1989; Noble, 1997).

Problems with explanations of social change based on the development of "ideas" have been discussed above in the discussions of taxation and deregulation, and continue to apply in this context. Most importantly, neither one of these ideas can be said to have been hegemonic; vigorous challenges to each developed quickly. Nozick's formulation was, and continues to be, criticized for its assumption that the original appropriation of property by any individual can be shown to be just; if it cannot, his philosophical structure based on property and its unbroken just inheritance collapses. Mead's citizenship model, and Murray's disincentives argument, are both based on the assumption that jobs are available for welfare recipients to take and that welfare recipients are on welfare for cultural reasons. But as students of monetary policy point out (Galbraith 1998), unemployment rates may be artificially maintained or even increased to dampen inflation. Rebecca Blank (1997) reviews the research on the disincentives of welfare for work, concluding that for every \$100 rise in welfare benefits, a recipient works two fewer hours per month. This is not enough of a disincentive to conclude that welfare "traps" people in poverty; at this rate, a welfare recipient would have to receive benefits equaling \$8000 a month to quit a full-time job, or \$4000 a month to quit a half-time job, but nowhere are benefit levels this high. Further, Blank shows that for the majority of poor people, poverty spells begin and end not because of the dissolution or formation of marriages, but because of the availability or unavailability of jobs.

In short, if "ideas" drove the conservative resurgence, it is still necessary to show why one particular set of *contested* and often *incorrect* ideas gained ascendance. To do that, one must examine broader social processes.

Race

In a departure from the explanations of taxation and deregulation discussed above, the decline of welfare state spending is sometimes seen as the outcome of the curiously American brand of racialized politics. Jill Quadagno has written the most elaborate defense of this perspective. In broad terms, the argument is that Republicans capitalized on a racialized division between the poor: the numerically larger working poor, especially in Southern states, who were largely white, resented the non-working poor, who were disproportionately (though not largely) black. This division was seen not in class terms, but in terms of race, and it was manipulated in racial terms first by George Wallace and then more successfully by Richard Nixon. Reagan inherited this politics and drove it to its logical conclusion to undermine social welfare programs that disproportionately benefited minorities.

Although this is an appealing explanation, it fails to do justice to the complications of the story. First, even though Nixon might have won on the back of a backlash by white Southern workers, this did not prevent him from attempting to institute what would have been the most broad and radical welfare program since the Great Society years (the Family Action Plan, essentially a negative income tax) as well as affirmative action, a program that clearly benefits minorities. Thus politicians' actions

cannot necessarily be predicted from the social bases of their support, and it remains to be explained why Reagan did not behave as Nixon did.

A more difficult part of the "race" explanation is that the dismantling of welfare took place at a time when race prejudice was falling and was at historic lows. Indeed, if race is driving the story, we would have expected the OBRA cuts to have happened ten years earlier, and welfare spending should have increased as explicit discrimination against blacks began to be less tolerated. Of course, the reverse happened. There may be several explanations for this. The most common explanation is to argue that the figures on discrimination reflect only that it is now less seemly to *admit* to holding prejudicial attitudes, or that racism has undergone a shift and is now more subtle, "symbolic" racism, that is, racism which manifests itself indirectly, for example through criticism of a program which disproportionately benefits minorities.

Studies attempting to document the effects of "symbolic racism" are deeply problematic. David Sears is most prominently associated with the view that symbolic racism makes people less likely to support programs disproportionately benefiting blacks, but an analysis of his work reveals a difficulty: Sears et al. (1997) *define* symbolic racism as "includ[ing] beliefs that racial discrimination is largely a thing of the past, that blacks should just work harder to overcome their disadvantages, and that blacks are making excessive demands for special treatment and get too much attention from elites, so their gains are often undeserved" (1997:22), and then measure the effects of symbolic racism on support for programs that benefit blacks. But the important question has thus been elided: *is* belief that discrimination is a thing of the past, etc., a marker of racism, or is it

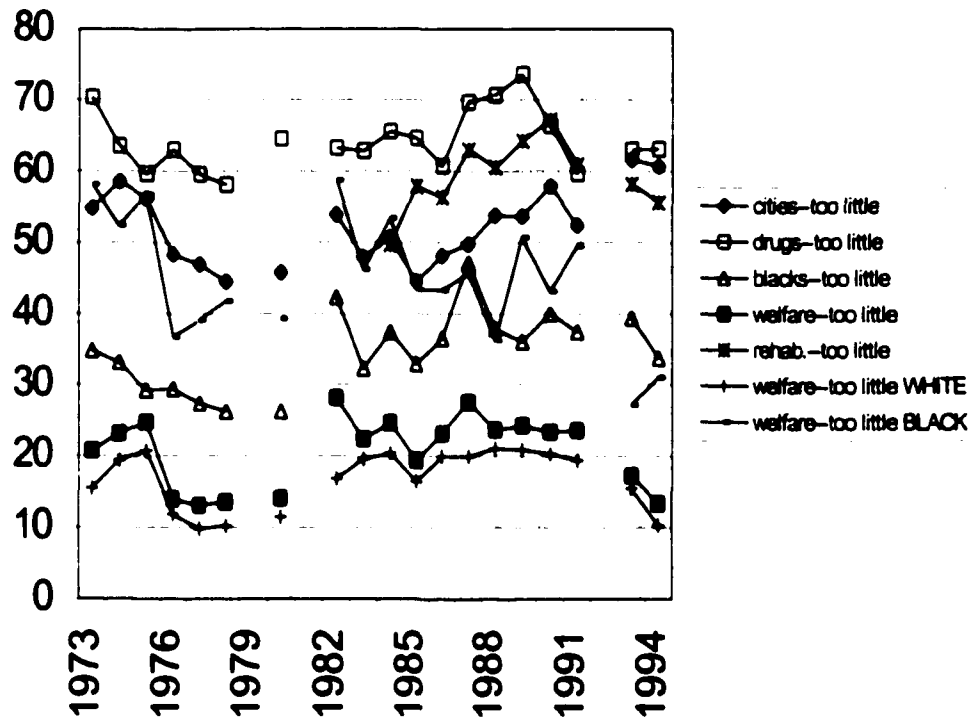
rather a measure of knowledge or political belief? Indeed, Sears et al.'s own work shows that support for "social welfare" is strongly correlated with support for programs that benefit blacks, suggesting that some of those who oppose programs that disproportionately benefit blacks are doing so because they oppose the idea of welfare in general, not because of racism in particular.²

Another difficulty with the "symbolic racism" argument is that other "codes" for minority programs, such as "aid to the cities" or "problems arising from ghettos, poverty, and race" show continuing high levels of support: figure 3.25 shows the proportion of respondents who believe that too little is being spent on other programs that might be seen in such coded terms, such as drugs and cities; figure 3.26 shows the results of a Roper poll on whether "Trying to solve the problems caused by ghettos, race, and poverty" is "something the government should be making a major effort on now."³ There may be something specific to the welfare program that these other "racialized" programs do not tap, and it has been suggested that welfare in particular goes against an American ideology of meritocracy and work, but it is difficult to point to any evidence that this ideology is really so uncomplicated and extensive; in fact, whenever given the chance,

² The authors argue that since self-stated ideology does not affect support for these programs, the race variables are not simply measuring ideology; but in their model they have measured the effect of ideology *controlling for* beliefs about social welfare, i.e. ideology only has no effect because the relevant aspect of ideology has been controlled for. In other words, self-stated conservatives who dislike social welfare are as likely as self-stated liberals who dislike social welfare to oppose programs for blacks. Beliefs about social welfare, in turn, do have a strong effect in their model. Old-fashioned measures of racism, on the other hand, are not correlated with support for these programs. Thus we might suggest that what they have shown is that (1) beliefs about whether such programs are needed and (2) ideology about welfare are the key predictor of support for programs benefiting blacks. We cannot conclude from this that lack of support for programs benefiting blacks is caused by racism.

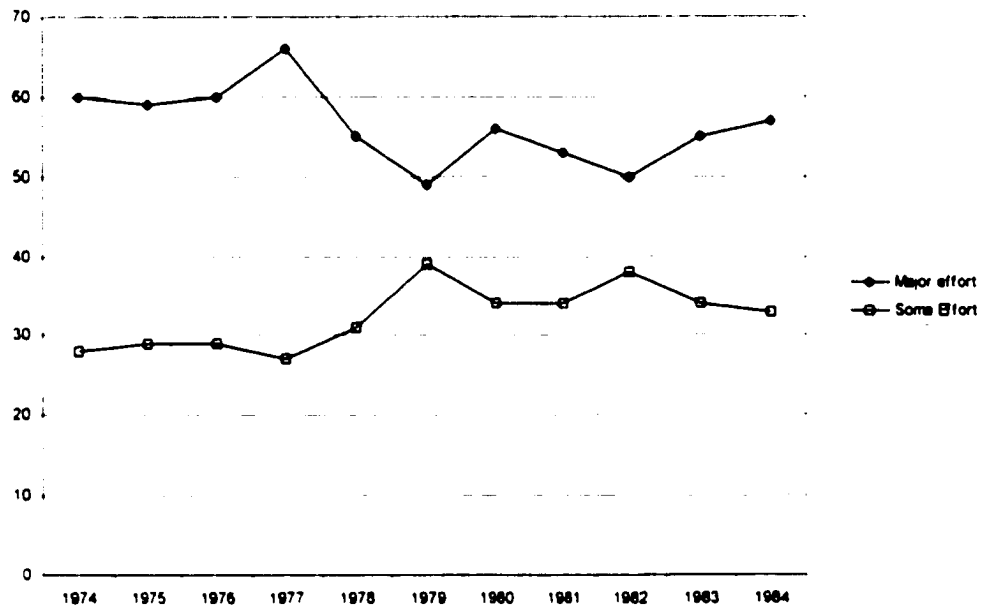
³ The NORC poll also found that the percent of respondents supporting laws against intermarriage dropped from approximately 40% in 1973 to approximately 15% in 1994.

Figure 3.25: NORC Poll: Percent Responding "Too Little" Being Spent, 1973-1994,
United States



source: NORC

Figure 3.26: Roper Poll: Should Government be Making a Major Effort on “Trying to solve the problems caused by ghettos, race, and poverty,” 1974-1983, United States



source: Roper

Americans answer *both* that circumstances affect success and that hard work can raise the odds of success (Mayer 1992).

Finally, and most revealingly, although when asked about "welfare" in general the public is not enthusiastic, Fay Lomax Cook and Edith Barrett suggest that this is because the word "welfare" is vague and taps many connotations, mostly negative; when they asked about public support for specific programs, including the "racially coded" AFDC, they found a surprising degree of support (Tables 3.10-3.11). And in general, there was a lack of public support for Regan's programs of cutting services for the poor: figure 3.27 shows the results of the question "Some people have argued that President Reagan's budget reductions are cutting too deeply into social programs that help poor and disadvantaged people. Do you generally agree or disagree thatn President Reagan has cut too much from these programs?" and figure 3.28 the questions "Do you approve or disapprove of President Reagan's proposal to reduce spending on social services? Do you feel strongly about that, or not so strongly?"

In short, the "race" explanation is appealing but oversimplified. Americans' racial attitudes cannot be argued to lead *directly* to the dismantling of social policies because (1) these attitudes have moved in the opposite direction, towards less racism, and opposition to programs benefiting blacks seems to have to do less with racism and more with beliefs about whether such programs are necessary and beliefs about social welfare

Table 3.10: Support for Specific Means-Tested Programs, percent of respondents,

United States

| | increase | maintain | decrease |
|---|-----------------|-----------------|-----------------|
| Medicare | 67.6 | 29.9 | 2.5 |
| Supplemental Security Income | 57.3 | 40.0 | 2.7 |
| Social Security | 56.7 | 40.0 | 3.3 |
| Medicaid | 47.1 | 46.3 | 6.6 |
| Unemployment Compensation | 31.5 | 55.5 | 13.0 |
| AFDC | 32.6 | 51.9 | 15.5 |
| Food Stamps | 24.6 | 51.0 | 24.4 |

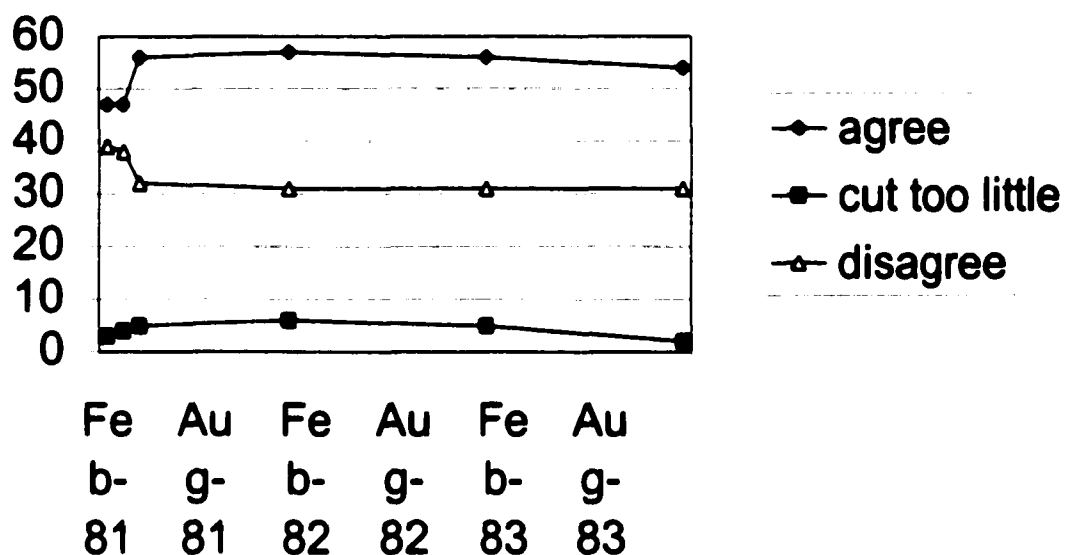
source: Cook and Barrett, 1992:90

Table 3.11: Support for AFDC, Medicaid, Social Security, percent of respondents, United States

| | AFDC | | Medicaid | | Social Security | |
|---|------------|--------------------|------------|--------------------|-----------------|--------------------|
| | % of total | % of satisfied | % of total | % of satisfied | % of total | % of satisfied |
| satisfied with paying taxes for program | 64.5 | 100 | 78.4 | 100 | 81.4 | 100 |
| opposing spending cuts | 50.8 | 77.6 | 63.4 | 80.8 | 73.1 | 89.8 |
| willing to write a letter or sign a petition against spending cuts | 35.4 | 54.8 | 49.2 | 62.7 | 62.8 | 77.3 |
| willing to pay more taxes to avoid cuts | 36.2 | 56.1 | 47.5 | 60.6 | 58.0 | 71.2 |
| | % of total | % of dis-satisfied | % of total | % of dis-satisfied | % of total | % of dis-satisfied |
| dis-satisfied with paying taxes for program | 33.6 | 100 | 21.6 | 100 | 18.6 | 100 |
| opposing spending increases | 24.9 | 74.4 | 13.2 | 66 | 10.9 | 60.6 |
| willing to write a letter or sign a petition against spending increases | 19.0 | 56.7 | 9.1 | 45.4 | 7.9 | 43.8 |
| willing to decrease taxes spent on program | 15.0 | 44.7 | 9.3 | 46.4 | 4.8 | 26.9 |

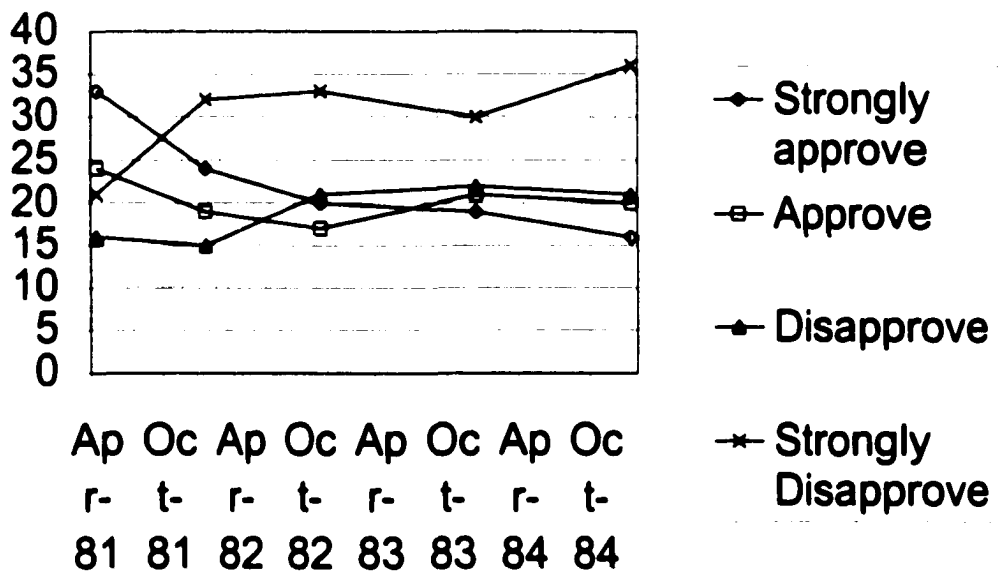
source: Cook and Barrett, 1992:90

Figure 3.27: Cambridge Reports Poll: "Some people have argued that President Reagan's budget reductions are cutting too deeply into social programs that help poor and disadvantaged people. Do you generally agree or disagree that President Reagan has cut too much from these programs?" 1981-1984, United States



source: Cambridge Reports

Figure 3.28: Los Angeles Times Poll: "Do you approve or disapprove of President Reagan's proposal to reduce spending on social services? Do you feel strongly about that, or not so strongly?" 1981-1985, United States



source: Los Angeles Times

in general; (2) support for some racial policies other than welfare remains high, and (3) it is not clear what the low support for "welfare" is actually measuring.⁴

Business Group Mobilization

As in the cases of the ERTA and deregulation discussed above, scholars have pointed to the efforts of business group mobilization against the welfare state as one of the main catalysts for the success of OBRA. In particular, scholars who study campaign financing note that the 1980 election was a turning point: Republicans received vastly more funding from corporations than they had ever received before, and vastly more than Democrats did (Clawson et al., 1998). They used this funding first to gain seats in Congress, and second to reward business interests.

But OBRA was not in business interests. AFDC peaked at 1% of the budget in the 1970s and has been declining since then. If business were in particular need of a pool of low-skilled, low-wage workers OBRA might be explained, but in fact it came during a sustained period of high unemployment--and, indeed, none of the business organizations were pressing for reductions in means-tested spending.

⁴ Contrary to stereotype, no extreme differences exist in majority opinion between the U.S. and European countries on questions of state aid to the poor. In the time period being studied here an analyst wrote: "Americans are not alone in their sanctification of the values of individualism; similar tendencies exist even among the 'welfare leaders' of Western Europe. In the same fashion, collectivism is not restricted to nations with strong social-democratic traditions; Americans as well as Canadians accord great respect to the values of security and social protection. The prevailing ideological climate in each of the eight nations is mixed and is not dominated by extremes of ideology" (Coughlin, 1980:31).

If business group influence, racism, and the rise of conservative ideas do not account for the implementation of OBRA, how are we to explain it? The next section traces the legislation from its beginnings through its victory in Congress, to show how the structure of the American state, and particularly recent changes within it, led to the end of state protection of the minority of people who lose out in free market competition.

State Structures and Minority Interests

Unlike the issue of tax cuts, the issue of spending cuts did not have a long gestation period. Rather, the outlines of OBRA sprang fully blown from the head of David Stockman, Reagan's Office of Management and Budget director. Thus an analysis of OBRA begins with an analysis of the role of Stockman.

When Stockman arrived at OMB he was already ideologically formed as an opponent of "big government." Nothing predestined him for this role. Although as the son of midwestern farmers and the grandson of a local Republican politician Stockman's background echoes that of myriad American right-wingers, all of his siblings ended up working for government. Stockman's odyssey towards the right is a recapitulation in microcosm of the social bases of the American political spectrum: at home he had been taught that "God voted Republican. Capitalism was the way of free men; the New Deal was a socialist way to perdition" (Stockman, 1986:19). But at Michigan State he found his teachings under attack from professors and other students, and experienced a short-lived conversion to a secular humanist utopianism incarnated in opposition to the Vietnam War. Violence in the movement frightened him away, and the discovery of

Reinhold Niebuhr renewed his interest in theology. At Harvard Divinity School he read and embraced Walter Lippmann's critique of state intervention in the market. Only a few years later, in Washington, he read Hayek and Friedman, and felt that he was watching their critiques unfold in real life:

Nixon and his Treasury Secretary, John Connally, had about then launched an experiment in anti-market economics. They had turned traditional Republican economics on its head, imposed wage and price controls, and abolished the gold standard. It was perverse. Everything the free market scholars said would happen--shortages, bottlenecks, investment distortions, waste, irrationality, and more inflation--did happen right before my eyes...The experience in John Connally's economics laboratory left me a born-again capitalist. [1986:30-31]

This account is invaluable for its depiction of one ideologue's conversion to neoliberalism: it suggests that neoliberalism's cultural supports were located in economics departments and loosely affiliated with universities, and that the experience of stagflation in the 1970s confirmed neoliberals in their views. Stockman's economic analysis is oversimplified: the economic crisis in the 1970s had more to do with the U.S. dependence on imported oil than anything else, and wage and price controls were responses to the crisis rather than causes of it; had Stockman been observing the "laboratory" of capitalism during the depression, he would no doubt have embraced Keynes. But the sociological point remains the same: economic crisis was one of the social processes that catalyzed the rise of neoliberal ideas.

More important than tracing the reasons why David Stockman became neoliberal--even as a representative for why neoliberalism became popular--is the question of how such neoliberalism entered government. Stockman's story is again revealing. After a

stint as an aide to congressman John Anderson, he ran for Congress himself, and won when his incumbent opponent resigned. In Congress he quickly joined forces with Jack Kemp and his group of nascent supply-siders, a group that soon managed to convert Ronald Reagan to their cause. When Reagan won, Stockman's entry into the Cabinet was relatively simple:

Kemp and I launched a campaign to secure me a position in the new Cabinet. The odds were long. I was young and relatively inexperienced...[Fellow supply sider newspaper columnist Bob] Novak wrote a column saying there was a movement growing to put Stockman in at the Office of Management and Budget. At the time he wrote it, it was a movement of three or four, if you included the minority of my staff that favored the idea. But after his column appeared, it did become a movement of sorts. [1986:69-70]

Stockman quickly did what he did best: he put together a document making the case that unless various supply side measures were taken the U.S. economy would experience dramatic recession, an "economic Dunkirk." Buried among these measures was a call for reduction of "Non-Social Security Entitlements"; although AFDC was not mentioned by name, the genesis of its end was in this measure.

Apparently, [the paper] made a good impression...A few days later the phone rang. It was Cap Weinberger, wonder if I would be interested in being the President's Secretary of Energy.

I surprised myself by telling him no...Actually, I wanted OMB. I told Weinberger that if he wasn't interested in his old job again, I was. [1986:73]

And thus was Stockman installed at OMB--with the help of well-placed journalists and policy makers favorable to supply side ideas and looking for a bright, hard-working fellow traveler.

Although Stockman's remarkably quick entry into government is universally ascribed to his own hard work and ambition, it was only made possible by a unique feature of the political structure: its extraordinary permeability to the rapid ascent of "outsiders." As Greider writes:

One striking quality of Stockman's career is the ease and swiftness with which he moved from an obscure and unpretentious background to the highest circle of power in the federal government... This pattern is not all unusual in modern Washington; the channels of power are much more accessible to new participants than one might think... In administration after administration, obscure Americans who are essentially political technicians have been anointed with awesome power (1983:83-85)

This is characteristic of public administration in the United States:

In Western Europe, beginning with the absolutist monarchies of the seventeenth and eighteenth centuries in Prussia and France and continuing in the nation-states of the last two centuries, the emphasis has been on "career" staffing in some form, with individuals customarily entering the service at an early age and remaining throughout their careers until retirement. In the United States, on the other hand, the orientation has been toward shorter-term or "program" staffing. [Heady, 1988:405]

In the United States the top levels of the bureaucracy in particular are particularly vulnerable to politically motivated staffing--such was the case with the EPA and the Department of the Interior under Reagan, as we saw in the previous section, and such was also the case with the OMB.

For Stockman's ideas to move onto the agenda, it was particularly necessary that there was no rational, disinterested bureaucratic analysis of the budget: instead, according to Stockman himself, the budgeting process was riven with ideological manipulation and misunderstanding: "None of us really understands what's going on with these numbers," he told William Greider. "You've got so many different budgets out and so many different baselines and such complexity now in the interactive parts of the budget between policy action and the economic environment and all the internal mysteries of the budget, and there are a lot of them. People are getting from A to B and it's not clear how they are getting there." (quoted in Greider, 1982:33)

Two examples illustrate the chaotic nature of the process. First concerns the dramatic increase in the defense budget. Stockman writes that this was decided late at night, and

When I finally took a hard look at [the defense spending numbers] several weeks later, I nearly had a heart attack. We'd laid out a plan for a five-year defense budget of *1.46 trillion dollars!* [emphasis in original]... "How can this *be?*" I sputtered to Schneider. Patiently, he walked me back through the numbers, step by step. Gradually, I realized what haste can do.

The GOP campaign proposals for a defense hike of 5, 7, or even 9 percent real growth had been predicated on Carter's 1980 defense budget of \$142 billion. But in response to Desert One, Congress had raised Carter's request for defense funds and enacted a 1981 budget with 9 percent real growth built into it. The Reagan 'get well' package had further raised that to 12 percent real growth. Then, the second Reagan 'get well' installment for 1982 had added another 15 percent real growth increase on top of the big 1981 numbers... We had taken an already-raised defense budget and raised that by 7 percent. Instead of starting from a defense budget of \$142 billion, we'd started with one of \$222 billion. And by raising that by 7 percent--and compounding it over five years--we had ended up increasing the real growth rate of the United States defense

budget by 10 percent per year between 1980 and 1986. That was double what candidate Ronald Reagan had promised in his campaign plan.

I stormed about the office fuming over my mistake. But by then the February 18 budget was out and they were squealing with delight throughout the military-industrial complex. [Stockman, 1986:108-109, all emphases in original]

In other words, Stockman claims that the military spending that generated a deficit that would alter American politics for several decades was all a big mistake. If this is true, it is another instance of Stanley Lieberman's injunction to appreciate the role of chance in historical events of great import. Stockman himself told Greider "I'm beginning to believe that history is a lot shakier than I ever thought it was...In other words, I think there are more random elements, less determinism and more discretion, in the course of history than I ever believed before. Because I can see it" (Greider, 1982:33).

A more telling example of the systematic chaos of the budget-making procedure is the case of the "magic asterisk." As Greider writes:

Stockman thought he had taken care of embarrassing questions about future deficits with a device he referred to as the "magic asterisk." (Senator Howard Baker had dubbed it that in strategy sessions, Stockman said.) The "magic asterisk" would blithely denote all of the future deficit problems that were to be taken care of with additional budget reductions, to be announced by the President at a later date. Thus, everyone could finesse the hard questions, for now...Stockman persuaded the Republican senators to relax about the future and two weeks later they passed the resolution--without being given any concrete answers as to where he would find future cuts of such magnitude. In effect, the "magic asterisk" sufficed. [Greider, 1982:36-37]

The "magic asterisk," referring to "future savings to be identified," was combined with the use of the most optimistic budget scenarios to produce a budget that was nominally in balance; in this way the extent of the deficit that would be generated was downplayed.

That decisions as important as the allocation of government spending should be conducted with such haste and imprecision is extraordinary. The first question to ask is thus whether Stockman's account can be taken at face value. He is, after all, an interested party in the portrayal of the decision-making, and perhaps he is trying to re-frame a malicious attempt to engineer a deficit, or an ideological attempt to increase defense spending and worsen the lives of the disadvantaged, as simply an honest mistake.

Evidence against this idea is Stockman's own ambivalence about military spending; although Reagan was clearly committed to military spending, his budget director had shown no particular desire to help the military, certainly not to such a degree that it would make balancing the budget impossible. The documentary record--his own memoir, his long interviews with Greider, and the secondary writing about his role--suggests that Stockman's primary concern was economics, his primary goal the introduction of supply side principles; military spending was an obstacle to that goal insofar as it made a balanced budget less likely. Nowhere in the formation of his beliefs does foreign policy play a role, aside from the brief opposition to Vietnam--the threat to the US that he saw was internal, not external.

More importantly, however, it is not clear why Stockman would believe that portraying the Reagan team as stupid, or amazingly disorganized, rather than ideologically motivated, should work to their advantage or to his own personal advantage. Indeed, when Stockman's descriptions of the budget-making process were made public they caused a scandal, and made the administration look incompetent; Stockman himself was treated as a traitor for the revelations.

Finally, arguing against the possibility of an ideologically motivated deficit is the observation that deficits scare business and investors, and the last thing Stockman and the supply-siders wanted to do was scare capital. Rather, they expended all their efforts to try to convince Wall Street that their policies would not produce a deficit.

Thus, it is more likely that Stockman's account is accurate: the budget-making procedure under Reagan was highly disorganized and imperfect. But rather than reading this as the influence of chance, we begin to make more sociological sense of it when we note that two recent changes in the structure of the state had made rational decision-making less likely. First, the Civil Service Reform Act of 1978 further weakened the autonomous basis of the government bureaucracy, making it "easier to fire civil servants and to provide for direct partisan control of the civil service" (Thayer, 1997:97) and thus reducing the number of trained professionals preparing the budget. Second, in 1974 Congress had passed the Budget Control and Impoundment Act, which attempted to coordinate budget decisions by consolidating them into one up-or-down vote rather than having them made individually in isolated committee. Ironically, this attempt to introduce rationality in the budget-making procedure had the opposite effect: it allowed Stockman to hurry OBRA through Congress, and it allowed spending decisions to be made on partisan bases. Because only one vote was taken, it had clear symbolic significance, which worked to the Republicans' advantage for political reasons. One of the enduring features of American public opinion is that the public is ideologically conservative but pragmatically liberal: Americans are against big government but in favor of all of the particular programs that constitute it. Thus, one symbolic vote on

“government spending” was more likely to go the Republican way than several small votes on particular programs. More importantly, at this moment Reagan was very popular, and congress members did not want to vote against him (Joe and Rogers, 1985:55). Stockman made the maximum use of these political advantages by rushing the vote, to such an extent that members had not even had time to read what they were voting for: Speaker Tip O’Neill complained “there is no doubt that there is utter confusion. And why should there not be? Copies of the amendment are now available for the first time, and most of the Members have not even seen the bill. The truth of the matter is, the front page of the [Washington] *Star* today says that the author of the bill has not seen it himself” (quoted in Joe and Rogers, 1985:54).

Despite these political and organizational advantages, however, Stockman did not achieve all of his goals. Although Stockman was a consistent anti-government ideologue--“more Reaganite than Reagan,” as Noble says--his attempt to push through a full, across the board reduction in government spending failed. What he achieved instead was cuts in means-tested spending, the smallest part of the budget, while the largest programs, particularly Social Security, escaped the budget ax. William Greider would later ask: “What was new about the Reagan Revolution, in which oil-royalty owners win and welfare mothers lose?” (1982:60). But as Stockman explains it, this was not the outcome he intended. When he introduced cuts in means-tested programs he planned to present further budget-cut packages in the near future, which would include cuts in Social Security, Medicare, federal pensions, and “corporate welfare” (Stockman, 1986:124-26):

My Grand Doctrine was basically hostile to the prevailing ‘social insurance’ premise on which these giant programs rested...we intended to

attack weak claims, not just weak clients...[cutting programs that benefit the non-poor] would add a powerful new equity dimension to the entire economic program, and would prove a strong antidote to the black eye my cuts had rapidly begun to acquire in the news media. The editorial cartoonists were featured me either as the Grim Reaper, hovering with a scythe over a shivering huddle of wretched poor, or as Scrooge, merrily depriving cripples of their turkey. In the midst of it all the "mansion tax," zapping the oil depletion allowance and squeezing yacht owners would help to even out the picture...these charges that the Reagan program was anti-poor infuriated me. My Grand Doctrine had to do with just the opposite: it aimed to reverse both the national economic impoverishment and the rampant injustice...All subsidies were equally bad, whether buried in the tax code or stuffed in the budget, if they caused inefficiency and injustice. The oil depletion allowance wasted economic resources as much as did the CETA public jobs program. [Stockman, 1987:125-127]

But politics intervened in the plan to cut middle-class entitlements. As Stockman tells it, the story of how the "intended savings" that were to be cut never got cut has to do with politicians' fervent refusal to touch programs that benefited popular constituencies. Attempting to make the point about his "Grand Doctrine" being equitable, he listed for a group of legislators all the programs that had not been cut yet: "Social Security, Medicare, veterans' benefits, Head Start, Supplemental Security Income poor for the poor, disabled, and elderly, summer jobs programs for ghetto youth" (1986:130); his point was that all of these would have to take a hit. Instead, he was interpreted by the legislators as pointing out that Reagan's budget had not been as draconian as the press had made it out to be:

**"That's great!" someone said. "We've got to get this out."
Ed Meese immediately threw in that he thought it was a swell idea. I should "get with" him, Press Secretary Jim Brady, and Dave Gergen right after the meeting to work out a press announcement for the next day.**

The whole point of the cabinet meeting had been to inform them we would need *\$58 billion in additional cuts*. But...they were now about to fence off enormous chunks of the budget and say, in effect, "See, we haven't touched these!"...The lead in the next day's *New York Times* story showed exactly what kind of damage had been done:

President Reagan's abrupt announcement yesterday sparing seven basic social programs from budget cuts...[1986:130-131]

To top that off, Reagan quickly dispensed with the idea of closing tax loopholes. At a meeting to discuss ending the oil depletion allowance,

All of a sudden, the President became animated. Our proposal unleashed a pent-up catechism on the virtues of the oil depletion allowance, followed by a lecture on how the whole idea of "tax expenditures" was a liberal myth.

"The idea implies that the government owns all your income and has the right to decide what you can keep," said the President. "Well, we're not going to have any of that kind of thinking round here."

Having rendered 40 percent of the budget immune from cutting on Tuesday, Wednesday the entire tax code was put off limits. [1986:131]

Although Stockman attempted an across-the-board reduction in government, he discovered that middle-class entitlements are difficult to cut precisely because they are so popular that legislators are unwilling to cut them. This is a story of the "triumph of politics" as Stockman saw it--but what is noteworthy is that the middle class groups that would be affected did not even have to exert themselves. Their interests were protected by their representatives in Washington. The only group whose interests were not protected were the poor minorities who felt the influence of OBRA most directly. Of course, means tested programs are such an insignificant portion of the budget that cutting them did nothing to stop the generation of a deficit; to actually balance the budget, cuts in the large middle class programs would have been necessary, and although a rational

process of budget balancing would have pointed this out, these cuts were politically impossible.

There are three important moments in the story of the OBRA reductions: the entrance of an anti-government ideologue into government; the chaotic budget-making procedure at OMB; and the protection of Social Security and middle class entitlements even while means-tested programs were cut. These three moments were all made possible by the same phenomenon, the U.S. government's lack of a permanent staff of trained bureaucrats at the highest levels of the state. Since the Pendleton Act of 1883--inspired by the assassination of President Garfield in 1881 by a disappointed office-seeker--gave birth to a national civil service, the U.S. has on occasion attempted to put American government on the rational bureaucratic footing common in Europe. These occasions have however been counterbalanced by a populist skepticism of elite bureaucrats, so that on the whole the U.S. remains the only country whose highest levels of office are staffed by party elites rather than career bureaucrats.

This openness of the American bureaucracy allows rapid access to outsiders who have not been trained for their work. The chaos and wild mistakes of the budget-making procedure (or, in another interpretation, the devious manipulations passed off as mistakes) are only possible under such a circumstance. And the lack of a permanent bureaucracy means there is no rational matching of programs that are cut with the savings that are necessary, so that small, unpopular programs are cut while the most expensive

programs, the ones where the savings are possible, are off-limits: populist politics trumps rational budget decisions.

The U.S. state's weakness and openness allowed market reform in the direction of cutting welfare spending. In our investigation of tax reduction we found that new changes in the structure of the state had turned politicians into entrepreneurs looking for issues with majority appeal. In the section on deregulation we learned the role that broad-based social movements played in influencing economic policy. This analysis of cuts in welfare spending traces the effects of the U.S. state's "weakness" in one final measure: its lack of a strong, permanent government bureaucracy. The lack of a permanent bureaucracy makes the U.S. state more permeable to social developments; the conflux of political and economic crisis in the late 1970s generated an anti-government sentiment in the U.S. public that quickly made its way into the state. The lack of a permanent bureaucracy also made possible the chaotic and uninformed calculations of the Reagan team that directly led to deficits. And the lack of rational budgeting meant that means-tested programs--an insignificant fraction of the annual budget--could be cut while big expenditures like Social Security, what really needed to be cut in order to balance the budget, were protected because legislators protected their constituencies. A more open government--more open to ideologues of one stripe or another, to ideologically motivated accounting procedures, and to majority interests--allowed the cuts in means-tested programs that would raise the poverty rate to its highest level since the 1960s.

Conclusion

The tax cuts, deregulation, and cuts in anti-poverty programs of the “Reagan Revolution” justify several different theories of the state, while showing that none is complete. Pluralists note that these measures were increasingly popular⁵. Structural Marxists can point quite reasonably to the underlying requirement of economic growth that started off the whole process. Instrumental Marxists point to the rise of class-wide corporate lobbying. State-centered theorists see the changes in the structure of the state as most relevant.

But each of these is an incomplete explanation. Recent sociological work that might be termed neo-pluralist has called for “public opinion” to be integrated more systematically as a causal force in political change (Burstein, 1998; Brooks, forthcoming). But as we saw above, “public opinion” is a complicated object. In this case, public opinion clearly “mattered,” but not directly; rather, politicians’ perceptions of the political environment, and politicians’ own preferences, affected what issues would move onto the agenda. Second, the “structural Marxist” explanation pointing to the necessity of economic growth does not by itself determine which policies will be put into practice, because there are many different modes of accumulation. Indeed, most economists, committed to the goal of capital accumulation and economic growth,

⁵ An exception is Mishler et al. (1988), who find no evidence of a turn to the right in Britain, Canada, and the U.S. This is because they measure the turn to the right by proportion of votes attracted by right-wing parties. This procedure neglects the fact that parties of the left themselves turned to the right and adopted right-wing policies, and therefore underestimates the degree of public support for right-wing policies.

disagreed with the supply-side proposals that were put into practice, and other capitalist countries responded in widely varying ways. And class-wide corporate lobbying also does not explain the democratic constraints on the success of policy proposals, particularly the need for an income tax that would benefit all taxpayers, not just corporations, the failure of a return to the gold standard to make it onto the political agenda despite business group support, the timing and end of the process of deregulation, and the implementation of cuts in anti-poverty policies that did not particularly help business.

This chapter has shown how the American state's openness to majority opinion, and changes in the structure of the polity that made it even more open, were crucial to the passage of each of these policies. It might thus be read as a vindication of state-centered theory. The decline of the role of parties in financing campaigns, the consequent rise of the "politician entrepreneur" and the importance of social sources of campaign financing, the weakening of committees and seniority within Congress, the end of seniority, politicians' increasing sensitivity to middle class movements, and reforms in the civil service were all necessary to the process. The explanation can be summed up in two parts: first, when the majority of citizens are taxpayers rather than direct beneficiaries of government spending, a *potential* appeal to their interest in pro-market measures is possible; second, recent changes in the structure of the American polity gave politicians incentives to *seek out* democratically popular policies, and because of the divergence of interests between the majority and the disadvantaged minority, efforts to make the state more responsive to the people made it more sensitive to *social* sources of power,

especially concentrated economic resources and appeals popular with the democratic majority, and weakened the state's ability to coordinate action outside of the democratic sphere that would aid disadvantaged minorities. The combination of these factors brought the policies that constitute the Reagan Revolution into the public arena and onto the political agenda, and helped their passage.

But the explanation of the passage of these policies advanced here diverges from state-centered theory at three points. First, a crucial component of the explanation involves the changing role of parties in financing elections: but as has been noted above in the discussion of Skocpol's work, political parties are not obviously part of the "state." Early American politicians and legislators feared political parties would enshrine the "mischiefs of faction," and consequently did not include provisions for parties in their blueprints for American political life. Parties have become part of the polity organically, for social reasons (Aldrich, 1995). To include them in the discussion of change thus brings the explanation away from a purely state-centered explanation, and toward an explanation that recognizes the causal role of political processes that are not a formal part of the coercive apparatus of the state.

Second, the explanation developed here notes that the changes in the structure of the state were responses to *social* pressures that came to the fore in the 60s. These include the rise of new technological capacities that changed the nature of political campaigns and the means required to conduct them, and new grass-roots campaigns capable of pressuring for greater openness in the political process. These pressures were themselves the result of a complex mix of factors, both political and social, among which

it is difficult to accord causal primacy; suffice it to note that in affording space to social pressure this explanation veers away from state-centered theory, in which change is seen as motivated by state actors and bureaucrats and mediated by state structure and the effects of previous policies (Pierson, 1994).

Finally, the explanation developed here diverges from state-centered theory in noting that the result of these changes was to make state actors *less* autonomous from societal influences, such that the popularity of policies, and legislators' attempts to appeal to specific constituencies, became key intervening variables. That is, "state structure" may indeed be an important variable, but it is important precisely *because* of the way in which it allows societal variables more or less causal force. Particular state structures allow "social" variables to determine change.

Thus, the framework developed here might best be understood as a reworking of state-centered theory that explains how this theory can retain its particular emphases while incorporating social variables into an understanding of change. The changes in the structure of the state discussed here were the result of social changes, and they made the state less autonomous from society; they may also best be understood as changes in the "polity" rather than the state. Nevertheless, these changes also had their own autonomous dynamics that cannot be reduced to society-level explanation: they introduced new incentives for state actors that functioned in ways counter to what the proponents of the changes had wished.

Concretely, the major insight of this approach is that changes in state action can best be explained by examining state actors' sources of support and the changes in how

state actors keep themselves in power. Changes in the structure of political institutions—in the U.S. case, weaker parties and the resulting “candidate-centered” political system, and weaker committees in response to social pressure against hidden government power—can make states more or less autonomous from societal pressure. In the U.S., making the state more responsive to society made state actors more responsive to non-poor majorities and sources of campaign financing, and less able to protect the interests of disadvantaged minorities—an ironic outcome, given the leftist motivations of the 1960s changes in state structure that wanted to give politics back to the people. Giving power to the people meant weakening autonomous state structures that had served as a bulwark against social sources of power, and these social sources of power—campaign donations and appeals to non-poor majorities—made it possible for an ideologically committed Republican to benefit from PAC financing and popular resentment of (if not quite opposition to) taxes and “big government” and exploit the political salability of pro-market measures.

CHAPTER FOUR
POPULIST REVOLUTIONARY: MARGARET THATCHER AND THE
TRANSFORMATION OF THE BRITISH STATE

Britain's free-market revolution was greater than almost any other country's. Reagan accelerated trends that had been in place in the US since the 1950s, but in Britain, Margaret Thatcher's administration actually reversed the course of post-war policy. In taxation, industrial policy, and welfare state policy, Thatcher achieved changes that represented a break with the post-war economic consensus, and that have not been replaced by later administrations.

Scholars have noted that radical change is structurally more possible in Britain than in the U.S.: the concentrated British state structure allows Prime Ministers to pass and implement legislation virtually unchecked, as long as they continue to garner their party's support, and as long as their party remains the majority party in Parliament. Thus the first question to raise in analyzing the changes is: why and how did this concentrated power fall into a free-marketer's hands, and why did it remain there for twelve years when no other post-war Prime Minister had succeeded in winning re-election?

But the concentration of power in the British state structure cannot by itself explain the whole story: a decade earlier a similarly well-positioned Prime Minister with a similarly free-market oriented program had taken office, only to leave four years later

having changed little. Prime Minister Ted Heath's rhetoric on taking office in 1970 was remarkably similar to Thatcherist rhetoric later in the decade: Heath came to power promising a free-market revolution, a "change so radical, a revolution so quiet and so total that it will go beyond the programme of a Parliament... We were returned to office to change the course and the history of this nation, nothing less" (Heath, quoted in Blake, 1985:309). When Thatcher took office in 1979 the *Economist* ran her program side by side with Heath's to emphasize their striking similarities. The manifestos are not identical: in 1979 there is more emphasis on controlling the unions and the appearance, for the first time, of monetarist themes. But there are clearly similarities between the policies of the two Prime Ministers in their ideas of how to handle taxation, industrial policy, and welfare policy.

Heath, of course, did not stick to his program; Thatcher did, and took it even further. Between these two administrations, separated by only five years, lie the beginnings of an extraordinary transformation: over the course of the 1970s and 1980s Britain changed from a social democratic state close to the European model to a state in which all major political actors adhere to the American model of low taxes, reduced constraints on industry, and low social spending.

The second question to answer, then, is: why, given similar institutional structure and similar intentions in several domains, did the two Prime Ministers behave in such different ways? A common explanation is to blame the economic crisis of the mid-1970s, either in its external manifestations (worldwide recession) or its internal manifestation (crisis of the welfare state). This chapter will argue that economic change

mattered, but only indirectly, through the increasing prosperity of the majority of citizens, the deindustrialization of Britain, and the residual nature of the British welfare state.

In addition to the debate on the influence of economic factors, the comparison between Heath's failure and Thatcher's success allows us a prime vantage point for entry into several theoretical debates in historical sociology, such as the importance of human agency in historical change (e.g. perhaps the difference is that Thatcher was more committed and more capable than Heath), or the autonomous role of culture (perhaps Thatcher was able to resist a "U-turn" because economics became monetarist in the 1970s). This chapter also uses the progression of Thatcher's rise to power as an entry point into debates on the role of historical contingency, and attempts to establish a framework for how scholars interested in drawing general conclusions from historical instances might think about the operation of chance factors.

Finally, this chapter will consider why Thatcher's success was variable across domains: she was considerably more successful in achieving neoliberal goals in industrial policy than in taxation, and considerably less successful in cutting spending on social services than in either of the other two domains. This variability across domains is itself a key indication of the causal factors at work in the rise of the right in Britain.

In retrospect, it is easy to discover that the seeds of Britain's transformation were there all along--as this chapter will argue, in the democratic dynamics of a residual welfare state, in the developing irrelevance of trade unions in an increasingly prosperous society, and in the increasing incentives to politicians to find and exploit popular issue positions. But we should not underestimate the degree to which this assured progression

has been experienced as a startling historical turn, nor the degree to which the British in the post-war period often defined themselves *against* what we today call the “Anglo-Saxon” model of free-market capitalism. Both are suggested in this quote from a political science text that argued Britain’s culture of contentment and aversion to risk-taking would lead to “progressive decline”:

The British do not say “You’re welcome” and they seldom shake hands. What they do best is empty trash...deliver mail and milk at dawn, run schools, provide dental and medical care and eyeglasses for a pittance, broadcast intelligent radio programs, plant pretty gardens, produce articulate debate, maintain the character of villages and parks, brew real beer, finance a spectacularly good library service, stand politely in line, avoid talking to strangers and make amateurism and uncompetitiveness the goals of nearly every endeavor. There is no money in this. [Paul Theroux, quoted in Smith and Polsby, 1981:vii]

This quote appeared on the eve of the Thatcher revolution.

Previous Explanations

As discussed in Chapter 1, existing explanations for the rise of Thatcher can be placed into three camps: those that distinguish *internal economic* factors as paramount, those that highlight *external economic* factors, and those that find the key in *external political* factors. Much of the best work on the decline of the welfare state and the rise of the right has been done by British scholars, and the British case is perhaps the best-examined on this issue. A reprise of the explanations as they are applied to the British case is thus in order.

Most popular in the 1970s and early 1980s were explanations that traced the rise of the right to the economic “contradictions” inherent in post-war British political

economy. These came from both the right and the left--Milton Friedman on the right, who unearthed Friedrich Hayek's 1950s political and economic jeremiads against state intervention in the market and hammered home the thesis that high levels of taxation and interference in industry reduce incentives to invest, and welfare provisions reduce incentives to work. These were the precursors to Keith Joseph's, and then Margaret Thatcher's, developing critique of state intervention in the market. Scholars on the left agreed with this analysis, and added that the particular form British state intervention took was repressive in administration and undercut potential for more radical transformation and more effective and efficient income redistribution. Claus Offe encapsulated this critique most succinctly: state intervention in the market is meant to mitigate the market's worst effects, and thus the state aims to take care of the losers in market competition by taxing the winners and intervening in industry. But in doing so the principle of "decommodification" is introduced as an alternative to market rationality: no longer does starvation threaten those who do not participate in the market, nor does fabulous wealth accrue to those who do. The logic of the market is undermined when people become entitled to goods or services on non-market principles. This decommodification interferes with the functioning of market rationality and causes political crisis. (Offe, 1984)

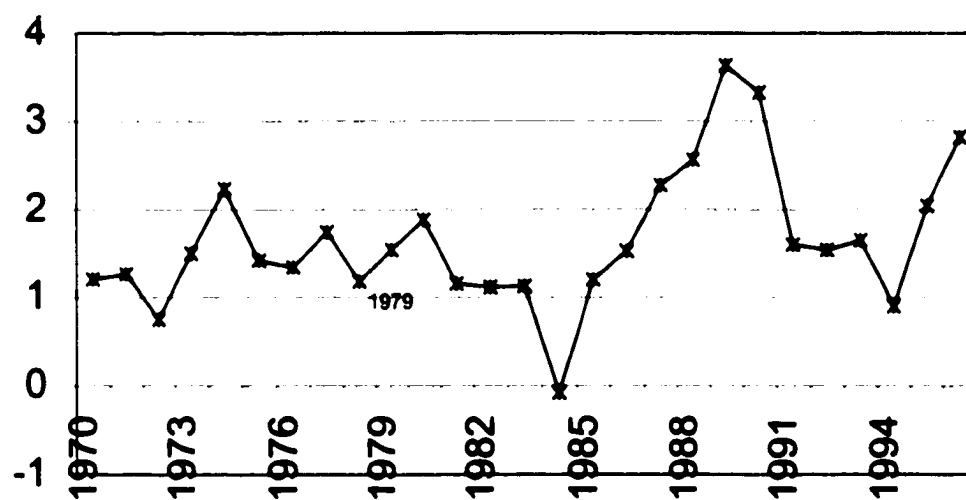
Although the explanations from both ends are sophisticated analyses of the crisis confronting welfare capitalism in the 1970s, they are unconvincing as explanations for the rise of the right, on two counts. First, the mechanism underlying political crisis for both sets of scholars is high government spending and intervention into industry: high spending on the poor frees them from market discipline, the high taxation that finances

this spending undermines the incentives of capitalists to generate profit and thus create economic growth, and intervention that keeps firms operating beyond profitability softens the hard budget constraints of the market. But if it is the case that high spending and high intervention make economies increasingly unworkable, then we should see a high correlation between those states where spending and intervention are high, and those states where economic growth is low. In fact, as Pfaller and Gough (1991) show, this correlation is not very high, and changes over time. In several years there is actually a slight *positive* correlation between some indicators of growth and some indicators of state intervention, perhaps due to the increasing productivity of healthy and educated workers.

Second, another suggested mechanism, capital flight, does not explain the British case either. As we saw in previous chapters, capital flight occurred *after* the introduction of Reagan's policies, not before, and *despite* capital flight in France, Giscard backed away from neoliberal policies. In Britain too, capital flight follows Thatcher's policies (figures 4.1-4.2) and thus could not have caused (and was not prevented by) them. The explanation most common for the U.S. case--the domination of business groups--is also not relevant in the British case, since business was not organizing, and since individual state actors are not dependent on large inflows of private money to mount their campaigns.

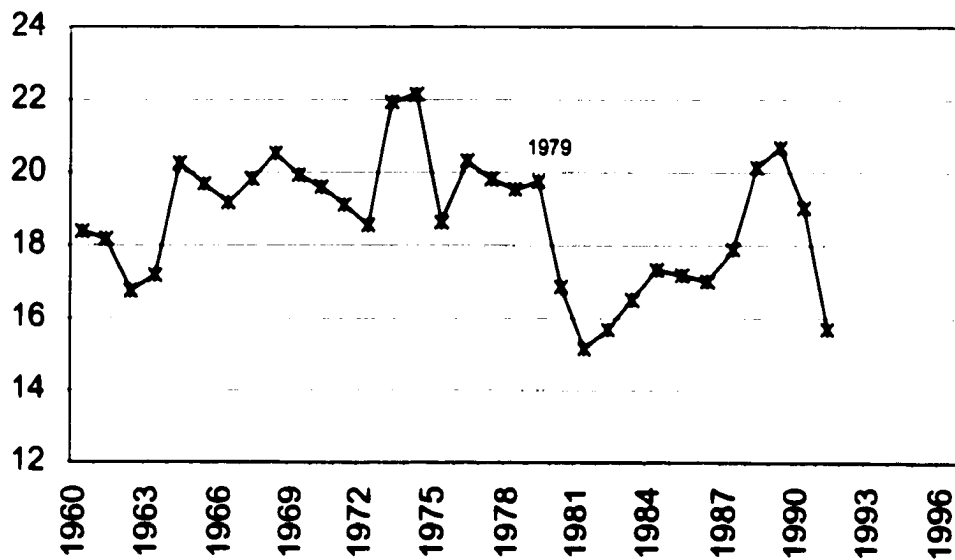
Thus, it is not at all clear that the economic crisis facing Britain in the 1970s was caused by high spending, nor that capital flight or business group domination forced changes in policy. But more importantly, the critics who find "contradictions" in the political economic set-up are providing an analysis of the *causes* of crisis, not of its *consequences*. That is, they are mainly concerned to explain the economic crisis, rather

Figure 4.1: Foreign Direct Investment as Percent of GDP, 1970-1994, United Kingdom



source: World Bank, World Development Indicators

Figure 4.2: Gross Domestic Investment as Percent of GDP, 1970-1994, United Kingdom



source: World Bank, World Development Indicators

than *which* policies will get passed to resolve it; they do not argue that the crisis mechanisms they identify will lead to a rise of the right. When they do attempt to predict the consequences of these tendencies, the critics on the right believe that unless mitigated by contingent political action the natural sequence of these tendencies is increasing state intervention, increasing socialism, and ultimately communism--thus the teleological title of Hayek's Road to Serfdom. There is no clear theory of the sources of political action by the critics on the right. The critics on the left, meanwhile, argue implicitly or explicitly that this crisis is a crisis of capitalism itself, and will lead to its overthrow and replacement by an alternative economic system; in the 1970s these critics did not foresee the resolution of the economic crisis in the favor of less taxation, less state intervention, and less public spending.

Explanations focusing on *internal economic* factors thus remain unconvincing. Slightly more convincing are studies that have focused on *external economic and political* factors. Andrew Gamble's The Free Economy and the Strong State (1994 [1988]) and Joel Krieger's Reagan, Thatcher, and the Politics of Decline (1986) have applied this reasoning of external economic recession leading to internal political change to the specific case of Britain. Although Gamble does not accord causal primacy to one single factor, he writes that what triggered the rise of the right in England was "the collapse of fixed exchange rates in 1971-2 followed by the quadrupling of the oil price in 1973 and the ensuing generalised world recession" (15). The economic recession that followed created a crisis that demanded a new regime of capitalist accumulation. An important difference between this line of argument and that of Offe described earlier is that Gamble and others who make this argument see the economic recession of the 1970s

as causing a crisis *within* capitalism--representing the need to shift to a new mode of economic growth, not signaling the end of capitalism itself.

Gamble's work is related to that of the "post-Fordist" scholars, particularly the "Regulation School" theorists. Regulation theory is a branch of French marxism that argues (prefiguring arguments currently developing in the new field of "economic sociology") that capitalist markets function through, and are made possible by, certain social regulators. Market exchange must be underpinned first by norms and rules pertaining to economic exchange itself, such as rules of contractual obligation, and then by social norms and institutions pertaining to the wider society that make market exchange possible, such as ideologies of individualism and respect for property rights (Amin, 1994). In the post-war period economic growth was achieved through Fordist systems of mass production and the Keynesian welfare state; the underlying bargain was that through prudent demand management and minimal redistribution the benefits of the prosperity unleashed by mass production would reach all citizens. This framework, according to the regulationists, became increasingly untenable in the 1970s: mass production ceased to yield increasing economic returns and proved unable to satisfy demands for niche goods, economic interdependence made Keynesian intervention less possible, and the social expenditures that underlay the bargain rose too high (Boyer, 1991). Thus, various attempts to resolve the crisis and move to a system of "post-Fordism" were made, of which Thatcher was one.

The work of the regulation theorists remains to date the most ambitious and thorough attempt to understand the changing political economic system of the western world in recent years. Nevertheless its usefulness for an investigation into the causes of

Thatcherism are limited. First, the mechanisms the regulationists identify as causing the crisis of the 1970s have been called into question: mass production remains profitable and may be flexible enough to create “niche” goods on “mass” scale; as discussed above, high social expenditures do not correlate with low economic growth; and European economies have been interdependent for most of the post-war period, making it unclear why demand management should have begun to fail only in the 1970s. Moreover the cases of Heath and Giscard show a little-noticed corollary to the proposition that globalization makes state intervention more difficult: globalization has also made it more difficult for governments to implement punitive neoliberal industrial policies, since few national firms can survive international competition--increasing unemployment and forcing the government out as in Giscard’s case, or forcing a change of policy, as in Heath’s. Thus it is not clear that globalization *necessarily* leads to the adoption of right-wing policies.

More centrally, in the work of the regulation theorists the mechanisms through which an *economic* crisis is met with a *political* resolution are underspecified. Gamble, for example, moves from an examination of the causes of the crisis and an examination of the specific arguments that constitute New Right ideology, to an examination of how Thatcher came to power. But his analysis of Thatcher arriving in power is riddled with contingency and politics, particularly the disarray of the Conservative leadership and the skill of her campaign managers in 1974, and the events of the winter of 1979 that caused the Labour government to lose support (1994:88-104). As we will see below, this diagnosis of Margaret Thatcher’s rise is accurate: but it is not clear how this is related to the diagnosis of economic crisis. That is, no clear causal arrows go from the economic

crisis identified by the regulation theorists to the rise of free-market policies --and the regulation theorists state as much, arguing that what crisis leads to is not the rise of the market, but a phase of "experimentation" (e.g. Jessop, 1988). But the regulation theorists are weak in explaining the patterns behind these experiments, and do not examine the national variations in the different policies that arose from the crisis. What the regulation theorists do best is characterize the features of the ideal-typical capitalist economy in the post-war period, show how this economy depended on particular social norms and institutions, and attempt to isolate the main characteristics of the new political economy that has arisen since the 1970s; they are weakest in explaining why "Fordism" fell into crisis, and why "post-Fordism" took the specific forms that it did. As this chapter will attempt to show, there are indeed predictable patterns that help to understand Thatcherism not just as one of many random post-Fordist "experiments," but as the result of the workings of political and social dynamics.

The same criticisms can be leveled against Krieger's attempt to explain Thatcherism as a response to geopolitical decline. Krieger also sees economics as important, but combines it with a unique emphasis on international political factors: "In the United States and the United Kingdom...the political success of mainstream postwar governments presupposed first the benefits and future expectations of economic growth and successful international competitiveness, and second a national geopolitical identity and position in the international hierarchy of nations which was consistent with the politics of the 'growth coalition' at home" (1986:13). Geopolitics enters here because it *exacerbates* the effect of economic stagnation:

If growth reduces social tensions and distributional conflict, then growth enhanced by the patriotic messages of international grandeur becomes an even more powerful resource for sustained governmental support. It is a premise of my argument that the contrapositive holds equal force. The prism of decline tends to refract national interest into divided particularistic and sectional interests and to reduce the political/electoral utility to which a governing party can put promises of welfare provision. [27]

But this intriguing explanation cannot meet the criticisms leveled against the previous argument: first, no line of causation seems to lead from geopolitical decline to free-marketier Margaret Thatcher coming into power; *that* is a tale that seems to have to do more with accidents and political will. Krieger notes how unlikely Thatcher's emergence was in 1979, and the "shock one felt then at the raw edges of the campaign" (71). Ultimately Krieger traces Thatcher's 1979 victory to the excesses of the winter of discontent and the appeal of Thatcher's housing and immigration stances (72-78). Again, this diagnosis is accurate, but, except for the immigration issue, not clearly linked to the story of geopolitical decline--and Krieger does not attempt to argue that the election turned on the issue of immigration.

Second, and more fatally to the argument of right-wing resurgence as a response to loss of empire and world standing, it is not clear why Britain should have behaved in this way when France did not. Like Britain, France has dealt with the loss of an overseas empire, and in a much bloodier and protracted manner. Indeed, France's decline has in many respects been much worse than Britain's: loss of empire shook the French state to its core and inaugurated a new political system, and French cultural hegemony has undergone a complete eclipse, while Britain has at least seen its language preserved internationally via U.S. hegemony. But although France has also seen the rise of a new

racism in recent decades, and endless quixotic attempts to preserve French culture by making departures from it illegal, nothing similar to a Thatcherist surge in economic policy has taken place.

In short, existing explanations do not adequately explain the rise of Thatcherism in Britain. As should be evident from this discussion, an *adequate* explanation should not only identify factors responsible for the economic crisis, but should be able to explain how these factors led to the arrival to power of a free-market politician. To begin to fashion such an explanation, the next section examines the particular road to power of Margaret Thatcher and induces from it an explanation of changes in post-war British political economy. Previous explanations have concentrated on internal economic factors, external economic factors, and external political factors; I argue here that attention to the political dynamics internal to the British state yields a more satisfying explanation.

Thatcher in Power: Accidents and History

Margaret Thatcher was the first post-war Prime Minister to win a second term of office, and the first since the 1820s to win a third. While the British political system concentrates power in the hands of the Prime Minister, the workings of that system have made it very hard for one person to keep that power for long. This is because (as has been discussed in the France chapter) concentration of power also concentrates responsibility, focuses blame, and raises expectations. However, as Sven Steinmo notes, the actual ability of the Prime Minister to meet these expectations--even given unlimited political power--is limited:

Under British party government political authority is centralized but economic power is fragmented... The centralization of political authority in the UK allows for quicker and more decisive action on the part of political elites in their attempts to influence economic outcomes than is possible in politically fragmented America. But because of the fragmentation of economic forces in the UK, political elites cannot incorporate economic elites effectively as is done in Sweden. Thus, British political leaders attempt to influence economic outcomes with one hand tied behind their back. [Steinmo, 1989: 243-244]

That is, political actors are held accountable for economics, but have been unable to stop either the deindustrialization or the relative economic decline of Britain. Peter Hall analyzes the factors responsible for preventing Britain from becoming a “developmental state” on the French model that could boost economic growth: early industrialization prevented the development of national-scale banks with a controlling interest in major firms, leading to a divergence of interests between finance and industry; it also put British domestic demand at variance with European demand, delayed rationalization of industry and accelerated unionization, and led to an educational system perfect for a nation of small firms but ill-suited for large-scale industrialization (1986:37-47). The resulting political economic structure, characterized by an arm’s length relationship between political and economic elites, deprived the government of the information, resources, and power over the economy it would need to become a “developmental state.” Because economic policy has been the central responsibility of post-war British governments, and the central complaint of the opposition, each government’s failure to deliver has led to its speedy end.

Why was Margaret Thatcher able to overcome this British electoral curse, not once, but twice--three times if the victory of her handpicked successor is counted? Many accounts ascribe these victories to Thatcher’s “luck”: “Napoleon’s standard question

about his generals, 'Has he luck?' could be applied also to [Thatcher]. She had luck" (Thompson and Thompson, 1994:11). Patrick Cosgrave gives this explanation in more detail:

In addition to her resolution and political skill Mrs Thatcher enjoyed that most priceless of political gifts--luck. In 1979 she faced in James Callaghan, a Prime Minister whose great vice was complacency. In 1983 she faced a Leader of the Opposition, Michael Foot, who was a hopeless romantic. In 1987 she faced another Leader of the Opposition, Neil Kinnock, who started out as a romantic, but turned out to be a ruthless pragmatist. These three men, in their different ways, summarise the recent history of the labour Party, and each led it to defeat. [1992:195]

Seeing Thatcher's rise to power, and retention of power, as a product of her luck or her opponents' failings leads to the conclusion that Thatcherism has little to do with larger changes in British society or politics:

In the leadership election, Conservative MPs cared more about removing Mr. Heath than they did about [Thatcher's] ideology...In the general election of 1979, she benefited from Labour's collapse during the 'winter of discontent'; and in both 1983 and 1987 she was re-elected to office because the anti-Conservative vote was divided between two opposition parties (which were themselves divided). Thus Mrs. Thatcher's electoral successes and the policy revolutions she has carried out in their wake further require us to make theoretical room for the fact that it is possible in contemporary democracies [to] successfully implement radical political programs that are unpopular with most political leaders and voters. (Crewe and Searing, 1988:379).

In this explanation, accidental factors such as the disarray of the left at election time, the tactics of the labor unions, or the brief period of jingoism following the Falklands War brought Thatcher into power and kept her there for over a decade. In this reading

Thatcherism is an accidental political phenomenon that has little to do with what citizens *really* wanted.

There is a mismatch between this emphasis on contingent, accidental events in the histories and biographies of Thatcherism, and the social scientific theories discussed in the previous section that see Thatcherism as the capstone of large-scale economic or political movements. This mismatch gives us an ideal vantage point from which to examine a key debate in historical sociology: the role of chance and the meaning of accidental events in history.

The effect of accidental factors on historical events is *the* key question in historical sociology, as it determines the extent to which a “sociological” approach to history is possible. If chance factors determine the course of history then it is not possible to generalize from historical instances, nor to learn from them in an attempt to influence policy. An examination of Margaret Thatcher’s “accidental” rise to power suggests that the prognosis for historical sociology is not so bleak: accidents do happen, and momentous events in history are often the result of chance circumstances. Nevertheless, as we will see below, the *results* of chance events are dependent on social structure--and it is the examination of the *way in which* chance events enter history that is the province, and the promise, of historical sociology. This section of the chapter thus examines Margaret Thatcher’s rise to power to ask, what can “accidents” tell us about social structure?

Margaret Thatcher’s rise to power began in 1975. Until this point her career had not been unprecedented, even for a woman: the practice of keeping a token female

member of Cabinet had ensured that a handful of British women would reach the national level of politics. None, however, had proceeded beyond the Cabinet. In 1975 Thatcher won a contest for leadership of the Conservative Party; in 1979 the Conservatives won a general election, leading Thatcher into Downing Street; in 1983 and then again in 1987 they won re-election. These instances deserve closer scrutiny for what they reveal about Britain in the 1970s and 1980s.

Leadership of the Party

That Thatcher proceeded beyond the outer fringes of the Cabinet at all is astonishing; that she did so in 1975 is the result of a particular confluence of events. As Crewe and Searing sum it up:

Mrs. Thatcher's campaign rested on a succession of accidents and a creative stratagem. The accidents were the withdrawal of Sir Keith Joseph and Edward du Cann from the race (both for personal reasons) and the bungled campaign of William Whitelaw. The creative stratagem was devised by her campaign manager [Airy Neave], who went round the House of Commons the night before the poll, winning votes from MPs who did not want to see her leader but who wanted Heath out and would have to ensure that she had enough votes to trip Heath on the first ballot and thereby trigger a second where their own preferred candidates would enter [1988:372]

In other words, Thatcher became leader because the Conservatives wanted Heath out, because the other candidates for the leadership were hesitant to enter the contest while Heath was still in, and because she was seen as providing the most credible challenge to Heath on the first ballot. The accidents that led to the removal of Joseph and du Cann are not quite accidents: Joseph removed himself by an extraordinary speech suggesting that

the lower classes were having too many children--in other words, he revealed at a particularly opportune moment that he did not have the minimal political sensitivity required of a modern democratic politician. Du Cann, Whitelaw, and several other possible candidates did not enter the contest at the first ballot out of loyalty to Heath or unwillingness to challenge him so boldly (Jenkins, 1988; Thatcher, 1995; Young, 1989).

This story has been read in terms of Thatcher being lucky enough to be the one candidate that all the anti-Heath factions could tolerate at the first ballot. While it is true that Margaret Thatcher was lucky to have occupied this position, that *this position* existed is not an accident: that is, in the wake of Heath's loss at the polls, the Conservative party's turn to the right is a quite natural, even predictable, story of the rise of one faction within a party at the expense of another. After the disastrous consequences of Heath's U-turns the rise of a politician further to the right of Heath as party leader is hardly surprising: "Edward Heath's corporatist period 1972-1974...appears as an aberration in the twentieth-century history of the Conservative Party...With the threat of economic instability, the Conservatives returned, as they had done in the 1930s, to their traditional nostrums of cutting public expenditure and distancing government from the economy" (Bogdanor, 1996:377).

Three factors were at work in the Conservative Party's move to the right: the failure of Heath's industrial relations policy; the interpretation of this failure as an impetus for a turn to the right; and the triumph of the right wing over the more moderate faction in the party. When Heath abandoned his free-market rhetoric in 1972, he became the most corporatist Prime Minister in British history. His intent was to invite the trade unions into the policymaking process by asking them to adhere to a voluntary incomes

policy, but the British trade unions could not manufacture overnight a tradition of restraint. The attempt ended in dramatic disaster, as the unions moved in a radical direction and struck, and eventually brought down the Heath Government.

From this failure the Conservative Party split into three camps that drew three separate lessons: the faction led by Keith Joseph and Margaret Thatcher repudiated the moderation of Heath and began to develop policies favorable to the free market; a small band of “diehard anti-Marketees” (Campbell, 1993) continued its attempt to pull the Tories back to the noblesse-oblige conservatism of earlier periods; and Heath’s own loyalists believed that the current troubles were temporary and accidental, problems of campaign tactics or organization, and that Heath’s post-U-turn middle way could be revived.

The victory of the Joseph/Thatcher faction was widely unpredicted: in 1974 they were referred to as “the Powellite fringe” in reference to right-wing, anti-immigrant Enoch Powell, and when Thatcher stood for leadership of the party she was considered to be forcing Heath’s defeat so that William Whitelaw could take over the party. The Economist wrote: “Mrs Thatcher is precisely the sort of candidate...who ought to be able to stand, and lose, harmlessly” (quoted in Campbell, 663). Anthony King writes that Thatcher “was elected leader of the Conservative party in February, 1975 not because she held [Thatcherite] views but despite the fact that she held them” (1983:97). When Thatcher told her husband--throughout her career her strongest supporter--that she intended to stand for the leadership he said “You must be out of your mind... You haven’t got a hope” (Thatcher, 1995:266).

Thatcher defied expectations and won because of a particular "trick" employed by her campaign manager, Airy Neave. Neave was aware that there was considerable hostility to Heath, and the anti-Heath vote would be large. However, the pro-Thatcher vote would not be large enough to carry her to victory on the first ballot. Moreover, many MPs would be unlikely to vote for Thatcher if they realized there was any possibility of her winning on the first ballot.

Neave therefore quite deliberately played down how well she was doing. To all enquirers he replied: 'Margaret is doing very well, but not quite well enough'--the implication being that she just needed a few more votes to be sure of blocking Heath, but was nowhere near winning herself. Instead of the 120-plus she really had, he let it be known that she had only about 70 pledges...Neave's stratagem may have conned as many as 40 Tory MPs into voting for a result they did not want. (Campbell, 1996:673)

When the actual count came in Thatcher was actually ahead of Heath, 130 to 119, an outcome no one had predicted. After that, analysts write, her momentum was unstoppable:

With [130] votes on the first ballot she was only [9] short of the simple majority needed to win on the second. In theory, if all those who had voted for her merely to see off Heath now transferred their votes to Whitelaw she could yet have been overtaken. But in practice, by the scale and manner of her first ballot victory she had built up an unassailable position, attracting new support from many who saw that she could not now be denied her due. By standing and winning on the first ballot she had showed the courage of a true leader: Whitelaw and the others belatedly emerging from under the defeated leader's skirts looked cowardly opportunists by comparison. (Campbell, 1996: 675)

The implication here is that Thatcher's rise to the leadership of the party was a lucky break, the result of Heath's unwillingness to step aside for Whitelaw, a creative campaign tactic, and the momentum of a win on the first ballot. This conclusion needs to be examined closely, as it is at the center of the analysis of whether the rise of Thatcherism was, at this early stage, accidental.

First, if Heath had stepped aside in favor of Whitelaw, would Whitelaw have won? In the second ballot Whitelaw only polled 79 votes, showing that his independent basis of support was not very strong. Second, it would be wrong to read Heath's unwillingness to step aside as mere whim; reasonable estimates were being made that he could have won the leadership (Heath, 1994). However, the final count shows that although without Neave's trick the results would have been close, Heath most likely would not have won on the first ballot, even if we take the upper estimation of the number of MPs who were "tricked" into voting for Thatcher and subtract these from her column: since these MPs would not have voted for Heath, they would have abstained, resulting in a vote of 119 for Heath and 90 for Thatcher; however, this 29 vote difference would not have prevented a second ballot from being called, as Heath needed 42 more votes over the second place winner (a 15% lead of the 277-member party) to win on the first ballot. The scenario that had been foreseen by many observers--Thatcher preventing Heath from winning on the first ballot, but also not winning on the first ballot herself, thus allowing the "real" candidates like Whitelaw to step in at the second ballot--was likely.

Thus the crucial issue is the question of Thatcher's victory in the second ballot. Why, when the scenario that many had foreseen and wanted had come true; why, if she

was a member of a fringe faction; why, if she was a woman whom no one took seriously as a party leader, did she actually defeat Whitelaw in head to head contest? All of the existing accounts point to her momentum, that is, the sheer size of her victory. Thatcher herself sums it up best:

I had always reckoned that a substantial number of those voting for me in the first round would only do so as a tactical way of removing Ted and putting in someone more acceptable but still close to his way of thinking, such as Willie [Whitelaw]. But in fact, far from draining away, my support actually hardened. Perhaps there was an odd sense of gratitude to me for having done what no one else dared, that is to remove from the leadership someone who quite simply made the Party unelectable. Perhaps a sufficient number of my colleagues genuinely felt that the way forward for the Party was the root and branch reconsideration that Keith and I advocated. Perhaps there was a feeling that it was 'a bit offside' for those who had failed to challenge Ted when he looked unbeatable to step in to scoop up the prize once he had lost it. There were probably also doubts about whether Willie, for all his amiable qualities, was the right man to rethink Conservatism in the face of a Labour Government with a newly militant and aggressive left wing. [Thatcher, 1995:278]

The four reasons Thatcher gives here can be placed in two camps: "leadership" reasons, and "ideology" reasons. That is, those who voted for her in gratitude for her standing up to Heath, or out of a sense that she had won and deserved the prize, were voting for her regardless of her ideology. Those who voted because they supported the ideology she and Keith Joseph were developing, or because they felt the need for a rethinking of Conservatism, voted for ideological reasons.

Ivor Crewe and Donald D. Searing argue that that the ideological support of Thatcherism in 1972 and 1973 was not strong. They interviewed conservative MPs and found:

that on the eve of Thatcherism the potentially sympathetic spirits constituted a small minority--only about one quarter on the generous criterion of having taken the step of endorsing both strong government and free enterprise [which Crewe and Searing consider the central pillars of Thatcherite ideology]. On the more demanding criterion of endorsing all three Thatcherite values [strong government, free enterprise, and discipline], the estimate would be less than 10%. Thus, the estimated range of potential support lay between 10% and 25%. [Crewe and Searing, 1988:371]

There is a major problem with estimating support for Thatcherism in this way: Crewe and Searing count as "Thatcherites" only those who support *both* strong government and free enterprise, or who support *all three* values that Crewe and Searing consider central to Thatcherism, strong government, free enterprise, and discipline. But in democracies, leaders win elections when they can form *coalitions* of people who may hold different, and perhaps even mutually incompatible, beliefs: thus the number of supporters of Thatcherism should be arrived at not by estimating the number who support strong government *and* free enterprise, but rather the number who support strong government *or* free enterprise. That is, for the purposes of winning an election, more important than the number of voters who support a leader in every domain is the number who support the leader in any domain--and most particularly, in the domains that voters consider most important. Those who supported Thatcher either because they supported values of strong government, or values of free enterprise, or values of discipline may be expected to have voted for her for ideological reasons.

Unfortunately Crewe and Searing do not present the data that would allow calculations of Thatcher's coalition of supporters--the union of the sets, rather than their intersection--but from the table that they do present we can expect it is greater than half of the conservative MPs (Table 4.1.) Since half of the party leaders support strong

Table 4.1: Conservative Politicians on the Eve of Thatcherism: Belief in Strong Government, Free enterprise, and Discipline, by subgroups, Britain

| Conservative Subgroups | Number of Cases | Percentage Ranking the Value 1-3 | | |
|---------------------------------------|-----------------|----------------------------------|---------------------------------------|--|
| | | Strong Government | Strong Government and Free Enterprise | Strong Government, Free Enterprise, and Discipline |
| Senior ministers | 15 | 47 | 20 | 0 |
| Junior ministers | 54 | 48 | 17 | 1 |
| Backbenchers | 139 | 48 | 24 | 7 |
| Candidates | 46 | 59 | 26 | 13 |
| [Total MPs + candidates (calculated)] | [254] | [50] | [22.6] | [6.4] |

source: Crewe and Searing, 1988:372

government, if even a small number of conservative party leaders ranked “free enterprise” or “discipline” or both highly, but did not rank “strong government” so highly, then the set of party leaders who supported *either* free enterprise *or* strong government *or* discipline, or several of these, is in fact the majority.¹

Thus the support for “Thatcherism” is quite high if one counts this support by adding together party leaders who rated strongly one of the three pillars that Crewe and Searing identify as Thatcherism’s components. Nevertheless, this support is low if one measures it by including only those who believed in all three components. Thus, although the evidence does not lead to the conclusion that the Conservative party as a whole was becoming Thatcherite, it does suggest that *opposition* to a turn to the right was not particularly strong within the Conservative party, since the majority of its members believed in at least one of Thatcherism’s core principles.

This interpretation is best placed in context by remembering that the British Conservative party was not, until the advent of Thatcher, an “ideological” party at all: “the great majority of [Conservative Party] members and supporters care little for principle or policy as long as the party is in power...most Conservatives feel that...acquisition, or retention [of power] is an end in itself” (Cosgrave, 1992:140). Conservatism in Britain in the post-war period is defined by a negative, the wish to prevent Britain from becoming a socialist country. This prevention has been attempted not by specific ideological policy commitments, but merely by ensuring the Conservative party’s acquisition of power. Thus the primary goal of British Conservatives has been to seek out and promote politicians who can keep the Conservatives in power.

¹ Crewe and Searing did not make their data available for reanalysis, so the exact number cannot be calculated.

It is this framework that helps us understand exactly what happened when Thatcher won the party's leadership: (1) although there was no majority support for Thatcherist ideology, there was also no concerted opposition to it, because the British Conservatives did not define themselves ideologically in the post-war period, and most members were not opposed to all of the planks of Thatcherism; (2) Thatcher's victory in the first ballot convinced party leaders that her leadership capacities were such that she might be able to bring Conservatives back into power, and thus represented the best hopes of realizing the one goal that has united British Conservatives in the post-war period, the resistance to socialism.

The rise of Thatcher to the position of party leader, then, is not a surprise: Airy Neave's campaign trick is not extraordinary in the annals of political maneuvering, and the rise of one faction of the party at the expense of another is a quite normal story. What makes the story unusual--the development and implementation of committed free-market ideology--comes *after* Thatcher wins the leadership of the party, not before.

1979 General Election

Five years later, in 1979, the Conservative Party won the general election. The arrival of Thatcher and Thatcherism into government was highly unlikely. To begin with, Thatcher's sex may have been working against her: "voters decisively preferred a man as Prime Minister, and when offered the choice of Mr Heath as the Conservative leader the Tory lead shot up from 5% to 18%. Women divided evenly in their support for Mr Callaghan or Mrs Thatcher, while men preferred the former by a 2 to 1 majority" (Butler and Kavanagh, 1980:323). Moreover, Thatcher had less experience than

Callaghan--she had never held any of the "big" Cabinet posts, like Chancellor of the Exchequer, before becoming party leader--and her style was unpopular: "Thatcher's leadership qualities were a critical issue against her in 1979. She was, of course, gender-suspect and despite Callaghan's failures he was by far the more acceptable (though not terribly popular) candidate, a good bet to triumph were the contest a presidential, rather than a parliamentary election" (Krieger, 1986: 71-72).

At the beginning of the campaign, the outcome was not at all clear: "In the last quarter of 1978...the two parties were running neck and neck, but with Labour a nose in front...Labour enjoyed the additional advantage of having by far the more popular leader: 54 percent said they were satisfied with Callaghan, whereas only 37 percent said the same of Thatcher" (Crewe, 1981:264).

So the actual course of events came as a surprise to all observers. In the end, Conservative lead in votes over Labour was the largest enjoyed by one party over the other since 1935; their lead in the share of the poll, the largest since 1945. The national swing of 5.2 percentage points which produced it was the most emphatic turnaround of party fortunes since the war...By February 1979...The Conservatives had jumped into an 18-point lead and approval of the Government's overall record had plummeted from 41 percent to 23 percent. Satisfaction with Callaghan had tumbled to 33 percent while satisfaction with Thatcher had risen to 48 percent. In its forty years of polling Gallup had never recorded such a sharp reversal of party fortunes in the space of two months. [Crewe, 1981:263-4]

The very extent of the victory makes it suspicious. How could such a dramatic transformation have taken place in the space of a few months? Crewe writes: "To most observers where to look is patently obvious: the explosion of strikes in January and February 1979...in the final quarter of 1978 the proportion of respondents mentioning

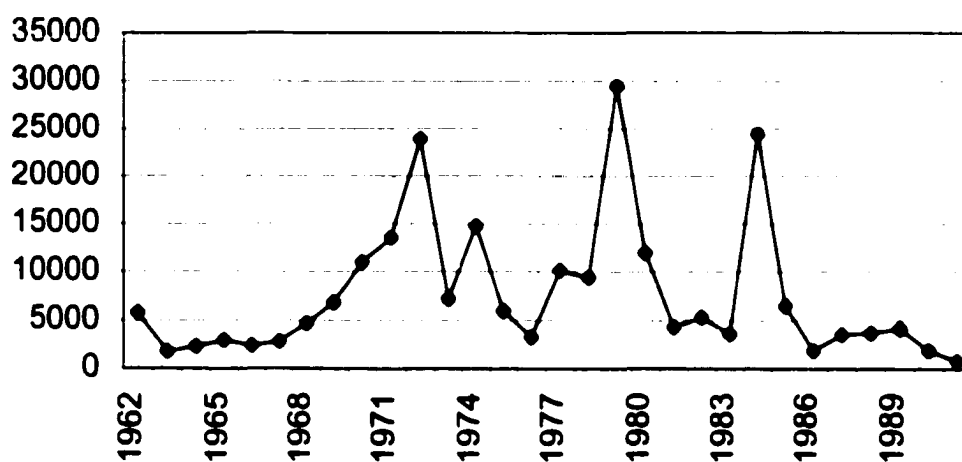
strikes as the single most urgent problem facing the country was a modest 14 percent; by February 1979 it had soared to 51 percent" (1981:264).

In the winter of 1979 several unions of municipal workers, including garbage collectors, school custodians, and hospital workers, simultaneously went on strike, in the largest, most concentrated such disruption in the post-war period (figure 4.3)--only in 1972 and 1984 were anywhere near as many workdays lost to industrial disputes, but in both of those years less than 1/3 as many workers were involved. Thus in 1979 the dispute was more widespread and more concentrated in time, and the resulting inconveniences made trade unions temporarily very unpopular in Britain: in January 1979, in the midst of the disruptions, 44% of the British public responded that trade unions were a "bad" thing--a higher number than had ever responded that way since Gallup first asked the question in 1952, and a higher number than would ever respond that way again. The unpopularity was a result of the extent of the strikes, but also of their unusually intrusive nature. Because the striking unions involved workers responsible for the maintenance of everyday patterns of life,

the results were felt in every home in the country--and seen on every television screen. Operations were postponed and hospital wards closed because National Health Service supervisory engineers and laundry staffs went on strike. The shelves in supermarkets began to empty because of a nationwide strike of lorry drivers. A strike of tanker drivers resulted in shortages of petrol...Because of a strike by local authority manual workers, black plastic bags filled with garbage began to pile up in civic squares around the country; rats were seen not far from Piccadilly. One-day strikes by train drivers resulted in the disruption of intercity and suburban services. The winter of 1978-1979 was one of the worst in recent British history, but because of another strike by water local authority manual workers the roads were often left unsalted and ungritted...and unofficial strike by water and sewage workers led to the water supply's becoming contaminated, with the result that drinking water

Figure 4.3: Thousand Person-Days of Time Lost to Labor Disputes, 1962-1992,

United Kingdom



source: OECD 1993

had to be boiled...a strike of gravediggers left the dead unburied, with corpses stored in ever increasing numbers in temporary mortuaries. [King, 1981:82]

This was the “winter of discontent” that has gone down in legend as catalyzing the end of an era and inaugurating Thatcherism. Peter Jenkins argues that the actual inconveniences were small and “nothing like as bad as it had been in 1974 when the lights went out...Not many emergencies were turned from the hospitals, schoolchildren came to no great harm, and only in parts of Lancashire were the dead unburied” (Jenkins, 1988:27).

Nevertheless the extreme nature of some of the disruptions, such as the turning away of patients from hospitals, were irresistible news stories and entered public consciousness through the media: “the shortages in the supermarkets, the turning away of ambulances, and the unburied dead were ‘gift’ stories for the media” (Crewe, 1981:266). A Labour MP lamented “We have nullified the Conservatives’ tax pledge but not the image of a hearse being turned away from a graveyard in front of a NUPE [National Union of Public Employees] picket sign” (quoted in Butler and Kavanagh, 1980:326).

That this series of destabilizing strikes occurred in such close proximity to the election--which Callaghan had called later than expected--has led commentators to read this as indication of the influence of chance. But a closer examination suggests that three questions need to be asked:

First, why did the unions strike to such an extent--creating the largest industrial disruption in post-war history? To read the strike as a chance factor ignores the quite clear logic behind what was happening. The Callaghan government had followed Heath’s attempt to institute a corporatist structure, in this case a voluntary incomes policy with the trade unions. But the rank and file increasingly rejected this policy, which had

led to a decline in workers' real standard of living. Workers at Ford were the first to strike, and managed to secure a 17% pay raise, far above the voluntary maximum agreed with the Callaghan government. They were quickly followed by workers all over the country.

Some workers struck because they believed their employers could afford it, others because, in the inflation of the preceding years, their real pay had fallen further and further behind the national average, others because their wages had always been low, still others to restore differentials. Militancy was seldom politically inspired; it was often a direct response to falling living standards and a deep sense that the Government's successive incomes policies had been unfair in their results. [King, 1981:82]

In other words, the winter of discontent was not an "accident," it was the consequence of the failure of an attempt at corporatism by the Labour government.

Second, why was there no sympathy for the striking unionists? Large strikes had occurred in 1962 and 1972 without incurring as dramatic a loss in public support. The 1979 strikes were quantitatively larger, but they were also qualitatively different. Between 1974 and 1979 the British union movement became a movement of white collar and public workers rather than the industrial workers who had formed the movement's core for the better part of a century. When these new workers struck,

for the first time it could be argued that trade union action was taken as much against the public at large as against industry. Hospitals were slowed down or stopped; rubbish was not collected; water supplies were cut off in parts of the country; there were threats to sewage, threats to the fire service--and each and every one of these pieces of industrial action directly affected the public. And so the public came out in full cry against the unions. [Clemens, 1983:61]

In other words, because of the changing employment composition of unions, strikes in the late 1970s directly and immediately inconvenienced the public; this was their power as well as their downfall, for union members demonstrated their relevance to people's lives at the same time that they made themselves extremely unpopular.

Thus a failed corporatist strategy met a union movement increasingly able to hold the public at large hostage. This made the unions widely unpopular, but there is reason to doubt that the unpopularity of the winter of discontent brought Callaghan down and Thatcher into power: though the trade unions were unpopular and highly salient in February, that salience had eroded considerably by election day on May 3. On May 1 only 14% of the public mentioned trade union power as an issue that would influence them to vote one way or another. More important than trade union power were the issue of prices and inflation, which 39% named, and the issue of high taxation, which 16% named (Clemens, 1983:16). Unemployment and law and order rounded out the five issues named most often. Butler and Kavanagh make two important observations: of issues on which the parties offered clear and opposed courses of action, the public preferred the Conservative strategy; and the vote switchers in particular, those who would determine the fate of the parties on campaign day, clearly preferred the Conservatives:

Jobs, prices and law and order are examples of what political scientists call *valence* issues, that is parties and voters are largely agreed on the objectives of more jobs and stable prices. But many voters doubted the capacity of any party to improve the situation. *Position* issues are those on which the parties take different stands, e.g. taxes, trade unions, and de-nationalisation. [1980:334]

On these issues, voters preferred the Conservative position; of the top five issues, only taxation and trade unions are "position" issues, and on both of these, the Conservative position was favored.

To sum up, it would be incorrect to argue that the Conservatives won the 1979 election because the winter of discontent accidentally increased the unpopularity of trade unions and the Labour party at a particularly inopportune moment. First, the winter of discontent was not an accident, but the result of the combination of the unworkability of a corporatist union policy in Britain with the changing composition of British trade unions. In 1979 Britain found itself unable to control trade unions, and yet there was clearly support among the electorate at large for action that would make industrial unrest unlikely--partly because industrial unrest was now more intrusive because the unions were made of workers responsible for the everyday fabric of British life. The combination of the failed corporatist attempt, and the new intrusiveness and unpopularity of strikes, opened the way for a new policy of industrial relations to be tried. Second, on those issues where the parties were seen to have opposite philosophies in 1979--taxation in addition to the handling of trade unions--voters preferred the Conservative alternative.

1983 and 1987 General Elections

The Conservative victory in the 1983 general election is explained partly with reference to the Falklands War, which "[paid] a handsome electoral dividend for the governing party a year later" (Norpoth, 1987:957), but mostly as the consequence of the rise of the Liberal-Social Democratic Party Alliance and consequent division of the left: "The schism of 1981 in the Labour ranks had meant that in so far as there could be said to

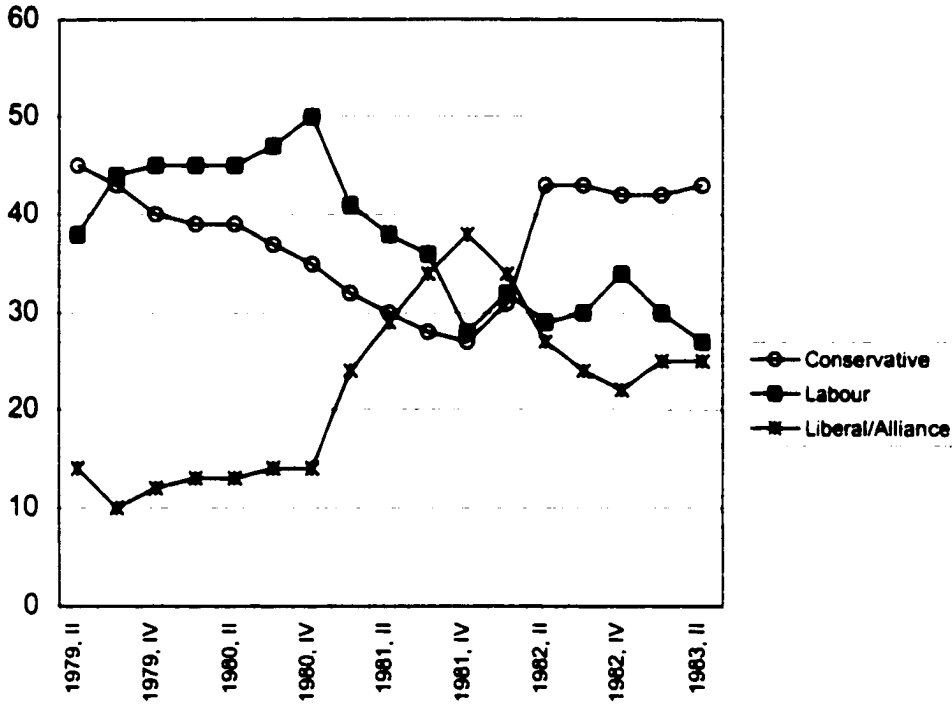
exist an anti-Thatcher majority in the land its forces were divided between the Labour Party and the SDP-Liberal Alliance...The old adage about oppositions not winning elections but governments losing them was stood on its head: in 1983, or so it seemed, the opposition lost" (Jenkins, 1988:158-159). Butler and Kavanagh write: "in 1983 the Conservative task was made easy by the successful Falklands campaign, the split opposition, and the election of Mr Foot as leader of the party" (1988:265). Michael Foot was regarded, after the fact, as having pulled Labour to the left, into an unelectable position.

Similarly, in 1987 the division of the left between Labour and Alliance, and the Labour leader's unpopular stance in favor of unilateral nuclear disarmament, were seen to work to the benefit of Thatcher: "For all the talk of harnessing the so-called anti-Conservative majority, represented by the combined vote for the Alliance and Labour parties, it could equally be observed that there were even larger anti-Labour and anti-Alliance majorities" (Butler and Kavanagh, 1988:275)--that is, that the left of the voting spectrum was split as surely as the left wing of the policy-making elites.

Such seemingly contingent factors as the Labour leaders' choice of strategy and tactics, the rise of a moderate leftist alternative, and the strategic use of a small-scale war seem to argue that these two elections should be seen as the result of accidental, contingent factors. But were the divisions and extremism of the British left in the 1970s accidental? And what can "the Falklands Factor" tell us about the workings of power in the British state?

First, the data certainly suggest that the Falklands War was a boost to Thatcher, as figure 4.4 shows: the popularity of Thatcher and the Conservative party both rise in the

Figure 4.4: The Falklands Factor: Quarterly Party Opinion Poll Ratings, percent, 1979-1983, Britain



source: *Derbyshire and Derbyshire, 1990:108*

post-Falklands phase until they reach the 1979 levels, reversing the continuous decline seen from 1979 to 1981. As Butler and Kavanagh write: "the [Conservative] victory had an element of chance. Before the recapture of the Falklands the odds were certainly against a Conservative victory. The war had an effect on the party's fortunes that lasted until the election" (1984:293). Norpoth calculates the exact magnitude of this effect:

The Falklands, according to our estimate, were worth between five and six percentage points to the Conservative party in June 1983. Without them, the party might have gained no more than 38% on election day. In the three-cornered race of 1983, given the desolate state of the Labour party and its unpopular leader, such a vote share might still have secured a majority in the House of Commons. But historically speaking, no party has won a majority with 38 points or less in Britain since 1945. [1987:956-7]

Thus it is clear that the Falklands War was decisive, even if it was not the sole influence on the Conservatives' victory.

The "Falklands Factor" seems, in fact, to be a prime instance where Stanley Lieberson's injunction to historical sociologists to appreciate the role of chance factors in history is well taken. As such, it also gives us an opportune moment to think about how historical sociologists might examine how chance factors can be integrated into theoretical analyses of events. For although the Falklands War was accidental, *the role the victory played in British politics was not.*

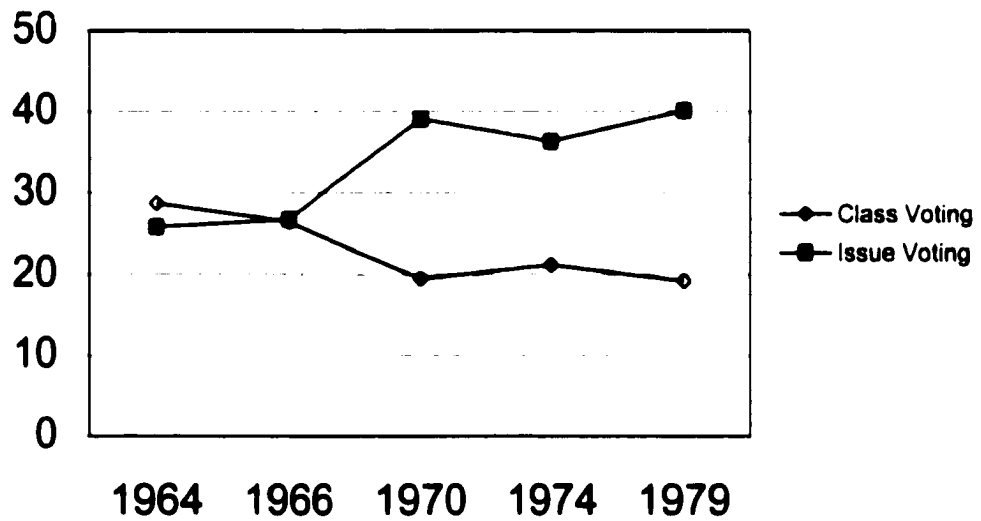
This is because the Falklands victory could only *have* the influence it did--significantly raising the Conservatives' chances of winning--because of another, not accidental phenomenon of post-war British politics, the decline of class voting and the rise of issue voting. In 1967 Peter Pelzer could still write: "Class is the basis of British

politics; all else is mere embellishment and detail" (quoted in Franklin, 1985:5). But even as he wrote it, the statement was on its way to becoming false. As figure 4.5 shows, class voting (as measured by an index of the variance in voting explained by occupation) declined in Britain over the course of the 1970s, while issue voting (as measured by an index of the variance in voting explained by ability to think of more than one important problem facing the country) rose. The result of this is an electoral context that is more volatile than that of the early post-war period.

We can see the effect this had on the Thatcher victory of 1983 by comparing it to Churchill's defeat in 1945 despite his extraordinary stewardship of Britain through the Second World War. The first lesson of the comparison is that victory in war does not automatically translate into political victory. Of course, the two instances are not strictly comparable, since the Falklands victory was brief and relatively costless. Arrayed against these political advantages of the Falklands War, however, is the considerable significance of the victory in the Second World War: Churchill was a hero of international stature, whereas the Falklands Island were a mostly unpopulated colonial remnant. If military victory always translates into political victory, the momentous victory Churchill spearheaded should have resulted in a resounding acclamation for the leader. Instead, Clement Attlee was voted in, in a landslide.

Why did victory in war translate into political victory for Thatcher but not for Churchill? Thatcher was operating in a different political *context* than Churchill was, one in which the meaning of political victory became tremendously important to the outcome of the election. With the decline of class voting, elections have become more volatile, and campaigns have become more important. Franklin writes: "A party which ignores

Figure 4.5: Decline of Class Voting, Rise of Issue Voting, 1964-1979, Britain



source: Franklin, 1985:147

these developments and relies on past loyalties to bring supporters to the polls is unlikely to be as successful as a party which bases its appeal on careful assessment of the needs and wishes of the voting population, and skillfully presents its policies in terms of issues that are meaningful and salient to them" (1985:152). Class loyalties have weakened particularly to the disadvantage of Labour: the groups that supported it in the immediate post-war period were less likely to do so in the 1970s. Moreover, the numbers of individuals with characteristics that could place them in multiple classes has increased (Franklin, 1985:85). Together this means that class can no longer predict voting behavior in Britain to the degree that it once could.

In the absence of class voting, particular issues during the campaign take on greater importance. Moreover, in this situation of greater volatility, the Prime Minister's ability to call elections at will turns into a significant advantage. That is, although British Prime Ministers have always had this power, in the context of greater volatility it becomes more important, since Prime Ministers can attempt to time elections when they and their party are on upswings with the volatile electorate. This is exactly what happened in 1983: the particular issue that colored the campaign was the Falklands War, and Thatcher capitalized on her popularity in its wake to call an election. The point is that while the war was clearly a chance event, that *victory in war* led to *political victory* was not a chance event: it was conditioned on the rise of a newly volatile political context, in which short-term issues and the short-term popularity they lead to are crucial leverages for parties to gain power. This is particularly evident when we examine *who* was more receptive to the appeal of the Falklands factor: a closer examination of figure 4.4 shows that the rise in support for the Conservatives after April 1982 comes at the

expense of the Liberals and the Alliance--*not* at the expense of Labour, whose support is stable from 1982 to 1983. It is plausible to interpret this data as showing that voters who were most susceptible to a third party appeal were also most susceptible to the appeal of the Falklands factor; these are the voters without firm loyalties to major parties based on class position, free to respond to third-party appeals and the appeal of particular issues.

While the decline of class voting and the rise of issue voting are trends that have continued over the course of the post-war period, they hit break points in the 1970s. As Jorgen Rasmussen writes:

They 1970s were a decade in which the foundations of the traditional British two-party system, which had prevailed for a quarter of a century after World War II, were shaken. The electorate's partisan preferences, long frozen in the ice of class cleavage, began to thaw. Voting, which to a considerable extent had been an automatic statement of personal status, became more an act of deliberate choice. In the eyes of parties and of scholars, this new behavior appeared not so much rational as volatile. (1985:81-82)

The effects of this new volatility had not been so important in the elections of the 1970s; the 1983 election, and perhaps even the 1979 election, offer for the first time instances in which chance factors and the issues that politicians made of them were crucial to the outcome of the election.

If the Falklands factor was important to the 1983 conservative victory, another factor of prime importance was the split of the left. Although the Liberals have offered a third-party alternative for most of this century (ever since Labour overtook the Liberals as one of the two main British parties), in 1980 a new party, the Social Democratic Party (SDP) was born to appeal to Liberals and moderate Labour supporters. In 1983 the SDP

and the Liberals joined in an alliance which made the election “more than any election since the 1920s, a three-sided race” (Butler and Kavanagh, 1984). In the end the Alliance took 25% of the popular vote--and most of this came at the expense of Labour: “While the percentage of Conservative defectors going to the Alliance was the same as the percentage of Labour defectors doing so, the fact that Labour had so many more defectors meant that the Alliance got half again as many recruits from Labour as from the Conservatives” (Rasmussen, 1985:98)--that is, though not all Labour and Conservative defectors voted for the Alliance (some voted for the other major party), most of the Alliance’s votes were from Labour. The role of the Alliance was also central in the 1987 election: “in 1987 [Labour] fought what was widely regarded as a good campaign, had an attractive leader, and enjoyed a useful lead on the social issues [but] the existence of the Alliance meant that Labour was no longer the exclusive home for anti-Tory voters” (Butler and Kavanagh, 1988:271).

The Alliance’s success was partly a result of the new context of volatility--in which loyalty to the traditional parties is low and voters are open to an appeal from third parties--but also of Britain’s changing class structure. Volatility made the tactical decisions of Michael Foot and Neil Kinnock to take extreme left positions much more significant than they might have been otherwise: in particular, Labour supporters were no longer loyal enough to tolerate a position such as Kinnock’s promise to unilaterally disarm Britain of nuclear weapons. But the left was divided in Britain in the 1980s not only because of certain tactical decisions that political actors had taken, but also because of the changing class structure and the fall of the “natural” Labour vote: in 1987 57% of all manual workers owned their own homes, 66% did not belong to a union, 40% lived in

the south (whereas the north and west had been the traditional industrial strongholds) and 38% worked in the private sector (Butler and Kavanagh, 1988:276). This “new working class” poorly fit the characteristics associated with the working class that had created the strongest labor movement in western Europe and the party that grew out of this movement. The voters in this category were significantly less likely to vote for Labour in 1987 (Table 4.2). These members of the “new working class” are key to the Conservatives’ rise: “The steady expansion of home-ownership, the growth of the middle class and a share-owning society, combined with the decline of trade unions, the manual working class and council tenancy, also undermined the traditional institutional supports for Labour voting” (Butler and Kavanagh, 1988:272).

Thus the rise of the Social Democratic Party was not the cause of the Conservatives’ victory, but a symptom of the crisis of the left in Britain. It represents an attempt by politicians to capitalize on an electorate increasingly unwilling to support hard-line leftist positions. Michael Foot’s rise to the head of the Labour party was bad for Labour not in itself, but because the voters had moved away from that extreme left position. Labour, however, could not follow suit, because it was tied both ideologically and financially to socialism and the trade unions:

After an election defeat there are always many within the Labour Party who believe that defeat was occasioned by a failure to cling to the tenets of socialism: that is the ideological side. On the practical side, the Labour Party was... financially dependent upon the trade union movement. There is, moreover, an instinctive sympathy between most Labour politicians and the leaders of the trade union movement... committed Labour politicians not infrequently feel that their ideals or the desirability of supporting the trade unions are more important than the acquisition or retention of office [Cosgrave, 1992:140]

Table 4.2: Working Class Votes in 1987 election, percent, Britain

| vote for: | Lives in South | Owner-Occupier | Non-union | Works in private sector | Lives in Scotland/North | Council tenant | Union member | Works in public sector |
|---------------|----------------|----------------|-----------|-------------------------|-------------------------|----------------|--------------|------------------------|
| Conser-vative | 46 | 44 | 40 | 38 | 29 | 25 | 30 | 32 |
| Labour | 28 | 32 | 38 | 39 | 57 | 57 | 48 | 49 |
| Liberals/S DP | 26 | 24 | 22 | 23 | 15 | 18 | 22 | 19 |

source: Butler and Kavanagh, 1988:276

Thus Labour was unwilling and unable to follow voters away from left-wing positions. As the newspaper *The Independent* put it in the wake of the 1987 Conservative victory: "The Conservatives have won this election in spite of themselves. They fought a disorganised and strangely hesitant campaign. They boasted about radicalism of their manifesto, but appeared to be vague about what was in it...The reason why Mrs Thatcher has secured a third term is that the current of the times still flows with the Conservative Party" (quoted in Butler and Kavanagh, 1988:268).

In conclusion, it would be incorrect to read the rise of Thatcher and Thatcherism as reflecting chance events. Rather, an analysis of the individual steps in this rise shows that it resulted from three factors: (1) the discrediting of the moderate wing of both parties in the 1970s, both of which attempted corporatist-style industrial policy but could not contain union unrest in a deindustrializing country losing its tolerance for ever more intrusive industrial unrest; (2) the decreasing support for left-wing policies, of either extreme or moderate varieties, by the electorate, which led to a split left-wing political elite; and (3) the decline of class as the major social cleavage in Britain, which allowed a political climate in which temporary issues became more important to the outcome of elections, and which worked asymmetrically to the advantage of the Conservatives because more working-class voters voted Conservative than middle-class voters voted Labour.

Each of these key "accidental" phenomena is linked to the same socioeconomic development: the transformation of the British class structure and the consequent decline of the "natural" Labour vote. It is the decline of this vote that led to the split of the left,

as well as to the decline of class voting and the rise of issue voting. It is deindustrialization that changed the character and composition of the trade union movement such that strikes in the 1970s became ever more intrusive. Moreover, as strikes became more intrusive and as the British populace became less industrial, it became less tolerant of industrial unrest, and such unrest brought down government after government until Thatcher finally took actions to decrease the power of the unions.

All of these factors suggest a turn away by a significant portion of the British electorate from the social democratic policies of the post-war period--*not* the hijacking of the political process by a minority right-wing faction. Evidence supporting this interpretation is to be found in opinion polls taken in the late 1970s that show majorities in favor of "Thatcherite" policies such as lower taxes, privatization, and cuts in means-tested benefits, as section three of this chapter will discuss.

Hugo Young has written that Thatcher's constant question about potential appointees--"Is he one of us?"--has a hidden resonance: although it suggests that Thatcher saw herself as part of a beleaguered minority taking on the establishment, after three election victories it also applies to Thatcher herself, "the leader who speaks for the nation on the strength of three overwhelming mandates" (1989:vii). Far from being the leader of a minority faction that utilized the concentration of the British state to implement unpopular policies, Thatcher embodied and put into practice a politics that was becoming increasingly popular with a growing segment of the British populace: Thatcher was one of us.

Heath

Like Giscard in France, Edward Heath of England is a failed revolutionary. When he came to office he promised a radical change in the direction of lower taxes and less government interference in industry. The revolutionary rhetoric of the party in 1970 was so similar to what Thatcher offered in 1979 that it led to widespread suspicion of the 1979 party and dismissals along the lines of: "When the Conservatives returned to office in 1951 and 1970 there was similar speculation about a Conservative counter-revolution. The resurrection of the theme in 1979 testifies to the continuities of post-war British politics" (Butler and Kavanagh, 1980:339).

A comparison of the manifestos reveals the similarities, as well as subtle differences. On taxes, the Conservative Manifesto of 1970 says:

We will reduce taxation. We will simplify the tax system. We will concentrate on making progressive and substantial reductions in income tax and surtax...Labour has put tax rates up by over £3,000 million. We are determined to reverse this process. High taxation discourages effort and saving, deadens the spirit of enterprise and causes many of our best brains to leave the country. In the thirteen years of Conservative prosperity we cut tax rates by £2,000 million--as well as doubling expenditure on the social services. We have done it before: we can do it again. (Craig, 1990:117-118)

Compare to the Conservative Manifesto of 1979:

We shall cut income tax at all levels to reward hard work, responsibility and success; tackle the poverty trap; encourage saving and wider ownership of property; simplify taxes--like VAT; and reduce tax bureaucracy...The top rate of income tax should be cut to the European average and the higher tax bands widened...Labour's extravagance and incompetence have once again imposed a heavy burden on ratepayers this year... (Craig, 1990:272)

On industrial policy the 1970 manifesto reads:

We reject the detailed intervention of Socialism which usurps the functions of management and seeks to dictate prices and earnings in industry. We much prefer a system of general pressures, creating an economic climate which favours, and rewards, enterprise and efficiency... Our policies for reducing taxation and reducing government interference in industry will reduce the heavy burdens on the small firm... We are totally opposed to further nationalisation of British industry. We will repeal the so-called Industrial Expansion Act which gives the Government power to use taxpayers' money to buy its way into private industry... We will progressively reduce the involvement of the state in the nationalized industries... We will prevent the waste of £76 million on the nationalisation of the ports... The bureaucratic burden imposed upon industry by government departments, agencies and boards has steadily increased in recent years. We will see that it is reduced. (Craig, 1990:120-121)

In 1979 the manifesto reads in similar terms, including the *acceptance* of government interference to encourage competition:

The British people strongly oppose Labour's plans to nationalise yet more firms and industries... We will offer to sell back to private ownership the recently nationalised aerospace and shipbuilding concerns... Even where Labour have not nationalised they interfere too much. We shall therefore amend the 1975 Industry Act... We want to see those industries that remain nationalised running more successfully and we will therefore interfere less with their management and set them a clearer financial discipline in which to work. (Craig, 1990: 273)

In the area of welfare policy both manifestos promise to better social services by making the nation more prosperous, but the 1979 manifesto includes praise for private services because they free up state funding for those who truly need it and represent "self-help."
1970:

With Labour's economic stagnation it is little wonder that in many cases these problems are getting steadily worse. The slow-down in economic growth which Labour Government has brought has already cost our country some £12,000 million in lost production. Even one-tenth of the revenue lost by the government as a result of this stagnation would have paid for 100 hospitals and 1,000 schools. (Craig, 1990:124)

And 1979:

The lack of money to improve our social services and assist those in need can only be overcome by restoring the nation's prosperity... When resources are tightly stretched it is folly to turn good money away from the NHS and to discourage people from doing more for themselves. We shall therefore allow pay-beds to be provided where there is a demand for them; end Labour's vendetta against the private health sector; and restore tax relief on employer-employee medical insurance schemes... In the community, we must do more to help people to help themselves, and families to look after their own. We must also encourage the voluntary movement and self-help groups working in partnership with the statutory services. (Craig, 1990:280)

Though the manifestos are not identical--in 1979 there is a new emphasis on private welfare provision, and a completely new argument in favor of monetarist rather than Keynesian macroeconomics--the details of tax and industrial policy are so similar that analysts of the 1979 manifesto could be forgiven for thinking they had heard it all before.

Of course, despite the analysts' predictions, Thatcher was serious about the rhetoric in the manifesto, and she was not up to business as usual. But in the beginning, neither was Heath:

it is important to stress just how quickly and how successfully the [Heath] government did indeed implement the bulk of its manifesto commitments. In fact, in 1972... Heath could still be criticised by a well-informed observer for doing *too much* of what he had promised [Ramsden, 1996:31]

Labour attacked the Heath government as the most reactionary in decades, and although this was an exaggeration, between 1970 and 1972 Heath did put into place policies that we would today call Thatcherite:

there was a drastic reform of taxation arrangements with many tax-cuts. An Industrial Relations Act provided for strikes and negotiations to be conducted under a new framework of law. The structure of local government was radically altered. The Housing Finance Act transformed the rules governing rented accommodation. Arrangements for social services were extensively modified, notably by the introduction of Family Incomes Supplement and of a routine review of pensions. Lastly, the structure of central government was reorganised. [Butler and Kavanagh, 1974:10-11]

In addition, compulsory comprehensive education was ended and some privatization was undertaken, along with some cutting of welfare benefits (Seldon, 1996:3).

The Industrial Relations Act in particular was remarkably "Thatcherite": aiming to reduce industrial unrest, it made collective agreements legally binding, strengthened the right not to join a union, strengthened safeguards against unfair dismissal, restricted closed shops, required a secret ballot before strike action and provided for an enforceable "cooling-off" period during which a strike could not take place, specified a range of practices which unions could not participate in at the risk of forfeiting legal immunity from compensation claims, and established a special court with punitive powers with which unions would have to register (Campbell, 1993:365). As Patrick Cosgrave writes:

It is hard imaginatively to remember in the 1990s how breathtaking the industrial relations proposals of the 1970 government were. That a new Conservative government should make some changes in the law on trade unions was not unexpected; that the government should decide to repeal *all* existing legislation, and institute a completely new legal framework,

not only enraged the Labour Party but astonished the most devout of Conservative supporters. [1992:144]

The difference between the Heath administration and the Thatcher administration is that beginning in 1972, the Heath administration made what were later characterized as several “U-turns,” abandoning free-market policies for collectivist policies more in line with the post-war period. In particular, after 1972 Heath abandoned the policy of allowing uncompetitive companies to go bankrupt, rescuing Rolls Royce and Upper Clyde Shipbuilders; he adopted state-directed economic planning similar to what he had abolished in 1970; he agreed to talks with unions, thus accepting corporatism; he implemented a prices and incomes policy; and he greatly increased public expenditure (Ball, 1996:328-29).

Why did Heath abandon the line of policymaking that Thatcher would so successfully take to extremes less than a decade later? Anthony Seldon examines four competing explanations that have been developed for the Heath government--its original radicalism and its mid-course turn--that he characterizes as:

[1] The government was a success, implementing most of its manifesto pledges, and showing flexibility in the face of great difficulties (the Heath loyalist view).

[2] The government was a failure, with its initial right-wing objectives being abandoned in the face of difficulties (the Thatcherite view).

[3] The government had some initial successes, but failed ultimately as little or nothing was left of its policies in the longer run (the pessimistic view).

[4] The government achieved some success, but failed ultimately to achieve fully its objectives because of circumstances beyond its control (the contingencies view). [Seldon, 1996:2]

The crucial differences of interpretation are around two questions: how radical the Heath administration actually was--what its true objectives actually were, and whether the manifesto exaggerated them; and the reasons for the change of course, that is, whether the pressures in the early 1970s were such that any government would have been likely to "turn." One's judgement on these questions determines one's judgement of Thatcher: if Heath was truly as radical as Thatcher, but weakened in the face of difficulties, then Thatcher must be applauded for strength. If he was not as radical as Thatcher, then he may be said to have implemented those policies he truly believed in, such as British membership of the European Economic Community. This explanation, focusing on the agency of the Prime Minister, is quite natural: given the concentrated structure of the British state, the different outcomes under Heath and Thatcher may plausibly be traced to differences in the two Prime Ministers themselves--either to their individual capacity to resist pressure, or to the depth of their beliefs.

Militating against the explanation that Heath's change of course had to do with his personal ability to resist pressure is Thatcher's own behavior at the time of the U-turns. As Minister of Education in the Heath government, Thatcher hardly objected to any of the policies that constituted the U-turn. Indeed, according to James Prior she was one of the biggest spenders in the Heath administration--the other being Keith Joseph himself, the intellectual midwife of Thatcherism (Young, 1989:78). Young writes: "By his shifts and turns Heath betrayed nothing--because there was no significant body of opinion in the party that wanted him to do anything else. Least of all did he betray the cabinet colleagues who later used betrayal as a pretext for rounding on him. They

acquiesced in everything he did, only discovering later, in Joseph's graphic words, how they might be 'converted to Conservatism'" (Young, 1989:80). As Heath writes:

In later years some members of my party have talked about Selsdon Park as if...it did signal a move away from traditional Conservative politics. Norman Tebbit has even written of 'the Selsdon declaration', which allegedly marked my conversion to 'the new liberal economics'. There was no such thing. He has rewritten history. Although I remember Margaret Thatcher talking a good deal about the interests of the middle classes at Selsdon, she and Keith Joseph were united with us at that time in designing a manifesto which would attract support from all parts of the community. The complacent acceptance of mass unemployment, as an instrument for controlling inflation, was as repellent to them then as it still is to me today. [1998:302]

In other words, if Heath was never firm in his commitment to free market principles during his tenure in office, Thatcher herself was not firm in her commitment to them in the early 1970s. It is only after this period that Thatcher begins to display a systematic and nearly unshakeable affiliation for libertarian principles. Indeed, her reversal on some policies is startling: after Heath's electoral defeat, as shadow Minister of the Environment, Thatcher adamantly resisted the policy of council house sales that would later be identified so fully with her administration. "Heath's own recollection, confirmed by others, was of her arguing that it would not be fair to people who had already saved to buy their own homes. 'What will they say on my Watts estates?' became her cry" (Young, 1989:83). Similarly, she initially resisted abolition of rates and fixing the mortgage interest, only agreeing to implement both when Heath insisted (82-83).

In short, at the time that Heath was undertaking his U-turns, so was Thatcher. As a Cabinet Minister under Heath and then as part of the shadow cabinet she was part of the team that brought about those U-turns. Although her own initiative is not seen in the

decisions--she was not part of the decision-making on economic policy--she did not object to them, as might be expected of the ideologue she later became. Indeed, *no one* in the Conservative Party of the time objected to the U-turns: at this time there *was* no other branch of Conservatism to object. The right-wing faction that was soon elected into office won for political rather than ideological reasons, and only began to develop in a more radical direction *as a result* of the electoral failure of the Heath government in 1974.

Thus the difference between Heath and Thatcher should not be read simply as Heath's unwillingness or inability to resist pressures to "turn" versus Thatcher's strength in doing so--as a member of Heath's government Thatcher did not show any particular ability to resist the U-turns herself.

If the difference between Thatcher and Heath is not so much one of the individual leaders' strength or capacity to resist pressures, another common explanation that has been advanced is to explain Heath's U-turn and Thatcher's consistency by referring to the strength of their beliefs in the free market. The scholarly consensus is that Heath was not, in fact, as radical as Thatcher:

Heath was never a believer in *laissez-faire*, but was a traditional Tory who saw the state as an essential deliverer of economic and social policy. Macleod, his most influential lieutenant, although to the right of Heath was firmly in the One Nation centre tradition of the Party. As Hugo Young has argued, the Seldson Park conference [which has been interpreted as producing the free-market ideology found in the manifesto] achieved an importance in the thinking and mythology of the new right that was never justified by what took place at it. So while some policies advocated at the 1970 general election, such as the rejection of an incomes policy and tax and spending cuts were more right-wing than offered by the party at any general election since 1945, the motives for the policies were instrumentalism and opportunism, not ideology. [Seldon, 1996:13-14]

According to this reading, Heath turned away from free-market policies when the going got tough because he had never truly believed in such policies in the first place. Most scholars trace this lack of belief to the role of economic ideology in making possible free-market policies. As Peter Hall writes:

By 1979 [monetarism] was a fully elaborated alternative to the reigning Keynesian paradigm with a significant base of institutional support in the City, among economists at several universities, and in the media. Thatcher was able to resist massive pressure from inside and outside the government to reverse the course of policy in 1980-81 in large measure because she could draw on the monetarist paradigm to explain what others saw as unanticipated events and to rationalize her resistance to demands for change.

By contrast, when faced with similar pressure to alter his initial policy positions, Heath had no conceptual framework with equivalent coherence or institutional support on which to base his resistance to demands for a reversal of course. Monetarist ideas enjoyed some currency among American and British economists in the early 1970s, but they had no substantial base of institutional support within the British policy-making system. [1992:97-98]

The existence of a monetarist alternative was crucial in Thatcher's ability to resist a U-turn. Heath, by contrast, had no such ideological support: "there was no alternative and acceptable philosophy available which would have provided the intellectual underpinning for an assault on the prevailing orthodoxy of Keynesianism...[and] Heath lacked the popular, intellectual and media backing for a full frontal assault on Keynesian consensus-type policies, even if he had wanted to do so" (Seldon, 1996:14). He did not, moreover, want to: he fully embraced the policies that were ideologically popular around him. Of a speech he gave in 1966 he writes: "This speech was governed by the One Nation principles which have always sustained me in politics: that we need greater prosperity if

we are to support those in need, and partnership, not confrontation, in our industries to create that prosperity" (Heath, 1998:280). Thus Heath was representative of the general sentiment of the time, and records a wish to turn the British state into a "developmental" state on the French model. Only years later would an alternative to this understanding of the relationship of the state to the economy be developed.

However, the key point to note in a causal analysis of the role of ideology is that the monetarist alternative did not develop *independently* of Thatcherism; it did not develop in academic contexts removed from the political world. In fact, British academic economists were overwhelmingly unconvinced by monetarism. Monetarism developed in non-academic contexts close to the centers of power, with two particularly important: the Centre for Policy Studies and the Institute of Economic Affairs. The IEA had been present since the 1950s, but the Centre for Policy Studies was created *by* Thatcher and Keith Joseph during the Opposition years: more even than the IEA the Centre "became a focal point for the emerging school of monetarism and a 'social market economy', which underpinned the Conservative manifesto for the 1979 General election and the course of policy of the early Thatcher years in power" (Singer, 19--:77). Other think tanks and institutes were organized to support the monetarist cause, and "these few small research organizations developed a cartel in supplying economic advice that fitted the political needs of the Conservative Party's leader...at the end of the 1970s" (19--:78). Hall himself notes that "in the 1970s and early 1980s when British policy turned toward monetarism, the vast majority of British economists, both inside and outside the civil service, remained resolutely Keynesian. In this case the movement of policy preceded, rather than followed, the weight of professional opinion" (1992:95-96).

The Thatcherites nurtured into full-fledged existence the economic ideologies that would support their turn to the right. The reason they turned to the right is not because the ideology pushed them to do so, but because the moderate branch of the party had been discredited by the failure of Heath's corporatist attempt at industrial relations (exactly as Labour would be discredited five years later), because the right-wing faction had therefore unexpectedly found itself positioned to be able to offer an alternative (for reasons having to do with political strategy rather than ideology), and because monetarism offered an attractive alternative since it was compatible with policies such as lower taxes that were popular with voters. In monetarism--a minority ideology within the academics profession--the right-wing Conservatives found a possible justification for their policies, and for policies that they knew appealed to the electorate; they thus developed the institutional support for the ideology that would in turn support their politics.

The crucial causal point is that the rise of monetarism did not "cause" Thatcherism, but rather, Thatcherism sought out, and justified itself with reference to, monetarist rhetoric. The ascension of Thatcherism is a story of political infighting within the Conservative Party; this political context then nurtured the strain of free-market ideology that would support it, but could never nurture this ideology into widespread acceptance by academic economists.

Why didn't the election of Heath lead to the same sort of rethinking of conservatism, and why did Heath not manage to develop the ideological and institutional supports that would sustain his turn to the right? The political context in which Heath operated when elected party leader in the late 1960s was different from the political

context when Thatcher was elected in 1974 in one very crucial way: the Conservatives were forced to the right in the 1970s (but not before) because the fabled British political consensus collapsed in the 1970s in the face of economic crisis and industrial unrest.

The post-war period, from 1945 to the mid-1970s, has often been called a period in which the two major British parties agreed on key political issues. The question of whether there has actually been “consensus” for most of this time has, in the last twenty years, become one of the most vexed (and tedious) of British political science. Those who argue that there was not, in fact, consensus point to minority traditions in both parties espousing extreme policies (Pimlott, 1988; Kerr, 1999); those--the majority of scholars--who do see consensus in the post-war period point out that once in office the two parties tended to follow policies that were not radically different (Kavanagh, 1987; Seldon, 1995). Whether or not there was “consensus,” for our purposes it is necessary only to note that by 1970 there had been no dramatic discrediting of moderate policies, as there would be in 1974 (when Heath lost office because of industrial unrest) and again in 1979 (when Callaghan lost office because of industrial unrest), and, most importantly, that the British population was in the late 1970s newly hostile to high taxes and excessive welfare spending, and newly in favor of privatization--as the following section of this chapter discusses.

Thatcher's Changes

We have seen that Thatcher's rise to power, and tenure in power, were not accidental; rather, they resulted from: the discrediting of the moderate wing of the Conservative Party because of its inability to control unions, the inability of the Labour

party to keep pace with the transformations in British class structure, which led to the split of the Left, and the increasing volatility of British elections, which worked to the advantage of the Conservatives. Underpinning these changes is the transformation in British class structure, and resultant changes in voter preferences. Second, a key difference between Thatcher and Heath was the increasing unpopularity of the trade unions over the course of the 1970s due to intrusive industrial unrest, which allowed Thatcher to continue along a course that Heath felt unable to sustain.

These observations made, however, we must still note that Thatcher's free-market policies *varied* in success. In taxation, industrial policy, and welfare state policy Thatcher's achievements represent a break with the post-war tradition of British economic policy. In the first two domains she implemented significant changes in policy; but in taxation she was not able to reduce the total tax burden, only redistribute it away from the wealthy, and in welfare state policy the Thatcher administration's achievements fell far short of its professed goals. To introduce into British political discourse a rhetoric of critique of the welfare state was a significant achievement in itself, but nevertheless we are left with the puzzle that a self-professed "conviction politician" with a stated desire to reduce welfare state spending, at the head of a concentrated state structure, nevertheless left office having slightly increased welfare state spending. Thus it is not enough to explain only how Thatcher acquired power, and why she did not "turn" like Heath; we must also investigate why her commitment and capacities varied across domains. This investigation will yield, in turn, a fuller picture of the constraints of the changing British political system that Thatcher worked under. As the tour of the three domains will show,

Heath's U-turns, and Thatcher's consistency, were fully in accordance with public opinion.

Taxation

While the French system has remained dependent on sales taxes and pegged welfare taxes, and while the American system has consistently relied on income taxes, scholars disagree on how best to characterize the British tax system in the post-war period. There is agreement on a few basic facts. First, Britain follows the general pattern of post-war industrial democracies in relying on excise taxes (sales taxes on specific goods such as alcohol or tobacco), until this century, when income taxes begin to assume a larger role; however, unlike many other countries, Britain has not given up its excise taxes, which still contribute nearly a fifth of revenue. Second, again as in other countries, income taxes on the majority of the workforce can be dated back to the Second World War, which allowed the introduction of large new taxes that did not return to pre-war levels, and thus financed increased post-war domestic spending. Third, for all but the richest of income tax payers, income tax is collected invisibly, via the Pay as You Earn (PAYE) system of automatic workplace deductions. Fourth, a brief period of tax reform took place between 1964 and 1976, involving the introduction and reform of various corporate taxes and sales taxes. Fifth, the British system is not progressive like the American system, but neither does it generate revenue levels high enough to eliminate poverty as in the Scandinavian and Continental models (Steinmo, 1989:241). And finally, scholars agree that Margaret Thatcher redistributed the tax burden downwards,

away from the rich, by lowering progressive income taxes and raising regressive sales taxes.

The disagreement is on how stable the British tax system is. Sven Steinmo sees substantial change in the tax system: "in Britain major changes in specific taxes are quite common and can have fairly profound effects on both the distribution of the tax burden by income class and upon gross revenue totals" (1989:524). Richard Rose and Terrence Karran however see "relative continuity": "inasmuch as the great bulk of revenue is raised by continuing taxes" (1983:28)--that is, taxes that have been in place since 1948.

Although this debate may seem academic, it is actually central to understanding Thatcher's achievement: if all new administrations have overhauled taxes, then Thatcher was not particularly radical; if there had been continuity up until Thatcher, then she represents real change.

Steinmo cites as evidence of instability in the system the introduction of several new taxes in the 1960s and 1970s, including capital gains taxes, corporate profits taxes, the Selective Employment Tax, the Value Added Tax, and the Capital Transfer Tax, each of which was extensively revised in the years following (524). This fluctuation, according to Steinmo, is a direct result of British "Party Government," in which exclusive power alternates between two adversarial parties: once in power each party undoes the policies of the previous government, causing British fiscal policy to wobble between extremes. Robinson and Sandford (1983) explain this fluctuation in tax policy by noting the new demands made on governments to manage economic growth and achieve social justice, for which ends fiscal policy was well suited: Conservative governments attempted to lower taxes to encourage growth, while Labour governments attempted to

change the structure of taxation to redistribute from rich to poor. James and Nobes complain that the British tax system changes so often that trying to analyze it is like trying to hit a moving target (1981: 135).

On the other hand, Rose and Karran point out that between 1948 and 1981, "Altogether continuing taxes contribute an average of 82.5 per cent of total tax revenue in a given year and are similarly important in their claims upon the gross domestic product. New taxes are not usually major sources of revenue. In the period under review, the five new taxes on average each contributed 4.3 per cent to the total tax revenue in 1981, and the four taxes repealed each meant a loss on average of 3.9 per cent of tax revenue...Proposals for new taxes and new tax laws only incidentally affect total revenue" (1983:28). They also argue that the tax changes that Steinmo lists might more properly be conceived of as exchanges of one tax for another:

The biggest changes in United Kingdom taxation in the post-war era can be described as exchanging or swapping taxes rather than adding new taxes. This is very clear in the replacement of profits and excess profits taxes in the mid-1960s by a corporation tax. Both taxes apply to the same category of taxpayers, albeit calculated differently, and contribute much the same amount of revenue. A tax swap also occurred in the 'two-for-one' repeal of purchase tax and SET and their replacement by VAT (Value Added Tax) by the Heath administration in the early 1970s. The repeal of purchase tax was necessarily linked with the introduction of a new sales tax, VAT. The repeal of SET was linked because the government relied on VAT as a new source of revenue to replace the money foregone by repealing SET. The two repealed taxes accounted on average for 10.1 per cent of total tax revenue, and VAT has accounted for an average of 10.7 per cent of revenue. [28]

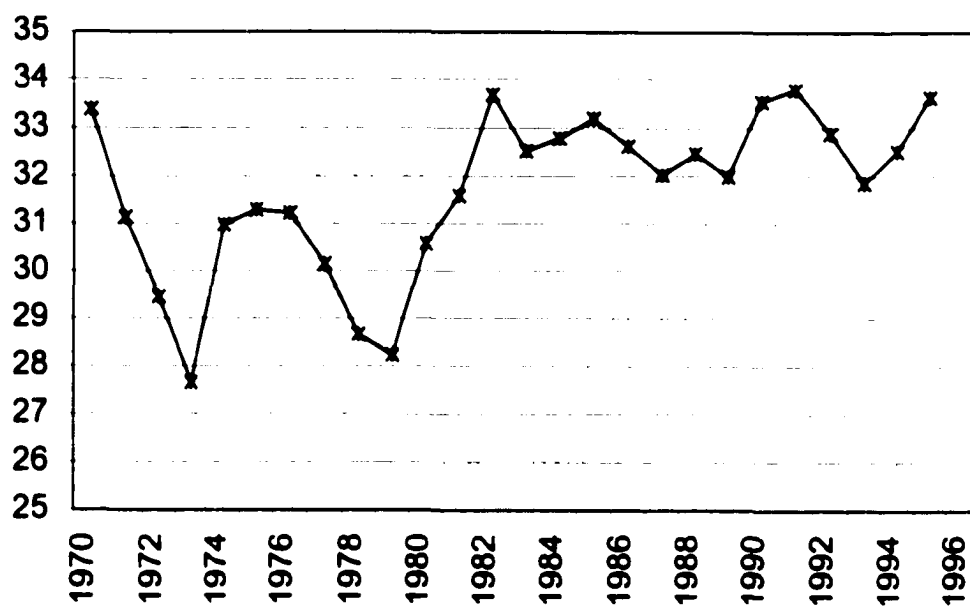
Rose and Karran believe the tax structure is resistant to change because "the Treasury does not welcome the repeal of any tax that is a substantial source of revenue, and

politicians are reluctant to repeal major spending programmes, a condition of the abandonment of a major source of revenue. In the absence of the earmarking of tax revenues, there is usually a coalition strong enough to oppose new taxes for general revenue" (1983:28). Terrence Karran's empirical test of the question concludes: "for most taxes, policy initiatives to alter tax rates and bases are much less important to revenue yield than underlying trends in the economy. The continuing strength of these macroeconomic secular trends circumscribes attempts by British policymakers to depart radically from the existing pattern of taxation" (1985:365).

The picture that emerges is of stability in the majority of the tax system, with politically motivated changes at the margins. But marginal changes are not unimportant. While the bulk of the state's work may be continuously financed by a stable tax system, it is at the margins that the more politically charged and perhaps the most consequential of a modern government's responsibilities come into play: the margins are where income is redistributed, incentives are engineered, and new programs are financed or defeated. And it is against the light of the marginal changes of previous administrations that Thatcher's achievement is best understood.

Like previous Conservative governments, Thatcher attempted to reduce overall taxes to encourage economic growth. However, she did not succeed in doing this: after experiencing sharp rises and declines in the 1970s, in the 1980s the tax burden as a whole stabilized at around 33% of GDP, higher than it had been throughout the 1970s (figure 4.6). Rose and Karran thus call Thatcher "a spectacular example of the inadequacy of the

Figure 4.6: Total Tax Revenues as Percent of GDP, 1970-1996, United Kingdom



source: World Bank, World Development Indicators

politician's will to introduce big tax cuts when confronted by the government's need for big sums of money" (1987:4).

But Thatcher was unique among Conservative Prime Ministers in that she did not content herself only with trying (and failing) to undo the new taxes of previous governments; she went beyond this into actively redistributing the tax burden downwards. In this, she was more successful than any post-war Conservative Prime Minister: four of the five budgets between 1979 and 1983 reduced (progressive) direct taxes by increasing income tax allowances, and increased (regressive) indirect taxes by raising excise duties and nearly doubling the national sales tax; regressive National Insurance contributions were also continually increased. Analysts in 1983 wrote: "the period since 1979 has seen a rise in the overall tax burden for the majority of taxpayers ...overall marginal rates have risen steeply...[and] the progressivity of the tax system has declined" (Dilnot and Morris, 1983:54). The effects were even greater by the end of the decade:

Despite a reduction in the standard rate of income tax from 33 to 27 per cent and in the highest marginal rate from 83 to 40 per cent, total tax burdens as a proportion of income have only fallen for workers on above average incomes. For those on half national average incomes the proportion paid in tax has risen from 2 to 7 per cent, for those on three-quarters from 30.5 to 34 per cent and for those on average incomes from 35 to 37 per cent; for those on twice average incomes it has fallen from 27 to 25 per cent and for those on five times average incomes from 49 to 35 per cent. [Taylor-Gooby, 1989: 441-2]

For a married couple with two children, taxation increased [between 1978/9 and 1986/7] by 4.2 per cent for those on half average earnings, and by 1.4 per cent for those on average earnings. But for those on five times the average, taxes were *down* 6 per cent, and for those earning ten times the average the drop was a substantial 14.3 per cent. For the very rich, tax cuts have been dramatic: between 1978/79-1984/85 the estimated 65,000

taxpayers with incomes over £50,000 gained an annual average of £19,400--an amount 61 times that received by the poorest. [Wicks, 1987:10]

Wealth distribution, however, became slightly more equal even as income distribution became more unequal.

Three questions arise: why was Thatcher successful at redistributing the burden of income taxes? On the other hand, why was she unsuccessful in reducing the overall tax burden as Reagan had with a large, across-the-board income tax cut? And why had Heath not managed to redistribute the tax burden downwards a decade earlier?

As we have seen, cutting direct taxes has been a goal of Tory governments throughout the post-war period, and the corollary to these cuts has been increase in indirect taxes. Why was Thatcher more able to achieve this goal than previous Prime Ministers have been? The "state structure" explanation does not get us very far here, as previous governments have had the same power to enact these changes; thus analysts tend to attribute this change to the personality of Margaret Thatcher herself, and her commitment to her cause, as well as to the ideological cohesion of her administration. But this explanation too is lacking, as it does not explain why Thatcher and her administration were committed enough to redistribution to achieve it, but not committed enough to a reduction in the overall tax burden to achieve that. In fact, analysis of campaign statements shows that if anything, the commitments were in the other direction: the incoming Tories were more concerned with a reduction in the overall tax burden than with redistribution.

The political advantage of cutting direct taxes and increasing indirect taxes has been discussed previously: direct taxes are visible, while indirect taxes are invisible.

Politicians have noticed the advantage of cutting visible taxes since the beginning of national taxation itself. These pressures were slightly less strong in England at this period, because the direct income taxes were collected "invisibly," through automatic deductions at the workplace. However, this was counteracted by the increasing proportion of the workforce that was subject to income tax (Golding and Middleton, 1982) and the sheer growth in taxation (Rose and Karran, 1987).

If an increasing number of workers was becoming subject to taxation, why was Thatcher not able to translate their dissatisfaction into reduction of the overall tax burden? As figure 4.6 shows, the overall tax burden actually began to grow when Thatcher assumed office, to stabilize at a higher level a few years later.

The patterns of change found are remarkably consonant with public opinion. In 1977 public opinion polls had for the first time begun to register rises in anti-tax sentiment: given various options of governmental policy, nearly 48% of respondents to a Marplan poll favored cutting the standard rate of income tax (Clemens, 1983:80), with the second most mentioned option polling only 22%. Between October 1978 and May 1979, the percentage of respondents favoring tax cuts, *even if it meant a reduction in government services* "such as health, education, and welfare" rose from 25% to 34% (Butler and Kavanagh, 1984:7). Moreover, in 1979 53% of respondents favored a reduction on direct (income) taxes and an increase in indirect (sales) taxes, while 27% were against (Clemens, 1983:49). Thus--in a pattern that we will also see in the other two domains below--Thatcher's changes in taxation policy, and Heath's lack of changes, exactly accorded with changing public opinion on issues of taxation.

Industrial Policy: Privatization

As in France, the two world wars left significant legacies in domestic industrial policy in Britain. The first nationalizations, of defense and energy-related industries, took place during World War I, and the Second World War led to nationalization on a wide scale: banks, coal mines, telecommunications and transportation, electricity and gas, and the iron and steel industries were all nationalized in quick succession between 1946 and 1949 (Pollard, 1992; Zahariadis, 1995). Enterprises were nationalized for the usual reasons: to ensure domestic production capacity in industries feeding defense, to overcome market failure in "natural monopolies," to resuscitate failing ventures, to increase efficiency, and to satisfy socialist analyses of social justice, rational production, and the requirements of economic development (Saunders and Harris, 1994:8; Zahariadis, 1995:53).

Unlike France, however, nationalization was a significant departure for Britain: in France state interventionism into industrial policy goes back to Colbert, but Britain's traditions in industrial policy were of a hands-off state. (This hands-off tradition, however, was *not* the case in monetary policy, and should not be generalized to British political economy as a whole: "From 1918 to the floating of the pound in 1972 macroeconomic policy in Britain was dominated by a concern to maintain the value of sterling on the foreign exchanges" (Hall, 1986:49); the government intervened vigorously and continuously in the attempt to maintain the exchange rate.) Peter Hall identifies three components of industrial policy: the funds government gives to industry, the criteria that determine where these funds go, and the pressure government applies on firms to meet state-desired goals. In each of these areas Britain favored the less-state-intervention

option until the 1970s: the funds government gives to industry were negligible until the Heath administration's industrial rescues, aid was given to depressed regions rather than to specific firms, the better not to interfere with the structure of industry; and the state relied on the private sector to direct its schemes (Hall, 1986:52-53). Only the 1964-1970 Labour Government attempted to break from this pattern, with very limited success.

Scholars trace this pattern of extensive macroeconomic intervention and little intervention in industrial policy to Britain's position as the first nation to industrialize, added to the development of the socialist critique in the late 19th and early 20th centuries. The result of the attempt to graft post-war nationalization onto the almost laissez-faire tradition of industrial policy was the development of a unique "arm's length" form of nationalization, in which the government would do no more than appoint the board members who would run the enterprises. Politicians were not to interfere in the decisions of the board members, who would thus, it was believed, act in accordance both with the general interest and market logic. In fact, the "arm's length" relationship meant that "[n]ationalized industry boards proved in practice to be largely unaccountable either to Parliament or their customers... between 1968 and 1978, productivity in UK manufacturing rose by an average of 1.7% per year. In the state-owned electricity industry, however, it rose by just 0.7%. In the nationalized steel industry it fell by 2.5% per year. In the nationalized coal industry it fell by 4.4% per year" (Saunders and Harris, 1994:9). The nationalized industries were operated in the interests of their workers and managers, rather than in the interests of consumers and taxpayers--in accordance with the logic of worker-oriented socialism, but in defiance of the logic of governments ruled by majorities.

Thus the Attlee administration's nationalizations coexisted uneasily with a Tory party that continued to carry the flame of resistance to interventionism, and with increasing disillusionment with the performance of the nationalized industries. When Churchill won the election of 1951 he immediately tried to return transport and steel to private hands; the share of the state in both sectors was reduced, but not completely in transport, and only temporarily in steel. In 1961 and 1967 attempts were made to increase efficiency in the nationalized industries, with little result. With the arrival of Ted Heath in 1970 privatization became an explicit and clearly signaled policy commitment. But Heath, famously, backed down on his promises: when Rolls Royce and Upper Clyde Shipbuilders found themselves in financial trouble, the government came to the rescue.

Thus Thatcher's privatizations were not a new idea; what was new was the extreme to which privatization was carried under her tenure: at the end of the Thatcher-Major period fully half of the state's assets in industry had been sold, making privatization one of Thatcher's chief successes. Privatization on this scale was a new phenomenon in the history of the world, and remains unique in the development of capitalist states; the Thatcher experiment attracted worldwide attention (Saunders and Harris, 1994; Swann, 1988:10). But this large-scale privatization would not have been expected from a reading of the Conservative party's manifestos in the late 1970s, where the main concern is resistance to *further* nationalization; privatization is only mentioned in regard to recently nationalized industries, and some government intervention is accepted in order to set clear financial disciplines on those industries that remain nationalized (Craig, 1990:273).

The two questions to answer about privatization, then, are, first, why and how did privatization become such a key component of Thatcherism when it had not been a particularly prominent part of the agenda Thatcher brought into office? Second, why did Heath not stick to his privatization plans?

Public opinion on privatization suggests that the actions of the two Prime Ministers were in accord with public opinion. In 1974 28.4% of respondents believed that industries should be nationalised "a lot more" or "a few more," and 24.8% believed that industries should be privatised "some/more"; five years later, in 1979, 16.9% believed that industries should be nationalised "a lot more" or "a few more," while 43% believed that industries should be privatised "some/more" (Crewe et al., 1991:311). The weight of public opinion had gone from nearly equal numbers supporting nationalization and privatization, with a slight edge for nationalization, to over twice as many respondents supporting privatization. Thus, when Heath backed away from privatization, and when Thatcher made it a key component of her program, both were behaving in accordance with public opinion.

Welfare State Policy

The experience of total war catalyzed the complete metamorphosis of British welfare policy: from the Victorian Era of Poor Laws and debtors' prisons and faith in market discipline, immediately after the Second World War Britain gave birth to the first *comprehensive* welfare state in the world. The Attlee administration went far beyond the individual social provisions that Bismarck had pioneered in Germany, and installed the first cradle-to-grave system of welfare in history. The debate on the factors leading to the

origins of this system has coalesced around three insights: a growing Labour movement, born of industrial development, demanded welfare provisions; capitalists and state elites were willing to provide them in an attempt to avoid the Communist revolutions taking place elsewhere in the world and the dislocations of the depression of the 1930s; and the experience of the Second World War led to widespread nationalist sentiment that hoped to see in Britain's "welfare state" an alternative to Germany's "warfare state," as well as to a direct experiment with "war socialism" that could be carried into peacetime (Cochrane and Clarke, 1993; Laybourn, 1995; Midwinter, 1994; Pollard, 1992).

At the turn of the century the failings of the Poor Law in ameliorating poverty in the country were increasingly evident. Combined with the increasing strength and militance of the Labour party, this led to pressure on David Lloyd George's Liberal government of 1905-14 to revise the political economic arrangements inherited from the nineteenth century. In a burst of activity between 1908 and 1909, the Lloyd George administration implemented old-age pensions, measures protecting children, and health and unemployment insurance, and also took the first tentative steps toward income redistribution (Laybourn, 1995).

These measures, however, were for the most part patchwork and short-term. Only with the advent of the Second World War was it politically possible to envisage more comprehensive welfare legislation. Richard Titmuss (1950) suggests that the war exposed shocking degrees of poverty among the British, as well as generated a nationalist sentiment that led to the universalist welfare ethic that would allow government to address this poverty: post-war Britain would create a "home fit for heroes." In addition, the state had stepped in to rationalize the hospital system during the war, ensure full

employment, and enforce distributional equity via rationing, giving to Britain its first hands-on experience with state intervention in social provision (Laybourn, 1995; Midwinter, 1994). It was also during the war that trade unions for the first time were consulted about wages, bringing the labor movement to a new importance.

The document encapsulating the vision of a complete welfare state that grew out of the war was the Beveridge Report of 1942, which argued for family allowances, a national health service, and full employment as the bedrock of a modern developing economy. Some debate has sprouted on whether the war in general, and the Beveridge Report in particular, actually created the conditions that would allow a complete welfare state to be put in place, or simply accelerated trends already under way. Eleanor Rathbone, for example, had been struggling for family allowances since the inter-war period, and the idea of a national health service was built on Lloyd George's establishment of health insurance. Thus it is more accurate to say that rather than charting a new course, the Beveridge report formalized into a cohesive program a set of policies that had already begun to be implemented in piecemeal fashion (Hill, 1993).

In the 1945 elections, although Churchill and the Conservatives had successfully steered the country through one of the most harrowing periods in its history, the Labour government won a stunning landslide victory. The issue on which this election had been waged was precisely social policy, and Attlee quickly began to implement the program he had campaigned on. In his very first year of office, legislation was passed to tackle unemployment and health care, and in 1948 National Insurance and the National Health Service, even today the centerpiece of the British welfare state, were born. The full

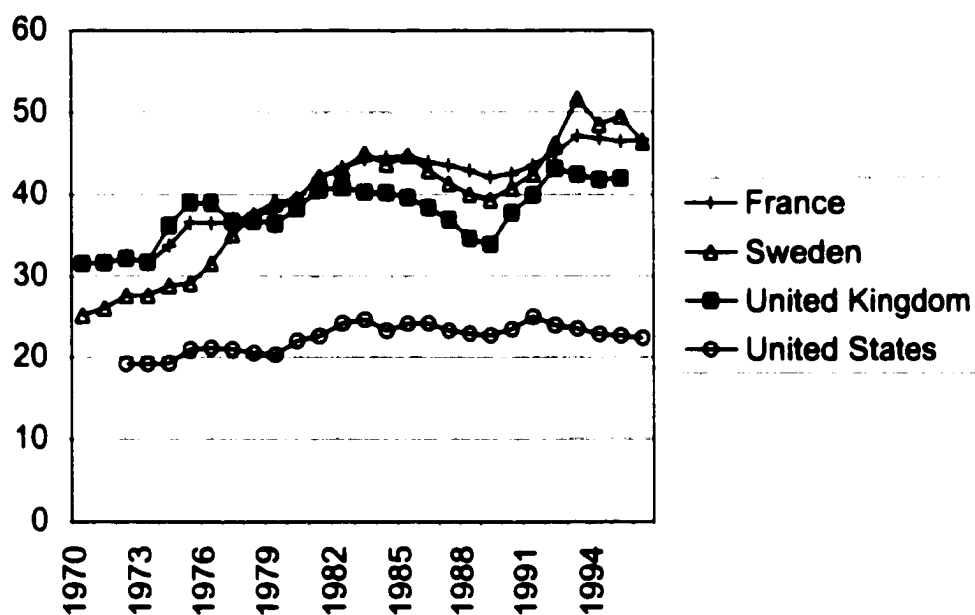
British welfare state thus preceded those that most other developed nations would implement by almost a decade.

More even than the American welfare state, the British welfare state has a dual character. The core of the post-war welfare state were Social Insurance and the National Health Service, but these did not replace private systems of care which the wealthy continued to patronize.

Until the 1980s the British welfare state continued to grow, keeping pace with the French and even the Swedish welfare states in terms of spending (Figure 4.7). This reflects the increasing acceptance by all political actors of the policies implemented in the 1940s. The Conservative governments of the post-war period occasionally complained about the increasing role of the state in this area, but, unlike their actions in the fields of taxation and industrial policy, they did not move to dismantle existing welfare state provisions. Even the Heath administration, which had attempted before the U-turns to institute lower and more regressive taxes, and which had vowed to end state intervention in industry, did not make any similar attempts in welfare policy. Even scholars skeptical of the idea that post-war British politics was governed by a cross-party consensus agree that in the field of social policy such a consensus was real (Kerr, 1999).

Thus, while in taxation and industrial policy Thatcher's success was to implement what previous Conservative Prime Ministers had suggested and attempted, in the area of welfare policy she broke with the pattern of post-war Conservatism simply by criticizing the welfare state. She realized her goals to a limited degree. Her influence on the size of the welfare state is evident in figure 4.7: beginning in 1981 spending on the British welfare begins to decline. The British reductions, however, are not as extensive as one

Figure 4.7: Expenditure as Percent of GDP, 1974-1996, France, Sweden, United Kingdom, United States



source: World Bank, World Development Indicators

might think given Thatcherist rhetoric, and eventually expenditure begins to climb back up. This is because the pattern of reductions achieved conforms to the pattern seen elsewhere: reductions in means-tested programs but maintenance, and even increase, in universal programs. But because universal programs are significantly more expensive than means-tested ones, the total saved from cutting means-tested programs is not large, and eventually swamps the savings from the cuts in means-tested programs altogether.

In the area of welfare policy, then, the key causal questions are: Why did the Thatcher administration break with the pattern of post-war consensus on welfare policy and take on the welfare state? Why did this attack not extend to middle-class programs? And why had reductions in social policy not been part of Heath's program?

Peter Taylor-Gooby notes the remarkable convergence between the policies actually carried out by Thatcher and the pattern of democratic support for the welfare state in Britain. The majority of the British public supports universal services strongly and need-based aid weakly: "most people support maintained or increased spending on the mass services--the NHS, education and pensions--that currently make up over two-thirds of welfare state spending. This support is coupled with a more meagre endorsement of provision for needy social minorities--the unemployed, single parents, the poorer categories of tenants, the homeless--who are often seen as morally undeserving" (Taylor-Gooby, 1988:11). Thatcher's cutbacks match this support:

[Since 1979] [b]enefits for unpopular poor minorities--the unemployed and single parents--have not risen and for many the real level of benefits has fallen. The unemployed have replaced the elderly as the largest group in poverty. Spending on publicly-valued health care and education, on the other hand, has been maintained. Private provision in these areas has been encouraged to a moderate extent but not in such a way as to undermine existing state services. Survey evidence on perceptions of poverty and

attitudes to redistribution reinforces the impression that the needs of the poor receive little public sympathy despite widening social inequalities. (Taylor-Gooby, 1988:13)

This bifurcation in attitudes to social spending became particularly strong in the late 1970s. In 1974, 34% of respondents in the British Election Studies said welfare benefits had "Gone much too far" or "Gone a little too far"; in 1979 that figure was 50% (reported in Crewe and Searing, 1988). In the interim, resentment against recipients of targeted aid had exploded. In 1976, a Liverpool man named Derek Deevey was prosecuted for having received extra benefits; this event catalyzed an extraordinary resentment of "scroungers," and criticisms of the recipients of welfare benefits became a common media theme. Deevey's exploits were exaggerated in press accounts, where he was reputed to have milked the social security system of £36,000--when in fact the actual charge against him was of receiving £500 extra--and to be living a life of luxury at taxpayer expense (Golding and Middleton, 1982). In the wake of this media coverage, recipients of welfare benefits found themselves on the receiving end not only of hostile opinion, but even of occasional harassment.

At the same time, support for general "social services" was *increasing*. Between February 1974 and 1979 the percent of respondents arguing that social services were "extremely important" grew from 6.7% to 23%, and the percent responding that social services were "not very important" fell from 44.9% to 35.5% (Crewe et al., 1991:359). However, when "benefits" were included in the question-- "Social services and benefits have gone too far and should be cut back a lot/a bit"--33% agreed in 1974 and 49% in 1979 (Taylor-Gooby, 1985). Moreover, respondents were almost equally likely in 1974 and 1979 to favor "expenditure to get rid of poverty" and "redistribution of income and

wealth in favour of ordinary people” (Taylor-Gooby, 1985; Crewe et al., 1991). Perhaps the only conclusion to be drawn is that in the U.K., as in the U.S. and France, attitudes to helping the poor are reliably contradictory, while support for middle class welfare spending is strong. This pattern became particularly pronounced in the 1970s because the actual cost of welfare spending had nearly tripled between 1973/74 and 1978/79 because of the increasing number of claimants of unemployment benefits (Golding and Middleton, 1982:232).

An examination of public opinion on welfare thus suggests that the actions of British politicians were in line with the general public’s attitudes to welfare: hostility to the poor was not strong between 1970 and 1974, and in this period Heath did not cut welfare spending that benefited the poor; this hostility grew until 1979, when Thatcher entered office and did cut such welfare spending; but this hostility did not extend to middle-class welfare measures, and Thatcher did not touch these.

This examination of the three domains of taxation, industrial policy, and welfare spending has shown that Heath and Thatcher both acted *in accordance with* public opinion. But is there reason to believe that they actually behaved in this way *because of* public opinion? Thatcher in particular is often called a “conviction politician,” meaning that she does not follow trends so much as attempts to do what she believes is right. However, although in her autobiography Thatcher herself agrees with this view (Thatcher, 1993; 1995), more dispassionate biographers also stress that she was no romantic ideologue--she was quite capable of subordinating personal preferences for the larger goal of getting into, and staying in, power (Jenkins, 1988; Young, 1989). More

important than the leaders' personalities, however, is the change in the British political context: with the decline in class voting, public opinion on particular issues has become "more vocal, more listened to and more influential" (Clemens, 1983:95). That is, when class loyalties are no longer a prime determinant of voting behavior, and when issue voting rises, incentives to politicians to pay attention to popular opinion on particular issues is increased. The picture presented here of two politicians acting in startling accordance with changes in public opinion suggests that public opinion was indeed influential; at the least, it shows that these two politicians quite thoroughly represented and enacted the beliefs of their constituents--either strategically, or because, as members of the societies they led (and not just members of radical minority factions), they truly shared these beliefs.

Conclusion

This chapter has made two arguments. First, Margaret Thatcher's rise to power and retention of power were not--as has sometimes been claimed--the result of chance factors or of Thatcher's personality alone. Rather, Thatcher's tenure in office reflects the increasing popularity of right-wing measures with the British electorate, and the increasing incentives to politicians to exploit such popularity. Second, increasing popularity of right-wing measures in the 1970s was a result of the economic crisis, the deindustrialization of Britain, and the dynamics of a residual welfare state, and the increasing incentives to politicians to exploit this popularity resulted from the rise of issue voting and the decline of class voting that deindustrialization and increasing prosperity among the working and middle classes helped to bring about.

The theoretical conclusions suggested by this examination are: (1) state actors operating in concentrated state structures are nevertheless constrained by popular opinion, increasingly so with the decline of class voting and the rise of issue voting; (2) increasing prosperity turns the middle classes into taxpayers rather than beneficiaries of government spending, particularly where significant means-tested programs exist, and opens a possibility for politicians to appeal to the majority middle classes against the interests of economically disadvantaged minorities when the interests of these two groups diverge and when popular issues are more important than long-term loyalties in determining elections; and therefore (3) programs that benefit only targeted populations are politically unsustainable in difficult economic times *because* of democracy, not despite it. Thatcherism was not the hijacking of a concentrated state apparatus by an extreme minority faction, but rather, democracy in action under late capitalism in a residual welfare state.

THE UNIVERSITY OF CHICAGO

**THE POLITICS OF FREE MARKETS
THE RISE OF NEOLIBERAL ECONOMIC POLICY
IN BRITAIN, FRANCE, AND THE UNITED STATES**

VOLUME TWO

**A DISSERTATION SUBMITTED TO
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CHAPTER FIVE
THE LIMITS OF THE AUTONOMOUS STATE, OR, WHY IS FRANCE SO
FRENCH? THE HISTORICAL-INSTITUTIONAL UNDERPINNINGS OF FRENCH
RESISTANCE TO THE FREE MARKET

In the terms of this dissertation, France had *no* turn to the right. That is, tax structures, industrial policy, and welfare state policy were no more oriented towards the market at the end of the 1980s than they had been before the 1973 oil crisis. This absence is puzzling: in 1974, France elected as its president a liberal politician favorable to free-market ideas, Valéry Giscard d'Estaing. Thus the "conditions" for the turn to the right--an economic crisis that called existing structures into question, a liberal at the head of a highly autonomous state structure--were already present in the late 1970s, but France did not witness the dramatic realignment soon to take place in the U.S. and the U.K. Economic policy became, if anything, less liberal.

This absence of a turn to the right adds to the myth of France as a resister of global capitalism; the French themselves certainly see their state as providing a fundamentally different--and more ethical--alternative to the Anglo-Saxon model. But the reasons why economic policy did not become more liberal in the late 1970s do not resonate with these popular understandings of France as a social democratic state committed to egalitarianism: one reason there was no turn to the right is that by the 1980s

France was *already* a pro-market regime in terms of tax policy and industrial policy, and its welfare state policies constituted a risk-sharing, rather than redistributive or egalitarian, regime. Part of the answer, then, is that there was no turn to the right in France because there was not much of a “left” to turn away from.

This hidden pro-market orientation--as well as the perception of socialism--are both caused by France's historically fragmented left. France is the only major Western power to have had a strong Communist party in the post-war period.¹ Scholars trace this to France's “late” industrialization and to the predominance of small commercial concerns whose workers were revolutionary, and thus opposed to the ameliorating social reforms that the workers of larger outfits supported (Hatzfeld 1971), or to the ideological effects of the Revolution, which gave to the French left a radical intellectual heritage at odds with the aspirations of the majority of workers (Judt, 1986). The existence of the strong Communist party fragmented the left between Communists and Socialists, leading to France's being governed by right or center-right governments for the whole Fifth Republic until 1981. Ironically, the political exclusion of the left led to a tradition of highly visible radical action outside the sphere of politics, giving to France a socialist image that the fragmentation of the left made impossible to realize in economic policies. This situation only changed with the beginning of the end of the Communist party in the 1980s--at precisely the moment when increasing interdependence began to make non-liberal economic policy newly difficult, as we will see below.

Of course, it was possible for Giscard to have overseen a transition to a *different* kind of pro-market regime. France's post-war regime might best be characterized as the

¹Smaller powers such as Italy and Portugal have also had strong Communist parties, parties that may in fact have been more influential than France's in affecting daily life.

state put at the service of industry, all in the service of nationalism; that is, the French state turned a rural, artisanal economy into an economy based on heavy industry like its European neighbors. It was theoretically possible for Giscard to break with this model of state-led growth, and institute instead an Anglo-Saxon model of a minimal state. From his anti-state rhetoric we might have expected exactly this, and there were certainly areas of the economic structure that were anti-market, e.g. the part of the "cotisations sociales," the welfare taxes, levied on employers; but change did not take place, and this chapter's first question is why. To anticipate the conclusion, I argue that the institutions of post-war French political economy mobilize public opinion in their favor by hiding and targeting costs, while making benefits visible and widely available--in stark contrast to the U.S. This makes the job of a French reformer particularly difficult. As it turns out, Giscard did not reform in any of these areas; his major contributions were "liberalization" in social realms but increased welfare state protections. From this we draw a negative conclusion and a speculation. The conclusion is that economic crisis, an autonomous state, and a liberal at its head are not enough for a liberal turn. The speculation is that the key difference--what the U.S. had but France did not--is the possibility of the mobilization of public opinion in favor of the turn: the welfare state benefits the few in the US, while the income taxes that finance it fall on the many. Thus a cut in income tax had political salability in the U.S. that was not available to Giscard in France. What liberal initiatives Giscard did attempt came up against the constraints of the world economic recession caused by the rise in oil prices in the 1970s.

If the turn to the right is "missing" in the late 1970s, it seems to occur unexpectedly in 1983, under François Mitterrand's socialist government. French politics

in the post-war period is a funhouse. As Elie Cohen writes: "It was an authoritarian government that instituted social-democratic redistribution, without unions and without an institutionalized compromise. It was a liberal government that exacerbated interventionism and gravely weakened enterprise. And it was a socialist government, committed to nationalizations, elected on a program of a break with capitalism, that began the liberal revolution in France by presiding over economic and social deregulation" (1992:197-8). While the first half of this chapter is devoted to answering why Giscard didn't turn to the right in the late 1970s, the second half seeks to answer why Mitterrand did.

Again, there is a double answer. First, Mitterrand's "turn to the right" is not as extensive as some of the rhetoric around it suggests. Rather, by several measures the 1983 "tournant" only brought things back to the status quo ante 1981, and the Mitterrand period as a whole introduced a leftist dynamic in French politics that would bear fruit well into the 1990s. So what is to be explained is not exactly a turn to the right, but the failure of Mitterrand's turn to the left--the first attempt in post-war France to initiate a redistributive, egalitarian social order. There is little controversy that it was increasing European interdependence that led Mitterrand to back away from his utopian socialism. But was it possible for Mitterrand to decide otherwise? Or rather, would someone else, or Mitterrand himself at some other moment, have decided otherwise? This chapter recapitulates an examination of those famous "ten days that shook François Mitterrand" and suggests that only a Communist President would have decided otherwise--and a Communist President was increasingly unlikely to have been elected.

Both parts of the chapter call attention to the role of institutional factors in the difficulty of reforming French political economy and to the role of the globalization of production and trade (but not the globalization of capital) in limiting the freedom of state actors. These are both ways in which the “autonomous” French state is helpless in the face of pre-existing institutions and new social developments. But if institutional and globalization explanations are partly borne out, the motor driving both of these developments is popular opinion, and the need for French state actors, despite their “autonomy,” to pay attention to popular opinion. It is the fact that the middle-class welfare state is *popular* that makes it so difficult to reform--that is, it is a particular interaction of institutions with majority opinion that is important. It was the unpopularity of Giscard’s decision to privilege control of prices at the expense of unemployment that led to his 1981 defeat. It is the unpopularity of the Communists, and the improbability of a Communist President in a bourgeois capitalist country, that made it likely that whoever faced the crucial decision in 1983 would have responded as Mitterrand did--globalization interacting with the interests of the majority. In short, this chapter calls for a revision of the vision of the French government as dominated by its head of state. “France is governed by an elected sovereign,” Alain Duhamel writes, “a republican monarch, practically an enlightened despot. The French don’t know it at all: their president is, by far, the most powerful executive in the Western world...The French choose themselves a master every seven years” (1980:23). The French presidency is so powerful--at least on paper--because it “combines the independent powers of the U.S. president, notably command of the executive establishment and independence from legislative control, with the powers that accrue to the government in a parliamentary regime, particularly control

over parliament's agenda and its day-to-day activity, as well as the ability to dissolve parliament and force new legislative elections." (Kesselman, 1987:195). Why, then, were these extraordinary powers not put in the service of the head of state's ideology under either Giscard or Mitterrand? This paper breaks with the understanding of the French state as highly autonomous, and calls attention to the ways in which the French executive must remain sensitive to the wishes of the majority, both before and after elections.

This thesis of the limits to the autonomous state has present-day ramifications. Countries with parliamentary governments are hostage to "coalitional arithmetic," that is, to the ability of different parties to agree to a common program and sustain a government coalition in Parliament--which they are not always able to do, provoking a collapse of government. At its extreme, this need leads to chronically unstable governments, as in Fourth Republic France, which saw a new government twice a year, or in present-day India, which has seen four elections in the past three years. The advent of the French Fifth Republic can serve as a model for a successful shift to a more stable form of government, but only if we can explain why the extreme concentration of power is not abused in France. The two halves of this chapter both give examples where the power of the presidency was, unexpectedly, not used to enact the ideological programs of the President. This chapter closes with an investigation into why Fifth Republic France has been able to resist authoritarianism despite an extremely power-concentrating state structure. The answer proposed is in three parts: a concentrated state structure also concentrates responsibility, making it less possible to blame other state actors for negative outcomes; while the French president's mandate is extraordinary, the grace of popular approval is necessary to maintain parliamentary majorities, and the president's

party is often punished or credited in legislative elections for actions perceived as the president's responsibility; and parliamentary approval is necessary for major presidential initiatives. Thus, while it is possible for French presidents to have a relatively free hand in areas that are either invisible to the public or distant from it, they are constrained by democratic opinion on popular issues because of the ease with which responsibility for outcomes is ascribed to the presidency, the ease with which distrust of the presidency leads to punishment of the president's party in legislative elections, and the president's need for parliamentary approval for passage of major actions. This paper thus concludes that the ability of the power-concentrating French state structure to resist authoritarianism depends on the frequency of elections below presidential level, and a public informed about its interests and active in registering them in non-presidential elections. It should be noted that the actual frequency of "punishing" the president by voting in a parliamentary majority of the opposite party is a recent innovation; before the Mitterrand-Chirac cohabitation the *threat* of such a circumstance, and attempts to prevent it, seemed to be enough. It should also be noted that the French structure does not seem to *guarantee* against authoritarianism: a highly popular figure, perhaps a military hero who did not need the constant renewal of mandate recent French presidents have found necessary, might be more able to ignore the weak constraints of the French system. However, recent circumstances suggest that France is actually moving in a parliamentary direction; recent Presidents have been much weaker than the all-powerful executive envisioned by de Gaulle, and the balance of power is shifting in the direction of the legislature.

The Missing Turn to the Right: Giscard d'Estaing and French Neoliberalism

Asking why something does not happen is more difficult, but potentially more revealing, than asking why something does. In retrospect, there are multiple reasons to have expected a turn to the right in France in the late 1970s. In 1974 France elected as its president, for the first time in recent history, a liberal--indeed, in the French context Valéry Giscard d'Estaing was *the* liberal, the top politician most receptive to free-market ideas in France. Giscard was a scion of the haute bourgeoisie and an alumnus of the Ecole Nationale d'Administration and the Ecole Polytechnique, and he represented a new "centrist" alternative to the Gaullist right-wing that had governed France since 1958. Giscard might best be characterized as a liberal technocrat: in Démocratie Française (1979) he writes:

If we want the individual to become master of his own destiny and free to take an increasing number of decisions, here is what should *not* be done: increase the powers or the dimensions of an already multi-tentacled administration; nationalize enterprises which do not perform a public service--to do so would be either to deliver them to the technocracy, or to "etatize" them and have them be directed by a small number of bureaucrats of the central administration not responsible to anyone; planify the economy, which would be the same as to give a few men the power to decide for several millions; suppress initiative and competition (16-17)

What should be done is:

deepen liberties: not only the fundamental political liberties, but also the new liberties of everyday life, such as educational freedom, free medical choice, freedom of information; conserve the market economy, the only manner of assuring the responsibility of directors and managers, and the efficacy of the enterprise; decentralize boldly in enterprise, and towards local life...(17)

This list of Giscard's concerns--concentration of power, the market as the preserver of individual freedoms--would not be out of place coming from the pen of an American or British politician of the period. Indeed, it exemplifies an important minority position in 1970s France. Already in the 1970s, neoliberal economics had made considerable headway in France, as elsewhere in the world. Jean-François Kesler (1985) writes that the Ecole Nationale d'Administration (ENA), which feeds the Grands Corps of the French state, had already been "conquered" by neo-liberal thought in the 1970s (373), even if this teaching was not quite hegemonic. Instruction was overseen by the "brilliant leader of fundamentalist neo-liberalism...Professor Jean-Jacques Rosa [who] considered western economies sick because of their bulimic states, and considered the Welfare State to have failed..." (374). "The high bureaucrats issued from the ENA or from the Ecole Polytechnique believe that there is a limit to the state's intervention and to the tax burden. The state can't do everything, it has already done too much, it should stop. They believe that France has lived for twenty years a social democratic experience and that it should from now on bend to the constraints of international competition" (395). Using repeated annual surveys as his data, Kesler concludes that neo-liberalism is more popular among younger *énarques* than older ones: older alumni are already implicated in the interventionist state, whereas younger ones, benefiting from the increasingly tight linkage between the state and industry, are much more likely to "think that the State should be at the service of business, and should reduce its activity as much as possible; that public services in financial deficit should be dissolved, and profitable ones privatized. For [these younger generations] there is no opposition between the public sector and the private sector, and a public function can be a simple step in a personal career" made in

industry (396). Indeed, Kesler writes that after the Socialist victory of 1981, it was the ENA that was the “protector” in France of liberal ideas.

A similar situation was occurring at the Institut d’Etudes Politiques (Sciences Po), from which almost the whole of France’s leadership class emerges. There economics was taught under the auspices of Jacques Rueff, one of the most ardent post-war defenders of the market. Rueff is known as one of the few leading economists to resist the increasingly interventionist direction of the post-war French state; he was the architect of a liberalization effort under de Gaulle, and he is responsible for analyses such as the following: “If you aid the unemployed, you make durable a condition which would have been only temporary had you not intervened...you have falsified the mechanisms ... And you have done more bad than good” (Hatzfeld, 1971:55). Along with economists and social scientists Jean Fourastié, Jean-Marie Benoist, Lionel Stoleru, Jean-Pierre Fourcade, Jean-Jacques Rosa, André Fourcans, and several others, Rueff constituted a group, dubbed the “new economists,” who carried the liberal flame in France in the post-war period.

In recent years writers--particularly on the right--have argued that this minority position of liberalism has roots in centuries of French economic ideology and history: “liberalism is not an import of Anglo-Saxon origin; it was an export. There are in our economic history not only strong moments of liberalism, but a powerful and continuous dynamic...recent research has shown the extent to which Adam Smith borrowed from his illustrious French contemporary [Turgot]” (Madelin, 1997:i). Ralph Raico attempts to show that liberalism as an economic and political ideology is rooted not in nineteenth century England at all, but begins in the work of “a certain number of Italian, Portuguese,

and Spanish clerics at the beginning of the Modern period, the end of the fifteenth century” (Raico, 1997:108-9) and is then developed by French thinkers Frédéric Bastiat (and his colleagues at the Journal des Economistes), Jean-Paul Say, Destutt de Tracy (whom Jefferson translated), Charles Comte, Charles Dunoyer, Augustin Thierry, etc. And Christian Stoffaes and Henri Lepage argue that liberalism is actually the predominant trend of modern French economic history :

For three centuries...the liberal tendency has been dominant very often in France--for example during the Enlightenment, under the July Monarchy, during the Second Empire, during the first decades of the Third Republic, with the plan of 1958, and these last years, with the European construction. It has certainly ceded at times to other tendencies--dirigiste, etatiste, socialist, corporatist--for temporary periods, and usually in circumstances of drama for the country. But the exception is not as we usually think: it is not a matter of isolated “liberal moments”: the continuity is liberal. (Stoffaes and Lepage, 1997:xi)

According to this reading, the liberal arguments that the “nouvelles economistes” were putting forward were not simply imitations of Anglo-Saxon arguments, they grew out of an indigenous, centuries-long tradition; and to adopt liberal policies would not be anti-French, it would be the recovery of a deep, true strain of Frenchness forgotten in the dirigiste post-war period. Although it is an exaggeration to read the past centuries of French political economy as essentially “liberal”--the interventionist state was, after all, invented under Colbert--we will see below that certain features of the French state, such as the taxation structure, have indeed been liberal for centuries.

More important for the case under study here, liberal arguments had recently received a renewed boost from an unexpected quarter: following the publication in

French of Alexander Solzhenitsyn's Gulag Archipelago a new strain of anti-Marxist argument emerged among the French intelligentsia.

At some point between 1973 and 1978 marxism, and the study of its theoretical implications and resonances, lost its stranglehold upon the intellectual imagination in France, a grip it had exercised unbroken for a generation. In the space of less than a decade it became fashionable to be not just non-marxist, but anti-marxist. The French discovered Popper, Hayek, and, with embarrassment at the oversight, their own Raymond Aron. Men and women who had once hawked *La Cause du Peuple* began writing tracts on the evils of totalitarianism and the crimes of Mao. Nor were they replaced in their turn by a rising generation--modern Parisian students are not so much opposed to marxism as simply indifferent. [Judt, 1986:170]

Thus in the mid- to late-70s, at just the time that France had elected into office a liberal politician, French political culture was rediscovering for its own reasons liberal politics.

Giscard's liberalism can be traced to this minority liberal tradition that has roots in French history and was enjoying an unprecedented resurgence in the 1970s. To be sure, there are differences between the kind of liberalism Giscard was advancing and the liberalism that Reagan and Thatcher would bring about a few years later. In Démocratie Française Giscard primarily sees the market as a means to an end, not an end in itself--the end is a plural, socially liberal society; he upholds the role of the state in managing market failures or in boosting low equilibria; and he writes not in the religious terms equating freedom in the market with Christian freedom favored by Reagan and Thatcher, but in a discourse of science worthy of a top énarque, giving careful consideration to both sides of every debate (Robin, 1979). In this, as George Laverdines (1979) writes, Giscard fits into the tradition of Jean Monnet, or indeed of de Gaulle himself: he emphasizes the

use of technical expertise to spur economic growth for the benefit of the evolution of France. Giscard was, after all, de Gaulle's Finance Minister through the majority of the boom years.

Nevertheless, even a conservative reading of Démocratie Française leads to an expectation that Giscard would have moved at least *somewhat* in the direction of minimizing the state. Added to the economic crisis--which opened a space for new policies to be tried--, the history of French liberalism in certain domains, the recent attention to liberalism, and the concentration of power in the French executive, Giscard's praise of the free market and condemnations of the state might lead to an expectation of lower taxes, or a more indirect tax structure, favoring the accumulation of capital; deregulation or privatization; and trimming of the welfare state. Indeed, the problem for a social scientist *should* have been the problem of overdetermination--there are simply too many "variables" pressing in the direction of liberal reform.

Actually, under Giscard the French state became less liberal: taxation became less liberal, that is, indirect taxation decreased, direct taxation increased, taxation on the wealthy increased, and overall taxation increased; the role of the state as measured by percentage of GDP owned by the state and by number of state employees both increased; and the welfare state became bigger and more redistributive. What accounts for this unexpected outcome?

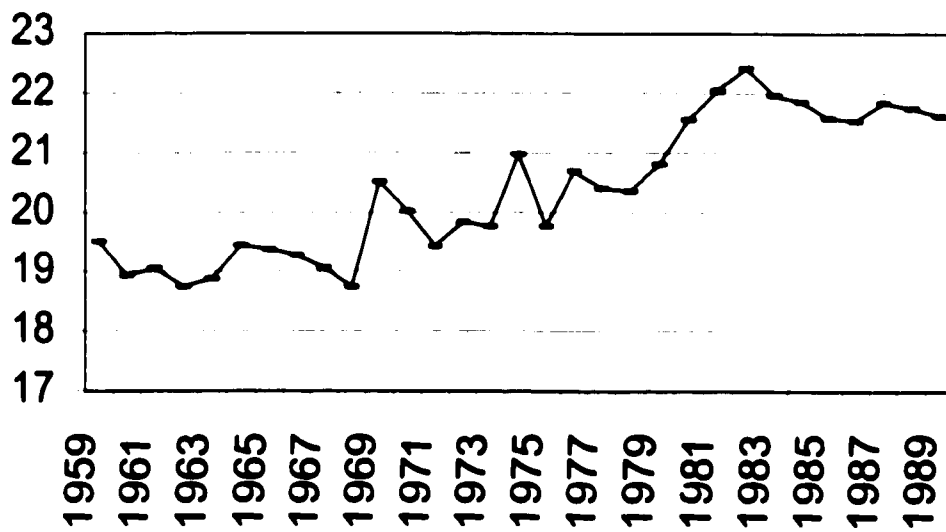
The answer is to be found in the way that French political economy mobilizes public opinion. In each of these domains, the liberal position was the unpopular one--as opposed to in the U.S. In the U.S., the welfare state benefits the few and is financed by highly visible taxes levied on the many, and regulation hinders business growth. The

opposite is true in France: from the early post-war period to the Mitterrand era a middle-class welfare state was financed by taxes that, by increasing unemployment, forced an "excluded" sector to bear the costs; and the nationalized sector has largely been used in favor of business growth. Thus, the groups that mobilized (or were mobilized by Reagan) in favor of liberal reform in the U.S.--business, the middle classes, and consumers' movements--had little to gain from liberal reform in France.

Taxation

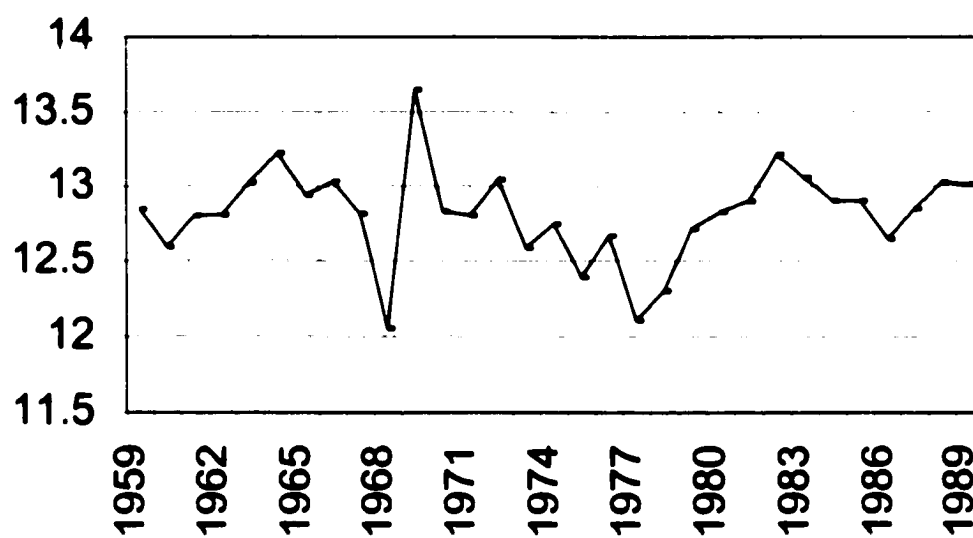
Figures 5.1-5.5 summarize the development of the tax structure in France in the Fifth Republic. The first important characteristic of the financing of the French state is its dual character: the largest portion of government revenue is devoted to the welfare state, and most of this comes from "cotisations sociales," taxes levied on employers and employees and pegged to social expenditure (discussed further below). All other state functions are financed by a mixture of direct and indirect taxes. The second most important characteristic of taxation in France is the heavy dependence on indirect taxes, which consistently make up over 60% of total tax receipts. Indirect taxes, as noted above, are regressive: that is, the same amount is charged regardless of the taxpayer's ability to pay, thus low-income taxpayers pay a larger percent of their income than high-income taxpayers. The institutionalization of such a regime in France can be traced back to Napoleon, who established indirect taxes; although the National Assembly of the period witnessed debates over the unfairness of these taxes, which the rich and poor pay equally, in the end the indirect tax was seen as a "choice," and was appreciated for its invisibility (Schnerb, 1947). Montesquieu wrote: "The tax per head is most appropriate

Figure 5.1: Total Taxes as Percent PIB, 1959-1999, France



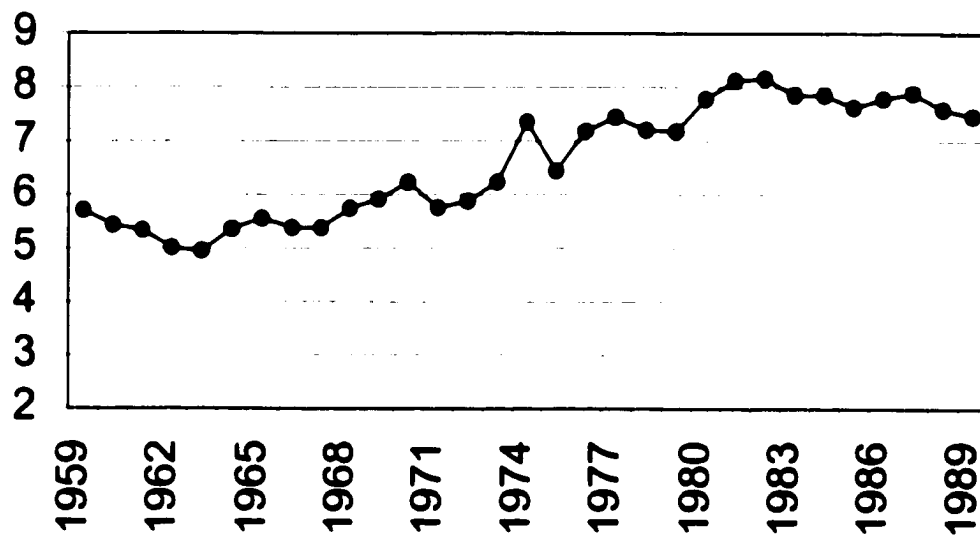
source: Nizet, 1991

Figure 5.2: Indirect Taxes as Percent PIB, 1959-1999, France



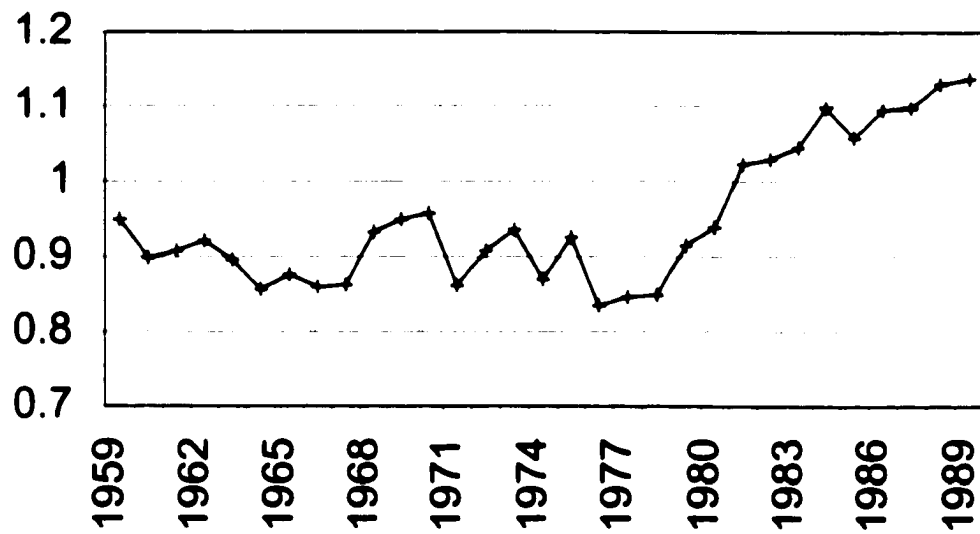
source: Nizet, 1991

Figure 5.3: Direct Taxes as Percent PIB, 1959-1999, France



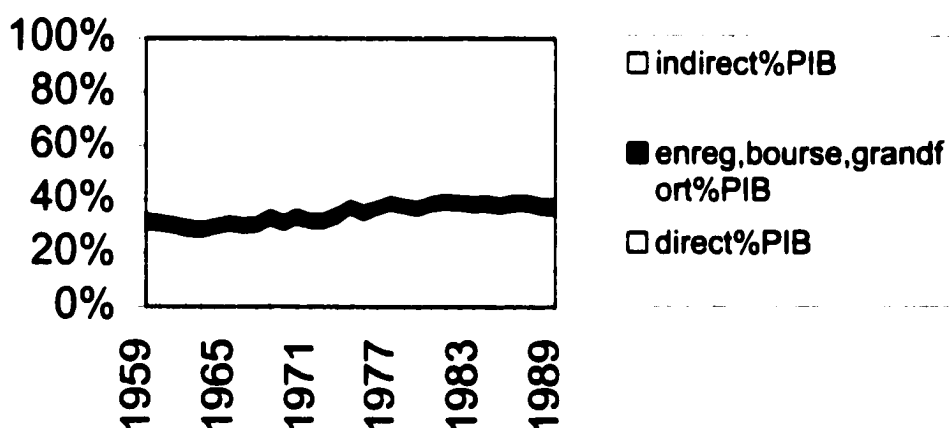
source: Nizet, 1991

Figure 5.4: "Enregistrement, Bourses, Grandes Fortunes" Taxes as Percent PIB,
1959-1999, France



source: Nizet, 1991

Figure 5.5: Proportion of Total Receipts Represented by Indirect, Direct, and "Enregistrement, Bourses, Grandes Fortunes" Taxes (Measured as Percent PIB), 1959-1999, France



source: Nizet, 1991

to servitude; the tax on goods is most appropriate to liberty, because it relates in a less direct way to the person.” This was a recapitulation of the economic liberalism of the Revolution of 1789: taxes were favored which reduced contact between the taxpayer and the tax collector, which meant that taxes also did not take into account the situation of the taxpayer (Schnerb, 1954). Oddly for a century that witnessed three revolutions, the tax structure hardly changed through the nineteenth century, the main changes being a lessening of taxes on revenue and a slight increase in consumption taxes. It was not until the eve of the first world war that a general tax on income was introduced, and not until 1917 that a tax on transactions was introduced (Wolff, 1970). The between-war period saw an enlargement of the taxation structure, and between 1944 and 1948 indirect taxes multiplied by a factor of ten (Nizet, 1991). The fourth republic’s instability was mirrored in--and partly caused by--the fiscal disequilibrium of the state caused by the Algerian crisis. Under de Gaulle, the primary motivation was to reduce the tax burden on enterprises (Nizet, 1991:267)--which necessitated an increase in taxes on consumption and revenue. The liberal period, 1969-1981, saw various tax-cutting measures--in contradiction to the Thatcher experience, indirect taxes went *down* slightly while direct taxes went up slightly--but no sustained program. The Mitterrand period saw five major changes in the tax structure: reduction to zero of the TVA on basic products, new family allocations, a progressive tax on large fortunes, inheritances, and corporations, the lessening of taxes on small taxpayers, and the reform of local finances (Nizet, 1991:392). Figure 5.5 shows that the overall trend since the 1970s has been towards a more progressive tax structure, but this took place largely under Giscard, not Mitterrand.

Why did Giscard not move in the direction that Reagan would take only two years later? As we saw in the chapter on the U.S., the key factors in the dynamic that created the 1981 Economic Recovery Tax Act were (1) an ideologically committed president, having benefited from campaign finance laws, determined to constrain government spending, (2) corporate groups mobilizing for a big corporate tax cut, and (3) the salability, or perceived salability (because of a property tax-revolt movement), of a big middle-class income tax cut, and the increased vulnerability of state actors to their middle class constituencies. The absence of one or several of these factors may help to explain the lack of a big tax cut in France.

The most common explanations--both popular and scholarly--for the failure of Giscardism blame Giscard himself for not being ideologically committed to neoliberalism, particularly the aspect of constraining the growing weight of the state.

Vincent Wright (1984) writes:

Giscard d'Estaing could analyse a problem, even perceive its solution, but then fail to act effectively. He was hampered by his own growing personal scepticism and pessimism, which were themselves rooted in his perception of the world as dark, troubled, unstable, fragile. His presidency after an early reformist phase became increasingly characterised by its cautious, purely reactive nature. (14)

Wright's characterization of the Giscard presidency is not completely correct (as Wright's own work goes on to show): in fact Giscard adopted more liberal policies in the later part of his term. In 1976 he replaced Jacques Chirac as Prime Minister with the clearly neo-liberal Raymond Barre, and in the summer of 1978 Giscard and Barre announced a clearly neoliberal plan to fight inflation; thus it seems doubtful to ascribe the

lack of neoliberal policy to Giscard's own "growing...scepticism" since in fact such policies were attempted late in the period. It is true that these plans never included a large, broad tax cut; however, a comparative perspective might lead to conclusions other than those that focus the blame on Giscard himself: in the late 1970s neither Reagan nor Thatcher were in favor of a large tax cut. Thus, although it may be true that lack of adherence to these policies had to do with Giscard's character, it is far from *obvious* that Giscard was behaving any differently in the late 1970s than other neoliberals who would go on to prove themselves quite ideologically committed.

Lack of corporate group mobilization may be a factor, since such groups have never played a big role in French political economy. Frank Wilson (1987) writes that employers' associations in France are fragmented and plagued with multiple points of authority and divisions of tasks, and, like all interest groups in France, spend most of their time competing with each other rather than uniting to pressure a highly-insulated government. This lack of corporate *group* presence, however, has not created a noticeably anti-corporate taxation policy: throughout the course of the Fifth Republic, even without direct corporate group pressure, the main concern of the tax regime has been to lower taxes on corporations. This is because the post-war centralization of the French state saw state actors creating strong, direct links with *individual* business and industry actors. Thus when international competition--inaugurated by the Treaty of Rome, the globalization of exchange, and the end of empire--hit France, de Gaulle's response was to attempt to create a hospitable environment for industry: "All taxes, without exception--taxes on business volume ["*chiffre d'affaires*"], indirect taxes, registration taxes, direct taxes--were concerned to reduce the fiscal burden weighing on

enterprise, or indeed to suppress it altogether" (Nizet, 1991: 267). Reduction of corporate taxes has been a perennial item on the French political economy agenda in the last 50 years. The key question is why corporate tax reductions did not, under Giscard, become stretched into income tax reductions and the kind of "big tax bill" seen in the U.S.

In the American case, the "salability" of income tax cuts can be reduced to three factors: first, the "focusing event" of the Proposition 13 anti-tax movement; second, the weakening of party structures, which turned legislators into individual entrepreneurs looking for salable issues; and third, the structure of tax collection and the integration of middle class constituents into this structure. As we will see, all three of these factors developed differently in the French context.

First, despite the unpopularity of taxes, especially inheritance taxes and the TVA (Table 5.1), no anti-tax movements had crossed the French stage since the Poujadist movements of the 1950s. Second, as Frank Wilson (1982) shows, party structures have actually been getting *stronger* in France over the course of the Fifth Republic: French parties "are more cohesive, better organized, better able to form durable coalitions, and more popular in the eyes of the citizens than at any time since the end of World War II" (266). This is a direct, if ironic, result of the "presidentialization" of the Fifth Republic that took place under de Gaulle. De Gaulle himself despised political parties as vigorously as any U.S. founding father suspicious of the mischiefs of faction; de Gaulle believed that the Fourth Republic's failures could be directly traced to the ease with which small parties could hinder strong party blocs from forming in Parliament. He thus acted to create a strong presidency that would have its own base of power, founded on direct and universal election of the president. But this concentrated and polarized the

Table 5.1: Gallup: Opinions on Taxation, 1968-1977, France

| 1968 | |
|--|----|
| January | |
| Have you heard of the TVA [value-added sales tax]...and if so, would you say that the TVA has caused an increase in retail prices, a decrease or no change? | |
| Increase | 69 |
| Decrease | 4 |
| No changes | 10 |
| Did not hear of it | 7 |
| No opinion | 10 |
| Since January 1st, did you notice a general change in the prices of retail articles...? | |
| Rise | 80 |
| Decrease | 6 |
| No changes | 8 |
| Don't know | 6 |
| Of those seeing change: "What is the reason for it?" | |
| TVA | 56 |
| Government | 7 |
| Merchants | 6 |
| Common Market | 2 |
| Intermediaries | 1 |
| Other | 5 |
| No opinion | 19 |
| Have you heard of the TVA...and if so, would you say that the TVA has caused an increase in retail prices, a decrease or no change? | |
| Increase | 69 |
| Decrease | 4 |
| No changes | 14 |
| Did not hear of it | 8 |
| No opinion | 9 |
| Do you think...that the TVA reform has advantages or is it inconvenient? | |
| Advantages | 15 |
| Inconvenient | 56 |
| No opinion | 29 |
| Since January 1st, have you noticed a general change in the prices of retail articles...? | |
| Rise | 76 |
| Decrease | 7 |
| No change | 13 |

Table 5.1 continued

| | |
|--|----|
| March | |
| Have you heard of the TVA...and if so, would you say that the TVA has caused a rise in retail prices...? | |
| Rise | 72 |
| Reduction | 3 |
| No change | 15 |
| Did not hear of it | 5 |
| No opinion | 5 |
| April | |
| If there were to be tax reforms, without modifying the total volume...what in your opinion, would be the best reform? | |
| Lower revenue tax, raise TVA | 25 |
| Lower TVA, raise revenue tax | 44 |
| No opinion | 31 |
| "In France, in calculating the tax of families with children, the more income the head of a family makes, the less tax he pays. In other countries, the State grants a lump sum deduction for each child." Which do you favor? | |
| System used in France | 34 |
| Other countries | 32 |
| No opinion | 34 |
| May | |
| The TVA...reform has been in effect since January 1, 1968. Since that date, what did you notice about retail prices? | |
| Increase | 74 |
| Decrease | 4 |
| No change | 18 |
| No answer | 4 |
| "What is, in your opinion, the most important problem facing France today?" | |
| Students; young people; education; demonstrations | 21 |
| Unemployment | 21 |
| Economic and agricultural problems | 10 |
| Salaries, standard of living, taxes | 9 |
| Social problems | 6 |
| Housing; construction | 2 |
| Stability of the Government | 2 |
| Peace in the world; Vietnam | 12 |
| Europe; Common Market | 3 |
| Other | 4 |
| No opinion | 10 |

Table 5.1 continued

| | |
|---|----|
| July | |
| Increase in taxes for those with high incomes? | |
| Approve | 75 |
| Disapprove | 18 |
| No answer | 7 |
| Doubling of tax on cars with eight and more horsepower? | |
| Approve | 60 |
| Disapprove | 27 |
| No answer | 13 |
| Increase taxes on alcohol? | |
| approve | 60 |
| Disapprove | 27 |
| no answer | 13 |
| September | |
| Inheritance tax...? | |
| Increased | 3 |
| Decreased | 49 |
| Stay the same | 38 |
| No opinion | 10 |
| 1969 | |
| February | |
| Which group most favored in area of taxation? | |
| Large business people | 48 |
| Which group most discriminated against in area of taxation? | |
| Workers and employees | 55 |
| Small business people | 45 |
| May | |
| In your opinion, should the future Government decrease the taxes of everybody? | |
| Yes | 57 |
| No | 34 |
| no opinion | 9 |
| Of affirmatives: which decreases in spending? | |
| Help to underdeveloped countries | 62 |
| National defense | 53 |
| Subsidies to nationalized enterprises which incur deficits | 52 |

Table 5.1 continued

| June | |
|---|-----------|
| what is the most important problem facing France today | |
| salaries; standard of living; | 21 |
| taxes | |
| avoid the devaluation of the franc | 14 |
| governmental stability | 13 |
| social problems | 11 |
| students; national education | 7 |
| unemployment | 7 |
| agricultural problems | 4 |
| housing and construction | 2 |
| peace in the world | 4 |
| Europe; the common market | 2 |
| other | 3 |
| no opinion | 12 |
| September | |
| Most important problem (taxes not mentioned among top 11): | |
| housing | 8 |
| defense of the franc | 14 |
| peace in the world | 22 |
| unemployment | 9 |
| elderly citizens | 7 |
| common market | 2 |
| wages and prices | 19 |
| problems of the young | 6 |
| problems of merchants | 2 |
| social climate | 4 |
| agricultural problems | 4 |
| no answer | 3 |
| 1970 | |
| February | |
| Would you like to see inheritance taxes...? | |
| increased | 4 |
| stay the same | 19 |
| decreased | 24 |
| eliminated | 38 |
| no answer | 15 |

Table 5.1 continued

| | |
|--|----|
| March | |
| Which of the following formulas seem to you the best for the improvement of the financial situation of social security? | |
| Deduct social security according to total income, higher incomes paying higher fees | 51 |
| Eliminate reimbursement of certain spendings for the more privileged members of the society | 24 |
| resort to direct taxes | 4 |
| no answer | 21 |
| August | |
| Should government give priority to cutting taxes even if this means sacrificing certain services? | |
| Yes | 24 |
| September | |
| You pay taxes in two ways: directly to your tax collector, this is an income tax; indirectly on the products you buy, this is a sales tax or an indirect tax. If there are tax reforms, without modifying the total volume, which would you favor? | |
| Lower the income tax and increase indirect taxes | 27 |
| Lower indirect taxes and increase the income tax | 39 |
| No answer | 34 |
| All things considered, would you say that your tax amount is bearable, excessive, or unbearable? | |
| Bearable | 22 |
| Excessive | 46 |
| Unbearable | 22 |
| No answer | 10 |
| December | |
| During 1971 what newspaper headline would you hope to read....? | |
| Peace in the world | 23 |
| Increase in revenues, decreases in taxes, lowering prices | 18 |

Table 5.1 continued

| 1971 | |
|---|-----------|
| July | |
| What measures should government give priority to? | |
| develop public utilities; telephone; highways, hospitals, schools | 71 |
| support the value of the franc | 40 |
| increase social benefits to the salaried | 59 |
| give protection to small merchants | 26 |
| help modernize agriculture | 25 |
| help make industries competitive | 15 |
| limit taxes, even if that means sacrificing certain utilities such as hospitals, highways, schools | 28 |
| change the universities | 14 |
| no answer | 4 |
| December | |
| asked of wage earners: most important problem (taxes not mentioned among top 10): | |
| employment | 17 |
| salaries | 15 |
| problem of the young | 11 |
| peace | 9 |
| defence of the franc | 8 |
| problem of the elderly | 4 |
| social climate | 3 |
| housing | 2 |
| agriculture | 2 |
| common market | 2 |
| other | 9 |
| no answer | 18 |

Table 5.1 continued

| 1972 | |
|--|----|
| February | |
| In your opinion, are those Frenchmen who hold stocks favored in tax matters vis a vis other Frenchmen? | |
| Very much favored | 10 |
| Rather favored | 31 |
| Rather unfavored | 8 |
| Very much unfavored | 0 |
| No answer | 51 |
| Asked of those who responded in the affirmative...are these advantages justified or unjustified? | |
| Justified | 36 |
| Unjustified | 42 |
| no answer | 22 |
| March | |
| What is the most pressing problem for France at the present time? (taxes not mentioned among top 11): | |
| Employment and social problems | 20 |
| Wages | 15 |
| Problems of youth | 10 |
| Peace | 4 |
| Defense of the franc | 1 |
| Problems of old people | 5 |
| Housing | 1 |
| Agriculture | 2 |
| The Common market | 11 |
| Problems of the merchants | 1 |
| The Common Market referendum | 3 |
| Other | 11 |
| No answer | 16 |

Table 5.1 continued

| | |
|---|-----------|
| April | |
| Do you think that in France the income tax rate is fair or unfair? | |
| Fair | 13 |
| Unfair | 74 |
| No answer | 13 |
| If taxes are to be raised, do you favor an increase in indirect taxes or in direct taxes? | |
| indirect taxes | 28 |
| direct taxes | 47 |
| no answer | 32 |
| What does economic progress represent for you? [Multiple replies] | |
| Earn the same but work less | 26 |
| Have more leisure | 17 |
| Have an earlier retirement | 51 |
| Have a more interesting and less tiring job | 28 |
| Be able to purchase more | 20 |
| Pay less in taxes | 41 |
| No answer | 5 |
| Does the increase in inheritance taxes seem to you to be a step in the direction of furthering social justice? | |
| yes | 20 |
| no | 55 |
| no answer | 55 |
| September | |
| What is the most important problem for France at this time? (taxes not mentioned among top 6): | |
| the scandals | 26 |
| salaries and prices | 17 |
| the next legislative elections | 15 |
| employment and unemployment | 3 |
| changes in the government | 2 |
| the leftist union | 2 |
| other | 17 |
| no answer | 18 |

Table 5.1 continued

| 1973 | |
|---|----|
| March | |
| To what extent do you look forward to changes after the elections...in the tax system? | |
| very much | 50 |
| somewhat | 27 |
| September | |
| Of the following problems, which do you consider the most important at present? (taxes not mentioned in top 10): | |
| Pollution and the environment | 31 |
| Military defense | 2 |
| Scientific research | 12 |
| Foreign investments in France | 1 |
| Drugs | 10 |
| Economic growth | 5 |
| Foreign policy | 3 |
| Unemployment | 11 |
| Aid to underdeveloped nations | 4 |
| Inflation | 19 |
| No answer | 2 |
| 1974 | |
| April | |
| Of the following problems, which seems most urgent to you? (taxes not mentioned in top seven): | |
| Fight against inflation | 54 |
| Aid to the disadvantaged and elderly | 14 |
| employment | 14 |
| individual freedoms | 9 |
| national independence | 3 |
| European unity | 3 |
| respect of the opposition's rights | 1 |
| no answer | 2 |

Table 5.1 continued

| 1977 | |
|--|----|
| Do you support the establishment of an annual tax on fortunes greater than two million current francs? | |
| For | 86 |
| Against | 7 |
| No opinion | 7 |
| Do you support a visible augmentation of taxes on inheritances greater than one million current francs? | |
| For | 69 |
| Against | 17 |
| No opinion | 14 |

source: Gallup

political system into two large blocs explicitly organized around the goal of winning the new plum of the presidency, and these groupings served as the base for several strong party organizations to flourish and to become stronger in the 1970s and 1980s (Kesselman, 1992).

Finally, there is little opportunity for politicians in France to exploit anti-tax sentiment in the same way as in the U.S., and little incentive for a committed neoliberal ideologist to use a tax cut to constrain government spending: anti-tax sentiment is concentrated not on income tax, but on the TVA, a value-added sales tax (Table 5.2). The TVA is regressive, thus it is the tax that neoliberals would, ideologically, be most favorable to: it does not change based on need, and therefore does not “punish” success. Furthermore, these taxes are not used to finance the welfare state, and thus cutting them would not constrain the growth of social services: those are paid for by taxes specifically pegged to them. Thus although a cut in the TVA might have been broadly salable, there were no incentives for state actors to propose such a cut--neither popular movements bringing a cut in the unpopular TVA onto the agenda (such movements seem not particularly likely, given the “invisibility” of the TVA--it is assimilated into the price of goods, and thus is seen as part of the cost of living rather than the cost of the state), nor individual political entrepreneurs looking for a salable issue on which to make their name, nor the possibility of constraining state expenditure through a tax cut. The inheritance tax might have been a more tempting candidate for decrease, given its consistent unpopularity, and given its progressive nature; but inheritance taxes make up such a small portion of receipts that there is not much mileage to be gotten out of them for a committed neoliberal.

Table 5.2: Gallup: Opinions on Income Tax vs. Sales Tax (TVA), 1968-1972, France

| | |
|---|----|
| April 1968 | |
| If there were to be tax reforms, without modifying the total volume...what in your opinion, would be the best reform? | |
| Lower revenue tax, raise TVA | 25 |
| Lower TVA, raise revenue tax | 44 |
| No opinion | 31 |
| September 1970 | |
| You pay taxes in two ways: directly to your tax collector, this is an income tax; indirectly on the products you buy, this is a sales tax or an indirect tax. If there are tax reforms, without modifying the total volume, which would you favor? | |
| Lower the income tax and increase indirect taxes | 27 |
| Lower indirect taxes and increase the income tax | 39 |
| No answer | 34 |
| April 1972 | |
| If taxes are to be raised, do you favor an increase in indirect taxes or in direct taxes? | |
| indirect taxes | 28 |
| direct taxes | 47 |
| no answer | 32 |

source: Gallup

Industrial Policy

France has been the European state most associated with state-led industrial growth. The *dirigiste* system can be traced back to the eighteenth century, when Louis XIV's finance minister invested in armaments, glass, and textiles. The July Monarchy and Second Empire saw intense cooperation between the state and entrepreneurs in the development of railroads and other transport infrastructure (as in the US), and in coal mines and steel, as well as large-scale urban renewal, and the ostensibly "liberal" Third Republic actually included protective tariffs, cartels, quotas, etc. to favor the traditionally strong rural sector. But it was in the aftermath of World War II that French planning reached its apogee, with three developments that were to define the path of the French economy for the next forty years: the nationalization of several "key" state sectors, the nationalization of credit, and the founding of the Planning Commission. (Hall, 1986, Schmidt, 1996, Zysman, 1981).

French Planning is an institution so unusual in the western world that it is largely responsible for France's image as a "socialist" state. But planning was, many political economists have pointed out, responsible for turning France into a world-class *capitalist* economy. That is, the key point to remember about the Planning Commission is that for most of its life it was devoted to economic growth rather than issues of social justice, and to achieve growth it put the state *at the service of capital*. Peter Evans (1995) has made the point--updating a Marxist tradition associated most closely with Nicos Poulantzas--that "states" are not necessarily the ideological opponents of "markets": writing mainly about the East Asian context, he notes that the states of the four "Asian tigers" (Korea, Singapore, Hong Kong, and Taiwan) all intervened heavily in the free market, but that

this intervention actually helped to create a climate conducive to market growth. The French state in the post-war period was this sort of “developmental state”: the state did not dictate better working conditions, full employment, or the other “egalitarian” measures we might expect of an interventionist state; rather, intervention was aimed at reducing the role of agriculture in the French economy and increasing the role of industry, with the goal of improving aggregate economic growth compared to its much more heavily industrialized neighbors. (In 1946, only 53% of the French population was living in cities (Fournier and Questiaux, 1989), compared with 2/3 in England and Germany.) Thus, the Plans were largely oriented towards engineering growth: the First and Second plans concentrated on investing Marshall Plan aid in ways designed to stimulate economic growth; the Third Plan concentrated on correcting the balance of payments, and the Fourth Plan set targets for key industries. The Fifth Plan, of 1965, for the first time introduced social goals into the calculus, but this was qualified by a new attention to international competitiveness, which the Sixth Plan took as its major theme. Only with the Seventh Plan, in the late 1970s, did full employment come to be a key component--only to be blown off course by the need to deflate, which forced the abandonment of all the stated goals except the rebuilding of the telecommunications infrastructure. The Eighth Plan concentrated on industrial competitiveness, and the Ninth--the only Socialist Plan--concentrated on the reduction of unemployment, but only in the context of continued austerity (Hall, 1987).

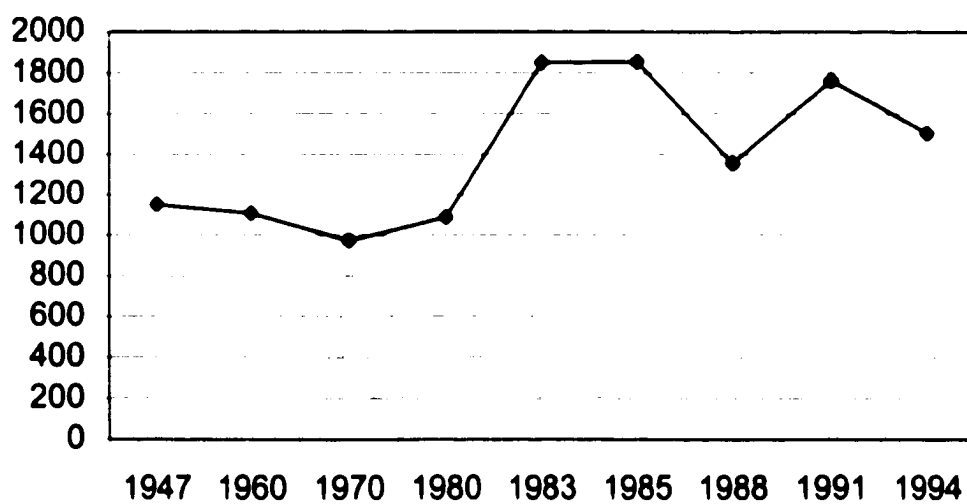
Thus it was only in the late 60s--i.e. not very long before Planning would be abandoned--that the Plans began to incorporate social issues, and seven of the nine post-war plans were “market” oriented, that is, explicitly advocated the generation of a

favorable climate for industry. Planning was abandoned not because the state became "less socialist"--the Plans were never very socialist to begin with--but because the increasing integration of the French economy into the world made economic prediction nearly impossible, and the attempt to control the direction of the French economy through domestic policies unfeasible.

The primary tools with which the French planners controlled the economy before the period of globalization were macroeconomic policies, particularly devaluation, and nationalization. Nationalization provided at once direct access to key state sectors, and prevented "capital flight"; during the post-war period the French state controlled about half of the capital being invested in French industry, and thus could provide a continuous stream of capital even during economic downturns. But this prevention of capital flight was not used as a means of leverage with which to institute leftist policies; rather, it was used to transform the French economic structure from one dominated by rural and artisanal production into one dominated by heavy industry and big business. De Gaulle's strategy was to create firms large enough to compete on a European, and worldwide, scale--"national champions."

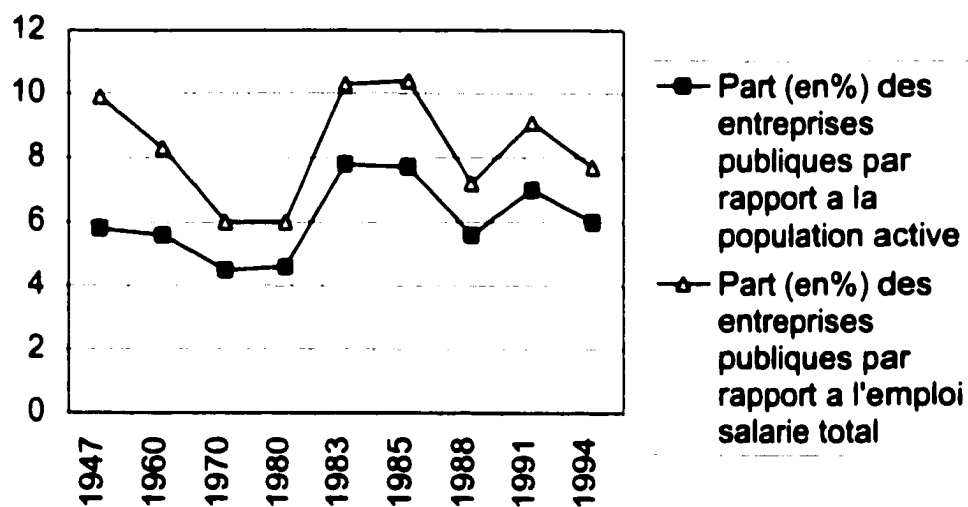
As figures 5.6 and 5.7 show, French investment into industry, and the public labor force, remained stable throughout the 1970s. They rose in 1981 with the rapid wave of nationalizations the Socialist government undertook. But the Socialist nationalizations ended up rationalizing the nationalized companies rather than introducing worker control, work security and full employment, or workplace improvement. Chirac's privatizations in 1986-88 brought some of the nationalized firms back into the market, but at the end of the period the weight of the state was only slightly different--and in a less liberal

Figure 5.6: Public Sector Employees, thousands, 1947-1994, France



source: *Chabanas and Vergeau, 1996*

Figure 5.7: Public Sector Employees, Percent of Active Population and Percent of Total Salaried, 1947-1994, France



source: Chabanas and Vergeau, 1996

direction--from what it had been before. Thus, despite the abandonment of planning under Giscard and the nationalizations under Mitterrand, French industrial policy at the end of the 1980s looked remarkably similar to what it had been throughout most of the post-war period: the state put at the service of economic growth, neither a more socialist nor a more free-market state in line with neoliberal ideology.

Why did Giscard not move in a more free-market direction, for example by privatizing, as Chirac would a decade later? Giscard's industrial policy *did* include substantial neoliberal elements--indeed, his neoliberalism was defined through his industrial policy more than anything else. Neoliberalism for Giscard meant above all three things (Wright, 1984): making French industry more competitive by opening it to external competition, ending subsidies to "lame duck" industries, and encouraging firms to make their own decisions.

The three objectives were translated into policies in a number of ways: nationalised industries were forced to adopt a more 'realistic' economic pricing policy; price controls in the private sector were dramatically abolished or considerably eased (in August 1978 the price of bread was decontrolled for the first time since 1791); certain restrictions on capital investment abroad were lifted; and private shareholders were given (albeit limited) access to state industries, banks and insurance companies (thus in 1980 two state-owned banks--the Banque Nationale de Paris and the Société Générale--the insurance group AGF and the Havas advertising empire were allowed to raise money from equity operations on the Paris stock exchange)...Giscard d'Estaing was less than lukewarm about planning, and his (and Barre's) scepticism was evident in the extremely limited conception of planning which underpinned the eighth national plan. (Wright, 1984:18)

Thus, in industrial policy Giscard moved further to the right than in any other policy domain; but why did this movement not reach into a diminution of the state sector? In the American case, deregulation arose on the back of Ralph Nader's consumers' movement, and fell when challenged by the rising environmental movement. Social movements played no part in the rise and fall of liberal industrial policy in France. Rather, two factors contributed to Giscard's failure to reduce the "weight" of the state: first, business groups were not behind him, as they had been behind Reagan, because the reforms did not uniformly benefit business; and second, the integration of the French economy with the rest of Europe increased the short-term costs--and therefore the immediate unpopularity--of Giscard's policies.

Unlike the issue of deregulation in the U.S., privatization in France did not benefit business as a whole. Rather, Giscard's attempt to create a more market-oriented economy meant that industries that had been used to protective subsidies from the state now found themselves unable to count on state aid; the political unpopularity of this position soon led to pressure to continue the tradition of subsidizing of key industries, especially steel, shipbuilding, and textiles, to which Giscard bowed; moreover, for reasons of defense as well as international symbolism Giscard invested heavily in high-tech industries such as aerospace and nuclear power. These two policies--politically generated continuation of subsidies plus symbolically important investment in certain industries--combined to *increase* the size of the state: "By the end of Giscard d'Estaing's presidency one worker in four was employed by the state administration, in local authorities, the public service industries (for example, electricity industry), or the public enterprises (such as Air France, Renault and Seita)" (Wright, 1984:18-19).

Where Giscard was successful was in making the environment “more competitive” for French companies that could not exert pressure for subsidies:

One of the most direct and far-reaching consequences of Giscardian industrial policies is the radical rationalisation which took place. A number of well-known companies disappeared in mergers (often as an alternative to liquidation) (for instance, Boussac and Kléber-Colombes) and many of the big industrial groups moved out of some of their traditional (and often loss-making) activities into new ones... The costs of this belated and accelerated rationalisation were high. The number of bankruptcies rose dramatically, increasing 70 per cent over the seven years of the Giscardian presidency (Green, 147-8).

These changes were especially furthered by the forced confrontation of French industry with the international field, and resulted in the ending of uncompetitive firms. But as Green notes, these changes were not popular with the French. The immediate result of this rapid rationalization was increasing unemployment:

it could be argued that rather than constituting a failure, the attempt to encourage industrial adjustment ... was too successful. More specifically, the consequences of Giscardian industrial policy (in the shape of the disappearance, at too rapid a rate, of sectors, firms and jobs), proved to be electorally unacceptable. In other words, what mattered to the French electorate was not so much inflation (which they had learned to live with) as unemployment. This suggests that Giscard d'Estaing's main error was in giving the control of inflation priority over all other policy objectives. (Green, 152)

In other words, Giscard's attempt to institute a neoliberal structure in dirigiste France meant abandoning uncompetitive industries to their fate--rather than the milder version in the U.S., which sought to *make* firms more competitive across the board by lowering the

costs of regulatory compliance. When confronted with external competition, firms that had been used to counting on state aid, but could not exert pressure on the state for aid to continue, folded. Note the curious role that “globalization” plays in this story: the usual argument is that globalization hinders state actors who want to pass leftist, redistributive policies, by forcing states to attract capital with low taxes, weak labor organizations and harsh anti-labor laws, and minimal welfare payments. But under Giscard, globalization forced the abandonment of *right-wing*, neoliberal policies: external competition led to the folding of firms, which created unemployment that forced Giscard from power. The key mechanism was the unpopularity of the unemployment that the policies generated.

Evans’s work on developmental strategies distinguishes between “predator” states, in which state actors primarily serve their own ends, and “developmental” states, in which states take actions that create conditions conducive to business growth. Exactly what kind of state was France under Giscard? There is no evidence that state actors systematically exploited society for their own ends (the Bokassa scandal, perhaps, an exception), but neither was the state particularly nurturing of an environment conducive to industry. Giscard and Barre did want to make French industry more competitive, but they went about this using sticks rather than carrots--French industry would become competitive through a process of natural selection.

Why did Giscard choose this punitive neoliberal path rather than a neoliberalism that would be more immediately helpful to industry, such as deregulation, and that thus would not backfire so quickly in terms of high unemployment? Again, the answer has to do with the way the French political economic structure mobilizes and demobilizes coalitions for change: because French industrial policy was already pro-business,

corporate groups were not calling for changes such as privatization or deregulation (as Harvey Feigenbaum et al. (1999) show, Chirac's privatizations in the 1990s were no more than political response to Mitterrand's nationalizations--they were not motivated by business group or other "internal" pressure) and majority integration into the state structure prevented a broad social movement from arising, as in the American context, to move the issue onto the agenda (cf. the widely divergent responses to the Thalidomide affair). The French state's middle-class, majority-appeasing structure demobilizes anti-state agitation, and the French state tends to use its holdings in the interest of business and appease business in areas such as workplace regulations. (The one case where this does not hold true, of course, is the "cotisations sociales," the heavy welfare state taxes levied on business that are the subject of the following section.) Public opinion polls suggest that nationalization and privatization were not burning issues in the 1970s (Table 5.3), and that a slight margin preferred nationalization. That Giscard and his Prime Minister nevertheless took such radical and punitive neoliberal action, without support from either business or the public at large, shows the degree to which they *were* ideologically committed to neoliberalism--contrary to the usual reading of the period and the man.

Table 5.3: Gallup: Support for the Left, 1968-1977, France

| 1968 | |
|---|----|
| January | |
| Would you like to see farmlands nationalized? | |
| Completely | 4 |
| In part | 10 |
| No | 73 |
| No opinion | 13 |
| If the Communist party exercised power in France, do you think France would be in a better or worse position in the international economic market? | |
| Better | 12 |
| Worse | 44 |
| No opinion | 44 |
| Of the following reasons, which do you think could cause French voters to vote for Communist party candidates? | |
| Favor Communists | 9 |
| Effective Opposition | 18 |
| Express Dissatisfaction | 45 |
| No opinion | 28 |
| November | |
| Nationalizations: Electricity | |
| Very satisfying | 11 |
| Satisfying | 31 |
| Not very satisfying | 15 |
| Unsatisfactory | 9 |
| No opinion | 34 |
| 1969 | |
| February | |
| Favor modern socialism or modern capitalism? | |
| modern socialism | 63 |
| mod capitalism | 11 |
| no opinion | 26 |
| Were the strikes of last May... | |
| positive | 32 |
| negative | 59 |
| Before strike: labor unions too important part? | |
| too important | 21 |
| not important enough | 29 |
| just right | 28 |
| no opinion | 22 |

Table 5.3 continued

| | |
|--|----|
| October | |
| In your opinion, at the present time should certain sectors be denationalized? | |
| Yes | 29 |
| No, expand nationalization | 21 |
| Neither | 25 |
| No answer | 25 |
| Could you tell me if you think each of the following should or should not be nationalized? | |
| Business banks | |
| Nationalized | 36 |
| Private | 31 |
| No answer | 33 |
| Could you tell me if you think each of the following sectors should or should not be returned to private control: | |
| Deposit banks | |
| Should | 25 |
| Should not | 37 |
| No answer | 38 |
| November | |
| Unions... | |
| Too important | 24 |
| not important enough | 28 |
| Normal | 36 |
| no answer | 12 |
| Do unions have more influence than they should? | |
| more | 41 |
| less | 16 |
| normal | 28 |
| no answer | 15 |
| Do bankers have more influence than they should? | |
| more | 53 |
| less | 3 |
| normal | 17 |
| no answer | 27 |
| Do communists have more influence than they should? | |
| more | 33 |
| less | 11 |
| normal | 36 |
| no answer | 20 |

Table 5.3 continued

| 1970 | |
|---|----|
| March | |
| Social security is 25 years old now. In general, how do you think social security functions? | |
| very well | 6 |
| rather well | 48 |
| rather poorly | 29 |
| very poorly | 7 |
| no answer | 10 |
| Would you say that social security functions ... concerning services for those under social security? | |
| very well | 9 |
| rather well | 50 |
| rather poorly | 22 |
| very poorly | 5 |
| no answer | 14 |
| April | |
| Is it preferable that policies affecting private enterprises be decided upon mainly by the enterprises concerned or mainly by the State? | |
| Mainly by the enterprises | 61 |
| Mainly by the state | 15 |
| No answer | 24 |
| In general, do you think private enterprises must make profits? | |
| Yes | 89 |
| no | 5 |
| no answer | 6 |
| In your opinion, do private enterprises in France make too much profit...? | |
| Too much profit | 27 |
| Normal profit | 28 |
| Not enough profit | 11 |
| No answer | 34 |
| If you had the chance to choose between a liberal economic system with limited intervention by the State (such a system exists today in France) or a socialist system with total equality, which would you choose? | |
| Liberal system | 51 |
| Socialist system | 25 |
| No answer | 24 |

Table 5.3 continued

| | |
|---|-----|
| December | |
| Could you accept having Communists hold key ministerial positions (Minister of the Interior, of Foreign Affairs, of National Defense)? | |
| yes | 38 |
| No | 40 |
| no answer | 22 |
| If the communists took power in France, would this be a positive, a negative or a thing of no importance to people like you? | |
| positive | 15 |
| negative | 51 |
| no importance | 10 |
| no answer | 26 |
| And to France? | |
| positive | 13 |
| negative | 51 |
| no importance | 10 |
| no answer | 26 |
| 1971 | |
| June | |
| Should unions have more or less power than they do now? | |
| More | 44 |
| Less | 15 |
| Same | 22 |
| No answer | 19 |
| December | |
| In the future, would you like to see the Communist party play a more important role in French politics...? | |
| more important | 16% |
| less important | 24 |
| stay the same | 39 |
| no answer | 21 |

Table 5.3 continued

| 1972 | |
|--|----|
| January | |
| Do you know any people who agree with the ideas of the Leftists? | |
| Yes | 29 |
| No | 63 |
| No answer | 8 |
| Which seems to you the most capable of assuring... | |
| economic expansion? | |
| communist party and left | 12 |
| non-communist left and center | 20 |
| current majority | 30 |
| no answer | 38 |
| ...social justice? | |
| communist party and left | 15 |
| non-communist left and center | 24 |
| current majority | 21 |
| no answer | 40 |
| Does the increase in inheritance taxes seem to you to be a step in the direction of furthering social justice? | |
| yes | 20 |
| no | 55 |
| no answer | 55 |
| ...which of the following is the most important? | |
| social justice | 51 |
| economics | 25 |
| no answer | 24 |
| July | |
| The Socialist party and the Communist party have adopted a common program which calls for further nationalization. Would this program cause you to vote for the candidates of these parties, vote against or neither? | |
| vote for | 21 |
| vote against | 16 |
| neither | 42 |
| no answer | 21 |

Table 5.3 continued

| | |
|--|----|
| Here are a number of sectors of the economy. Which are the three which you would like to see nationalized? | |
| iron and steel | 21 |
| automobile | 27 |
| banks; finance companies; insurance companies | 31 |
| aeronautical; aerospace | 23 |
| electronics | 22 |
| publishing enterprises | 5 |
| chemical | 18 |
| construction | 22 |
| none | 16 |
| No answer | 24 |
| ...do consumers pay...for goods and services produced by nationalized companies than they do for goods produced by privately owned companies? | |
| more | 19 |
| less | 22 |
| same prices | 29 |
| no answer | 30 |
| Nationalized companies are more in conformity with the general interest than private enterprises. | |
| agree | 42 |
| disagree | 26 |
| No answer | 32 |
| Nationalized companies are more efficient economically than private enterprises. | |
| agree | 33 |
| disagree | 33 |
| No answer | 34 |
| Nationalized companies have better work conditions than private enterprises. | |
| agree | 27 |
| disagree | 41 |
| No answer | 32 |
| 1973 | |
| Do you think a victory of the Union of the Left would be desirable, undesirable or of no significance for people like you? | |
| desirable | 12 |
| undesirable | 38 |
| no significance | 35 |
| no answer | 15 |

Table 5.3 continued

| | |
|---|------|
| February | |
| If you were to choose between the political system which France now has and a Socialist regime, which would you choose? | |
| Present system | 49 |
| Socialist system | 31 |
| don't know | 20 |
| March | |
| People speak of the Right and the Left, politically. On a scale of 1-10, 1 representing the Left and 10 representing the Right, where would you place yourself? | |
| 1 | 4.5 |
| 2 | 5.5 |
| 3 | 12.3 |
| 4 | 3.2 |
| 5 | 15.1 |
| 6 | 11.3 |
| 7 | 7.4 |
| 8 | 7.2 |
| 9 | 2.3 |
| 10 | 3.2 |
| don't know | 28 |
| At the present stage of France's development, where should the main thrust be made? | |
| The pursuit of economic expansion | 15 |
| Greater social justice | 73 |
| No answer | 12 |
| 1977 | |
| Do you support the nationalization of large enterprises employing more than 500 persons? | |
| For | 41 |
| Against | 35 |
| No opinion | 24 |
| Do you support the limitation of individual income to a maximum ceiling of 25000 current francs per month? | |
| For | 77 |
| Against | 14 |
| No opinion | 9 |
| Do you favor the reduction of individual household consumption to the benefit of collective services (for example fewer individual cars and more public transportation)? | |
| For | 23 |
| Against | 60 |
| No opinion | 17 |

Table 5.3 continued

| | |
|---|----|
| In your opinion, are the currently nationalized enterprises rather more efficient or rather less efficient than the large private enterprises? | |
| Rather more efficient | 26 |
| Rather less efficient | 30 |
| Neither more, nor less | 22 |
| No opinion | 22 |
| Would the nationalization of the banks and some large enterprises play a positive role in resolving the current economic crisis? | |
| Positive role | 36 |
| Negative role | 20 |
| No role | 15 |
| No opinion | 29 |
| Are you personally very favorable, somewhat favorable, somewhat opposed, or very opposed to the nationalization of free education? | |
| very favorable | 15 |
| somewhat favorable | 26 |
| somewhat opposed | 21 |
| very opposed | 24 |
| no opinion | 14 |
| Do you consider the existence of free education in France to be something very important, somewhat important, not very important, or not at all important? | |
| Very important | 22 |
| Somewhat important | 42 |
| Not very important | 17 |
| Not important at all | 9 |
| No opinion | 10 |

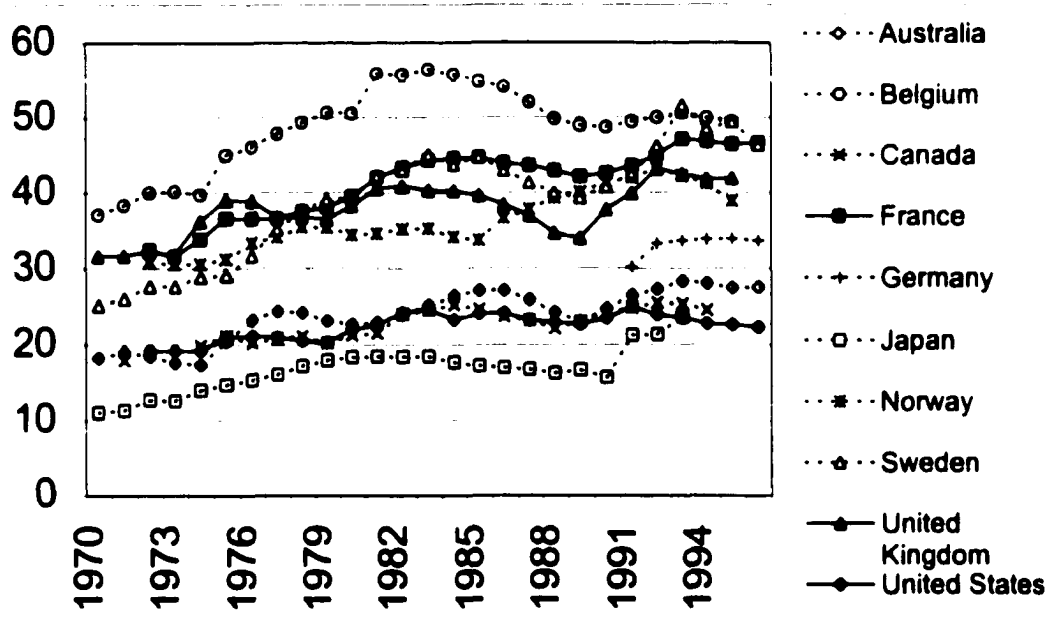
source: Gallup

Welfare State Policy

If the *dirigiste* state is one column upon which France's socialist reputation stands, another is its extensive welfare state. As John S. Ambler notes, France quietly and incrementally grew into "one of the most generous welfare states in the world" (Ambler, 1991:vii) in the 1960s and 1970s. When measured in terms of public expenditure on social programs, France ranks among the world leaders: (Figure 5.8). What this aggregate ranking hides, however, is the specific form that this expenditure takes. As Gøsta Esping-Andersen notes, states with similar levels of expenditure can be quite different *types* of welfare states, depending on whether policies cover the whole of the population or only the poor; whether in-kind services are provided rather than direct cash grants; whether the welfare state is seen as integrating work or replacing it; whether the quality of state services rivals the quality of private services, etc. (Esping-Andersen, 1990:20). Esping-Andersen calls the French welfare state "corporatist," indicating that it covers the whole of the population within the labor force and the dependents of this population, while excluding those without employment. This pattern is distinct both from the Anglo-Saxon model of a means-tested welfare state, and the Scandinavian model of a universal welfare state committed to full employment.

The French welfare state covers most, but not all, of the population: for most of the Fifth Republic welfare state benefits were linked to employment; this only changed with the introduction of the Revenu Minimum d'Insertion (RMI) under Mitterrand. The French welfare state is also characterized by a liberal principle of allowing citizens to choose their service providers and be reimbursed by the state. François Ewald traces the ideological beginnings of the welfare state to 1898 and the passing of the first law

Figure 5.8: Total Expenditure as Percent of GDP, 1970-1996, OECD Countries

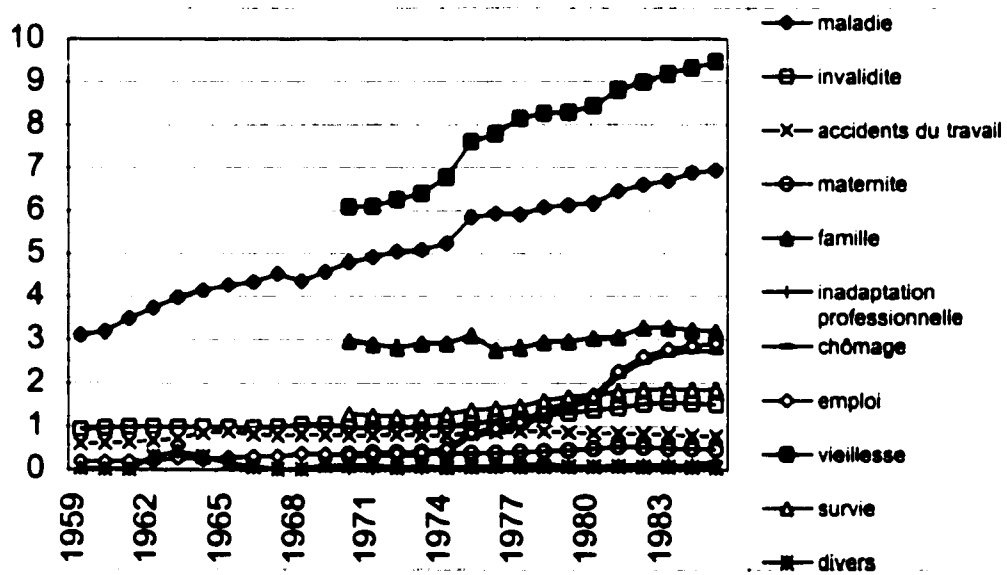


source: World Bank, World Development Indicators

obligating employers to take responsibility for workplace accidents: "Man, until then, had looked for the response [to questions of order and disorder, responsibility and the good] in the knowledge of God. Now he began to look for them in the contemporary social order... The accident, this miniscule event always somewhat insignificant, which seemed not to concern anyone except individually and in the intimacy of the family, became-- through a complex process that might well serve to characterize the history of western societies--a social phenomenon, a generator of responsibilities and obligations" (1986:10; 19). In 1910 came coverage for retired workers and peasants, in 1930 the first general means-tested program of welfare, including health, maternity, disability, death, and old-age insurance benefits, in 1932 family benefits, and finally in 1946 a generalized system of social security covering the whole population (Dorion and Guionnet, 1983; Fournier et al. 1989; Rosanvallon, 1984). Although it aspires to a "Beveridge" type of full protection as in England, the French welfare state remains marked by its beginnings in industry: benefits and financing are both linked to employment in the manner of Germany and the "Bismarck" model. Moreover, partly because of the reluctance of trade unions to support measures that would reform, and therefore prolong, capitalism, the French welfare state remains fragmented and badly coordinated.

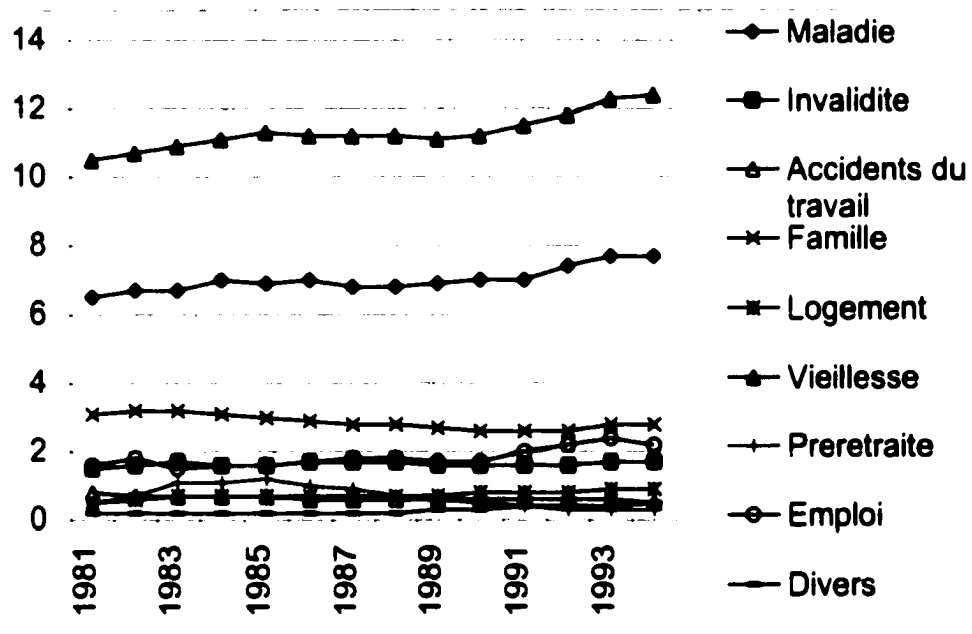
As figures 5.9 and 5.10 show, the largest portions of the French welfare state in recent years have consisted of old-age pensions and health spending, both of which, as elsewhere in the developed world, are growing without signs of slowing down. Family spending has gone down, following the fall in birth rates, and employment spending is rising. Considering the concerns of this dissertation, the oddness of French political

Figure 5.9: Welfare Spending as Percent of PIB, 1959-1985, France



source: SESI 1987

Figure 5.10: Welfare Spending as Percent of PIB, 1981-1994, France



source: INSEE 1996

economy is most clear in the domain of welfare state spending: spending climbed most sharply under Giscard, and stabilized under Mitterrand.

Understanding the French welfare state's composition makes it easier to understand why Giscard's neoliberalism did not include attacks on the welfare state, the centerpiece of Anglo-Saxon anti-state rhetoric: the French welfare state is a *middle-class* welfare state, redistributing risk within classes rather than between them. As David Cameron (1991) writes:

French social policy, although mildly egalitarian and redistributive, appears to be *less* egalitarian and redistributive than is social policy in any other European nation for which we have comparable data. And therein may lie both the resolution of the apparent paradox of a high level of social spending and a relatively high degree of distributional inequality, and the enduring dilemma facing contemporary French policy makers: high levels of social spending, if distributed in a proportional manner throughout the society rather than concentrated among the poorest households, and if unaccompanied by significantly higher levels of income taxation, will do little to mitigate the inequalities endemic in any capitalist economy. (90)

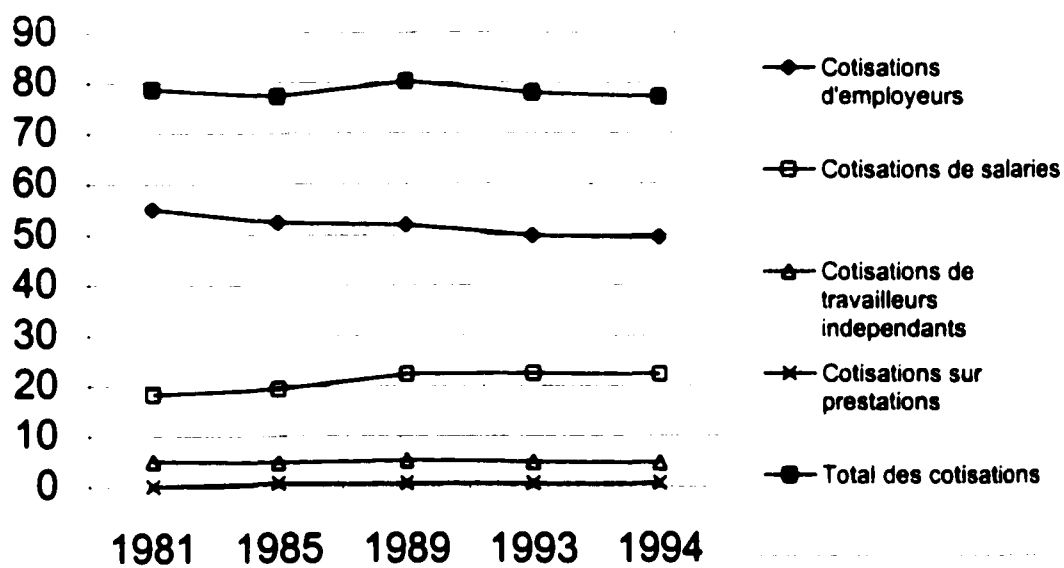
The largest portions of the high social spending that France is known for goes to old-age pensions and health and education spending, all of which benefit middle classes to a greater extent than the poor: because the poor tend, on average, to live shorter lives than the middle and upper classes, they take less advantage of old age pensions and health spending, and education spending also benefits the middle classes, who are more likely to take advantage of educational opportunities. Furthermore, because French welfare spending has historically been linked to employment, the unemployed did not, until the 1980s, benefit from the generous social services.

Thus in terms of *benefits*, there is little room for neoliberal ideologists to appeal to the majority middle classes for a scaling back of hugely popular welfare services. This is also true in terms of *costs*. The French welfare state is financed through the “cotisations sociales,” payroll taxes pegged to welfare spending. These fall largely on employers, as shown in figure 5.11. That this is so leads French apologists to claim that the welfare state is progressive, financed out of profits; but since these taxes are not coming out of an employer’s *income*, they are at least partly coming at the expense of the creation of new jobs, particularly for the less skilled. That is, for any individual firm the cotisations sociales must by definition come from a combination of employer profits, wages, and firm growth; since wages in France are as high, or higher, than in other comparable countries, and since employers can be expected to guard their own profits, the taxes may at least partly be coming at the expense of the growth of the firm and thus at the expense of potential employees. In particular, French firms can avoid hiring expensive unskilled labor by investing in capital-intensive technology, so the French unemployment rate among the unskilled is much higher than among skilled workers who are less easily replaced by technology.

Henry Sneesens (1994) has made this argument most forcefully; investigating the causes for the much higher rate of unemployment among the unskilled, he writes: “Given the composition of the active population, one finds that a substantial reduction (20% or more) of the relative cost of unskilled labor would be necessary to eliminate the gap between the unemployment rates of skilled and unskilled workers and to create the conditions for a return to full employment” (29). That is, the cotisations sociales add to the cost of work, and thus make it less likely that employers will hire new workers,

Figure 5.11: Percent of Welfare Programs Financed by the “Cotisations Sociales,”

1981-1994, France



source: INSEE 1996

particularly when such workers do not possess skills that are absolutely necessary (on this much-discussed issue see also Sneessens, 1993; Cohen and Michel, 1987; Fourçans, 1980; Malinvaud, 1998 ; Hamermesh, 1994; Dormont and Pauchet, 1997 ; Dormont, 1997 ; Drèze, 1997; *Economie et Prévision*, 1994), leading to the French state's "dual" character--highly beneficial for those in the system, but very difficult to break into for those not in it, notably immigrants, the young, and unskilled workers. As Edmond Malinvaud sums up the mainstream--though far from consensus--position: "we are not so far from reality when we claim that all modes of financing...make employment pay the cost of social protection" (1998:70). To tolerate a high level of unemployment is one thing when the unemployed are inserted into welfare protections, and when this unemployment is evenly distributed throughout the population; it is quite another when welfare protections are linked to employment, and when their cost is concentrated upon certain underprivileged segments. In recent years the French state has taken steps to address both unemployment and the linkage of welfare with employment; most notably, the "cotisations sociales" have been reduced for *unskilled* workers and their employers, in the hopes that the reduction of the cost of unskilled work will lead to the creation of new unskilled jobs, and the Revenu Minimum d'Insertion, employment benefits inaugurated under Mitterrand, go a long way towards dismantling the dual character of the French welfare state.

As we saw in examining the U.S. case, the end of anti-poverty policies there had more to do with the decline of party structures and labor than with the rise of business interests, the role of race in undermining the New Deal coalition, or the rise of a new set of conservative "ideas." In France, the rise of conservative ideas and the historical

market orientation of the state did not prevent Giscard from *increasing* welfare provisions (figure 5.8); it should be noted, however, that his increases came in areas which even the most committed neoliberal ideologists would be hard pressed to criticize: old age pensions and disability benefits (Giscard, 1988). The more important question is why Giscard did not take any steps to dismantle existing benefits, or the *cotisations sociales* which funded them, despite pressure from business organizations to do so.

In addition to the difficulties presented by the structure of benefits and costs, part of the reason also has to do with the *way* in which welfare taxes are collected. Figure 5.12 shows the pay stub of a French worker, a chef in Paris, showing that a heavy list of taxes has been explicitly withheld for unemployment insurance, health services, and the like. That is, the welfare services that workers receive are explicitly pegged to taxes that they pay. Thus the “constraint” strategy employed by Reagan--cut taxes first to force cuts in welfare services later--is not possible in France: any cuts in the *cotisations sociales* must automatically cause cuts in welfare benefits in a highly transparent manner. (While such cuts are not impossible, they depend on the existence of a large sector of private welfare from which the majority draws its services; such is, of course, not the case in France.)

This protection this transparency gives is, like the middle-class support of the welfare state, a considerable obstacle to change. Facing these twin sources of generation of support for the French welfare state, a neoliberal politician at the head of an extremely concentrated state structure could find no coalitions for reform.

Figure 5.12: Pay Stub of a French Worker, Showing Taxes Pegged to Government Programs

| | | | | | | |
|--|---------------------------|----------------|---|--------------------|----------------|-----------|
| SARL L'ESPACE ST-CYR 147 AVENUE DE VILLIERS 75017 PARIS | | | SARL L'ESPACE ST-CYR 147 AVENUE DE VILLIERS 75017 PARIS | | | |
| 7500 NANTERRE N° 750 44 875011001003 SIRET 34468647 00017 APE 553A | | | BULLETIN de SALAIRE | | | |
| 30.08.97 | | | | | | |
| EMPLOYES | | | 75003 PARIS | | | |
| CORNE DE CUISINE | | | | | | |
| HOTELS, CAFES, RESTAURANTS | | | | | | |
| SECTION | | DATE DE DEBUT | PERIODE DE REFERENCE | PERIODE DE PAIE | | |
| | | | RECENSE | 01.12.96 | 31.12.96 | |
| RUBRIQUES | | BASE OU MONTRE | TAXE SUR LE REVENU | TAXE SUR LE REVENU | TAXE A DEBITER | A PAYER |
| 1000 | Salaire mensuel | 3.860,79 | | 106,330 | | 3.860,79 |
| 1400 | Taux hospital | | | 92,980 | | |
| 3100 | Nouritures prise | 46,00 | | 10,390 | | 645,94 |
| 3900 | ** TOTAL BRUT ** | | | | | 10.706,73 |
| 1000 | *****TOTAL BRUT EUR* | | | | | 1.647,16 |
| 4000 | CSC non imposable | 10.171,33 | | 5,100 | 516,74- | |
| 4000 | Assurance maladie | 10.706,73 | 14,000 | 1.843,77 | 0,800 | 91,01- |
| 4070 | Assurance V.V. FNAAL | 10.706,73 | 0,000 | 800,68 | 0,800 | 701,29- |
| 4080 | FNAAL - 9 | 10.706,73 | 0,000 | 42,83 | | |
| 4090 | Accident du travail | 10.706,73 | 3,200 | 244,11 | | |
| 4100 | VRSAF Transport | 10.706,73 | 3,000 | 267,67 | | |
| 4200 | Allocations familiales | 10.706,73 | 3,400 | 570,16 | | |
| 4700 | AUSEDIC Tra | 10.706,73 | 3,070 | 435,65 | 2,210 | 234,61- |
| 4800 | AUSEDIC Service. Via. Tra | 10.706,73 | 1,100 | 124,19 | 0,800 | 65,65- |
| 4820 | FNMT | 10.706,73 | 0,200 | 26,76 | | |
| 5000 | rsu viero sal total | 10.706,73 | 3,430 | 360,10 | 3,437 | 367,99- |
| 5090 | A.O.S. et C.S.O. Imposabl | 10.171,33 | | 2,900 | | 294,97- |
| 5300 | ** TOTAL COTISATIONS ** | | | | | 2.394,26- |
| 5500 | NET IMPOSABLE | 3.349,64 | | | | 0.705,64 |
| 6000 | Transport 2 zones | 271,00 | | 0,500 | | 135,50 |
| 7100 | Nouritures prise | 46,00 | | 10,390 | 048,94- | |
| 8300 | Taux 1,20 Boucherie | 46,00 | 1,200 | 90,00- | | |
| 9700 | Taux d'apprentissage | 10.706,73 | 0,300 | 32,53 | | |
| 9710 | Aide à la construction | 10.706,73 | 0,650 | 40,18 | | |
| 9720 | Formation continue | 10.706,73 | 1,500 | 160,60 | | |
| 9730 | Médecine du travail | 10.706,73 | 0,100 | 42,62 | | |
| 9810 | ** NET IMPOS. FRANCE ** | | | 1,00 | | 0.705,64 |
| 9810 | *****NET IMPOS. EURO | | | 1,00 | | 1.339,20 |
| 9920 | ** NET A PAYER FRANCE ** | | | 1,00 | | 2.700,03 |
| 9920 | *****NET A PAYER EURO | | | 1,00 | | 1.304,61 |
| MONTANT DE PAYER | | | | MONTANT DE PAYER | | |

name of program

amount of tax withheld

In all three of these domains, then, until 1980 the French state benefited business and industry, as well as the middle-classes and the rich, to a greater degree than the U.S. state. That this is so should not be surprising: France was ruled by right-wing parties for the entire period; it is only surprising because of the impression that a high level of taxes and social spending, an interventionist state, and a highly visible (if not particularly effective) labor movement give to the country. This political economic structure oriented towards the middle classes and business groups was immensely popular throughout the post-war period. Thus, although Giscard may have had liberal leanings, and despite the seriousness of the economic crisis, the degree of popularity of the French state structure meant that coalitions of support for liberal reform were not very likely.

Giscard's liberalism had three phases: "the first--1974-6 or the Chirac period--was characterised by a policy of stop-go; the second--1976 to the election of 1978 or the first Barre period--was much more liberal and orthodox in its inspiration yet hesitant in implementation; and the third--from 1978 to the presidential elections or the second Barre period--was typified by greater resolution in the imposition of liberal practices" (Wright, 1984: 17). This final period, the only real "liberal" era, is marked not by the absence of the state, but by the utilization of the state to change existing structures in a liberal direction--much like the dynamic identified by Andrew Gamble as "the strong state" in the service of the "free market" in England of the next decade. Measures taken included decontrol of prices, reduction of aid to ailing companies and reduction of controls and costs on successful ones, and the encouragement of industrial investment. These measures had the intended effects--they "rationalized" industry, driving unprofitable firms off of the market--but because the world economic climate had turned difficult in

the late 1970s, the workers who lost their jobs when these unprofitable firms closed down did not find new jobs, driving unemployment to record heights and ultimately driving Giscard from power. Note that, contrary to the traditional theory, globalization here interfered with free-market policies rather than welfare policies: increasing unemployment brought down Giscard's popularity just in time for the 1981 elections.

But Giscard's economic liberalism only extended to industrial policy--it did not include major changes in taxation structures (only minor reductions of corporate taxes, in keeping with the main post-war trend) or reductions in welfare state spending. As we saw in the chapter on the U.S., both of these changes arrived in that country on the back of democratic pressure, and neoliberal policies that were not popular were not introduced. In France, because of the middle-class/business-oriented nature of the political economy, the possibility of making appeals to the middle classes based on tax reductions or welfare reductions were limited, business was not pushing for change in industrial policies that largely favored economic growth, and coalitions for liberal change were thus more difficult to find.

The Failed Turn to the Left: Mitterrand and the End of French Socialism

The other side of Giscard's failure to implement neoliberal policies is Francois Mitterrand's failure to move France in a truly egalitarian and redistributive direction. Mitterrand's May 10, 1981, victory--the first victory for the left in 23 years--was supposed to have ushered in a new age, a new phase in the relationship between democracy and capitalism in France--for better or worse. The Socialist platform made this intention evident, and in May 1981, at the head of the most autonomous state

structure in Europe, there seemed to be nothing to stop Mitterrand from putting this platform into practice. Capital flight from France bears witness to the belief that much was about to change, as does the joy of French workers and the French left.

Summarizing a view common in the champagne-drenched streets of Paris, *Le Monde* wrote: "This victory is the long-awaited victory of respect over disdain, of realism over illusion, of frankness over artifice; in short, the victory of a certain morality" (quoted in Favier, 1990:50). Marie-Paule Virard quotes Jean, a 42-year old factory worker at Talbot-Poissy, who in 1981 exclaimed "All my life I have waited for this day"--only to find himself one of nearly 2000 workers fired from Talbot-Poissy in 1984, with the blessings of the socialist government (1993:23). For of course, the Mitterrand government realized neither the fears of big business nor the hopes of workers and the poor. The series of political economic reforms initiated in 1981 would be overshadowed by a program of austerity and deflation undertaken two years later.

Explanations of the "tournant" place the blame (or credit) for it on the man, on the times, or on capitalism itself. That is, analysts argue either that Mitterrand's credentials as a "real socialist" are suspect, that the particular economic conjuncture that France faced in the early 1980s did not allow leftist policies, or that such policies are simply not possible in capitalist countries at any time.

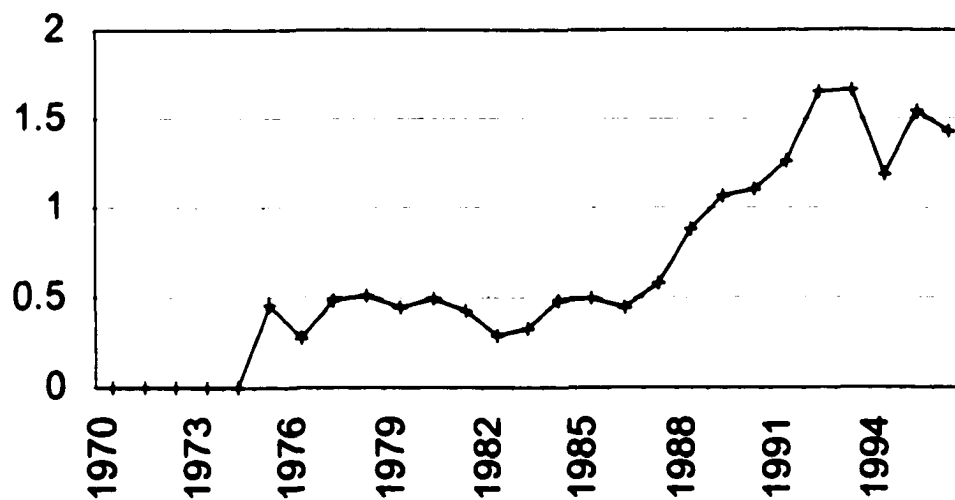
To begin with the most dramatic. Fred Block writes that governments of the left are faced with certain structural constraints that force them to act in the interests of capital, making leftist policies impossible in capitalist countries despite the intentions of those in power:

those who manage the state apparatus--regardless of their own political ideology--are dependent on the maintenance of some reasonable level of economic activity. This is true for two reasons. First, the capacity of the state to finance itself through taxation or borrowing depends on the state of the economy... Second, public support for a regime will decline sharply if the regime presides over a serious drop in the level of economic activity, with a parallel rise in unemployment and shortage of key goods... In a capitalist economy, the level of economic activity is largely determined by the private investment decisions of capitalists. This means that capitalists, in their collective role as investors, have a veto over state policies in that their failure to invest at adequate levels can create major political problems for the state managers. This discourages state managers from taking action that might seriously decrease the state of investment. It also means that state managers have a direct interest in using their power to facilitate investment, since their own continued power rests on a healthy economy. (Block, 1987:58-59)

This is the "structuralist" thesis of capitalist control over the economy: economic structures constrain state actors to behave in certain ways regardless of their ideological leanings. The Mitterrand tourment has gone down in leftist circles as a prime demonstration of these structural constraints operating: as figures 5.13 and 5.14 show, both foreign and domestic investment fell in 1981. However, this explanation is not completely convincing, because the two "mechanisms" that Block identifies--the state's own need for revenue, and the democratic pressure to maintain economic growth--were less weighty in France in 1981 than in other states. First, the French state is unique among advanced capitalist countries in being less vulnerable to fluctuations of rate of investment to finance its own activities than other states, because of its large nationalized sector. As discussed above, the post-war period saw a high level of nationalization, and by 1980 the state was a majority shareholder in 500 firms and a minority shareholder in 600 others (Hall, 1987:204); moreover, because the stock market remained highly

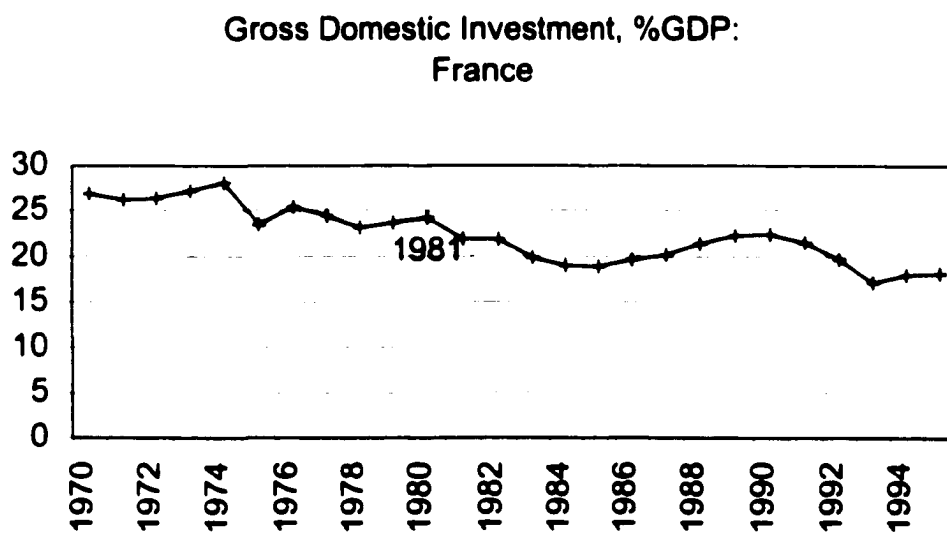
Figure 5.13: Foreign Domestic Investment, Net Inflows as Percent GDP, 1970-1996,

France



source: World Bank, World Development Indicators

Figure 5.14: Gross Domestic Investment as Percent of GDP, 1970-1994, France



source: World Bank, World Development Indicators

undeveloped by 1980, French firms were dependent on banks and long-term credit institutions, the majority of which had been nationalized in the post-war period (Zysman, 1984). Thus a dip in investment figures did not threaten the state's ability to finance its own activities, and this was even more true after the round of nationalizations undertaken by Mitterrand. Second, Block identifies a "democratic" constraint in favor of economic growth. But if this constraint exists, there is clearly also a democratic pressure in *favor* of the extension of welfare state policies; indeed, the turn towards austerity played a large part in the left's losses in 1986. That is to say, even if we assume Block's analysis is accurate, the government had on it two conflicting sets of democratic pressures in 1981: the pressure to maintain economic growth, and the pressure to increase welfare benefits for the middle classes. Thus political considerations alone could not have convinced Mitterrand to choose the course of action he did: indeed, this action would prove to be politically costly.

The second set of explanations of the tournant focus on Mitterrand himself. One of the ironies of social science in this century is that French historians and sociologists have, under the influence of Marc Bloch and the Annales school, preferred to analyze the *longue duree*, history in the long term, concentrating on the deep social and economic structures and minimizing the effect of individual actors on history. But is this approach suited to France itself? As discussed above, Fifth Republic France concentrates power in the hands of one individual to an extreme degree. Given this immense autonomy enjoyed by the French president, it is appropriate to ask whether features of Mitterrand's biography help in elucidating his presidential decisions.

Writers from both the right and the left explain Mitterrand's "betrayal" of Socialist principles by pointing to his bourgeois background, his right-wing youth, and his history of political opportunism at the expense of consistent ideology. Mitterrand was born to a wealthy, conservative Catholic family in rural southwest France; it is this that first gives rise to suspicion that he was never "really" a socialist. Given this, the extreme socialist policies advocated during the campaign can be seen to be rhetorical flourishes by a bourgeois social democrat committed to the maintenance of capitalism but wanting to attract Communist voters. But descriptions of Mitterrand's early life invariably present his family as having an ambiguous attitude towards money: they certainly did not question the comforts that their money brought them, and yet at the same time they had "an aristocratic distaste for capitalism" (Murray, 1997:8). Jacques Attali begins his memoir writing that Mitterrand "loves ... inherited money [and] hates...money that one works for" (Attali, 1993:9). Pierre Péan (1994) writes:

A young bourgeois from the provinces, François Mitterrand belonged to a family that was well-off--if not-rich--Catholic, and right-wing, where he was forbidden to "speak badly of others" and to "discuss money." His father was a vinegar-maker in a region near Jarnac where the cognac merchants held the high ground and constituted the local aristocracy. The cognac merchants looked down on the vinegar makers and invited them rarely. Sharply wounded, François Mitterrand, they say, took badly what he felt as relations of exclusion. He would remain all his life a "vinegar maker" and, unconsciously, this condition would never stay for him very far from that of the "small" facing the "big": he would always nourish a certain rancour towards all the cognac-makers of France and of the rest of the world. (19)

More important perhaps than the role of his family's social status in the formation of this ambiguous attitude towards money was the effect of Mitterrand's deeply held religious faith, which also drew him steadily to the left. It is true, as Julius Friend writes, that this kind of religious leftism "had its origin in medieval Catholicism but gained force among the conservative Catholic bourgeoisie of the nineteenth century; it owed nothing to the ideas of the Left" (1998:9). But it is also the case that this form of religious anti-capitalism has historically been responsible for such leftist policies as the expansion of the welfare state (see Ashford, 19--), and that it is often a short step from religious leftism to full blown radicalism, as the case of Paris's own "worker priests" shows. There is not much controversy on the importance of religion in Mitterrand's early life. Franz-Olivier Giesbert (1996) writes:

It is clear that the ardent Christianity of his parents left durable traces on François Mitterrand. It would be difficult not to be haunted, even a little, by God when one has a father who serves as occasional stretcher bearer at Lourdes and as President of the École Libres of Charente; difficult, when one is chased and called "calotin" by one's little Protestant friends at the gates of the communal school of Jarnac; difficult, finally, when at fourteen one claims already to have a "vocation" and dreams of entering the seminary. (19)

Catholic rather than political, young Mitterrand could have evolved in any political direction. His marriage in late 1944 to the daughter of an atheist intellectual family of the left suggests that his background did not commit him to bourgeois values, and moreover that he had already cast his lot by this date. It is in the years between Jarnac and this marriage that his evolution to the left takes place--and it is there that recent scholarship has again cast doubt on who Mitterrand really was and what he really believed.

At eighteen Mitterrand came to Paris and threw himself into the life of the Latin Quarter of the 30s. He was soon mobilized, and taken prisoner just before the armistice. He spent several years in prisoner of war camps in Germany, escaping on his third attempt. In his memoir Ma part de vérité (1969) Mitterrand describes his return to life in France thus: "Once back in France, I became a Resistant, without any great problem." (25). Since the publication of Pierre Péan's (1994) extraordinary reconstruction of Mitterrand's early life, Une jeunesse française, this statement has become notorious. Péan documents not only Mitterrand's pre-war right wing views and post-war implication in the Vichy government, but also his later attempts to hide and suppress these early alliances. The counts against Mitterrand that Péan catalogues are many: before the war, Mitterrand was a "Volontaire national," the term for members of the extreme right-wing organization Croix-de-Feu (33-34); he participated in a demonstration against *métèques*, "wops" (36); as a law student, he participated in anti-Semitic demonstrations against the professor Gaston Jéze, who opposed Mussolini's invasion of Ethiopia (45ff); when he first returned to France, he was an admirer of Marshal Pétain (180; 221); rather than de Gaulle Mitterrand supported Giraud, a rival general whom the allies preferred and who had close ties to Pétain; and, the most symbolically important, for his work with prisoners and ex-prisoners of war Mitterrand received a Vichy medal, the Francisque, that required its recipients to recite the following pledge: "I make a gift of my person to Marshal Pétain as he has made a gift of his to France. I commit myself to follow his discipline and to remain loyal to his person and his work" (287).

Much ink has been spilt in France in the last five years on these aspects of Mitterrand's life, and Péan's work has been used as ammunition both by Gaullists and

disillusioned leftists trying to cast aspersions on Mitterrand. But Péan himself goes to great lengths to try to put into context each of his claims, explaining the early incidents as part of the intellectual evolution of a curious youngster without preconceptions, and placing the Vichy incidents in the context of a confused and turbulent time. Regarding his support for Marshal Pétain, Péan quotes a friend of Mitterrand's: "One forgets today that everyone was, at the time, more or less favorable to Marshal Pétain" (180).

Regarding the degree to which Mitterrand is implicated in the anti-semitism of the Vichy government Péan writes: "I have acquired the conviction that François Mitterrand was at no time an antisemite...I was struck, over the course of my research of over one hundred interviews, by the fact that [antisemitism] was never evoked spontaneously, not even by those who held the best credentials of the Resistance" (211). He cites the testimony of several observers in attempting to recreate the context of the time, e.g. the Jewish sociologist Edgar Morin, who does not remember the date of the infamous rounding up of Jews at the Vélodrome d'hiver--implying that its importance has been created retrospectively--and goes on to more general comments about the era:

I only learned of the horror of Auschwitz...at the end of 43 or beginning of 44, thanks to a document from a clandestine press agency...and the testimony of several Auschwitz escapees. I was among a very few who knew. The population at large knew practically nothing...Vichy made spontaneously--and not by German injunction--anti-Jewish laws that were inscribed within a nationalist anti-Semite tradition...These laws of exclusion were certainly not taken as intentions of mass homicide. It was the extermination of Jews decided by Hitler in 1942 that, retroactively, made of [the Vichy laws] a first discriminatory step... (213)

As for the Francisque, the Vichy medal, Péan interprets it as part of Mitterrand's role as a sort of "double agent," playing the loyal Vichy officer the better to support the internal Resistance (264ff). This is Mitterrand's own explanation of it: "It was very practical... a good alibi... It was a subject for jokes. This insignia helped me travel without difficulties. Indeed, I wore the insignia of the German Nazi Party during my first escape attempt" (288; 295). One of his recommenders for the medal says: "As improbable as it may seem, wearing the Francisque... was equivalent under Vichy to a sort of certificate of resistance" (290). And another interviewee, Jean Racine, recalls (in a scene not confirmed by Védrine):

One day, Jean Védrine came to see me wearing a fine smile: "Racine, we must give François the Francisque." I broke into laughter, knowing full well the underground work that François Mitterrand was doing, because of course it was him that it was about. "Why not?" I said, thinking in effect that in the eyes of certain Occupation personalities, this decoration could serve him as a cover. I thought that it was this same preoccupation that could have incited Védrine to with the attribution of such a distinction on his friend... Personally, I didn't see any opposition between serving the Marshal and building the Resistance (292)

To quote Morin again:

One must not forget moreover that from 1941 to the beginning of 1944, a good part of the population was "Pétaino-Gaulliste." Pétain was the shield; de Gaulle the sword. This mentality was invisible from the exterior, because neither the Occupation press, nor the Resistance press put this forward. (214)

Péan's work leads one to conclude that Mitterrand probably held right-wing views before the war, but he does not seem to have been a systematic anti-Semite--the Jèzes affair seems to be an exception. Mitterrand's Resistance effort, according to Péan's research, seems to have been great and genuine. Another scholar writes: "De Gaulle in his Mémoires de guerre included Mitterrand in a short list of resisters who gave significant aid to the overall Resistance effort in 1944. The accusation that Mitterrand was a resister of the last minute is unjust--his activities began in early-to-mid-1943--at which time the number of active resisters in occupied France was still tiny" (Friend, 1998:11). Like a great many French citizens of the period, Mitterrand may have supported Pétain to some degree, but this does not invalidate his Resistance activities, nor does it automatically implicate him in the anti-Semitism of the Vichy period--anti-Semitism seems to have played less of a part than nationalism in the development of his political positions and activities.

But if Mitterrand was not at this point committed to the right--if, despite his bourgeois background, he was in fact moving towards the left--this movement seems to have been born not out of ideology or economics, but out of his relationship with de Gaulle and the external Resistance effort. Writers biased against Mitterrand (e.g. Laughland, 1994) take the fact that Mitterrand at one time favored extreme right-wing views, then became a Socialist, and then sponsored a common program with the Communists, as proof of his ideological emptiness and his service only to his own ambition. But if power were Mitterrand's only aim, it is difficult to see why he would have chosen to gain it from the left, rather than the much more powerful and unified right. Moreover, such a reading ignores the one grand consistency of Mitterrand's adult

life: his political and ethical fight against Gaullism, which crystallized during the intense days of the Resistance and drew him towards economic positions he was not predestined for, and to which he devoted his considerable tactical skills: "To a large degree, [Mitterrand's] political career has revolved around his opposition to General de Gaulle and the authoritarianism that the general represented" (Northcutt, 1992:48).

Mitterrand himself explains the genesis of this position best:

I've never been a Gaullist, and I've never been an "anti" either...The call of June 18 [de Gaulle's 1940 radio message to the people of France to resist German occupation], was it really the foundational act of the Resistance? Today, it seems as such, and to pose the question smacks of insolence. But at the time, if the first Resistants of the interior rejoiced in learning that there was starting, in London, another kind of Resistance, they did not know very much more about it. Spontaneously, in Paris, in Marseille, in Lyon, in Montpellier, and in many other places, small groups hostile to Vichy were constituting themselves, and dreamed of German defeat and prepared to contribute to it...Without the sacralization--from many points of view justified--of June 18, the new mythological keystone, de Gaulle would not have overshadowed, as it turned out to be the case, an interior Resistance of which the role has been methodically and unjustly minimised. (Mitterrand, 1996:124-125)

The beginning of Mitterrand's anti-Gaullism--for clearly that is what it is, deny it though he might--is found first of all in organizational rivalry--the two halves of the Resistance fighting for pre-eminence, the external Resistance placing its earlier start and London financing against the internal Resistance's trump of being in France. Second is Mitterrand's sense, as one of the leaders of the internal Resistance, that de Gaulle's "assumption" of France was neither correct nor ethical, and third, Mitterrand's consciousness of being snubbed by the General in their few interviews.

The often told story of Mitterrand's first meeting with de Gaulle at the end of 1943 set the pattern for his later response to Gaullism. De Gaulle was, according to several accounts, cold and rude; he demanded that the separate strands of the internal resistance merge and place themselves under the leadership of the external branch, which, benefiting from London aid, was in a position to fund the internal branches. Mitterrand came away from the meeting with the impression that de Gaulle wanted to weaken the internal branches--by drawing its most capable leaders away to London or Algiers, by placing at their heads those in his views less competent--with the aim of preserving his own hegemony: "The exterior Resistance was not only a military and political enterprise of a classical type, but also an enterprise of power. In short, it conformed to de Gaulle's temperament [whereas] The interior Resistance, in contact with the French people, with their sufferings and aspirations, it was the people of France. It wanted to lead the renovation of liberated France on the basis of resolutely modern democratic principles" (Mitterrand, 1996:143-44). This conviction that de Gaulle's leadership was of a non-democratic nature would find expression in Mitterrand's book Le coup d'État permanent, which speaks of de Gaulle as a "dictator" and his 1958 seizure of power as a military junta. This organizational and political opposition soon added elements of ideological opposition to it, with Mitterrand criticizing the rallying of the bourgeoisie to de Gaulle. An old acquaintance of Mitterrand says: "The François Mitterrand that I knew was neither bolshevik nor even socialist. He was vaguely leftist, that's all. He could have become Gaullist. Imagine that this unhappy Cailliau affair [when de Gaulle had wanted to place his nephew at the head of the unified internal Resistance] had not existed. I believe that there would not have been this distance that never ceased to increase between

him and de Gaulle" (quoted in Giesbert, 1996:71-72). In short, because de Gaulle was of the right, Mitterrand moved increasingly to the left.

Mitterrand's anti-Gaullism and political skills also pulled the Socialist Party (PS) to the left. Mitterrand's life under the early Fifth Republic was devoted to the creation of a leftist alternative to Gaullism; the major obstacle to this ambition was the popularity of the French Communist Party (PCF), which pulled away Socialist voters. Mitterrand and the Socialists eventually benefited from the changing of the French economic structure in ways that shrank the PCF's electoral base, but they were also active in strategically isolating the PCF by offering a leftist alternative that was not suspected of being under Soviet control, and that was committed to capitalism while still promising to ameliorate the condition of the underprivileged.

If Mitterrand's socialism was secondary to his anti-Gaullism, is it correct to accuse him of being a bourgeois social democrat who betrayed leftist principles once in office? Militating against this explanation is the fact that Mitterrand *did* bring about a quite substantial amelioration of the position of the underprivileged in France. Several of the particular measures that he took, including decentralization, the Auroux laws on workplace control, and reduction of the workweek to 39 hours, withstood the 1983-1984 turn. The Mitterrand period saw the beginning of the end of France's position as the most inegalitarian country in the Western world (though partly that is the result of increasing inegalitarianism in the U.S. and U.K. rather than decreasing inegalitarianism in France). And the creation of the Revenu Minimum d'Insertion for the first time extended the benefits of the French welfare system to those who were not already "inserted" into employment. Moreover, the introduction of the Socialist party to power

also incorporated a leftist dynamic that has seen France, unlike any other developed country in the 1990s, offer measures such as a further reduction of the workweek to 35 hours and an extension of health care protection.

In short, Mitterrand was a socialist in the grand tradition of European socialism: he remained committed to capitalism while lessening some of its harshest aspects--thereby, of course, strengthening capitalism and drawing off potential for more revolutionary change.

Finally, then, scholars have blamed the "tournant" on the particular world-economic conjuncture that Mitterrand faced. The "break" with the earlier program happens between March 13 and March 23, 1983, when Mitterrand was deciding whether or not to leave the European Monetary System (EMS), which keeps the franc tightly coordinated to other European currencies and keeps tariff barriers low. The integration of the French economy into the European economy--particularly with the German--meant that the reflationary policies of 1981, which increased demand, did not lead to greater spending on domestic purchases: the increased demand went to German goods, which were cheaper because Germany, like the rest of the world, was at the moment deflating its economy, as the global expansion predicted for 1982 did not come about. Being able to leave the EMS would, one group around Mitterrand argued, restart growth: the franc would fall, cheapening the cost of French goods compared to foreign goods, thus decreasing the amount of money domestically spent on exports and increasing import revenue. Another group, led by Prime Minister Pierre Mauroy, favored austerity. Mitterrand finally decided against leaving the EMS. Most accounts trace the key moment to an interview between Michel Camdessus and Laurent Fabius, in which Camdessus

convinced Fabius--and Fabius in turn convinced Mitterrand--that even leaving the EMS would not avoid deflation (since import shortages would increase domestic prices), would increase the cost of essential imports such as oil, and moreover, risked inviting retaliatory tariffs on French goods, which the 20% of the French economy that was oriented to exports could not afford. Mitterrand sent Finance Minister Jacques Delors to Germany to attempt to persuade the Germans to revalue the deutschmark; the knowledge that France was seriously considering leaving the EMS (even if Mitterrand may have already decided against this privately) convinced the Germans to raise the deutschmark 5.5%. Gaining this concession, Mitterrand decided to stay in the EMS and devalue the franc 2.2%. (Favier and Martin-Roland, 1990; Hall, 1987; Northcutt 1993)

The underlying constraint, then, was the integration of the French economy into the world economy--and specifically, its integration with Germany. It is this integration that led astray the reflationary policies of 1981; and when faced with a choice between socialism and Europe (Lacouture, 1998), Mitterrand chose Europe. But why did he make this choice? It was this decision, and the unpopular austerity program that it gave rise to, that contributed to the 1986 legislative defeat of the left. Thus there were political pressures against it. Can Mitterrand's decision--made against political pressure and against ideology--be understood in a wider framework? In the event, it is difficult to see any other decision being taken; leaving the EMS would have meant symbolically leaving Europe: "It implied rejection of the European Economic Community on which the peace of the continent and France's independent foreign policy stance had been based. It is not surprising that President Mitterrand shied away from such a strategy" (Hall, 1987:63). Would any inhabitant of the Elysee have decided otherwise? Seven years later three out

of four voters thought Mitterrand had made the right choice (Favier and Martin-Roland, 1990:592). The only objections came from the Communists. This is not surprising, as leaving the EMS would have committed France to “socialism in one country,” with uncertain outcomes. In the choice that Mitterrand made, he represented the interests of those who had voted him in--the center and center left, the majority of the French middle class. Table 5.3 shows that support for extreme left-wing groups and positions has never been widespread in France, while Table 5.4 shows that support for European integration has at least *symbolically* been very strong (the French strongly support the Common Market and the idea of European integration--up to the point when they are asked if they are willing to undergo slight tax increases for it). To vote for socialism in one country while withdrawing from the post-war trajectory of increasing European integration would have required Mitterrand to take positions that were at odds with the intentions that the majority of voters had expressed for most of the course of the Fifth Republic.

Table 5.4: Gallup: Support for European Integration, 1968-1977, France

| 1968 | |
|--|----|
| February | |
| Common Market: "Do you think France has something to gain or something to lose?" | |
| Gain | 39 |
| Lose | 29 |
| No opinion | 32 |
| 1969 | |
| October | |
| Do you favor or oppose the entry of Great Britain into the Common market | |
| Favor | 52 |
| Oppose | 16 |
| no answer | 32 |
| In the case of the creation of a political Europe, are you ready to accept the principle of a common diplomacy and defense? | |
| yes | 66 |
| no | 10 |
| no opinion | 24 |
| Are you willing to accept, if it is necessary for the development of a political Europe, a small diminution in your buying power for a few years? | |
| yes | 35 |
| no | 48 |
| no opinion | 17 |
| 1970 | |
| November | |
| Is the Common Market helping the French economy? | |
| Yes | 53 |
| 1971 | |
| August | |
| Are you in favor of or opposed to the principle of a European Government? | |
| very much in favor | 19 |
| somewhat in favor | 42 |
| somewhat opposed | 13 |
| very much opposed | 4 |
| no answer | 22 |

Table 5.4 continued

| 1972 | |
|--|-----------|
| March | |
| Is the Common Market at the present time a good thing, a bad thing or neither as far as the prosperity of France is concerned? | |
| A good thing | 64 |
| A bad thing | 7 |
| Neither | 18 |
| No answer | 11 |
| Will your choice in the referendum vote on April 23rd primarily mean that you are for or against one of the following? | |
| The enlarging of the Common Market | 52 |
| The policies of the Government | 13 |
| Mr. Pompidou | 11 |
| No answer | 24 |
| April | |
| Will your choice in the referendum vote on April 23rd primarily mean that you are for or against one of the following? | |
| The broadening of the Common Market | 50 |
| The policies of the Government | 20 |
| Mr. Georges Pompidou | 11 |
| No answer | 19 |
| 1973 | |
| January | |
| If determined by universal suffrage, would you be for or against a: | |
| ...European parliament? | |
| for | 48 |
| against | 19 |
| don't know | 33 |
| ...European president? | |
| for | 46 |
| against | 24 |
| don't know | 30 |
| ...politically consolidated government? | |
| for | 40 |
| against | 28 |
| don't know | 32 |
| ...standardization of social legislation, social security and contracts on a European level? | |
| for | 69 |
| against | 7 |
| don't know | 24 |

Table 5.4 continued

| September | |
|--|----|
| In general, do you think that France's membership in the Common market is good, bad or neither? | |
| good | 61 |
| bad | 5 |
| neither | 22 |
| no answer | 12 |
| If you were told that the Common market had been dissolved, would you feel strong regret, indifference or great relief? | |
| strong regret | 42 |
| indifference | 43 |
| great relief | 2 |
| no answer | 13 |
| To what extent are you in favor of or opposed to the evolution of the Common market into a European political union? | |
| Completely in favor | 25 |
| Somewhat in favor | 32 |
| Somewhat opposed | 11 |
| Completely opposed | 5 |
| No answer | 27 |
| To what extent would you be in favor of an election of a European parliament by universal suffrage (including all member states)? | |
| Completely in favor | 22 |
| Somewhat in favor | 29 |
| Somewhat opposed | 11 |
| Completely opposed | 7 |
| No answer | 31 |
| There are those who feel that a united Europe will detract from the unique culture of its member states. To what extent do you agree or disagree with this opinion? | |
| Completely agree | 8 |
| Substantially agree | 17 |
| Substantially disagree | 25 |
| Completely disagree | 28 |
| No answer | 22 |
| If one of the countries of the European community has important economic problems, do you feel that the other member countries, including France, should help that country? | |
| Yes | 78 |
| No | 9 |
| No answer | 13 |

Table 5.4 continued

| | |
|--|----|
| To what extent would you be willing to make certain personal sacrifices (for example, pay more taxes) so that the unification of Europe might take place? | |
| Totally willing | 6 |
| Quite Willing | 23 |
| Not too willing | 19 |
| Not at all willing | 42 |
| No answer | 10 |
| After careful consideration, are you in favor of, opposed or indifferent to the unification of Europe? | |
| Very much in favor | 23 |
| Mostly in favor | 45 |
| Indifferent | 18 |
| mostly opposed | 3 |
| very much opposed | 1 |
| don't know | 10 |
| 1977 | |
| Do you think that it is possible to be patriotic while supporting the election of a European parliament through universal suffrage? | |
| Yes | 67 |
| No | 9 |
| No opinion | 24 |

source: Gallup

Conclusion: The Limits of the Autonomous State

Under both Giscard and Mitterrand the concentrated structure of the French state was not utilized to implement the stated ideological preferences of the president. Rather than being the exception, however, this lack of authoritarianism has been the rule under the Fifth Republic. In 1969, when a large number of voters abstained from a referendum de Gaulle had sponsored to renew his legitimacy with the people, he resigned, although he was not pushed to do so by any constitutional mechanisms or political precedent. In 1986, when the Right won control of the legislature, Mitterrand stepped aside from day-to-day domestic policymaking, although no formal mechanisms required this. These four moments are instances of the same phenomenon: the non-exercise of power formally granted by the political institutions. That this has been so common in France suggests that it is not simply a feature of personality or hazard, but of social or political structure. Asking whether there is a commonality to these four instances can shed light on the relationship between formal institutions and substantive democracy.

What factors prevent dictatorship? Since Barrington Moore's pioneering investigation of this question (1966) the literature on this issue has become highly sophisticated and varied. Essentially four sorts of answers are proposed. Moore's own work suggested that the key difference between the patterns followed by France and England on the one hand, and Germany and Italy or Russia and China on the other, was the presence of a strong bourgeoisie and the absence of organization among peasants; Rueschemeyer, Stephens, and Stephens (1992) have recently added a new twist to this line of class-based argument, tracing the birth of democracy to the growing power of the working class relative to dominant classes. Theda Skocpol (1979) suggested that the

structures of state institutions determine revolutionary outcomes; Brian Downing (1992) has more recently argued that the role of the state in war is a key component, as is the presence of medieval constitutionalism. And Robert Putnam argues that the difference that makes democracy “work” in north Italy but fail in south Italy is the presence of a strong civil society in the north.

Thus we might sum up the proposed answers in this way: what defends societies against the takeover of a strong state is either the organization of political institutions, a democratic culture, the strength of specific classes, or the absence of war and military build-up in a state’s history.

The explanation of the role of war is not particularly helpful in this instance: France, like several advanced economic powers, has witnessed a dramatic upsurge in military spending in the post-war period, and particularly since the 1960s, when de Gaulle decided that France needed its own nuclear device for purposes of deterrence (essentially because Robert McNamara’s plan of limited deterrence convinced Europe that the U.S. was not a reliable protector against the USSR, and was not likely to use its nuclear weapons on the USSR in response to a nuclear strike on Europe, for fear of inviting retaliation on the territory of the US). The military build-up should--according to the theory advanced by Downing and others--have strengthened the state, leading to the possibility of dictatorship.

The culture argument has two variants: Downing’s historical version of it, and Putnam’s “civil society” version. Downing argues that “medieval constitutionalism,” a certain set of medieval institutions--e.g. a balance of power between crown and nobility, property rights, constitutions--biased Western Europe towards the preservation of

democratic freedoms. This formulation does not advance the understanding of the French case--France is not a country known for a culture of respecting its constitutions. Moreover, in the three centuries preceding the period we are examining, the French state successfully centralized itself and reduced the power of regional contenders, and has at various moments in this time period overridden private rights to property.

Putnam's version of the culture argument is that what medieval constitutionalism, or a democratic culture in the medieval period in general, does is create a civil society in which people are able to trust each other and avoid behaving as rational self-interested individuals to their own collective and individual detriment. He measures "civil society" in Italy with four variables: the percent of the population involved in formal or informal associations, percent of newspaper readership, voter turnout, and issue-oriented (as opposed to patronage) voting. These variables are highly correlated with local government performance in Italy, which he measures through a dozen variables, mostly covering state distributive activity (day care centers, housing and urban development, family clinics, local health spending) or bureaucratic efficiency (statistical and information services, bureaucratic responsiveness, policy instruments, budget promptness). There is much to complain about in Putnam's operationalization of his question; for example, his measure of "working" democracy does not include any variable that would tap the question of whether or not a government is passing legislation limiting the freedoms of its citizens, or of whether citizens are actually *participating* in passing legislation or simply accepting them. A government can be highly redistributive and efficient, and yet be authoritarian nonetheless. That is, Putnam's analysis assumes that democracy equals economic redistribution plus bureaucratic efficiency. Such a

formulation cannot help in analyzing why state actors do or do not use state institutions in their own (personal or ideological) interests. This criticism made, there clearly *is* something more democratic, however one might define democracy, about the northern part of Italy. Putnam dismisses the economic development or "class" explanation because his independent variables together explain more of the variance, particularly between cities at similar levels of development. But his data are perfectly compatible with a two-part class explanation: economic development is largely responsible for the difference between the north and the south, and that part of it that can't be explained--e.g. why less-developed Emilia-Romagna has a highly functioning local government--can be attributed to class politics.

Even if it isn't watertight in the case of Italy, does the civil society thesis help explain the case of France? All four of Putnam's independent variable measures are high in France. The French are just as likely to join associations as other Europeans (Wilson, 1987) and since the 1970s French associational life has skyrocketed (Kesselman, 1992); newspaper readership remains high, with a quarter to a third of respondents claiming to read a daily newspaper. Although voter turnout is not uniformly high--it is high for presidential and legislative elections, low for European elections and referenda--this may be precisely *because* referenda and European elections call for patronage votes rather than issue votes: de Gaulle clearly indicated that referenda were votes of confidence *in him*, and Europe-wide political issues are noticeable for their lack of noticeable impact on the lives of French voters. Abstention on referenda and Europe can thus be read as absence of non-issue voting. Thus by Putnam's measures "civil society" is high in France.

But the strength of civil society in Fifth Republic France may be beside the point, because there are few points where non-state groups can successfully pressure the state: Frank Wilson argues that neither non-advocacy groups, professional groups, unions, or new social movements are particularly important political actors in France, because they are all--for diverse reasons--fragmented, weak, or easily co-opted. Indeed one of the few constants in French political history is the suspicion of non-state interest groups--seen from the Revolution through de Gaulle as incarnating selfish particular interests at the expense of the general interest. The only body capable of maintaining the "general interest" is the state (which Anglo-Saxon scholars might call a tautology, as only the state can define the general interest, and the general interest is whatever the state defines it to be). Wilson notes that : "Paradoxically, the closed nature of French government and the lack of interest-group involvement may even have helped avoid the expected ailments of modern democracies. With the groups too far removed from politics to have much effect, the government has not had the difficult task of trying to find policy that will satisfy its many social partners, a task which elsewhere often resulted in policy by fits and starts and muddled policy compromises" (1987:284). This is a common judgement, shared by Andrew Shonfield, Macarthur and Scott, and Jack Hayward²; but this does not bring us closer to explaining what prevents the state from acting in its own interest to the detriment of society.

² Though not universal: "those in power in France during the last thirty years have been able to do more or less what they have wanted--build nuclear power stations, send paratroops to Kolwezi, send the secret service to New Zealand to sink a Greenpeace ship, explode nuclear devices in the atmosphere, nationalise and privatise, change the electoral system and change it back again--without any real public debate at all" (Frears, 1991).

A class argument, begun by Barrington Moore and highly criticized, and renewed by recent scholars of the development of democracy, may explain the French case best. This paper has attempted to argue that one of the main differences explaining divergent outcomes in the U.S. and France is the way in which the majority of voters--which in post-war industrial democracies has increasingly meant the middle class--is integrated into the political economic structure: because the French welfare state benefits the middle classes and concentrates and targets costs, and because industrial policy benefits business in general, the French political economic structure has been much more resistant to change. The American state, on the other hand, spreads taxes across the middle classes to benefit the few, and thus was vulnerable to ideologically-motivated appeals to the middle class (those programs that did spread benefits widely, like Social Security, survived the Reagan onslaught), while industrial policy was vulnerable to business-wide appeals. The key factor coming up again and again in the story is the role of the middle classes: it was the salability of the tax cut in the U.S. and lack of such political opportunity in France that affected the divergent outcomes on tax policy; it is the French welfare state's middle-class, redistributive character that makes it so resilient; and it was the unpopularity of the unemployment that Giscard's industrial policy engendered that ended France's neoliberal experiment. This argument of the importance of the middle classes can be seen as an elaboration of an argument made in Rueschemeyer, Stephens, and Stephens's Capitalist Development and Democracy (1992). To simplify a complex and sophisticated argument, the authors argue that democracy is born when the middle classes become powerful enough and resourceful enough to demand it of elites. This paper has tried to argue that political economic structures change depending on the viability of appeals to

the middle class--and in particular, that a highly successful neoliberal strategy is to appeal to middle-class majorities against economic minorities.

The "institutional" explanation would seem to be ruled out of court a priori: it is precisely the paradox of non-authoritarianism in a country in which there are few institutional checks and balances on the executive that we are trying to explain. But an institutional explanation is clearly lurking in the background of the argument developed here, because we must explain *why* state actors pay attention to popular opinion and the wishes of the middle class. In the cases discussed above, both Giscard and Mitterrand refrained from exercising the extreme concentration of power available to them for several reasons: although the French president has a seven year mandate, legislative elections (which determine the executive's ability to pass new legislation) and European elections (symbolically interpreted as renewals of the executive's mandate or as votes of no confidence) allow for more frequent electoral registering of majority sentiment. Because the state structure in the early parts of the Fifth Republic concentrated power, it also concentrated responsibility; thus the outcome of the frequent sub-presidential elections often depended on the actions of the president, whose party would be punished or blamed. Thus presidents were likely to be punished in this indirect way for unpopular actions, and knowing this constrained both Giscard and Mitterrand on *popular* issues; but this has been much less the case on issues that are distant from the public.

These institutional underpinnings of French political economy may not be enough to *guarantee* against dictatorship, and probably would not have satisfied the tyranny-shy founders of the American state, depending as they do on the symbolic renewal of mandates, irregularly scheduled elections, interpretation of electoral results, and other

ambivalent mechanisms. Nevertheless, when combined with a growing middle class public informed about its interests and active in registering them in non-presidential elections, they have been enough to prevent the power-concentrating French state structure from slipping into tyranny. Current developments suggest that the balance of power in the French state may actually be moving away from the executive; whether the result will be separate executive and legislative branches checking each other, or an increasingly powerful legislative branch closer to the British model, remains to be seen.

Finally, the middle-class and business-oriented nature of the French state has not prevented the implementation in recent decades of anti-poverty measures such as the Revenu Minimum d'Insertion, universalization of health care policy, reduction of the work week, lowering of payroll taxes on unskilled workers, and potential reduction of the TVA. France's right turn in recent decades consists of privatizations; but as we have seen, the interventionist French state was never particularly "socialist" in industrial policy, and the Mitterrand nationalizations rationalized firms and made them more profitable. Thus the recent round of privatizations do not represent anything close to the shift to the right found in American and British economic policy, since industrial policy was never particularly "left" to begin with. In tax and welfare policy the trend since the Mitterrand era has clearly been towards the left. This suggests that middle-class welfare states, for all their faults and wastefulness when compared against an ideal of universal equality or maximum efficiency, may provide a slightly more stable framework for the introduction of anti-poverty policies: the support that a middle-class welfare state generates, across classes and generations, allows the poor to be squeezed under the

general umbrella, and once under it they cannot be removed without the dismantling of provisions popular with the majority.³

³ But it is clearly not impossible to undermine measures popular with the majority: a successful strategy is to create a "dual" welfare state, with a private sector supplementing the public sector, and then to starve the public sector of resources until the majority is eventually relying on the private sector. The public sector can then be dismantled with minimal political damage, to the detriment only of those still relying on the public sector. Such seems to be the dynamic set in motion with old-age pensions in the U.S.

CHAPTER SIX

CONCLUSION

This dissertation argues that “free market revolutions” in advanced industrial democracies succeed when market measures can be allied with the interests of the majority middle classes, and therefore depend both on the way in which the majority middle classes are integrated into political economic structures and on the sensitivity of the polity to majority opinion. This reading of the turn to the right stands in contrast to interpretations that see these policies as essentially a class struggle resolved in favor of business. While the ability of business groups to finance politicians’ campaigns played a role in the changes in the U.S., business group dominance over these issues was not complete, and the policies examined here had roots in majority preferences and in politicians casting about for popular policies in difficult economic times.

In the U.S. and Britain, post-war tax structures, industrial policy, and welfare state policy all tended to divide the middle classes from the poor on the one hand, and business from government on the other. This led business to define itself in opposition to the state, and provided politicians with opportunities to appeal to the newly prosperous majority against the interests of economic minorities, creating a vulnerable political economic structure. The few policies that were exceptions to the general structure in these states and generated majority loyalty, such as old age pensions in the U.S. or the National Health Service in Britain, proved resilient. In France, meanwhile, invisible and targeted

taxation, a middle-class welfare state, and a post-war industrial policy that put the state at the service of capital all combined to create a highly resilient political economic structure.

Previous examinations of the turn to the right have failed to fully explain the changes because they have ignored the role of unorganized majorities--in prosperous countries, the middle classes--in policymaking and policy change. In the U.S., specific changes in the structure of the state created incentives for state actors to make appeals that would be popular to majorities, while social movements turned "majorities in themselves" into "majorities for themselves," and an open state structure provided little resistance to anti-government ideologues. In Britain, majority opinion on particular issues became increasingly important as deindustrialization ended the role that class loyalties played in British politics. And in France, majority loyalty to existing political economic structures prevented a free-market politician at the head of a concentrated state structure from implementing neoliberal change.

Table 6.1 summarizes the theoretical explanations that have been rejected in this work. Previous explanations for the turn to the right that have suggested that capital flight forces states to act in the interests of capital have been rejected, because the patterns of capital flight are not as expected in this scenario. Explanations that focus on the strength of interest groups have been rejected as unable to provide a complete account of events: business groups were indifferent or hostile to some of the neoliberal measures taken in the U.S.; moreover, business groups were weak and labor strong in Britain, while labor was fragmented and weak in France--the reverse of what would be expected under

Table 6.1: Inability of previous theories to fully explain neoliberal success or failure

| | | US | Britain | France |
|---------------------------------|------------------------------------|---|---|-------------------------------------|
| state-centered explanations | strong state | no | yes | yes |
| | neoliberal executive | yes | yes | yes |
| economic and class explanations | capital flight/disinvestment | no | no | yes |
| | economic crisis | yes | yes | yes |
| | business group dominance on policy | no | no | no (but state pro-business) |
| | weak labor | yes | no | yes |
| cultural explanations | neoliberal cultural developments | yes | yes | yes |
| | neoliberal culture dominant | no | no | no |
| outcome: | | successful neoliberal revolution | successful neoliberal revolution | failed neoliberal revolution |

the interest groups explanation. Cultural explanations have been rejected as unable to explain the French resistance because both at the level of elite discourse and at the level of majority opinion, greater similarity was found among the three countries than difference.

Table 6.2 summarizes the explanation that has been expounded in this study. The success of neoliberal revolutions can be attributed to the potential popularity of the changes with the majority of voters, which in prosperous countries is the middle classes, and to the incentives to state actors to exploit this potential. Figures 6.1 to 6.3 diagram how this overarching dynamic played out in each of the three countries.

The theoretical goal of this dissertation has been to specify the role that representative democracy plays in the formation of policy, and in particular the ways in which unorganized majorities enter politics. I suggest that, contrary to crude “rational choice” understandings of the inability of unorganized groups to influence policy, unorganized majorities do in fact play a large role in policy change. However, the Downsian model of politicians passively responding to voter preference on one issue is not accurate, because of the multiplicity of potentially salient political issues. The case histories lead to the following conclusions of political dynamics in this situation:

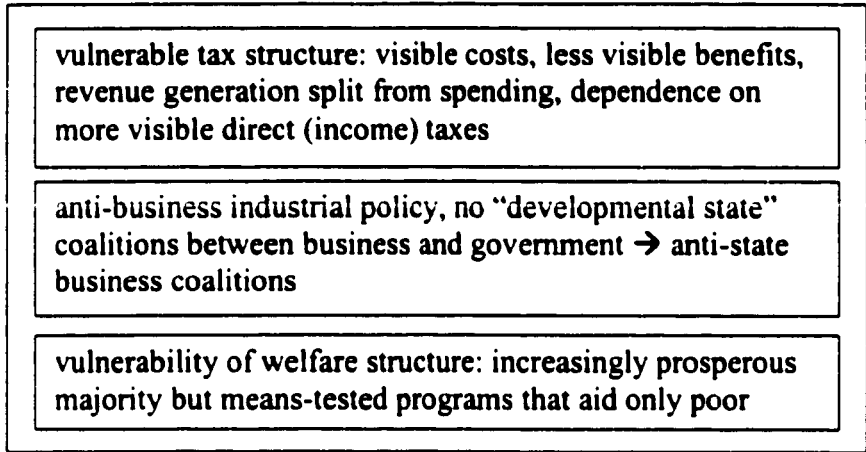
(1) Majority opinion can be exploited as a resource by “entrepreneurial” politicians looking for an advantage. In this case it is the *potential* popularity of an issue that is key: politicians look for an issue that is consistent with their party’s aims and that will also be popular with voters, even if voters are not currently paying much attention to the issue. Such entrepreneurialism is more likely where party systems are less cohesive.

Table 6.2: Reasons for success or failure of neoliberal revolution in U.S., Britain, and France

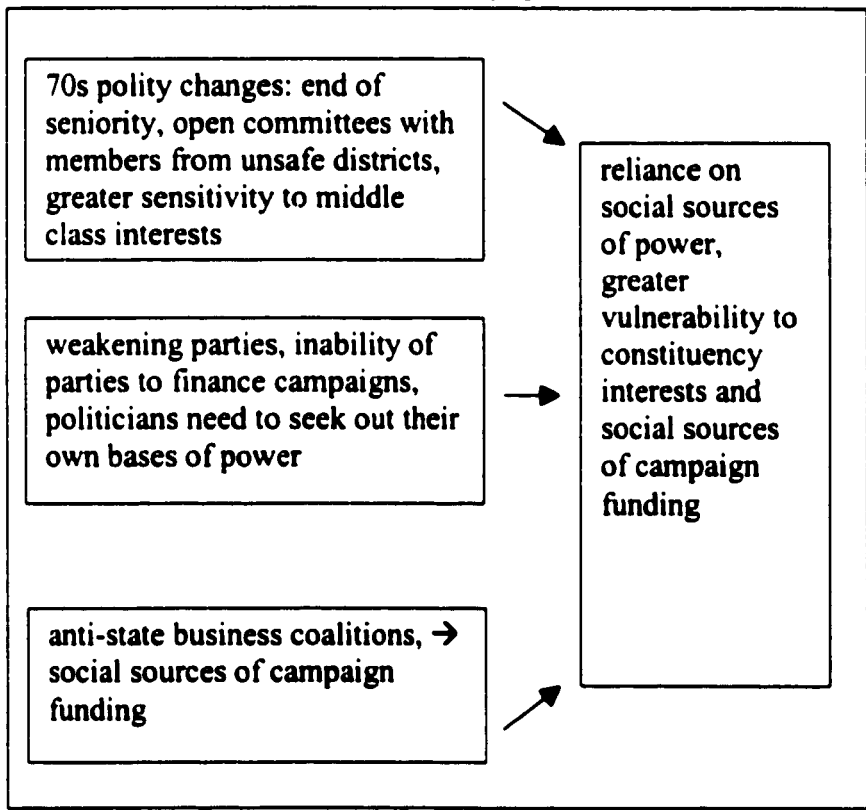
| | US | Britain | France |
|--|---|---|-------------------------------------|
| potential popularity of neoliberal changes with majority of voters | yes | yes | no |
| incentives to state actors to exploit this potential | yes | yes | no |
| result | successful neoliberal revolution | successful neoliberal revolution | failed neoliberal revolution |

Figure 6.1: Reasons for neoliberal revolution in U.S.

potential popularity of neoliberal revolution with majority of voters



incentives to state actors to seek out popular issues



successful neoliberal revolution

Figure 6.2: Reasons for neoliberal revolution in Britain

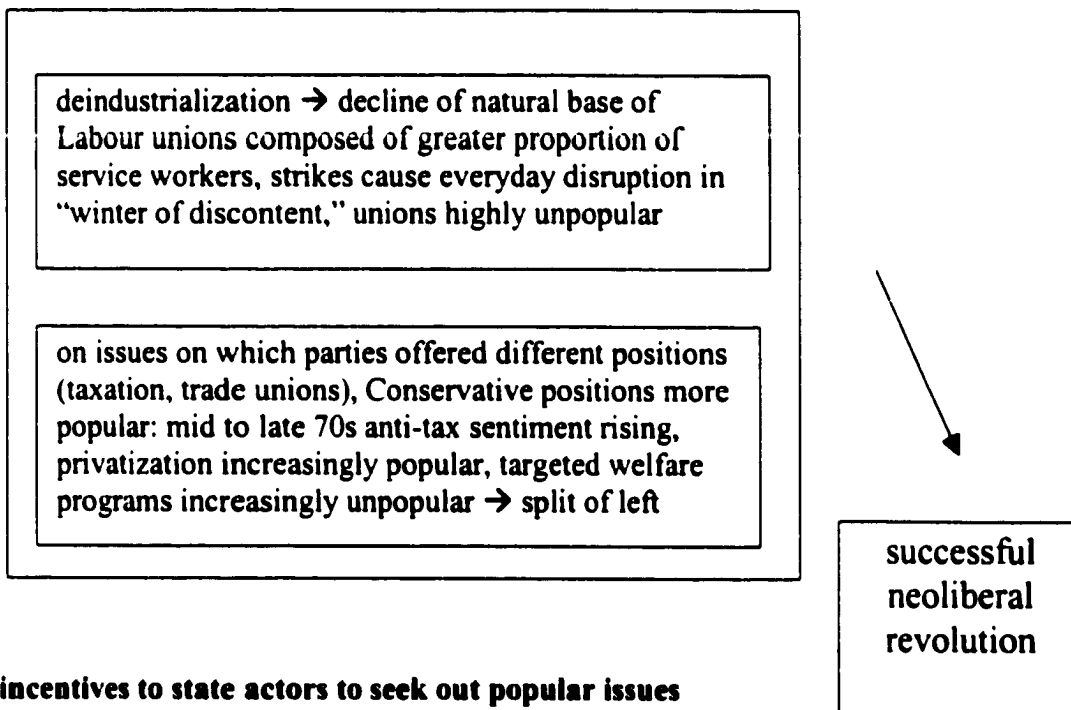
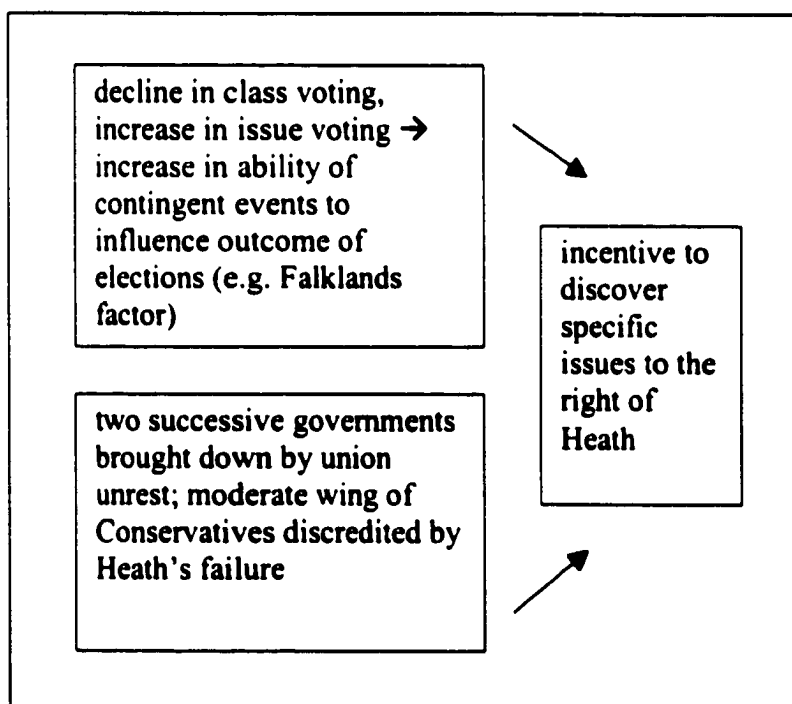
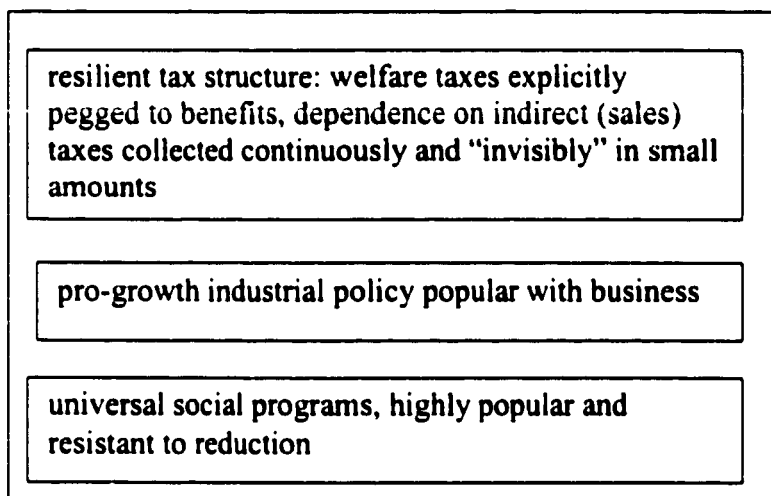
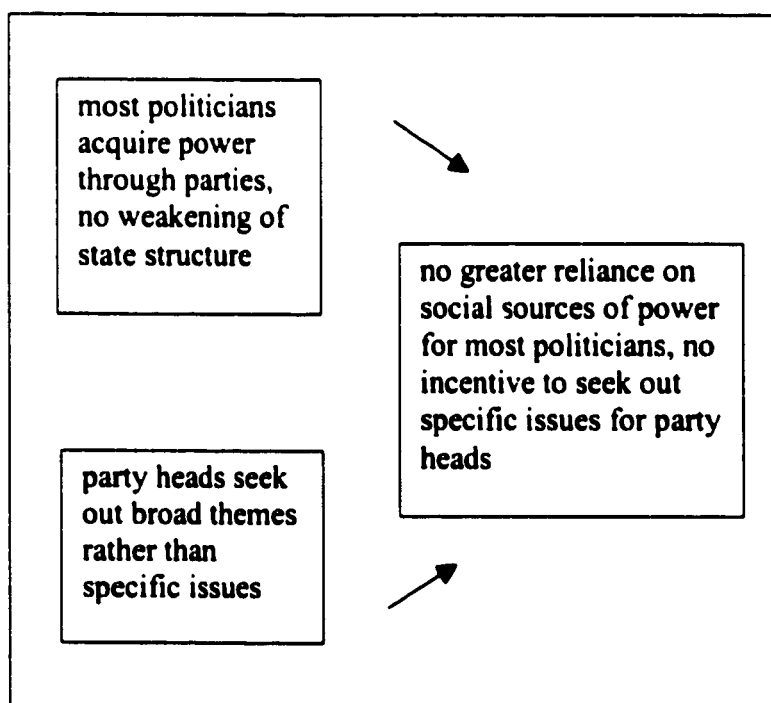
potential popularity of neoliberal revolution with majority of voters**incentives to state actors to seek out popular issues**

Figure 6.3: Reasons for failure of neoliberal revolution in France

little potential popularity of neoliberal revolution with majority of voters

**failed
neoliberal
revolution**

no incentives to state actors to seek out specific popular issues

(2) Social movements are a significant means of mobilizing public opinion.

Social movements draw public attention to issues, provide ideological frames for issues, and mobilize "majorities-in-themselves" into "majorities for themselves." However, social movements do not control the political arena on their own terms; while we tend to visualize social movement success as a matter of degree--more or less success in terms of achieving stated goals--social movements that change the political arena can have unpredictable effects.

(3) Lack of strong state structures, including parties and developed state bureaucracies, makes a state more actively open to majority opinion, and majorities do not need to be organized to have their interests protected.

(4) The way in which majority opinion influences state actors can change depending on the salience of political ties: when such ties are weak, opinion on specific issues becomes more consequential.

(5) When majorities are highly integrated into, and benefit from, the current political economic structure, this structure tends to be resistant to change, even in the face of economic crisis.

A more general conclusion of this work concerns the possibility that, in political systems in which decisions are formally based on the wishes of the majority, the needs of minorities will be overlooked: the tendency of this possibility to be realized depends on (1) the degree of responsiveness of policymakers to majorities, (2) the objective interests of majorities compared to minorities, and (3) the subjective understanding of these interests.

The theoretical goal of this work has been to show how, by analyzing how policymakers acquire and keep power--that is, how social resources are turned into political power--we can draw conclusions about the content of policies that they will pass. In particular, in formal representative democracies, pro-market change is more likely if and when it benefits majorities.

The theory developed here differs from "interest group" arguments in that it emphasizes the effect of *unorganized* groups. It differs from economic arguments in that it emphasizes the way how economic needs are mediated through social and political processes. It builds on a particular strand of state-centered or "institutional" arguments, but emphasizes the embeddedness of state institutions in social context, and finds the ultimate sources of policy change in this instance not within the organized polity, but outside it.

The broader implication of this dissertation is that pro-market policies in advanced industrial democracies are not necessarily the product of dominant group influence over the political process. Rather, they raise a more fundamental question that arises at the heart of the meeting of democracy and capitalism: how to protect the interests of economically disadvantaged minorities when the majority is not poor, and the majority rules. Those who lose in late capitalist market competition are more likely to be protected under policies that equate their interests with those of the more prosperous democratic majority, such as universal welfare policies; under procedures that hide income transfers, such as "invisible" sales taxes; and under governments that are both *less* democratic (more autonomous from dominant social groups as well as from the

majority) and culturally committed to the disadvantaged. Conversely, free-market revolutions are most successful in advanced industrial democracies when they can promote market-friendly policies that also help the majority of voters; when they can capitalize on resistance to visible income transfers to minority populations; and when state actors have strong incentives to find policies that will make them popular with the majority.

METHODOLOGICAL APPENDIX
TELLING TALES AND COMING TO CONCLUSIONS: NARRATIVE AS A
STRATEGY OF CAUSAL ANALYSIS

Can narrative method--using primary and secondary sources to construct "eventful" descriptions of particular events sensitive to temporal sequencing and human agency--provide generalizable models of social processes? Most sociologists are skeptical of the ability of narrative to result in general social theory¹. Criticisms focus on the role of chance factors in history and the role of conjunctural causation. Narratives, it is argued, particularly narratives of single cases, cannot distinguish between contingent, conjunctural, and structural causes; thus it is impossible to conclude which factors responsible for a single historical episode are "generalizable" and which are not. Here I use two articles by Stanley Lieberon to show how narratives can in fact distinguish between specific and general causes. Lieberon's goal in these articles is to argue against the "Millian method" of assigning causal force to particular variables based on their presence or absence in a small set of cases. Lieberon is not engaging the question of the usefulness of *narrative* method; but in his attack on the "Millian method" he unwittingly presents a useful example of how narratives can be used in the service of causal analysis.

¹ Sociologists who use narrative methods, on the other hand, sometimes argue that "general" theory is not possible at all (e.g. Sewell 1996); I do not take up this question here. The general article of contention is whether causal mechanisms can be generalized beyond a particular historical context. The debate considered here is more basic, as to whether narrative strategies can yield causal mechanisms at all.

Moreover, as an analysis of his arguments shows, not only is narrative one method of causal analysis: it is the *only* true method of causal analysis.

Drinking and Driving

In "Small N's and Big Conclusions: An Examination of the Reasoning in Comparative Studies Based on a Small Number of Cases," (1992) Lieberman argues that the methods that comparative sociologists use to analyze historical events are unreliable because of the role of chance in history and because of the possibility of conjunctural causation. Parodying Theda Skocpol's analysis of social revolutions in France, Russia, and China, Lieberman asks us to consider Table A.1. He notes that if we were to rigorously apply Millian logic here--identifying as causal factors only those variables that differ in the two cases in the expected directions--we would conclude that the only factor responsible for accidents is whether or not a car enters from the right-hand direction. Drunk driving, speeding, and running a red light would all be excluded from consideration as causal factors because they were simultaneously present, or simultaneously absent, in the two cases, and thus could not have caused the discrepant outcomes.

Lieberman next asks us to consider table A.2. In this case, the outcomes are similar, and rigorously applying Millian logic--identifying as causal factors only those variables present in both cases in the expected direction--would lead to the conclusion that speeding is not a factor contributing to an accident. Lieberman writes: "Every fact remains the same regarding the first driver in both cases, but the fact that the second driver was speeding and therefore had an accident completely alters our understanding of

Table A.1: Application of the Method of Difference

| Accident (Y) | Drunk Driving (X1) | Car entering from right-hand direction (X2) | Driver speeding (X3) | Runs red light (X4) |
|-------------------------|-------------------------------|--|---------------------------------|--------------------------------|
| Yes | Yes | Yes | No | Yes |
| No | Yes | No | No | Yes |

source: Lieberson, 1992

Table A.2: Application of the Method of Agreement

| Accident | Drunk Driving | Car entering from right-hand direction | Driver speeding | Runs red light |
|----------|---------------|--|-----------------|----------------|
| (Y) | (X1) | (X2) | (X3) | (X4) |
| Yes | Yes | Yes | No | Yes |
| Yes | Yes | No | Yes | Yes |

source: Lieberson, 1992

what caused the first driver to have an accident”: in this example we eliminate speeding as a cause, and we reach different conclusions about the role of drunk driving and running a red light in causing accidents.

Lieberson’s point is that the strategy of Millian logic ignores the role of chance, or of probabilistic determinism, in assigning causal primacy, and therefore we cannot reach reliable conclusions from the examination of a small number of cases.

But in arguing that we cannot reach conclusions about these cases, Lieberson does something very interesting: he reaches a conclusion, one that it is hard to disagree with. His conclusion is that in the first scenario, the second driver was lucky, because despite a series of factors contributing to the possibility of an accident, she did not have one; in the second scenario, the conjuncture of drunk driving, running a red light, and a car entering from the right-hand direction causes the first accident, and the conjuncture of drunk driving, running a red light, and speeding caused the second one. In other words, Lieberson has reached a very thorough conclusion about the causal role of the various factors in the various outcomes, precisely what he is arguing it is not possible to do in “small-N” cases.

Lieberson reaches these conclusions--and we agree with the conclusions he reaches--because there is an implicit narrative motivating the examples. The narrative is made up of four “mechanisms” and deployed to explain three “events” (Bhaskar, 1997). The mechanisms are as follows:

(1) Driving while drunk reduces the ability to respond to unforeseen situations and therefore increases the probability of an accident.

(2) Traffic flows affect the probability of an accident because the higher the number of cars present, the more likely that they will be in the same spot at the same time.

(3) Speeding makes it difficult to brake quickly, and thus increases the probability of an accident.

(4) Running a red light makes it more likely that two cars will be in the same location at the same time, increasing the probability of an accident.

These mechanisms are then combined into the following implicit explanations:

(1) The first driver in scenario one had an accident because she was drunk and ran a red light at the precise moment that a car entered from the right-hand direction.

(2) The second driver in scenario one avoided an accident because although she was drunk and ran a red light, no car happened to be entering from the right-hand direction at the moment that she did so.

(3) The second driver in scenario two had an accident because she was drunk and speeding and ran a red light at a moment when another car was in the intersection.

These narratives yield a fully satisfying explanation of the cases, accounting for structural causes such as the effect of alcohol on the nervous system and its determinist role in reducing the ability to respond to unforeseen situations, conjunctural causes such as two cars being in the same location because one of them violates traffic rules and runs a red light, and wholly contingent causes like the presence or absence of a car entering from the right-hand direction.

Of course, Lieberman's point in presenting these scenarios is to contrast what we *already* know about the causes of accidents with what we might conclude from a comparison of the cases if we *did not* know anything about the causes of accidents: what we know is at ridiculous odds with what the "Millian method" is telling us.

But there is a way in which this analysis can provide us a powerful means of doing historical sociology: for, even when the events we are analyzing are rare, it is never the case that we know nothing about the mechanisms that constitute them. That is, just as the accidents in Lieberman's analysis can be broken down into procedures that we do know something about--the effect of alcohol on the nervous system, traffic rules--so can large-scale procedures that we are interested in analyzing, such as revolutions, or the adoption or rejection of free-market policies, be broken down into lower-level procedures about which we do know something. For example, Reagan's adoption of free-market measures can be broken down into the ideological formulation of the policy in question, its movement onto the agenda, and its victory in the decision-making arena--processes we know something about because we know something about the cultural construction of "problems" and "solutions," the rules of congressional policymaking, etc.

There are two questions to ask here. First, on what are the "mechanisms" that we already know based? Second, have we learned anything from the causal comparison that we did not already know?

The four mechanisms given above, about what increases or decreases the probability of an accident, are implicit in Lieberman's narrative. They can plausibly be based on two factors: empirical correlations, and causal narratives generated from

previous knowledge. Drunk driving, for example, can be hypothesized to increase the probability of an accident because we have examined one thousand cases of accidents and one thousand cases of non-accidents, and the proportion of drunk drivers is significantly higher in the first group. (We cannot, however, *conclude* from this that drunk driving increases the probability of accidents--as philosophers of science remind us, it is not logically true that if we observe one thousand white swans we can conclude that all swans are white. But for the purposes of plausibility in social science, this logical standard of proof tends to be neglected, and correlations tend to be interpreted as causation.)

However--more important for our discussion here--drunk driving may also be hypothesized to increase the probability of an accident because we have information on the effects of alcohol on the nervous system. That is, *even if we lived in a world without actual cars* we would be able to say that drunk driving increases the probability of a car accident if we *do* have reliable information, and in particular a reliable narrative, of how alcohol affects human behavior.

This may be clarified through the following example: very few people in the world have piloted a space shuttle, and there have been no large-N studies of the effect of alcohol on space shuttle flight. Does this mean that we have no knowledge of the effect of drunk piloting on space shuttle accidents? Assume for the sake of argument that alcohol affects human bodies in space exactly as it does on earth (this is not what we are trying to figure out--what we are trying to figure out is whether we can say anything about the likelihood of accidents in small-N cases, when we *do* know the mechanisms involved.) Then we might reasonably conclude, from our knowledge of the effects of

alcohol on human reflexes, that drunk piloting would lead to pilot errors in the context of space shuttle flight as well. That is, if alcohol affects human bodies in space as it does on earth, then we know that drunk piloting is likely to lead to pilot error because alcohol reduces the ability to respond to unforeseen situations and interferes with judgement, making error more likely, and that if in some future date space shuttle flight becomes as common as car driving, drunk piloting is likely to lead to space shuttle accidents. We can conclude this even if we do not have many N's of space shuttle flight on which to base this conclusion, indeed, even if we have no N's at all.

If it is the case, however, that we have this mechanism in mind because of *other* information that we know--e.g. in this case we know the effects of alcohol on the nervous system--then we have not learned anything about social process through the causal comparison that we did not know before; the causal comparison is only an application of a regularity that we were already aware of, perhaps a particularly sophisticated comparison because of the interaction of multiple processes. What we have carried out here might be called the "narrow" agenda of historical sociology: we have explained a particular event with reference to social mechanisms that we did not learn from the event itself. This is what Lieberson does when he implicitly concludes whether chance did or did not play a role in his accident scenarios. This is distinct from traditional history, in which the focus is on complete and accurate description and thematic clarification. The point in this kind of historical sociology is to keep the focus on the role of the particular mechanisms being investigated while combining them to explain each particular event.

However, historical sociology has a further agenda, and that is to ask whether mechanisms can be *discovered* from the intensive examination of a small number of

complex events. Historical sociology has traditionally been motivated by the presence of small sets of extremely important phenomena--revolutions, the rise of the nation state--to discover generalizable historical mechanisms from intensive narrative examination of a few cases.

To show what can be learned from the process of narrative examination itself, let us investigate Lieberman's more recent attack on small-N methods.

Super Bowls

In "The Big Broad Issues in Society and Social History: Application of a Probabilistic Perspective" (1997) Lieberman argues that the role of chance factors in history makes determining the causes of an event impossible, and we should therefore couch our conclusions in probabilistic rather than deterministic terms. He uses data from Super Bowl championships from 1967 to 1993 to show that chance plays a large role in who wins the championship. That this conclusion is not particularly shocking suggests that Lieberman has set up a straw figure: he is arguing against deterministic models of a sort that do not actually exist in social science, the kind that "purport to tell us why such and such *had* to happen" (383). Perhaps the only examples of this sort of model are economic analyses of behavior, which argue e.g. that price *has* to go down when supply goes up. However, even this extreme instance carefully limits its sphere of application by noting that this is the case when all other things are equal, and that the "law" can be broken in the case of luxury goods, in the case of improperly constituted markets with imperfect information, etc.

Lieberson might reply that historical-sociological arguments are implicitly deterministic: for example, the argument that the French state broke down because of fiscal problems implies that the French state *had* to break down when confronted by fiscal pressures. But it is not necessary to read Skocpol's argument in this deterministic way: one may equally well read it as saying fiscal problems are a *pressure* on states that *contributes to* their breakdown. The crucial issue is not whether historical sociologists accord a role to chance processes; reading their conclusions in probabilistic terms, as Lieberson wants us to do, does not significantly alter the knowledge we have gained from a particular study.

The crucial issue is whether historical analysis can identify chance factors and understand the structures that allow chance events to play key roles. It is here that Lieberson's own effort unwittingly shows the power of narrative analysis to separate structural, conjunctural, and contingent factors, and in doing so, to reach generalizable conclusions from the narrative analysis of a few cases. Let us examine his analysis with the following question in mind: how does he identify where chance plays a role in Super Bowl championships, and how does he explain the role of these chance events in contributing to victory or defeat?

Lieberson begins by identifying those games in which the outcome is close, which he defines as games "won by a relatively narrow margin, seven points or less" (367); if the Super Bowl championship itself is not close, the playoff games that got the teams into the Super Bowl are examined, and if none of these are close, then the team's pre-season record is compared to those of other teams and evaluated as based on chance if the team got into the playoff with only one win over the next team. "If none of these conditions

occurred, we will conclude that the path to victory was not marked by any obvious chance events." That is, chance events are identified by examining how likely an alternative scenario was. Of course the design is not fail-proof: a team could proceed to a Super Bowl victory of a crushing nature purely because of random forces affecting it from season's beginning to end. In this sense, we can never fully identify the role of chance processes in causation. However, if we are willing to lower the bar to likelihood rather than proof, we can say that the possibility of chance events leading a team to a better than two-win record over the next team, and to wins of greater than seven points in all its post-season games, is small, and it is more likely that such a team's progression was not marked by chance events. (Notice that Lieberson has defied his own prescription in this analysis: he is coming to a deterministic rather than probabilistic conclusion when he says "the path to victory was not marked by any obvious chance events" rather than "it is likely that the path to victory was not marked by any obvious chance events." But rephrasing his conclusion in probabilistic terms does not significantly alter the knowledge gained.)

Lieberson applies these criteria to the first twenty-eight seasons of professional football play and concludes that "in thirteen of the twenty-seven seasons the margin of victory for the ultimate winner in the Super Bowl game was seven or less points in at least one of the post-regular season games" (368). He does not provide data on how teams got into the playoffs, but the point is made: if we accept the postulate that close games are more likely to be influenced by chance processes, then chance processes may have contributed to the victory in almost half of the Super Bowl championships.

This, however, is not enough to establish the conclusion that chance plays a role in Super Bowl championships: all we have learned so far is that chance *may* have played a role in half of these seasons, because the outcomes were close. Thus, Lieberson then provides descriptive narratives of selected games in which chance played a role. These include examples of footballs landing in the hands of surprised players, key players sidelined by accidental injuries, etc.

For example, in Super Bowl X:

Through the first three quarters Dallas held a 10-7 lead. Then, at 3:32 of the final quarter, Reggie Harrison, a Pittsburgh reserve running back who plays on special teams, blocked a punt by Mitch Hoopes at the Dallas 9. The ball bounced off Harrison's face hard enough to wind up in the Dallas end zone, good enough for a two-point safety and run the score to 10-9. It was a play which was considered the turning point of the game....

Dallas coach Tom Landry blamed the defeat on the blocked punt by Harrison, which he said changed the momentum of the game around. He may have been right, but Swann's performance [Swann being a wide receiver for Pittsburgh]--which earned him the game's Most Valuable Player award--was momentum enough for the Steelers. Hospitalized only two weeks earlier with a concussion, and dropping passes in practice, the fleet-footed receiver returned to catch four passes for an astonishing total of 161 yards--a Super Bowl record certain to stand for many years. [quoted in Lieberson, 1997:371]

Lieberson thus concludes that two chance events--the ball bouncing off Harrison's face into the end zone, and Swann's recovery just in time for the game--caused the Steelers victory in Super Bowl X.

What Lieberson has done is use a narrative of the events--an "eventful" description of the game sensitive to temporal sequencing, human agency, and contingency--to identify those events that are due to chance. Identifying the chance events further lets Lieberson identify those events--such as Dallas's inability to block

Harrison, the Dallas punter's inability to kick beyond the defenders, the slight edge in capacity that Dallas had when Swann was not in the game, etc.--which have to do with the capacities of the teams.

In short, Lieberman's Super Bowl example presents a possible method for how to identify chance factors in history: first, identify those instances in which the outcome was close--a key election, a key vote, an assassination--and then use a narrative analysis to isolate the causal forces at work. An interrogation of Lieberman's example shows that identification of a chance factor is itself not very difficult if we adopt a narrative approach, and Lieberman's own narrative analysis shows how to separate the operation of chance factors from more fundamental causes using such an approach.

The key point is that the causal mechanism can only be identified through the narrative process, because only the narrative method can discover events in which chance played a role. This ability to uncover accidental causes is a general advantage of narrative method: narratives are the only way to identify *unsuspected* causal mechanisms; this is exactly what Quadagno and Knapp (1992) argue that Steinmetz's (1990) investigation of German welfare regimes does: "the narrative element locates the causal agent...that links structural theoretical variables to outcomes" (486). The causal relevance of variables emerges from the data itself.

Narrative and Induction

Narratives can, as Lieberman shows in his Super Bowl example, uncover mechanisms and separate out the effect of chance factors from more structural causes. But scholars have criticized the inductive logic of this method for two reasons: (1) an

inductive method is unfalsifiable, and thus does not contribute to the development of a research program, and (2) the data, it is argued, never speak for themselves; theoretical frameworks are always necessary even to identify what counts as data.

Michael Burawoy (1989) argues that working out anomalies within a deductive theoretical framework like Marxism is much more fruitful than the “engagement with history” that Theda Skocpol suggests, because such grand theoretical frameworks produce predictions that can then be confirmed or reformulated into more accurate theoretical constructs. The trouble with this argument is that no grand theoretical framework currently presides over sociological work: to adopt one for the sake of trying to advance a research project that is not paradigmatic in the discipline would be to put method over substance. More importantly, this criticism assumes that the social sciences progress in ways similar to the natural sciences. This is contentious at best, because it is not even clear that deductive theories are *possible* in the social sciences: such theories assume the universality of precisely those characteristics that are being examined, such as the role of production in the ordering of societies, or the instrumentalism of human beings.

The second criticism is more important: induction from the data is not possible because theory is always necessary to identify what is meaningful as data. This is an important criticism, but it applies equally well to the “deductive” framework, for when work in a particular research tradition is devoted to resolving “anomalies” in the deductive theory, it resorts to induction. For example, Gay Seidman’s Manufacturing Militance, Howard Kimeldorf’s Reds or Rackets? and Fatma Muge Gocek’s Rise of the Bourgeoisie, Demise of Empire are all identified by Jeffrey Paige as resolving anomalies

in Marxian or Wallersteinian “grand theories” and thus as being part of the deductive research program Burawoy believes is the only way for social science to progress. But in fact each of these works resorts to an inductive and narrative strategy of analysis, identifying, respectively, bureaucratic authoritarianism as the cause of union radicalism in Brazil and South Africa; Communist leader Harry Bridges’ stewardship of the 1934 dockworkers’ strike as the reason for the ILWU’s radicalism; and the dualism of the pre-1914 Ottoman elite and post-war destruction of its bourgeoisie--ethnically separate from the state--as the reason for Turkey’s peripheralism. Indeed, Burawoy’s own ethnographic work (1979) uses the same methods, constructing narratives of the work process to uncover the causal mechanisms by which control over labor power is exercised.

Perhaps analysts resort to inductive method because in fact the potential causal mechanisms responsible for social processes are nearly infinite, and can thus only be discovered in retrospect. If it is in fact the case that social systems are complex and open, then deductive methods can never suffice; nor can *statistical* methods of induction, for such work can neither generate causal mechanisms by itself (it always depends on prior narrative engagement with the data) nor result in anything stronger than correlations, which do not suffice to prove causation. Narrative is thus a necessary complement to both these methods.

If we are forced into narrative induction despite ourselves, we should think systematically about the ways in which we do it.

First, induction works best in contexts in which there is no shortage of data. When examining events that have already been examined by scholars and the general public, we find categories, theories, and data already present for our evaluation. For the

deductivist these will be irrelevant, but they are a useful beginning point for an inductive examination. In practice, categories arise from the sifting of this primary work that an analyst can then develop into meaningful causal explanations, in a sort of “grounded” historical sociology. For example, in this dissertation, the “entrepreneurial politician” was a category proposed by political scientists trying to explain the differences between American politics in the 1960s and 1980s, and it has been incorporated into the causal explanation, although the explanation goes beyond it.

Second, comparing more than one case is useful because it draws attention to unsuspected similarities or differences that may reveal themselves to be causally relevant. In this dissertation, the role of “punitive” neoliberal policies in the failure of French neoliberalism was identified in just this way, through a comparison with industrial policies in the U.S., which were not punitive. To my knowledge, the punitive nature of the French policies has never been noted before, suggesting the usefulness of the American case as a kind of mirror with which to examine the French.

Finally, a particularly useful strategy has been to focus precisely on particular events that seem contingent or purely accidental, and then to examine the structures that made them possible. This was the method employed to identify the role of issue voting in making the Falklands War relevant to Thatcher’s victory.

In short, I suggest that narrative historical sociology can be done either by (1) constructing narratives of *known* mechanisms to describe how they combine to produce particular events, and (2) in a “grounded” method of historical sociology to *discover* causal mechanisms. Narratives that attempt the latter benefit from covering events that

have already been heavily analyzed, from including a comparative component, and from focusing on contingent or chance events and identifying the structures that make them possible.

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