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The Revival of Laissez-Faire

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In this chapter, Gary Marks examines another aspect of national politics in which the United States and Great Britain seem to be following similar paths: the resort to a laissez-faire economic approach by governments in the 1980s. His argument falls into three main parts. First, the particular strength of the return to laissez-faire ideals in the 1970s was not merely a response to the special economic problems of the age but was more significantly shaped by certain distinctive features of the conservative parties in these countries. Second, political constraints on economic policy, deriving mainly from the special role of interest groups, reinforced the turn to laissez-faire ideals among conservatives. But Marks argues that the reasons for this are different in each case. Although the relations between interest groups and the government and between interest group leaders and their members are markedly different in each country, nevertheless the reality is that interest groups in both countries often have the political influence to frustrate government policies yet lack the consistent ties to government and a centralized organizational structure to allow effective coordination in a government economic plan. Third, the special characteristics of the conservative parties and interest group structure in Great Britain and the United States differentiate these countries from other western democracies (perhaps making them appear more similar than they really are) and help to explain the extraordinary attraction of laissez-faire policies to the administrations of Mr. Reagan and Mrs. Thatcher. Only by situating the two countries in the wider context of industrialized democracies generally can some important and special characteristics of the two states be isolated and thus the attraction to laissez-faire policies in these countries be explained.

Less than twenty years ago the growth of government, and of government intervention in the economy, were viewed by political scientists and economists as part of an inexorable process of political development in advanced industrialized society. Although the absolute level of state intervention varied among Western societies, the direction of change was the same. Today, however, it is clear that parties of the Right in several Western countries are challenging to reverse this trend. With the accession of the Right into government in Britain in 1979, and in the United States in 1980, the doctrine of laissezfaire, emphasizing the retrenchment of state intervention in the economy, has been revived as a guide to economic policy-making.

This chapter will explore why this revival has taken place. For our purposes, this broad question involves three specific ones: Why has the revival of laissez-faire been stronger in the United States and Britain than in other Western democracies? Why is it taking place at the present time? And what characteristics of the political systems of the United States and Britain have influenced the revival of laissez-faire

in these countries?

The minimal defining element of laissez-faire is the separation of state and economy so that the state does not exercise authority over the allocation of scarce economic resources. However, in this form laissez-faire has never existed, even in its heyday in the United States and Britain in the third quarter of the nineteenth century. In fact, it is hard to see how laissez-faire could exist in pure form, for even "night-watchman" governments, operating in far simpler societies than our own, have exercised controls over the currency and have regulated the organization of markets.1 In the context of contemporary Western society, the revival of laissez-faire has taken the form of "neo-laissez-faire," and is most usefully understood as a tendency rather than an absolute. In the programs of the present conservative governments of the United States and Britain, neo-laissez-faire emphasizes the following broad goals of economic policy: (1) the retrenchment of government ownership of industry and of public spending (with the exception of defense spending), in order to encourage private enterprise; (2) the avoidance of systematic government intervention in market decision-making (e.g., through incomes policy or industrial policy), so as to minimize political control over the allocation of private economic resources; and (3) the furtherance of competition, especially in the labor market, by constraining monopoly power, especially of labor unions.2

These components of neo-laissez-faire were elaborated by economists in response to deficiencies in economic policy that became increasingly apparent from the late 1960s. In both the United States and Britain, as well as in other Western democracies, a search for new approaches to economic policy was stimulated by the perceived failures of Keynesian economic policy to cope with a series of economic problems, most notably rising levels of inflation and unemployment and the worsening terms of trade-off between them, deteriorating real economic growth, and the appearance of a sharper trade cycle with deeper and longer lasting troughs of recession. But if neo-laissez-faire was a response to the limitations of conventional economic policy, it was by no means a unique response. An idea of the range of doctrines that might have served to guide policy as rational alternatives to neo-laissez-faire can be seen simply by looking at the experiences of other Western societies in this period, from attempts to guide the economy by concerting the demands of functional interest groups, as in Sweden or Norway, to more dirigist strategies of state planning, as in France.

In this chapter, I shall explore a path of explanation which is complementary to the economic approach, but which focuses explicitly on two aspects of what might be described as the political dimension of an explanation of neo-laissez-faire. First, there is the question of how the economic problems of the period were interpreted on the political Right. This is important because the simple recognition of a particular policy problem does not define the solution that is adopted by a political group or party. A policy problem may be (and usually is) interpreted in several mutually exclusive ways, each suggesting a different solution. Second, there is the question of the political constraints on alternative solutions to the policy problem. Some conceivable approaches to a policy problem may be unworkable or ineffective within a particular political system, however desirable they may be on other, even economic, grounds. In this sense, the political context of economic policy serves to constrain the policy options that are available to policymakers.

The political dimension of my explanation is, I believe, particu-

larly important if we wish to explain why neo-laissez-faire has been stronger in the United States and Britain than in other Western societies. While it may be true that the degree of severity of the economic problems that the United States and Britain faced in the late 1960s and 1970s had some impact on the willingness of parties in these countries to adopt radical policy programs, the link between economic problems and party actions is very complex. Too many variables intervene between economic performance and policy formulation to postulate a straightforward relationship between the two. And, however it is measured, the level of state intervention in the economy, which is the target of neo-laissez-faire, is relatively low in the United States and only moderately high in Britain when compared to other Western societies where the demand for neo-laissezfaire has been weaker.3

Is it possible to find common political factors in the United States and Britain that influenced the revival of laissez-faire? The supposition of this chapter is that two broad political factors are indeed common to these societies and did influence the doctrines of the political Right in the same direction.

The first factor concerns the traditional orientation of the Republican and Conservative parties toward state intervention in the economy. Distrust of government economic controls was voiced by significant elements of each party well before the economic crises of the 1970s. Support for neo-laissez-faire, in both cases, was linked to the rising fortunes of political groupings that claimed to be returning the party to its traditional moorings of support for individual initiative and private enterprise. Within the Republican and Conservative parties, neo-laissez-faire, as a guide to interpreting the economic problems of the 1970s, was consistent with doctrines that were already well established.

In the next section of this chapter, I hypothesize that these doctrines were influenced by certain fundamental features of the political Right in the United States and Britain, in particular, the strength, unity, and religious heritage of the Republican and Conservative parties. The absence of party fractionalization within the Right has meant that conservative parties have not had to enter broad-based coalitions with agrarian or religious parties if they wish to govern. The major source of cleavage within the party systems of the United States and Britain is socioeconomic, emphasizing the question of state intervention in the economy, alongside welfare and equality issues. In addition, the absence of Catholic influence on the political

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A second broad political factor that appears to have influenced the doctrines of the political Right in the United States and Britain in the same direction concerns the difficulties that face governments in pursuing economic policies that would serve as an alternative strategy to that of neo-laissez-faire. In both countries, governments have tried to find ways to control the course of the economy systematically by directly influencing the demands of economic interest groups in line with national priorities of price stability, low unemployment, and economic growth. But the principal avenues of such control-incomes policy and industrial policy-are extraordinarily difficult to implement in the United States and Britain. Economic policy in both societies has been described in terms of pluralist stagnation, where major interest groups are able to thwart the state's policy initiatives. The existence of severe political constraints on state intervention in the economy has contributed to the belief among many conservatives that the best government policy is one of disengagement, emphasizing monetary restraint and economic stability, without otherwise intervening in market decision-making.

Before discussing these political factors in more detail, I should make clear that I am concerned with neo-laissez-faire as a policy doctrine, as a guide to policy-making rather than as a set of policy outcomes. To what extent the doctrine is reflected in policy outcomes is a fascinating issue, but one about which—for the purposes of this article—we can afford to withhold judgment. Although neo-laissez-faire has been stressed in the programmatic pronouncements of the Republican and Conservative governments, the strength of neo-laissezfaire in the practice of policy is questionable. The pursuit of economic policy is constrained by numerous influences, domestic and international, over which an executive has little control, and the expectation of, say, domestic opposition or an international recession will, of course, influence the kind of policy selected. The pursuit of neo-laissez-faire is subject to a further, and perhaps unique, constraint, for it places a government in the paradoxical position of having to exert considerable effort to reduce its influence over certain forms of economic activity. This is particularly true in Britain, where

the role of the state in the economy is more extensive than in the United States. Thus, the economic policies of the Thatcher government in the early 1980s are mixed if we categorize them simply in terms of the scope of government. On the one hand, the government has adopted unambiguous neo-laissez-faire policies of extensive denationalization and free collective bargaining in the private sector; on the other hand, it has extended the scope of central governmental control over local government finances, and has regulated the nationalized steel and coal industries more closely than any of its Labour predecessors. Neo-laissez-faire involves a radical restructuring of the role of the state in a society such as Britain, and, as Mrs. Thatcher has recognized, this demands the active use of state power to overcome bulwarks of resistance. Paradoxically, but also perhaps inevitably, the pursuit of neo-laissez-faire in a modern industrialized society may demand a strong and interventionist state.

The role, or "power," of the factors that I shall examine in the following pages is hard to gauge with precision because causation is very difficult to trace at the level of whole societies. While they only partially determine the relative strength of neo-laissez-faire, a careful examination of their causal influence should demonstrate that the revival of laissez-faire in these societies was no coincidence, but is rooted in underlying commonalities of the two political systems. However, the United States and Britain share many features, apart from the ones dealt with here, which might have influenced the doctrines of the Republican and Conservative parties in the same direction. That is why it is useful to compare these societies with others sharing some of each of their features, but differing in others. The societies I shall refer to are mainly the larger societies of Western Europe (excepting Spain and Portugal) and Australasia, all of which are roughly similar to the United States and Britain in the liberal democratic character of their party competition, their mixed economies, and in their level of economic development.

A comparison framed in this way may help to shed light on some Anglo-American similarities that would not be apparent in a straight United States-Britain comparison, in the same way that two members of a family, however different when viewed in isolation, share some basic features when compared among a larger population. The contrasts between the United States and Britain that will emerge in this chapter are seen against a background of impressive similarities rooted in shared political traditions and trajectories of political development, and which touch on their political cultures, their party and electoral systems, and, for our purposes perhaps most important of all, their interest group systems.

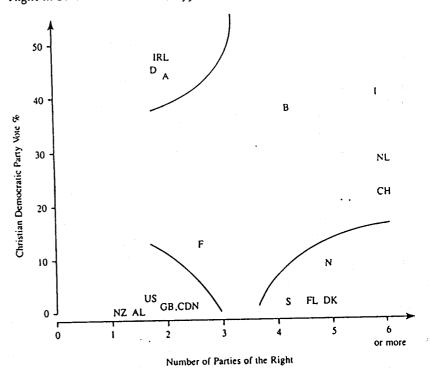
The Political Right and Neo-Laissez-Faire in the United States and Britain

Parties of the Right in the United States and Britain share two fundamental characteristics that differentiate them from parties of the Right on the continent of Western Europe. First, the Republican and Conservative parties are unitary in their representation of the political Right. They operate within electoral systems based on the principle of plurality ("first past the post") which serves to punish fractional parties. Neither party has to compete or ally with other right-wing parties based on religious or rural constituencies. In the United States and Britain, the orientation of the parties of the Right is simplified because of the lack of major social cleavages that compete with the left/right dimension of party competition. Second, the Republican and Conservative parties are broadly secular. To the extent that they have been affected by religious values, these have been Protestant. In this they are to be contrasted with the Christian Democratic parties of the Right in Central and Southern Europe which have been deeply influenced by Catholic values, and share, to varying degrees, a view of society and the role of the individual in it that is distinctly antiliberal.

The influence of these characteristics appears to be negative rather than positive: neo-laissez-faire has been relatively weak when the political Right is fractionalized, or dominated by a Christian Democratic party. But where the political Right is unified and secular or Protestant, the strength of neo-laissez-faire has depended on further conditions relating to the tenure of the conservative party, discussed below, and the character of state/interest-group relations discussed in the next section.

The combination of variables that divide the party-political representation of the Right in Anglo-American societies from other Western societies is illustrated in figure 2.1, which represents the degree of fractionalization of the Right and the electoral strength of Christian democracy over the thirty-year period 1951 to 1980 as two independent dimensions of the political Right in the United States, Britain, and fifteen other advanced industrial societies. Alongside the Anglo-American societies, which have dominant Protestant-oriented con-

Figure 2.1 Christian Democratic Party Vote and Fractionalization of the Right in Seventeen Countries, 1951-80



Key: (AL) Australia; (A) Austria; (B) Belgium; (CDN) Canada; (DK) Denmark; (FL) Finland; (F) France; (D) West Germany; (IRL) Republic of Ireland; (I) Italy; (NL) Netherlands; (NZ) New Zealand; (N) Norway; (S) Sweden; (CH) Switzerland; (GB) United Kingdom; (US) United States.

*Average number of parties of the Right required to form optimum rightist majority (optimum here means the most right-wing majority coalition possible, except where the designated party of the Right obtained a majority for itself). (Based on Sten G. Borg and Francis G. Castles, "The Influence of the Political Right on Public Income Maintenance Expenditure and Equality." Political Studies 29, no. 4 [December 1981]: 610).

servative parties, two further distinct groupings emerge: the Northern European countries in which the political Right is fractionalized into conservative, agrarian, and confessional parties; and West Germany, Austria, and Ireland, where Christian Democratic parties are dominant. A fourth, more varied, grouping encompasses the Low Countries and Switzerland, in which the Right is fractionalized along both religious and ethnic lines, Italy, where a strong Christian Democratic party dominates a fractionalized Right, and France, in which the Right is split between the Union for French Democracy (UDF) and the Guallists.

Where the Right is deeply fractionalized, the liberal defense of laissez-faire capitalism has been weakened by party cleavages that cut across the left/right dimension of laissez-faire versus state intervention. Conservative or neoliberal parties representing the values of individualism, market competition, and a limited state have tended to adjust their strategy if they enter government coalitions with confessional, agrarian, or center parties oriented to crosscutting issues of party conflict. Moreover, even when they are out of office, the pressures of electoral competition within the Right may lead to a moderation of antistatism, as has been the case with the conservative parties of Scandinavia.4 In societies where the Right is fractionalized, the strongest demands for neo-laissez-faire have been put forward by populist protest movements, such as the Progressive party in Denmark and the Anti-Tax party in Norway, that have combined antipathy for state regulation and welfare expenditures with a generalized antisystem sentiment.5

In several Western European societies, the political Right has historically been oriented around religious values. In Central and Southern Europe, Christian Democratic parties have formed the major parties of the Right, while in France, Christian democracy remains an important tendency within the Center-Right upp. While ideological conflicts between Christian Democratic parties and parties of the Left remain sharp, Christian Democratic parties have not fostered the ethics of capitalist individualism or laissez-faire. Their heterogeneous bases of support and Catholic moorings have inhibited the development of class-based or ideologically coherent programs.⁶

This link seems to be confirmed in the case of West Germany, where the political salience of Catholicism has declined markedly since the Second World War and the Christian democratic alliance of the Christian Democratic Union (CDU) and the Christian Socialist Union (CSU) has become more sympathetic to the doctrines of liberal capitalism. After the Second World War, the CDU-CSU became a biconfessional party, uniting Protestants and Catholics, and like its counterpart in Austria, was able to provide the party-political basis for a relatively united Right. As R. E. M. Irving has observed in his study of the subject, "Those Christian Democratic parties which absorbed conservative parties—as has been the case in Germany and Aus-

tria—are now themselves essentially conservative parties. On the other hand, those Christian Democratic parties which still have to compete with conservative parties—as do the Italians with the MSI and PZI, the Belgians and Dutch with the Liberals, and the French with the Guallistes and Giscardiens—are essentially centrist in orientation."⁷

In the United States, the chief religious influence on parties of the Right has been Protestantism, which has emphasized the values of individualism, self-reliance, and moral self-responsibility for success or failure, values that are congruent with a market society. As Seymour Martin Lipset has noted in a discussion of the character of the American Right:

As a new society and a new nation, formed as a society by settlers who rejected the hierarchically organized churches and fixed class system of Europe, and formed as a nation in a Revolution which rejected the alliance and dominance of throne and altar, the central ideology of the United States is anti-statist, individualistic, egalitarian and democratic. It glorifies the pioneer settler and the Protestant who is morally responsible directly to God.

The anti-statist individualist emphasis which defined nine-teenth-century Americanism has remained important. While the European conservatives have often supported increased state power in the form of a benevolent Tory welfare state, American conservatives have stressed individualism, local rights, and laissezfaire, even to the extent of describing their ideology as libertarian.⁸

Such values have been weaker in the British Conservative party, which has been closely associated with the established Church of England, and has generally been more sympathetic to the ethic of noblesse oblige. However, in both countries the relative weakness of institutionalized state/church relations, and the relatively loose ties of Protestant churches with their communities, has meant that religion itself has been a less important source of cleavage than in Catholic countries. By contrast with most continental European societies, the Anglo-American societies have been characterized by what Gabriel Almond has described as a "homogeneous, secular political culture." With the partial exception of Canada, the main source of cleavage is socioeconomic, with the chief lines of party competition oriented around issues of state intervention in the economy, welfare, and equality. 10

In Britain during the 1950s and early 1960s the intensity of party competition on these issues appeared to decline. After the Second World War, the Labour party led the way in promoting a new and broader vision of the role of the state in the economy, and elements of this vision—the notion of the welfare state and government ownership of certain monopolies and ailing industries—were adopted by the Conservative party from the late 1940s. This was made all the easier because these state interventions could be subsumed under traditional conservative doctrines that have been sympathetic to state paternalism and the pragmatic adaptation to change.

The period from the 1950s to the 1960s has generally been described in terms of a consensus on major aspects of government policy: both Conservative and Labour parties seemed to accept the desirability of the welfare state and full employment maintained through Keynesian policies of demand management. But this consensus never embraced the far wings of either of the major parties. The moderate, social democratic, Butlerite tendency within the Conservative party was always subject to criticism from the economic "purists," most notably Enoch Powell, Peter Thorneycroft, and Peter Birch, each of whom held, and resigned from, government office in these years. When conventional economic policies were seen to be failing in Britain in the late 1960s and 1970s, such criticisms, emphasizing the dangers of state control in society, gained legitimacy within the party.

The link between the dominance of socioeconomic lines of cleavage, right-wing unity, Protestanism, and conservative support for neo-laissez-faire, is a complicated one. There are significant differences among the Anglo-American societies as well as between them and societies that fall into the groupings mapped out in figure 2.1. Conservative parties in all societies have an understandable concern to avoid being identified solely with socioeconomic issues which polarize the electorate along class lines, for the simple reason that if they do so they are likely to find themselves in a minority. Thus conservative parties have emphasized patriotism (and sometimes nationalism), administrative efficiency, questions of morality, and other issues that have potential appeal to lower class voters.

In Australia and New Zealand, and to a lesser extent in Britain, conservative parties have been able to connect their long tenure in government with the image that they are the "natural" party of government, best fitted to provide efficient government for the entire nation (as contrasted to labor parties depicted as representing solely the working class). In the postwar period this was conducive to an

emphasis on social democracy, based on the conservatives' appeal as the party best able to administer an extensive government and welfare state in an atmosphere of class consensus.

It is perhaps no coincidence that the turn to neo-laissez-faire over the last twenty years has been strongest in conservative parties that have been turned out of government. In opposition, the appeal to the middle ground as the natural party of government is less convincing. The art of "conserving" is itself more problematic for a conservative party when a socialist government is in office. Under such circumstances, the distinction between conservatism and right-wing radicalism is harder to maintain, for once the continuity of conservative rule has been relinquished, the doctrine of conservatism may be more clearly defined by reference to a positive set of principles than to Burkean gradualism.

In Australia and New Zealand, conservative parties maintained a virtual monopoly of governmental power from the 1950s until the early 1970s. In both countries, conservative parties remained conspicuously unideological. Despite a diffuse sympathy with liberal ideals, neither the Australian Liberal Party nor the New Zealand National Party attempted to retrench the extensive role that the state had assumed. As Alan Robinson observed of the National party in 1967: "The National Party's course in the last twenty years has often been to try to reduce the effects of Labour's appeals by offering similar policies and by maintaining Labour policies, which it claims to administer more soundly." In New Zealand and Australia, the strengthening of the commitment to active neo-laissez-faire within the National and Liberal parties first became evident in the early 1970s, when Labour parties formed governments in both countries. 12

In the United States, the Republican party in the post-New Deal era has never succeeded in maintaining an image of itself as the natural party of government. Apart from Canada, in which the Conservative party is confronted by a strong centrist Liberal party, the United States is the only Anglo-American society in which the party of the Right has not won the dominant share of the vote in legislative elections for the thirty-year period 1951 to 1980. The Republican party was the first right-wing party to turn to neo-laissez-faire in the post-Second World War period, and with only about 25 percent of the electorate identifying with it, has been both much smaller than the Democratic party and generally more ideological. 14

In Britain, the periods of Conservative party opposition from 1964 to 1970 and from 1974 to 1979 have coincided with shifts in doctrine

away from conservatism with a small "c" toward radical liberalism and neo-laissez-faire. One of the chief features of the British political system is that the penalty of opposition is powerlessness, and the penalty of powerlessness for the opposition leadership is susceptibility to ideological pressure, or even revolt, from the ranks. This has been particularly true for the Labour party in opposition, but it also has applied to the Conservative party in recent years. The revival of laissez-faire was clearly visible in the detailed blueprints for governmental economic policy drawn up under the leadership of Edward Heath in the late 1960s, when the party found itself in opposition after thirteen years of continuous rule. The turn to neo-laissez-faire was intensified in the period of opposition in the mid-1970s when Margaret Thatcher replaced Heath as leader of an opposition party. 15 Altogether, the Conservative party formed the government for less than half of the period from 1960 to 1980.

The revival of laissez-faire has amounted to a more radical change in right-wing doctrine in Britain than in the United States, and has been accompanied by profound changes in the role and self-image of the Conservative party. Over the last two decades, the Conservative party has rapidly shed the traditional image of the party of deference and of the establishment.16 The decline of aristocratic participation at the upper levels of the party, the distancing of the party from traditional institutions of the establishment, particularly the Church of England, the universities, and the BBC, the introduction of explicit democratic arrangements for the election of the party leadership, and the election of two lower-middle-class leaders, Heath and Thatcherall are part of a process in which, as Andrew Gamble has pointed out, "the Conservatives have been transformed from natural defenders of British institutions into frequent outsiders and critics."17

Political Constraints on Economic Policy

The revival of laissez-faire in the United States and Britain is related not only to the ideological predispositions of the political Right in these countries, but also to a diffuse rejection of conventional economic policy. As electoral studies have revealed, support for Mr. Reagan in 1980, and for Mrs. Thatcher and the Conservative party a year before, was less an expression of commitment to positive policy proposals than it was a reaction against the economic performance of existing governments. Governing parties, no matter what their ideological color, were hard pressed to win elections in the 1970s and

early 1980s when the "misery index" of unemployment and inflation was high and generally rising. From this standpoint, the turn to neolaissez-faire in the United States and Britain was part of a widespread rejection of conventional economic policies in societies where these policies failed to deliver "the goods."

The criticisms developed by the political Right centered on two aspects of conventional economic policy in particular: (1) the tendency to combat rising unemployment by stimulating the economy through government spending and monetary expansion, and (2) the extension of state intervention in the economy from the macro level to the micro level, through incomes policy and various forms of struc-

tural policy.

The rejection of expansionary fiscal policy lies at the heart of monetarism. In its minimal form, as a policy emphasizing the importance of price stability and control of monetary growth to achieve it, monetarism has gained acceptance within a broad political spectrum in a number of Western democracies. The view that no direct trade-off between inflation and unemployment exists in the short run, and that controlling inflation should be a priority of economic policy, filtered into conventional economic wisdom well before right-wing governments took office in Britain and the United States. Publicly set monetary targets were introduced in Germany in 1974, in the United States in 1975, in France in 1976, and in Britain in 1977, and are now the norm rather than the exception in the advanced democracies.18

The second criticism, based on a presumption against forms of state intervention in the economy beyond the most aggregate tools of economic management, is a particularly distinctive feature of neolaissez-faire. It provides a key to understanding why the revival of laissez-faire has been stronger in the United States and Britain than in other countries whose economies have also performed poorly in the 1070s.

In the United States and Britain, the Keynesian approach to economic policy-making, combining aggregate demand management with a commitment to high levels of employment, was particularly vulnerable because of the constraints under which it was pursued. In neither country has it been possible for governments to supplement Keynesian macroeconomic policies with effective and discriminating microeconomic policies that influence economic interest group demands in line with national priorities of price stability, low unemployment, and economic growth. Although the reasons for this vary, in both the United States and Britain the decisions of major economic organizations, such as corporations and labor unions, have been far removed from effective state influence. The repeated failures of microeconomic policy, and particularly incomes policy, have strengthened the arguments of those in the Republican and Conservative parties who reject state economic intervention altogether.

From this standpoint, monetarism in its fullest form was recommended to the political Right in the United States and Britain by what it avoided, as well as by what it promised. Under monetarism, the principal instrument by which the state should influence economic outcomes is that of monetary policy—an aggregate tool that does not involve any institutionalized system of state/economy intermediation. W. W. Rostow, a critic of monetarism, makes this point incisively: "Here is a method which claims to reconcile high growth with control over inflation by the action of distant technocrats in a quasi-independent institution, the Federal Reserve. It does not interfere directly with existing institutions for setting prices and wages, and it takes responsibility and authority off the shoulders of politicians."10

Of course, monetarism and neo-laissez-faire are just one of a number of possible responses to the policy problems associated with Keynesianism in the 1960s and 1970s. In Britain, the Labour party has also rejected the postwar social democratic consensus on aggregate demand management and now favors a policy entailing increased government expenditure, the extension of state ownership of industry, and compulsory planning agreements, that, in its own way, is as radical as neo-laissez-faire. As David Coates has observed, "The persistence of the competitive weakness of British capitalism, and its accentuation during the world recession, had at least one important political consequence in the 1970s. It altered the weight of factional support within each major political party, strengthening within each party that faction which wished to make a sharp break with the form into which government economic policy had settled in the 1960s."20

As the limitations of aggregate macroeconomic policies became apparent in the 1960s and 1970s, governments in all Western democracies attempted to develop more discriminating instruments to regulate the economy. The institutional form of economic intervention varied, but common to all was the attempt on the part of the state to coordinate the decision-making of functional nongovernment organizations. By influencing wage settlements directly through incomes policy, governments hoped that wage inflation could be controlled

directly, without recourse to recessionary policies that would affect the level of activity in the economy as a whole. In Britain, governments also introduced various planning mechanisms, which attempted to bring coherence and rationality to economic decision-making by coordinating investment decisions along intersectoral lines.

The challenge that governments must face in pursuing such a strategy involves gaining the support or acquiescence of interest groups to policies that impose selective or short-term costs to achieve general or long-run benefits. Or from the standpoint of the interest groups themselves: To what extent are nongovernmental economic organizations able and willing to block or defuse attempts on the part of the state to introduce microeconomic policies designed to coordinate sectoral claims in line with national priorities? This question is worth pursuing further, for it lies at the heart of economic strategies that have served as alternatives to neo-laissez-faire.

The question falls into two analytically distinct parts. First is the issue of the political leverage of economic interest groups: To what extent do interest groups in the sectors targeted by microeconomic policy have the political strength to resist government demands? This turns on the political resources commanded by interest groups, such as the legitimacy accorded to them in representing their constituency, and their level of organization, wealth, functional role, militancy, and internal unity. But the ability to resist state economic policy also depends on the political process itself, particularly the accessibility of decision-making arenas to interest group influence, and the dispersal of potential veto points, i.e., the degree to which resistance in one decision-making arena is convertible to veto power within the political process as a whole.

Second, there is the issue of interest group concertation, the extent to which the state is able to coordinate interest group demands in a particular sector or sectors through channels of consensual policy formulation and implementation. Here we are on ground well travelled by scholars of neocorporatism. Two conditions have been emphasized as especially important in creating and sustaining an exchange between interest groups and the state: a) interest group centralization, which conditions the ability of interest groups to implement bargains that are struck with the state at the national level; and b) a relationship of trust between the relevant interest groups and the government, which serves to assure that the state will actually compensate interest groups for their short-term sacrifices.21 As Mancur Olson has convincingly argued, the centralization of authority in encompassing

peak interest groups may also increase the likelihood that the interest group concerned will take into account the implications of its actions on society as a whole, and create an incentive "to make sacrifices up to a point for policies and activities that are sufficiently rewarding for the society as a whole."22

My conclusion is that the practice of microeconomic policy in the United States and Britain is caught between the stools of interest group leverage and concertability. Interest groups are able to resist attempts to coordinate their decisions (in Britain, mainly because they are strong; in the United States, mainly because the political system is so open to interest group influence), yet in neither country has it been possible to implement microeconomic policies consensually.

Before we go any further, a brief look at contrasting scenarios may make the argument clearer. Figure 2.2 dichotomizes interest group political leverage and concertability, yielding four possibilities for state/interest-group relations. As indicated above, the United States and Britain tend toward the pluralist cell. Two of the three remaining possibilities are closely approximated among contemporary democracies: the combination of high interest group leverage and high concertability is a distinguishing characteristic of societies in which state/economy linkages in key arenas of microeconomic policy are described as neocorporatist in the growing literature on the subject; and the combination of low interest group leverage and low concertability, which I have labeled dirigist, is most closely seen in France through the 1970s. For our purposes, we can set the fourth possibility aside, for the concertation of interest groups having little influence

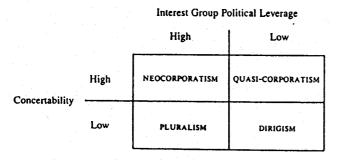


Figure 2.2 Types of State/Economy Linkages

typifies the authoritarian variant of corporatism seen in some Western societies between the World Wars, but not reproduced among contemporary liberal democracies.23

Neocorporatist state/economy linkages are most closely approximated in the Northern Scandinavian countries, Austria, and to a lesser extent in Belgium and Finland. In these countries, labor unions and employers' organizations are strongly entrenched, and have the organizational density and financial muscle to make it very difficult for the state to force its will on them. However, these organizations are highly centralized, and they have been effective participants in bargaining at the national level. The close ties between governing socialist parties and trade union movements in these countries has provided a nexus between the state and the economy, a means through which the state may influence economic decision-making.24

Thus, in the context of concertation, a high level of interest group leverage may actually increase the ability of the state to coordinate the activities of economic organizations along intersectoral lines. Concertation allows the state to extend responsibility for public policy to organizations that have the power to veto or disrupt it. In Norway, Sweden, and Austria, governments have effectively integrated trade unions and employer associations into microeconomic policymaking as quasi-public agencies. This integration is based on the bargained cooperation of peak union and employer associations in formulating and administering broad incomes policies tying together wage decisions and key aspects of government economic policy, including manpower, fiscal, and tax policies. In these societies, state intervention in economic decision-making has generally taken place in the context of institutionalized class compromise between highly organized and entrenched workers and employers, mediated by social democratic participation in government.25

A contrasting form of state influence over economic decisionmaking is found in societies where economic interest groups are weak and fractionalized. In France, government influence has been exercised through tightly knit policy networks, involving state officials and representatives of capital, that have a large degree of autonomy from interest group demands. As John Zysman has pointed out in his study of economic policy-making in France: "Centralization of the state bureaucracy and at least partial insulation from outside interference . . . are critical features of the French system. . . . The centralization of the French state provides the possibility of unified and concerted government action, while its partial autonomy allows it to initiate policy and direct events rather than simply react to domestic pressure."26

The insulation of policy networks is partially a result of the weakness of interest groups, above all of labor unions, which are politically fractionalized, financially weak, and encompass less than a quarter of nonagricultural employees. The state bureaucracy, in contrast, is known for its coherence and self-confidence. The result is that "channels of influence are sufficiently narrowed so that many groups now feel themselves powerless to exert any political pressure within the state bureaucracy."27

From the 1960s, French government economic policy has been directed to promoting national economic power by increasing the international competitiveness of selected companies—the so-called policy of "national champions." As in Japan, the linkage between the state and economy reflects a mercantilist tradition of economic policy in which market activity is oriented to state objectives, summed up by Samuel Brittan as "a kind of right-wing dirigism—a common front between government and industrial organizations designed to bypass the market wherever possible."28

Neocorporatism and dirigism describe sharply contrasting types of state/economy linkages. Yet both facilitate microeconomic policies through which the state can influence the decision-making of nongovernmental economic organizations. If interest groups are strong and have the capacity to aggregate their members' demands to the national level, the state may bargain with them; if they are weak, the state may ignore them.

Developments of recent years in countries that have approximated these types show that the nexus between state and economy that each type facilitates can be undermined by the formation of new groupings, or the strengthening of old ones, that stand outside the established policy-making framework. In Sweden, the countermobilization of professional and managerial employees in their own unions, the saco and the PTK, has introduced a new set of demands into industrial relations at odds with those represented by the established union federations, and has vastly complicated bargaining in the sphere of economic policy.29 In France, the growth in the stature and power of the major union federations, the CCT and the CFDT, under socialist government, has made it much more difficult for the state to pursue microeconomic policy unilaterally.30

Both neocorporatist and dirigist state/economy linkages facilitate

a highly structured relationship of the exercise of authority to the allocation of resources in the economy, which is to say that certain kinds of demands are channeled within the system, while others are excluded. The political tensions that this causes, as excluded groups raise new demands or clamor for entry into exclusive policy networks, are amply illustrated in the events of 1968 in France, and the less explosive, but equally eventful, rise of consumer groups and the antinuclear movement in Sweden in the 1970s. In these developments it may be possible to see a general trend in which the ability of governments to introduce their own priorities into organized economic decision-making has become more problematic. Neocorporatist and dirigist state/economy linkages appear inherently unstable in a period of competitive interest mobilization and countermobilization. The emergence of a range of previously unorganized or excluded groups over the last fifteen years has reduced some of the salient differences between these societies and others in which state/interest-group relations were always more pluralist.

In the United States and Britain, state/economy linkages can be described as highly pluralist, combining relatively high interest group influence with low concertability. Interest groups have the political capacity to block or defuse government economic policies that attempt to coordinate their activities, vet lack the coherence to become effective partners in creating and maintaining consensual policies.

Interest groups are not particularly strong in the United States when compared to those of Britain and the societies of Central and Northwestern Europe. In most sectors, including industry and agriculture, they are relatively weak in terms of internal unity and level of organization.31 Labor union organization, for example, is moderately strong only among blue-collar workers in the manufacturing industries of the northern states. The overall level of union organization in the industrialized democracies is about 22 percent, with France perhaps having the lowest percentage. Moreover, the legitimacy accorded to interest group political activity in America is less than in most Western European countries, as is demonstrated in the conspicuous attacks on interest group influence made by President Carter in his Farewell Address, and on several occasions by President Reagan.³² Major functional interest groups are more deeply and exclusively embedded in parties in Britain, and attacks made upon them by politicians tend to be highly partisan, directed to interests operating on "the other side."

But what interest groups in the United States lack in unity and

organization, they can make up for by exploiting the uniquely fractionalized political process. As Harrison Salisbury has summarized, "The structural elements are familiar; federalism, separation of powers, legislators nominated and elected from single-member districts. The elements interact to perpetuate the pattern where groups have multiple access points and governmental officials find it extremely difficult to assemble enough authority to act on a comprehensive scale, whether it involves enacting policy or negotiating with a socioeconomic sector."³³

These factors, in combination with the weakness of parties, led to highly segmented policy-making, dominated by subgovernments of interest groups, bureaucratic agencies, and congressional and subcongressional committees operating in iron triangles. Such a policymaking framework ensures sensitivity to the demands aggregated by the interests organized around a particular policy sector—in one observer's words, a "segmented responsiveness."34 But, by the same token, the scope for intersectoral coordination is minimal. As Joel Aberbach, Robert Putnam, and Bert Rockman have pointed out: "The spirit of 'political government,' however, may be one of 'directionless conflict.' The transmission lines of political government carry voltage from society to government, but the absence of a central grid dissipates energy needed for sustained productive purpose. Polity surges in the United States often result from momentary energies, so that they typically remain unassimilated into a broader policy mosaic."35

In recent years, the autonomy of policy-making in iron triangles has declined. The growth of state economic intervention, both regulatory and redistributive, the increasing role of policy specialists, the intensification of interest group activity on the part of established groups, especially business groups, and the proliferation of new public interest groups, have together opened up, and immensely complicated, the practice of policy-making.³⁶ An overall judgment of the recent development of interest group politics would have to take into account certain advantages of the emerging system: more visible policy-making, the application of greater-professionalism and expertise to policy-making, the effective representation of more, and more varied, interests on a broader range of issues. However, from the standpoint of formulating and implementing microeconomic policy, it is fairly clear that what was once difficult has become harder.

The failures of the Carter administration in pursuing an integrated energy policy are one illustration of the problems of defining and

gaining consensus on a complex set of issues in a context of shifting policy networks involving a variety of interest groups—in this case, tax reformers, nuclear power specialists, and civil rights groups, along-side the oil corporations and consumer groups.³⁷ As Arnold Heidenheimer, Hugh Heclo, and Carolyn Teich Adams have pointed out: "Rather than straining for analogies, it is well to recognize that the U.S. national government has little capacity to pursue coherent courses of action below the most aggregate levels of economic management." ³⁸

The influence of the constraints of the American political system on economic policy debates is particularly clear on the issue of industrial policy. The establishment of agencies having responsibility for diagnosing specific problem areas and making differential grants, such as the Economic Development Organization and the Model Cities Program, led, in practice, to the multiplication of criteria for assistance and the wide dispersal of benefits. 30 As Charles Schultze has argued,

The governmental choices that an industrial policy contemplates have little to do with fairness and much to do, at least ostensibly, with exacting economic criteria. . . . These are precisely the sorts of decisions that the American political system makes very poorly. . . .

One does not have to be a cynic to forecast that the surest way to multiply unwarranted subsidies and protectionist measures is to legitimize them under the rubric of industrial policy.⁴⁰

There are at least three strategies for dealing with this situation. First is the strategy of constitutional reform, which is based on altering the institutional constraints of economic policy-making. While specific proposals for reform may differ, the goal is to increase the autonomy of government from interest group influence. This, for example, lies behind Lester Thurow's advocacy of stronger political parties which could summon the will, and the congressional support, for policies that inevitably impose losses on some groups in society. A second strategy is that of "mobilizing consensus," gaining a general normative agreement on fundamental issues underlying the role of the state in the economy. Such a strategy is put forward by Daniel Bell in his discussion of a "philosophy of the public household," of what would be necessary to create a more legitimate economic order. 12

The third strategy is neo-laissez-faire. This is based on the attempt to retrench the economic role of the state, to depoliticize the economic

omy by returning decision-making as far as possible to the market. The response of a number of conservatives to the experience of economic policy-making in the 1960s and 1970s, as they have interpreted it, has been to adjust their policy agenda to the institutional constraints of the political system. Such a strategy is a central feature of what James Ceaser has described as the "conservative theory of governance" practiced by the Reagan administration, the chief features of which are simplifying the political agenda by concentrating on a few select policies; resisting an active policy-making orientation that views nonintervention to be as much a policy as intervention; and shifting responsibilities away from the federal government to states and localities, or to the private sector. 43

In the United States, government is infiltrated by interest group demands because it lacks the fortification of centralized institutions or strong parties. In Britain, the fortifications of government are stronger, but so are the major functional interest groups that stand beyond. Interest group pressure in Britain is more narrowly focussed on the executive. Lobbying in the parliamentary arena has a more uncertain payoff, and, when pursued by a sectional interest group, is usually the sign of prior failure to sway civil servants or their ministers. However, the pattern of relations between interest groups and the executive is reminiscent, in some important respects, of that described in the literature on iron triangles, if we exclude the role of congressional committees. Group subgovernment, highly segmented policy-making, fragmentation of policy-making into issue communities, are terms that have been applied to the British system.44

The consequence of this for economic policy-making in Britain is aptly described as "arms length" government by Andrew Shonfield, a reliance on aggregate policy instruments that obviate the need to come to terms with entrenched economic interests. Where governments have introduced microeconomic planning agencies, these have been more concerned to gain the consensus of the relevant interest groups than to discriminate among firms in accordance with planning criteria. Planning in Britain has been guided by representational formulas of "fairness" rather than economic "rationality." 45 As Jack Hayward has observed:

Firstly, there are no explicit, over-riding medium or long term objectives. Secondly, unplanned decision-making is incremental. Thirdly, humdrum or unplanned decisions are arrived at by a continuous process of mutual adjustment between a plurality of autonomous policy-makers operating in the context of highly fragmented multiple flow of influence. Not only is plenty of scope offered to interest group spokesmen to shape the outcome by participation in the advisory process. The aim is to secure through bargaining at least passive acceptance of the decision by the interest affected. 10

While this remains an accurate description of policy-making in a variety of spheres, it no longer applies with regard to industrial relations. Since the late 1960s, the corporate bias toward gradualism, consensus, and the avoidance of crisis has been displaced by a series of conflicts that have resulted from attempts on the part of the state to concert unions and employers in incomes policies and to legally restrict the powers of unions.⁴⁷ While the pluralist character of state/ economy linkages has not materially altered, the demands of governments for economic concertation have greatly increased. Moreover, from the mid-1960s, these demands coincided with the rise of what Samuel Beer has described as "romantic populism" in British political culture, which undermined the authority of union leaders and fostered the autonomy of shop-floor organizations. 48

These conflicts between unions and the state have had a decisive influence on the turn to neo-laissez-faire in the Conservative party. Neo-laissez-faire provided a means of pursuing economic objectives without directly engaging trade unions in economic policy. Under neo-laissez-faire, the chief instrument of economic policy is control of the money supply which, unlike incomes policy, is completely beyond the organizational reach of entrenched economic interest groups. Moreover, the consequence of Conservative monetary policy has been significantly to increase the level of unemployment, which has re-

duced the economic leverage of unions.40

Labour governments have, on a number of occasions, been able to gain the consent of the peak union organization, the Trades Union Congress (TUC), to incomes policy, but that consent has meant little because decision-making within British unions is so decentralized. British unions lack the coherence to make class compromises on the northern Scandinavian model, yet they are too powerful to be thrust aside as in France in the 1960s and 1970s. They are represented in a unitary peak organization, the Tuc, but the Tuc has little authority over its union constituents. Beyond the seldom used power of expulsion, the ruc has to rely on its powers of persuasion to bring recalcitrant unions into line with majority policy. Likewise, the Confederation of British Industry is extremely weak by contrast to peak employer associations in countries where neocorporatist state/economy linkages are found. Moreover, employer interests are not informally coordinated within a centralized and encompassing banking system, as they are in West Germany, where the Deutsche Bundesbank serves to influence the decision-making of economic organizations in line with the priorities of public policy.⁵⁰

In the sphere of incomes policy, the difficulties associated with gaining and sustaining union consent to voluntary incomes policies have led governments to impose incomes policies unilaterally and enforce them statutorily. But where governments have used legislative authority to coerce labor market outcomes in the face of union hostility, the result has been to broaden labor market conflicts into overt political conflicts concerning the legitimacy of government authority.

The dilemma of pursuing an incomes policy in Britain was faced most acutely by the Conservative government between 1972 and 1974. The dramatic failure of the policy in the great coalminers' strike of 1973-74, and the subsequent loss of the General Election in February 1974, had a profound effect on the willingness of the Conservative party to contemplate a return to microeconomic intervention in the labor market.

While all Western democracies experienced worsening economic performance from the late 1960s, governments in the United States and Britain had to respond under the particularly severe constraints of high interest group political leverage with little possibility of bridging interest group demands through consensual bargaining. Support for neo-laissez-faire developed as part of a learning process, forged in the policy experiences of the 1960s and 1970s. However, the "lessons" of this period are by no means objective facets of an independent social reality. The strength of neo-laissez-faire in the United States and Britain should be understood not only by looking at the experiences of the period, but, as discussed earlier in this chapter, by looking at the character of the conservative parties that were interpreting those experiences.

Conclusion

The growth of government intervention in the economy in the twentieth century has been part of a process in which social and economic outcomes have been viewed as legitimate objects of purposive control. In Anthony King's formulation: "Once upon a time man looked to God to order the world. Then he looked to the market. Now he looks to government."51 In this chapter, I have argued that the effectiveness of that control is dependent on the institutional configuration of state and interest groups, which serve to constrain economic policy quite independently of the quality of the knowledge that is available about the relationship of economic means to ends. In the United States and Britain, concertation of private economic decisionmaking would be problematic, even if we knew what the ideally best policy was, because of the fragmentation of the institutions responsi-

ble for aggregating interest in these societies.

This is not to say that concertation is impossible under all circumstances. In both the United States and Britain, as in other societies that have undergone total war, national solidarity and the widely perceived need to rapidly mobilize human and material resources allowed governments to concert economic decision-making largely on the basis of consent.⁵² But the purposive incentives generated in total war are not matched by those roused by talk of an economic "war" against inflation or unemployment. Even when unions and employers have been favorably disposed to voluntary incomes policies, their support has soon collapsed because these groups have no means to make binding collective decisions. Where the links between the state and labor market organizations are pluralist, governments have been most prone to fall back on the force of law when they have attempted to influence labor market outcomes. 53

The realism of neo-laissez-faire is that it does not involve the task of coordinating economic decision-making in society. The market, not the political process, is viewed as the arbiter of competing economic demands. This, as I have tried to show, was an important inducement in the turn to neo-laissez-faire on the part of conservatives in the United States and Britain. In this sense, neo-laissez-faire is an adjustment to circumstances, to the constraints that the political system and interest groups place on government action in society. However, from another standpoint, neo-laissez-faire is a radical doctrine, for it is founded on the attempt to establish the autonomy of the market from politics in an age where, as Ernest Gellner has pointed out, we can recognize the market as a social artifact, as a set of relations that is manipulated in a variety of ways to serve a variety of interests.54

Although there are parallels in the turn to laissez-faire in the United States and Britain, there are important differences also. In

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both countries, neo-laissez-faire was recommended to the political Right in the context of what I have described as pluralist state/economy linkages. However, in the United States, the problem of state influence over organized economic decision-making issues from basic elements of the American constitution—federalism, the separation of powers, the weakness of political parties. In Britain, the turn to neolaissez-faire was influenced by the existence of strong interest groups, particularly trade unions, that were unwilling or unable to be concerted in line with government economic priorities. Thus in Britain, neo-laissez-faire is a policy that has been pursued in a more confrontational way, in explicit opposition to entrenched unions. It is partially the outcome of a series of industrial battles between the Conservative party and trade unions, and has been accompanied by a refusal on the part of the Thatcher government to continue the informal channels of union consultation that were established in the early 1940s. In the British context, neo-laissez-faire forms part of what S. E. Finer has described as adversary politics.55 The Labour party promises to reverse much of the Conservative policy should it come to power, and groups of workers that stand to lose most from the introduction of market norms, namely those in the least competitive, traditional industries, especially the coalmining industry, have fought battles almost as intense as those fought by similarly condemned groups in the nineteenth century—the handloom weavers come to mind.

In the United States the turn to neo-laissez-faire has been hotly disputed by a variety of groups, but is congruent with certain deeply rooted aspects of American political culture, particularly suspicion of government and the traditionally strong emphasis on individualism. By and large, there has not been sustained opposition to neo-laissez-faire among the groups and constituencies of the Republican party itself. In Britain, the revival of laissez-faire has taken place at a time of great change in the Conservative party and its role in society. Even within the Conservative party the doctrine, as pursued by the Thatcher government, has been a highly contentious one, and has contributed to a profound division within the party, as well as in the society at large.

In writing and revising this chapter I have had the benefit of comments from too many friends and colleagues to mention here by name. However, I would like to thank my fellow participants in the British/American Festival, especially James Ceaser and Richard Hodder-Williams, for constructive criticism. The writing of this chapter was generously aided by a University of Virginia Summer Grant.

Changes in Party Systems and Public Philosophies

DENNIS KAVANACH

In this chapter, Dennis Kavanagh develops some of the concerns of the first two chapters, for his analysis of political parties relates directly to executive-legislative relations and to policy choices. He notes at the outset several similarities in the recent experience of parties in the United States and Great Britain: dealignment, difficult experiences with reform, the crosion of an elite consensus on basic policy issues, and the rise of issues as cues to party preferences. The explanation for these similar developments lies essentially in the perceived failures of government in the 1970s. The weakening of the parties, more advanced in the United States where party control of presidential candidates is almost entirely absent, reflects a widespread erosion in both countries of the enduring links which bound social groups to particular parties. One consequence is that parties now perform far less satisfactorily one of the classic functions assigned to them by political analysts of the last generation, namely to act as institutional channels for translating popular policy preferences into governmental action. Kavanagh makes three important warnings: first, it is dangerous to confuse rhetoric with reality and both in the United States and in the United Kingdom the extent to which a new agenda and priorities actually determine policy output can be exaggerated; second, it is important not to get seduced by seeming similarities and therefore ignore the major differences in the nature of "the Right" in the two countries; third, it is essential, as Rasmussen also asserted, to realize 6 February 1982, p. 34, shines some light on the organization of the terra

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2 The Revival of Laissez-Faire

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3 Changes in Party Systems and Public Philosophies

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