

SOCIAL POLICY IN THE AGE OF REAGAN AND THATCHER*

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Throughout many of the capitalist democracies in Western Europe and in North America, the recession that began with the sharp rise in petroleum prices in 1973–74 signalled an epochal shift in the patchwork of growth-based economic and social policies that had oriented the welfare state for a quarter-century or more. Quite suddenly, the immediate problems of economic management became more obviously intractable. Sharpened distributional conflicts rendered tried and true strategies to secure popular acceptance and electoral success for traditional social-democratic/welfarist political appeals far less reliable.

The demise of Keynesianism which followed, meant far more than the obsolescence of an economic doctrine that had been used to justify a broad range of economic policies. It represented a significant retreat from a vision of society—the Keynesian welfare state—that had motivated state strategies to harmonise interests through social policy, to politically regulate the market economy and thereby reduce class and diverse social conflicts, and to promulgate for the state a tutelary role in securing business and trade union acquiescence (and less commonly approval) for a limited set of important economic policies.

The sea change in the evolution of state management strategies wrought by the recession of the mid-1970s and symbolised by the ascent (and thus far ascendancy) of Thatcher and Reagan have stimulated some critical re-evaluations of the dynamics of social policy provision in contemporary capitalist democracies. In the US and UK, it has also inaugurated new social policy agendas, with significant budgetary, administrative, and ideological implications. This paper will consider the social policy of the Thatcher and Reagan governments in three parts. First, I will discuss the significance of the Thatcher and Reagan projects for an understanding of contemporary state strategies to manage the contradictions of the welfare state. Second, I will discuss in turn the budgetary, administrative and ideological components of the Thatcher and Reagan social policy agendas. Finally, I will briefly locate issues of social policy within the broader

* Sections of this paper follow from previously published work. See Joel Krieger, *Reagan, Thatcher and the Politics of Decline* (Cambridge: Polity Press; New York: Oxford University Press, 1986).

context of politics and state policy in the age of Thatcher and Reagan. The concluding section will also note new policy initiatives.

I: STATE STRATEGIES AND THE CONTRADICTIONS OF WELFARE POLICY

An impressive set of Marxist theorists, who differ in the respective emphasis they place on economic structuralism, class struggle and the political business cycle, nevertheless have assumed one common ground in their treatment of social welfare **policy**.¹ Despite other differences, they have all sought to illuminate the process by which states structure social policy to facilitate popular acquiescence to capitalist relations while at the same time securing immediate conditions for capital accumulation and reproduction. It is not clear, however, that theoretical treatments of the contradictions of the welfare state have, as yet, assimilated the lessons of the Thatcher and Reagan governments, which may be the most dramatic illustrations of a new era of state strategies to reconcile legitimation and accumulation functions in ways that were not obvious—nor empirically significant—during the period of the Keynesian welfare state.

Claus Offe has perhaps gone the furthest in efforts to chart the mechanisms by which the political and administrative capacities of the state have assumed the central tasks of co-ordination and crisis management for the whole social system.² In reviewing his explanatory approach to developments in social policy, Offe suggests that 'the pattern of development of the strategies and innovations of state social policy' can best be understood by reference to a 'meta-problem' posed as a question:

how can strategies of social policy be developed and existing institutions modernized so that there can be a satisfaction of *both* the political demands 'licensed' in the context of the prevailing political rights of the working class and the foreseeable exigencies and labour and budgetary prerequisites of the accumulation process?

In setting his research agenda and, incidentally, that of many others, Offe stresses the issue of the *compatibility* of the strategies through which 'the ruling political apparatus must react to "demands" and "systemic requirements" in the framework of existing political institutions and to the relationship of social forces channelled through them'. How can the state 'react *consistently* to the two poles of the "needs" of labour and capital—in other words. . . make them mutually **compatible**'.³

Although it is true that highly useful explorations of the contradictions of the welfare state have been motivated in this way, it is my contention that an approach based on the 'compatibility problem' has a more limited catchment area than that implied by Offe's formulation. Without

substantial qualification this problematic only illuminates cases where state strategies are focused on a post-recession reformulation of class compromises within a social-democratic tradition and an enduring welfarist-egalitarian ethos. The approach tends to reify 'the welfare state' and neglect some noteworthy features of existing capitalist states, whose political elites are engaged in a quite different project. To go no further than the cases at hand, it seems clear in the US and UK that social policy agendas have become part of broader state efforts to exacerbate and strategically manipulate *incompatibilities* between previously sanctioned demands by working class and underclass constituencies and the perceived exigencies of budgetary, financial and labour market policies.

Illustrations from contemporary UK and US politics suggest that there are two sides to this strategy: first, the 'de-sanctioning' of working class demands and—a more radical approach—the de-legitimation of trade unions as the central agency for their collective expression; and second, the manipulation of fiscal policy and economic rationale to make working class and underclass demands appear *incompatible* with rational economic goals and the 'national interest'. Thatcher's industrial relations policy most clearly demonstrates the first approach. This is also reflected in Reagan's response to trade union issues, but his political manipulation of the deficit most dramatically exemplifies the second approach.

Through the Employment Acts of 1980 and 1982, and the Trade Union Act of 1984, the Thatcher government has substantially reduced the rights with which British unions have been collectively endowed since 1906. Taken together, these Acts (among other things): hold union officials as individuals financially and legally accountable for a wide range of unlawful activities (including large-scale picketing, strikes to protest at government activity, and secondary strikes); severely restrict the institution of the 'closed shop'; expand the ability of owners to dismiss strikers and union officials; and remove legal immunity from unions (and officials) who authorise otherwise legal industrial action without meeting specified balloting procedures. Thus, Thatcher has not only sought to delegitimise and challenge previously sanctioned working class demands, e.g. for full employment, safeguards against redundancies, industrial democracy, consultation on economic and social policy. Her government has gone one step further: to remove the sanctions, immunities, and legal safeguards of *trade unions*, the crucial agency for voicing these demands.

In this approach, the Reagan administration is not far behind. The politicisation of the National Labor Relations Board which permits union-busting efforts as never before and systematically delays the hearing of complaints (often past the point of relevance); the cruel firing of striking PATCO air traffic controllers and harsh warnings that postal workers who threatened job actions would be dismissed; the ongoing campaign to delegitimise trade unions by perjoratively labelling them PACs (political

action committees) and in August, **1986**, lobbying effectively for legislation that eliminated the unions' capacity to contribute directly to political parties—all this contributes to the process of de-legitimisation of organisations designed to promote working class demands.

Especially in the initial campaign and during her first government, Thatcher exploited popular support for cuts in income tax as justification for a reduction in welfare spending, despite an increase in value-added tax and employee social insurance contributions that offset the loss of revenues. Likewise, in her second government, fiscal arguments such as concern for the public sector 'borrowing requirement (PSBR) as part of a broadly monetarist economic rationale underlay her official justification of the pit closures that were the proximate cause of the **1984-85** miners strike. It was also the defence for the general reduction in industrial subsidies that has contributed to record unemployment. These highly visible gestures exemplify the second strategy of calculated incompatibility, the use of fiscal policy and economic rationale to make working class and underclass demands—for better welfare provision or secure employment—appear irrational and at odds with the 'national interest'.

Reagan's manipulation of fiscal policy as a justification for his anti-welfarist stance perhaps illustrates this approach even more clearly. Despite all the Reagan U-turns, the president's first-term reversal through profligate defence spending of the candidate's high profile assurances of a balanced budget and his later return to the credo of balanced budgets in time to embrace the Gramm-Rudman Act, passed in December **1985**, attacks on social spending seem the most effective means for advancing his ideological goals. Whether or not deficits actually drive up inflation or act as a drag on economic growth, a broad cross section of elite business interests, Republican members of Congress, and Main Street merchants who are the core of the GOP (Republican Party), are absolutely convinced that they do.⁴ Thus, deficit politics becomes the ideological basis for the two themes of Reaganism: imperial defence and fiscal rectitude. In mortal combat with an 'evil empire' the US must be always vigilant: the deficit is really caused by wasteful social programmes. Our military responsibilities are burdensome (or so the argument goes) but we must pay the price of freedom even if unavoidable sacrifices must follow from domestic spending cuts.

'The goal of reducing the government's share of the GNP from 22 per cent to 20 per cent is just not a cause around which the public will rally, for which the public will support cuts in food stamps or school lunches or medical benefits', observed Martin S. Feldstein just before he accepted Reagan's offer to chair the Council of Economic Advisors. 'In contrast, the goal of preventing inflation by balancing the budget is such a cause. So the Administration is trying to rouse public support for its spending cuts with shrill warnings that a failure to do so will lead to ever-increasing

inflation." Ironically, Reagan's own deficit building in the name of imperial defence, was all the while augmented by a standard economic thesis—that deficits yield higher interest rates, the government 'crowding out' of private borrowers, stagnation, and declining national competitiveness. This provided him with the practical appeal with which to champion cuts in social welfare expenditure even while he himself increased the deficit. Economic logic makes the demands of labour and the unemployed incompatible with rational economic goals and prudent fiscal management of the macro-economy. Military expenditure is exempt from this logic.

For actors involved in social policy formation and the development of political-electoral strategies for Reagan and Thatcher, it seems that the 'compatibility problem' has been replaced by a more aggressive set of strategies. If Offe is right in one of his most intriguing arguments, that 'the provisions of the welfare state have partly "decommodified" the interests of workers, replacing "contract" with "status", and "property rights" with "citizen rights,"' then it should also be noted that these governments have taken significant steps to arrest (or reverse) this process. State strategies today in the US and UK involve both implicit and explicit assaults on the rights of citizenship and the operational status of important categories of citizens, working people, women and especially blacks.

In a number of exceptional ways, the Reagan and Thatcher governments challenge the vision of a cohesive and variegated political community in which coalitional politics, institutionalised negotiations among diverse constituencies, and carefully articulated class compromises—all sustained by economic growth—made the social-welfare policy agenda of the Keynesian welfare state possible. Both theoretical formulations and actual Keynesian practices generally presuppose state strategies in pursuit of social and political integration and reduced class, social, and political conflict. But a different set of goals motivate state strategy for Reagan and Thatcher and, as a consequence, policy outcomes are quite different. They have politically manipulated the notion of incompatibility to change the social policy agenda. The discussion of the budgetary, administrative and ideological elements of the Thatcher and Reagan administrations which follows is intended to help substantiate this contention.

II. THATCHER'S SOCIAL POLICY AGENDA

There can be little doubt that Thatcher has politicised the welfare state as never before in post-war Britain. Her initial victory in May 1979, signalled the demise of a tradition of inter-party consensus on a shallow social-democratic agenda designed to foster compatibility between the vicissitudes of the capitalist economy and the political demands of core constituencies: political regulation of market forces through Keynesian tuning of the macro-economy; promises of 'full' employment; the opera-

tion of public sector industries to rationalise rather than transform the capitalist economy; and a comprehensive but not very generous set of direct provisions and transfer payments to secure and expand what T.H. Marshall called the social rights of citizenship. Although the eclipse of the 'welfare state' predates the arrival of the Thatcher government, its policies represent significant (if differential) reductions in provision, and a crucial set of administrative changes and ideological transformations. In short, by contrast to the Wilson–Callaghan years, Thatcherism represents both a deepening of quantitative cuts and a very important shift from mainly quantitative to qualitative changes in the social welfare agenda.

Budgetary reductions

As is well known, the Wilson–Callaghan Labour Government of 1974–79 introduced significant social welfare reductions. With increasing downward pressure on the British pound symbolising a considerable decline in international competitiveness, the government issued a White Paper in February, 1976, announcing cuts of £4,600 million (in 1976 terms) for the next two years (in fact the reduction would rise to roughly £8,100 for the 1977–1979 period). Alongside real cuts especially in housing and a range of personal social services, the cuts eliminated jobs in the civil service and local councils, a critical area of female employment. Apart from social security benefits which had risen 18.5 per cent because of increased unemployment, non-defence spending on public services had already been cut 8.6 per cent from the 1975–1976 level by the time Thatcher assumed office.'

In aggregate terms, during the first six years, Conservative policy in simple budgetary terms did not represent a reversal in Labour policy, but a hardening of the inherited soft-core monetarism of the Callaghan/Healey era. Aside from the noteworthy turnaround in defence spending—from an average annual decline of 1.4 per cent in the last three years under Labour to an average 2.7 per cent increase during the Conservative government—the results were more continuous in simple financial terms than the changes in discourse about the welfare state might initially suggest. The moderate change in the average rate of decline in non-social security benefits (from -2.7 per cent per year between 1975–76 and 1978–79 to -2.3 per cent between 1979–80 and 1983–84) seems unremarkable, particularly in light of the unemployment trajectory. Similarly, social security expenditures showed surprising continuities. Social security (primarily unemployment insurance) expenditure rose an average 5.8 per cent per year during the last three years of the Labour government and a more modest 4.4 per cent per year under the Conservatives.⁸

In sum, during the first Thatcher government, total public spending grew over 6 per cent in real terms (for the four years up to 1982–83), and

increases for **1983–84** amounted to about **1** per cent. Government plans call for zero real growth for the remainder of the second Thatcher government. Aggregate figures, however, do not reveal some crucial distinctions (with important political and distributional consequences): spending for defence and law and order increased three to four times more quickly than total public spending; transport and education was nearly constant; and public housing expenditures were cut by more than half (more on the ideological meaning of housing policy below). Cash benefits were cut by six to seven per cent, while the income support budget showed the largest 'unplanned' growth due to the recession and increased unemployment, growing three times faster than either Labour or Conservatives had projected.⁹

It is therefore fair to say that despite some continuities with the defeated social democracy of Callaghan, the transition to the Thatcher era increased the level of hardship, and its extent, and removed the immunity from cuts of some previously protected client populations. Social security benefits, which had remained largely untouched by Labour's cuts, were systematically eroded in value in the early Thatcher years, and contributory benefits such as sickness and unemployment benefits were reduced. Some cuts were more ideologically pointed than substantial in financial terms, such as the decision to defer the upgrading of family income supplement (**FIS**) for up to eleven months if a claimant filed for the benefit after an annual closing date. Public expenditure was reduced annually by some **£7** million by this policy change. The decision to break the link between basic retirement pension and annual earnings was far more significant in financial terms. Overall, the first six years of Tory cuts in social security resulted in an estimated loss of **£8** thousand million in benefits."

The results of a simulation model based on a cohort study of unemployed men conducted by the Department of Health and Social Security (**DHSS**) tells part of the story. Changes in the provision of benefits between **1978** and **1982** and in real housing costs and general earnings reduced the value of total social security and unemployment benefits received by people out of work compared to their incomes when working. For example, **30** per cent of the sample in **1978** but **39** per cent of the sample in **1982** had replacement ratios (benefits which compensated for previous income) of less than **50** per cent; while only **21** per cent in **1982** compared with **25** per cent in **1978** had replacement ratios of **80** per cent or over." The decrease in the proportion of men with high replacement ratios followed from the reduction of unemployment benefits in **1981** for men aged **60** or over with occupational pensions in excess of **£35** a week and from changes in the provision of earnings-related supplements to unemployment benefits. These supplements to national insurance payments, which were introduced in **1966**, were reduced in **1981** and then abolished at the beginning of **1982**. While available, approximately one-quarter of

the unemployed were receiving these supplements at any given time. A second change similarly expanded the poverty trap: from July 1982 unemployment benefits were treated as taxable income.

All these changes adversely affected the replacement ratio (and life situation) for particular categories of unemployed. By contrast to West Germany, for example, where benefits are related mainly to previous earnings, in the UK they are related primarily to family size and subject to a set of patriarchal and heterosexist biases: a married woman living with her husband cannot claim the means-tested supplementary benefit in her own right; the provision is scaled sharply to disadvantage the individual single claimant; and, for assessments and claims the family unit is assumed at minimum to include a couple defined as a man and woman who are married or living together as husband and wife.

Other Thatcher innovations politicised the provision of benefits in strict class terms. Striking workers or those locked out as a result of a trade dispute are disqualified from both unemployment and supplementary allowance or pension (unless they demonstrate non-participation or no direct interest in the dispute or their unemployment follows from the loss of some other *bona fide* source of employment secured after the stoppage began). A spouse or unmarried partner of a striker is assessed for benefit as a single non-householder. Although the requirements of the striker are thereby ignored, the striker's union strike benefits are treated as income to be taken into account in the usual way in reducing benefits for the other members of the household unit. Moreover a set amount (£17 weekly from November, 1985) is deducted *even if no union strike benefits or other income is actually received*. As the 1984-85 miners' strike vividly demonstrated, the resources of strikers and their families are significantly reduced by Thatcher-era changes (following from the Social Security Act of 1980 and a set of regulations governing trade disputes and recovery from earnings, promulgated in 1984 and 1985). Strikers who are individual claimants outside a household receive *no benefits*, except under a highly restricted set of 'urgent cases' provisions and for funeral expenses.¹³

Administrative changes

Some important modifications in the administration of social welfare and related public expenditure were introduced, at least in embryonic form, during the Callaghan government. Alongside the budgetary reductions introduced as part of the agreement to secure the E3.9 billion IMF credit to stabilise the pound in 1976, the government introduced the new 'cash limits' system in public sector accounting. Except for Social Security payments and a few minor items all central government spending would be constrained by an exact figure set in advance and local government would likewise operate within set cash limits.

Under Thatcher, the cash limits provisions have been strengthened and applied with increasing vigour. Early in her first government intentional official underestimates of inflation and a ruling by the Treasury that a breach of cash limits would be treated as 'financial maladministration' forced certain provision of services below 'planned' levels and intimidated responsible administrators. Thus in 1981–82, public services were forced by inflation and the undercalculation of inflation to absorb a real cut of nearly 3 per cent and panicky administrators underspent cash limits in non-defence spending by a further 3.3 per cent—for a total net loss of 6.3 per cent in hidden cuts. An even less visible cut in the cash limits scheme occurs when increases are not made to accommodate higher taxes that government agencies (unlike those in the US) must pay in the course of normal operations. Accordingly, when the new government increased value added tax (VAT) in 1979, the National Health Service had to 'save' E40 million in wage costs and services to pay VAT to the government.¹⁴

The Thatcher government has gone far beyond the gestures of its Labour predecessor in the application of changed administrative procedures to explicit ideological and political ends, which have come together in a set of concentrated attacks on the operations of local authorities. The pre-eminent authority of the executive to control local authorities through the imposition of cash limits, rate-capping (setting levels for increases in rates), and mandatory auditing requirements¹⁵ has been confirmed through a set of highly visible confrontations with Labour councils. The Lothian council in Scotland was forced to make cuts under direct order of the Secretary of State. The House of Lords upheld Parliament's new statutory control over local authorities, and forced the Greater London Council (GLC), against the highly articulate voices of its committed leftist councillors, to raise the fares on the underground and the buses of the London Transport System. Rate capping, and the expanded cash limits system, which now required parliamentary on top of cabinet approval for any excess spending, were wielded with new power as the battle against the democratic function and autonomy of local authorities—which culminated in the abolition of the GLC and a set of prominent metropolitan county councils in March, 1986—was undertaken in earnest.

In a system with no federal tier, such as the American states or the German Lander, the abolition of the GLC and a set of county councils is far more than an administrative reform. It has significant constitutional implications, for it represents an unparalleled reduction in checks on the powers of the central executive and, not at all coincidentally, it marks an effort to end one of the most exciting experiments in participatory democracy in a local government context. The other administrative changes are more continuous with the cash limits reform that was introduced somewhat more neutrally under Labour. The significance of Thatcher's reforms is best understood in light of the far-reaching

ideological transformations she has sought.

Ideological transformations

It has been widely noted that governments operating within a Keynesian or welfare-statist motif have fostered a set of institutional arrangements that are intended to mobilise consent among potentially disruptive groups and channel conflict into the much safer realm of coalition politics. To many observers, social welfare expenditures were the essential integrative, demobilising tool of state managers.

Thatcher, like Reagan, has repudiated traditional integrative politics, as part of her government's manipulation of alleged incompatibilities between working class and underclass demands and the claimed exigencies of economic performance. The popular support for the Thatcher government has come to rest on an ideology which combines the doctrine of social market economy (monetarism) with a neo-laissez-faire rejection of public intervention in the economy and the universalist and redistributive ethos of the welfare state. This doctrine belies practices of economic policy intervention that continue or deepen, such as Thatcher's tight-fisted control of state sector finances and industrial relations.

In cultural and ideological terms, the attack on the principles of the welfare state is only part of a broader project to reshape political community, reverse the tendency for states to replace contract with status and property rights with citizen rights and forge a durable political base for a radical rightist agenda. Particularistic and even explicitly divisive appeals replace the integrative, universalist norms of the welfare state.

Thus, Thatcher's record to date on social welfare provision and the new Tory approach formalised in the Fowler proposals (to be discussed below) are of a piece with a wide range of apparently unrelated initiatives and high-profile ideological declarations. On the one hand, there is Thatcher's famous 1978 remark on 'World in Action' expressing sympathy for those who feel 'swamped' by the flow of immigrants. This was embodied in the British Nationality Act, 1981 that tightened restrictions on entry and settlement of New Commonwealth citizens, formalised a new hierarchy in citizenship levels, deepened the principles of patriality and gender bias in the determination of status for entry, and underscored the racist intent of nationality legislation. On the other hand, there is the carefully provoked and orchestrated miner's strike, the use of unparalleled police violence in an English setting, the highly dubious practices of arraignment and the seizure of union assets by the courts, and Thatcher's characterisation of the miners as 'the enemy within' (by way of comparison to the Argentine external enemy in the Falklands/Malvinas war).

Even more benign policies, like the sale-back of council housing, are part of a strategy to re-inforce particularism over universalist appeals: not only to tarnish or abridge the provisions of the welfare state, but to divide

citizens in highly valuative categories of 'us' and 'them'. 'We' are the solid citizens who feel swamped, can afford to buy the better range of council flats, and are outraged by the violence of miners and welfare cheats who defraud the Department of Health and Social Security (DHSS). 'They' are blacks, the unemployed, the clients of the welfare state, the strikers.

As Huw Benyon and Peter McMyllor have observed, this de-integrative strategy has throughgoing ideological ramifications.

From the beginning, Thatcher had been anxious to break the old consensus. . . : The old class compromises were not for her, neither were collective forms of life and relationships. With all *corporate* forms apparently in crisis, the powerful articulation of individualism was made to seem both fresh and plausible. In this way of thinking, the phrase 'right to work' became deflected from its original social-democratic meaning of a *public* commitment to full employment, towards a citizen's right to sell, unhindered, one's labour as *individual* in the market-place.¹⁶

There have been other ideologically loaded changes in the focus of public discourse on social policy: from race relations to immigration, from the provision of adequate housing to the 'right to buy', and from poverty to welfare fraud or dependency (the last, even more in the US). The deep significance of Thatcher's social welfare policy lies in these transformations. Despite some important differences in the level and kind of budgetary and administrative changes, the Reagan agenda is remarkably similar in ideological terms.

III: REAGAN'S SOCIAL POLICY AGENDA

In the president's annual State of the Union Address in January 1982, Reagan selected the area of social policy as a signal success of his first year in office. He noted with pride the cuts of some \$44 billion which had already been accomplished during his administration and claimed that he had begun to reverse the pattern of the welfare system he had inherited in which 'available resources [were] going not to the needy but to the greedy'. He promised a host of cuts and administrative reforms in a speech that underscored his anti-welfarist ideology and the depth of his commitment to wholesale changes in state provision of social welfare in the US. The 'jungle' of federal grants for social services, which he termed wasteful and inefficient, would be replaced with 'a single bold stroke' that would devolve 'some \$47 billion in federal (grants-in-aid) programs to state and local government, together with the means to finance them'. In addition, \$63 billion would be cut from the social welfare budget in the remainder of his first term. Finally, Reagan promised confidently that 'the economic program we have put into operation will protect the needy while it triggers the recovery that will benefit all Americans'.¹⁷

Despite Reagan's characteristic confidence, things did not go precisely as he planned. The delay in the economic recovery until the beginning of 1983, Congressional resistance to a range of cuts and proposed changes in the administration of social welfare policy, the expanding federal deficits, and fears about Reagan's vulnerability on the 'fairness issue' in the run-up to the 1984 presidential election—all this (and the brute facts of expanding poverty and privation) flew in the face of Reagan's predictions. In the end, despite considerable damage to social welfare constituencies, especially in the first years of the Reagan administration, the fragmentation and irresolution of the US political system limited the ability of Reagan to follow through on his full anti-welfarist agenda. But, as with Thatcher's Britain, this agenda remains part of a broader de-integrative strategy that has significant ideological implications and material repercussions for the less advantaged groups of citizens in the US, women, gay people, traditional working class sectors, and blacks in particular.

Budgetary reductions

With the Social Security Act of 1935, the cornerstone of New Deal social welfare legislation, the modern context for understanding Reagan's social policy agenda was put into place. The legislation introduced Social Security (pensions) and Unemployment Compensation programmes and, at the same time, inaugurated the system of federal (i.e. national) contributions to state-administered (and often partly-funded) assistance to the elderly, disabled, blind, and benefits for women with dependent children ('welfare', in common usage).

These central New Deal initiatives and certain similar programmes of more recent provenance (such as Medicare and Medicaid) comprise the two-tier programme of ideologically protected and fiscally privileged coverage which closely correlates to Reagan's much vaunted 'social safety net' for the 'truly needy'. One tier includes contributory social insurance programmes that are mainly funded through payroll taxes, notably unemployment insurance and retirement pensions (social security and veterans'); the other tier is comprised of means-tested programmes of benefits to individuals with no (or insufficient) contributory coverage, including: Aid to Families with Dependent Children (AFDC), Medicaid, Supplemental Security Income (SSI), food stamps, housing assistance, child nutrition, Special Supplemental Program for Women, Infants, and Children (WIC).

Budgetary expansion in social welfare provision in the US occurred in two phases: during the New Deal and Great Society periods, in turn. The Roosevelt reforms inaugurated spending in the two-tiered set of programmes, while total federal grounding for social programmes more than doubled as a percentage of GNP from the early 1960s to the mid-1970s after the introduction of Johnson's War on Poverty in 1964.

During this latter period, programmes not targeted on low-income populations (such as social insurance programmes, guaranteed student loans, and Veterans Compensation) accounted for most of the growth, as spending in these programmes rose from under 4 per cent to over 7 per cent of the GNP. But the fastest rate of growth occurred in a new generation of highly visible, and ideologically and politically salient programmes with which the Great Society is most closely associated. These include federal programmes to transfer funds to state and local government and to private non-profit agencies to provide education, employment, legal aid, social and health services to specified, generally 'disadvantaged', populations. As Piven and Cloward have demonstrated, these programmes challenged local elites and advantaged the national Democratic Party that was looking for electoral gains in the North to offset losses in the 'solid South' which had become obvious in the 1960 presidential election." It is often forgotten that, even with their growth during the Great Society and its aftermath, these more visible non-safety net programmes remained low in comparative cost. They amounted to less than 1 per cent of the GNP, a cost easily absorbed during a period of rapid economic growth.

The Nixon, Ford, and Carter administrations for the most part left the structure of provision and tendencies toward growth in outlays unchanged. Under pressure from highly publicised CBS News and Ford Foundation studies that identified widespread hunger in the US, Nixon termed the problem 'embarrassing and intolerable'. Eligibility for the food stamp programme was broadened and expenditure grew from \$248 million in 1969 to \$1.6 billion in 1971.¹⁹ Despite concern for efficiency in expenditure for major non-means-tested programmes, especially Medicare (the health care programme for the elderly) and Social Security, Carter also supported expansion in provision for low income housing and somewhat progressive reforms in AFDC, the creation of some form of national health insurance, and the positive use of public sector employment. On balance, the Carter years show a levelling off in the general pattern of increases in federal social spending as a percentage of GNP.

Particular benefit programmes were reduced during the decade preceding Reagan and including the Carter administration, however. In constant dollars, combined food stamp benefits and AFDC benefits for a four-member household (figures for national rules not modified by state changes) dropped from \$679 per month in 1970 to \$554 per month in 1980. For this safety-net package of benefits, it is fair to say that the early Reagan budgets brought continuities in decline, more than radical change, as benefits declined in real terms to \$515 per month in 1983 (although a drop to \$493 per month was proposed by the Reagan administration).²⁰ The average annual decline of \$13 per month payment during the early Reagan years represents in fact only a very small increase (of roughly

fifty-cents per month on average) over the pattern of decline in the real value of household AFDC and food stamp benefits during the decade of the 1970s. Relatively modest in fiscal terms, this pattern of continuous reductions had enormous human costs, but not costs especially attributable to Reagan.

It is evident, nevertheless, that Reagan's initiatives on social welfare policy have involved significant budgetary cuts. The most extensive cuts occurred within seven months of Reagan's inauguration with the passage of the Omnibus Budget and Reconciliation Act of 1981 (OBRA), which—by contrast to Thatcher's initial strategy of lower borrowing and higher taxes—involved the largest spending and tax cuts in US history. For fiscal year 1982, spending was cut \$35 billion below anticipated levels while personal and corporate income taxes were reduced \$37.7 billion.

The Congressional Budget Office (CBO) reported that compared with projections based on pre-1981 law, AFDC and food stamps were cut almost 13 per cent for 1982–1985; child nutrition programmes declined 28 per cent; housing assistance programmes declined 4.4 per cent; and, Medicaid was cut by five per cent. The CBO found that non-entitlement programmes suffered even deeper reductions: general employment and training funds (excluding public service employment) were reduced 35 per cent; funding for the Community Services Block Grant was 39 per cent less than the Community Services Administration programmes it replaced; and, the Work Incentive Program was cut 38 per cent.

The only programmes to be expanded were SSI for the elderly, blind or disabled and the WIC programme (originally scheduled for elimination and subsequently saved by the efforts of reproductive rights and other feminist and womens rights organisations). In the case of SSI, however, a Reagan-era policy directive to local offices to pare down the list of recipients, meant that through manipulation of bureaucratic red tape some of society's most disadvantaged citizens, for example tens of thousands of the mentally disabled, lost benefits that were rightfully theirs. In its summation, the CBO challenged the Reagan administration claim that the truly needy were left unaffected by the cuts, finding on the contrary that '... the means-tested benefit programs, which primarily benefit low-income households, were cut by about eight percent overall, while the non-means-tested programs, whose beneficiaries are likely to have higher incomes on the average, were reduced about four percent.'²¹ So, in fact, the least advantaged suffered cuts in percentage terms that were twice as extensive as those affecting other clients of the welfare state.

Had Reagan obtained all he asked for, Bowden and Palmer estimate that the net effect of proposed reductions for social programmes by the 1985 fiscal year would have been over \$75 billion (about 2 per cent of the GNP), for a reduction of more than one-sixth below prior levels. Three-fifths of the spending of the discretionary grant programmes of

Great Society vintage would have been cut, one-fourth of that earmarked for low-income assistance, and a little more than one-tenth of the social insurance programmes. Congress gave the president most of what he wanted in budgetary terms in 1981 but enacted far fewer cuts thereafter. It is safe to estimate that overall Reagan got about half what he requested, and that amounted to a reduction of just under 10 per cent from previous policy levels.²²

Administrative changes

The consideration of administrative changes brings the radical character on the de-integrative edge of Reagan's reforms of the welfare state into clearer focus. From the start of Reagan's first term in office, changes in the methods by which the budget was cut signalled perhaps more extensive departures from past practice than changes in the extent of budgetary outlays.

The relationship between the White House and the bureaucracy of the Office of Management and Budget represented the most visible administrative change. The OMB with David Stockman as director assumed explicit ideological and political functions, centralising the budgetary process and effectively eliminating cabinet and legislative discretion. Operating under an explicit directive from Reagan to find \$40 billion to cut in time for the first budget message, Stockman used his position as head of the budget working group to isolate each cabinet member to secure approval for reductions. 'Each meeting will involve only the relevant cabinet member and his aides with four or five strong keepers of the central agenda,' explained Stockman to a confidant. 'So on Monday, when we go into the decision on synfuels programs, it will be [Energy Secretary James B.] Edwards defending them against six guys saying, by God, we've got to cut these back or we're not going to have a savings program that will add up.' When the relevant cabinet member was sandbagged in this way and a decision was reached by the working group, a memo would be sent to Reagan and the President could indicate approval by checking the appropriate box. 'Once he checks it,' observed Stockman, 'I put that in my safe and I go ahead and I don't let it come back up again.'²³ Effective and speedy, the Reagan method of top-down budgeting severely reduced the function of the OMB professional staff, even as it encouraged growing executive and increasingly political control of the fiscal policy mechanism, which as a consequence lost much of its credibility as an independent process.²⁴

With explicit executive control of the budgetary process in place, Reagan was able to institutionalise a number of new methods for cutting the budget. First, he introduced actual nominal decreases in programmes for the first time. Before, benefits were 'cut' only insofar as they would be raised at a rate slower than that of inflation. For the first time explicit

cuts were made in selected programmes. In fact, Stockman went even further and introduced a new term into the budget process: 'zero out'. Great Society programmes like the job-training schemes funded under the Comprehensive Employment and Training Act (CETA) and the Community Service Administration were zeroed out, the budget eliminated in a single fiscal year.

Second, rules of eligibility were changed to reduce benefits for the working poor. Under Reagan's direction, Congress amended AFDC, the major cash benefit programme. Monthly AFDC benefits, which are provided on roughly a 50-50 basis by federal and state funds vary widely among states, in 1984 from lows of \$96 in Mississippi and \$118 in Alabama, to highs of \$526 in California and \$674 in Alaska. With the vast majority of recipients below 80 per cent of the poverty level, a reform was inaugurated in 1967 to raise the incomes of recipients and encourage their entry into the labour market. Until then benefits were reduced dollar for dollar if recipients earned any money. Thereafter, rules were changed such that states disregarded the first \$30 and one-third of all additional income each month.

Reagan eliminated the thirty-and-a-third rule. About one-half of the 450,000 to 500,000 families with earnings who were receiving AFDC at the time of the changes in eligibility rules in 1981 lost eligibility and another 40 per cent had their benefits reduced.²⁵ Since Medicaid eligibility is closely linked to AFDC eligibility, most of those displaced from the AFDC programme also lost their medical benefits. Similarly, when stricter income limits were placed on food stamps eligibility, close to a million people were eliminated from that programme.²⁶

Third, Reagan introduced another new method of budget cutting: the reduction of employment in government positions tied to social welfare provisions which, given the composition of the work force, represents a powerful element of a de-integrative strategy in itself. Between 1969 and 1980 the social welfare economy (both government and private sector contract work) accounted for 39 per cent of all new jobs for women; for black women it accounted for fully 58 per cent of the jobs gained during this period. As a result, women, blacks, and especially black women have been disproportionately harmed by the reductions in force (RIFs) mandated by the cuts.

The OMB estimated that budgetary reductions for the 1981-1984 fiscal year would reduce the federal government's non-defence employment by 8 per cent (150,000) by 1987. The Federal Government Service Task Force estimated that of the employees to be laid off by the end of 1982, fully three-fifths were in the social welfare agencies. Finally, the Task Force noted that among the first 12,000 reductions, women in the upper managerial-professional levels were affected at a rate 150 per cent higher than their male counterparts and black administrators were laid

off at a rate 200 per cent higher than white administrators.²⁷

Thus women in general and black women in particular, have suffered triple damages from Reagan's anti-welfarist assault: once as a disproportionate number of the recipients, once as late entrants to the labour market, and once as laid off workers who lose a range of benefits. Therefore, in administrative as well as budgetary terms the Reagan revolution has economically disadvantaged and marginalised two core constituencies which had been partly integrated into the affairs of state by the institutionalised compromises of the New Deal and the new programmes of the Great Society.

Ideological transformations

As the discussion of budgetary cuts and administrative reforms suggests, Reagan, like Thatcher, has made the politics of federal expenditure on social programmes a central part of a de-integrative strategy. Especially for the first few years of the Reagan administration, insult followed injury, as the ideologues of the New Right and senior administration officials marginalised the working poor, the unemployed, women, and blacks, then blamed them in highly moralistic tones for their predicament.

Apparently, it was not enough that between 60 and 80 per cent of the recipients of federal welfare programmes cut by the Reagan administration were women and children,²⁸ nor that nationwide 80 per cent of the case-load for AFDC were female-headed households (91 per cent in New York),²⁹ nor that in 1981, 45 per cent of all black children lived in poverty (compared to 14.7 per cent of white children) and that for children in black female-headed households the poverty rate was 68 per cent.³⁰ In addition, following the line of analysis of George Gilder,³¹ Charles Murray³² and others, the administration blamed the victims for their situations. 'There is no question that many well-intentioned Great Society-type programs contributed to family breakups, welfare dependency and a large increase in births out of wedlock,' said Reagan in a radio broadcast in December, 1983. Added Edwin Meese III in remarks to the National Press Club in the same month, 'In a very real sense, the broken families, dependent mothers and fatherless children that were spawned by a decade of aimless spending are the real victims of a well-meaning but misguided system of governmental aid and regulations.'³³

As in Britain, where the issue of provision of decent housing has become the 'right to buy' and the problems of racism were displaced into discussions of immigration, Reagan's welfare-state rhetoric involved a crucial element of ideological alchemy. Problems of poverty exacerbated by budget cuts and tightened rates of eligibility, and the denial of federal funding for abortions which increased the number of children in poverty, were turned into moralising (and racist, sexist, and familist) accusations of dependency.

In this way anti-welfarist rhetoric became part of the broader pattern of de-integrative politics. 'The Reagan Administration is the most racist in recent history,' notes Robert Lekachman. 'The president has declared war against blacks and Hispanics, welfare clients, women, children, and blue-collar workers.'³⁴ The radical marginalisation of the working poor, the ideological assaults on the integrity and dignity of recipients of welfare benefits, the use of the Justice Department to abate affirmative action in hiring and education for women and blacks, the prominence of homophobia and challenges to female sexuality and reproductive rights in government voices and New Right politics, Reagan's nomination of a Chief Justice who signed an anti-Jewish housing covenant and allegedly harassed blacks registering to vote, the use by Reagan of the racist code words 'state rights' (made famous in efforts to defeat federally mandated integration of public facilities twenty years ago)—all this suggests the agenda of ideological transformations in the Reagan era. It represents part of a far-reaching plan to marginalise constituencies that had previously been integrated, however partially or negatively and, in this way, to reduce the status and social rights associated with citizenship and substantially redraw the boundaries of capitalist democracy.

CONCLUSION: BEYOND THE WELFARE STATE

The vision of a cohesive and variegated community, in which the coalition politics of the Keynesian welfare state involved diverse constituencies in the negotiation of a political agenda, has been shelved. Thus in the US and the UK the terms of the reconciliation between capitalism and democracy have been recast. The prerogatives of private capitalist elites are expanded. The safeguards provided the politically weakened groups such as ethnic or racial minorities and women have been eroded. A de-integrative politics has replaced government concern with the compatibility problem. Democratic participation and the meaning and rewards of citizenship have shrunk in some ways to nineteenth-century proportions as the dimensions of capitalist power, patriarchal and white privilege expand commensurately.

Reagan and Thatcher came to office and have consolidated power because they offered confident alternatives to the tired politics of Carter and Callaghan. They artfully forged firm arithmetic pluralities—conglomerate constituencies but not unified coalitions—from a set of disparate interests and particularistic appeals: on housing, race, anti-labour or anti-union sentiments, in defence of the family, or for a fiscal rectitude that means privation for the least advantaged. Among other political problems the fairness issue plagues Reagan³⁵ and the appearance of indifference in the face of record unemployment constantly threatens deterioration in Thatcher's position.³⁶ Nevertheless, manipulation of economic policy has

permitted the continuation of high risk and divisive strategies based on de-integrative policies and arithmetic politics.

To date, these ominous directions in social policy, electoral-political strategy, and the administration of the budget are continuing unabated, although with some significant new ingredients. In the US, after early enthusiasm for Reagan's social policy agenda, Congress checked some of the most ambitious reforms. Perhaps the most radical proposal, for block grants to the states for AEDC and Food Stamps, never even made it to Congress. The change would have eliminated all federal financial and policy-setting responsibilities for two major programmes and probably ended all public responsibility for treating a set of social problems.³⁷

More generally, by 1982 a stalemate in executive-legislative relations had developed, in some sense only to be broken with the December, 1985 passage of the Gramm-Rudman Act that mandated automatic cuts annually, culminating in a balanced budget in 1991. Despite a Supreme Court ruling that the mechanism granting the Controller General, an officer of Congress, executive powers to estimate, allocate, and order targetted reductions violated the Constitution's provision for separation of powers, the Congress immediately ratified \$11.7 billion in cuts. The July 1986 decision by Congress to use the bills' fallback mechanism confirmed the March decision to cut 4.3 per cent across-the-board from non-military programmes (but excluding Social Security and a set of programmes for the poor).³⁸

The overwhelming Congressional support for the Gramm-Rudman Act underscores Reagan's success in transforming deficit-building military spending into a passionate and highly-legitimate exercise in the management of incompatibility to sustain ideological ends. In the aftermath of this victory, the White House has begun a campaign to generate popular support and state government approval for a major administrative change: to provide the poor with a cash benefit only, eliminating assistance programmes such as food stamps, Medicaid, public housing and school lunch subsidies.³⁹ Reagan forces are likewise promoting a cash benefit supply-side approach to welfare provision by encouraging the view (which may well have some truth) that tax reform will aid the working poor and other low-income households, and is therefore an affirmation of the president's concern for securing the safety net. As a senior analyst for the Heritage Foundation, a conservative research institute, was widely quoted as saying: 'The first law in helping the poor is not hurting them. An adequate tax policy is the first step in welfare policy.'⁴⁰

In Thatcher's Britain, similarly, significant administrative and budgetary changes in social provision accompany continued anti-welfarist rhetoric. After establishing a special inquiry into pensions (in November, 1983) and into housing benefits (in February, 1984) the Thatcher government undertook a general investigation of social welfare provision that

culminated in a Green Paper issued in June, 1985. The three volume *Reform of Social Security* (The Fowler Report), claimed to be 'the biggest reform of social security for 40 years: the successor to Beveridge'.⁴¹

In fact, it represents a sweeping programme of administrative changes and cuts to abolish the existing earnings-related pension plan and supplementary benefits, and replace them with a system based on a common national insurance contribution rate, the introduction of new occupational and personal pensions, and the inauguration of a new scheme of income support. In the guise of rationalisation and fiscal prudence, the plan seems likely to involve considerable cuts in non-means-tested benefits and tightened eligibility for means-tested benefits. It is likely to encourage downward pressure on the rate of national insurance (NI) contributions, and intensify the ideological distinction drawn between NI and means-tested benefits.⁴²

In light of this social policy history of the Reagan and Thatcher governments, it is now all too clear that the Keynesian welfare state and policy motivated by the compatibility problem represented a transitory motif of class compromise, a fairly long but nonetheless limited *durée* which was determined by the contingent interplay of political forces within a context set by exceptional economic performance. There is no welfare state, only a set of welfare provisions. Designed to offset the brute force of capitalism—and the physical frailty of the species (old age, invalidity, etc.)—these policies suited particular motifs of coalitional politics within a social-democratic mould. Both the social policy package and the institutional provisions of the Keynesian welfare state were typical of an unusual period, perhaps never to be repeated. As social policy in the age of Reagan and Thatcher illustrates, the 'welfare state' is not the ultimate resting place of capitalism: perhaps it was the highest stage, but it was not its final stage.

NOTES

1. For an excellent summary and discussion of the differences among schools of interpretation, see Larry J. Griffin, Joel A. Devine, and Michael Wallace, 'On the Economic and Political Determinants of Welfare Spending in the Post-World War II Era', *Politics and Society*, Vol. 12, No. 3 (1983), pp. 331-372.
2. John Keane, 'Introduction', in Claus Offe, *Contradictions of the Welfare State*, (Cambridge, Mass.: MIT Press, 1984), p. 13.
3. Offe, pp. 104-105.
4. *The Baron Report*, No. 144, February 15, 1982.
5. Timothy B. Clark, 'Will Economic Growth End the Deficits or Will the Deficits Stifle Growth?', *National Journal*, Vol. 15, No. 2 (January 8, 1983), p. 65.
6. Offe, p. 197.
7. In Britain *social security* refers to a variety of income maintenance measures. The National Insurance Fund provides insurance against loss of income in the event of unemployment, sickness and invalidity, widowhood or retirement,

and for expenses associated with birth and death. These, along with industrial injury benefits, are contributory. Non-contributory benefits include means-tested support to persons or households with low income (supplementary benefit and family income supplement [FIS]); also, non-means-tested support through child benefit and, for the long-term sick or disabled, through invalidity pensions and associated allowances. David Hall, *The Cuts Machine: The Politics of Public Expenditure* (London: Pluto Press, 1983), pp. 3-68.

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9. Michael O'Higgins, 'Inequality, Redistribution and Recession: The British Experience, 1976-1982', paper presented to the Conference on the Thatcher Government and British Political Economy, Harvard University Center for European Studies, April 19-20, 1985.
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16. Huw Benyon and Peter McMyler, 'Decisive Power: The New Tory State Against the Miners', in Huw Bunyon (ed.), *Digging Deeper* (London: New Left Books/Verso, 1986), p. 33.
D. Lee Bawden and John L. Palmer, 'Social Policy: Challenging the Welfare State', in John L. Palmer and Isabel V. Sawhill (eds.), *The Reagan Record* (Cambridge: Mass.: Balinger Publishing Company, 1984), p. 177. The discussion of the evolution of US welfare policy that follows is closely based on the arguments and data of Bawden and Palmer.
18. Frances Fox Piven and Richard Cloward, *Regulating the Poor. The Functions of Public Welfare* (New York: Vantage, 1971).
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22. Bawden and Palmer, p. 184.
23. William Greider, *The Education of David Stockman and Other Americans* (New York: Dutton, 1982), pp. 20-21.
24. Lester M. Salamon and Alan J. Abramson, 'Governance: The Politics of Retrenchment', in Palmer and Sawhill, p. 63. ■
25. 'Social Welfare Under Reagan', *Editorial Research Reports*, Vol. 1, No. 10 (March 9, 1984).
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27. Steven P. Erie, 'The Conservative Attack upon Women and the Welfare State in the United States: Potential for a New Progressive Alliance?' Paper presented to the Tocqueville Society Conference on Community Action and Public Policy, Institut d'Études Politiques, Paris, May 6-7, 1985.
28. See Bawden and Palmer, pp. 177-216.

29. Karen J. Hatcher, 'The Feminization of Poverty: An Analysis of Poor Women in New York City', June, 1984 (unpublished), The Council of The City of New York.
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36. See, for example, *British Public Opinion*, Vol. VII, No. 5, (May 1985), pp. 1-3.
37. Bawden and Palmer, p. 210.
38. See, 'The Month in Congress', *Congressional Digest*, Vol. 65, No. 2 (February 1986), pp. 33-34; 'The Month in Congress', *Congressional Digest*, Vol. 64, No. 4 (April, 1986), pp. 97-98; *New York Times*, July 18, 1986, p. A1, 10; Alice M. Rivlin, 'The Need for a Better Budget Process', *The Brookings Review*, Vol. 4, No. 3 (Summer, 1986), pp. 3-10.
39. *New York Times*, August 10, 1986, p. A1, 22.
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