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REVIEWS

Reform by Stealth

*Paul Pierson, **Dismantling the Welfare State: Reagan, Thatcher and the Politics of Retrenchment**, Cambridge University Press, Cambridge, 1994*

*Reviewed by **James Cox***

THIS book explores the surprising resilience of the welfare state in resisting the reforming efforts of the Reagan and Thatcher Governments. Although certain parts of the welfare state succumbed to cutbacks or partial privatisation, the core programs remained intact. And, rather than striking out into new territory, the succeeding Bush and Major Governments consolidated the gains of their predecessors.

Pierson records how both administrations made persistent efforts to cut benefits, restrict eligibility and expand the role of the private sector. But government spending on the welfare state in the two countries remained constant as a share of GDP during the 1980s and has since tended to increase. The Thatcher Government reduced expenditure and increased the private sector's role in housing and age pensions, and reduced spending on unemployment benefits. It made only modest changes to income support, health care and sick pay. Indeed, by placing government finances on a sounder basis and provoking a change in the climate of opinion, the Thatcher Government arguably improved the longer-term position of the welfare state in Britain.

Housing and unemployment insurance were areas of major retrenchment by the Reagan administration. Only modest changes were made to age pensions, income support, health care and disability insurance. The deficit resulting from the Reagan administration's taxation policies, however, was likely to restrain spending initiatives for some time to come.

In seeking to explain these developments, Paul Pierson, an Associate Professor of Government at Harvard University, draws on economics. Policy-makers are seen as rational agents concerned (among other things) to minimise the political costs of their policies: 'Government leaders want to advance their policy agendas and they want to be re-elected' (p. 17). The role of ideas is played down. Pierson also draws on recent work in economic history (by Douglass North, for example) which shows how the development of economic institutions so alters the costs and benefits of following different courses of action that it becomes impossible to implement certain options that were once available and may now in principle be desirable. The most famous example (which Pierson uses) of this process is the conventional QWERTY typewriter keyboard. It is certainly possible to develop a bet-

ter keyboard — this one was designed to be inefficient — but such a change is now impossible because the QWERTY keyboard has been locked in through widespread use. Similarly, welfare-state policies have generated constituencies who benefit from the programs or work in them. This makes the reform of such programs a very difficult business indeed in which political leaders are often unable fully to achieve their objectives because of the political costs that would be incurred in doing so. Retrenchment takes place, even so. But it is those programs where the political costs of retrenchment are smallest that are most likely to be cut.

Although Pierson is (I think) a supporter of welfare-state programs, he provides helpful advice to conservative politicians on how to reduce welfare-state spending with the minimum adverse political reaction. Capital spending (on housing, for example) provides a soft target because the adverse effects of a reduction in spending will not become apparent for some time. Privatisation is easiest when attractive private-sector alternatives to government programs already exist (such as pensions in the United Kingdom). Policy changes are accepted more easily when there is a time lag before the consequences are experienced. For example, changes may affect future, but not current, beneficiaries of a program. Perhaps the responsibility for reducing services can be shifted to another government or to the private sector. (Cutbacks in central-government grants to State and local governments provide an obvious example of this.) Perhaps cutbacks can be imposed by stealth: for example, by modifying indexation arrangements. Perhaps advantage can be taken of financial crises to place program finances on a sustainable basis. Trust funds for individual programs, each of which needs to be financially secure, can be a great help here (for example, the US Social Security and Medicare programs). Above all, the conservative statesman should employ the strategies of obfuscation, divide-and-conquer, and (if all else fails) compensation. Because of the limitations of these strategies, the reform of the welfare state is not something to be achieved overnight. The conservative statesman should guard against impatience and wait for opportunities to arise.

I should make it clear that Pierson is not himself advocating this machiavellian approach to the reform of the welfare state. He would, I am sure, be horrified at the suggestion that he had written a manual on how to reduce spending on the welfare state and still get elected. Even so, such advice can be extracted from his book.

What are we to make of all this? There are, I think, three issues that are worth discussing: the unsurprisingness of the author's conclusions; the limits to his analysis; and (if it is accepted that changes to welfare-state programs are sometime necessary) the advantages and disadvantages of the machiavellian strategy of obfuscation, division and compensation as opposed to more open discussion of problems and options.

The essence of Pierson's argument is that it is difficult to retrench welfare-state programs because the programs generate constituencies to support them. Members of governments may be forgiven for thinking that they know this already. An important reason why policy-makers of a conservative disposition have been reluctant to introduce or extend welfare-state programs is the difficulty in subsequently modi-

fying the programs should events show this to be necessary. Sir Robert Menzies springs to mind as an example of such caution.

It is easy to criticise Pierson for not writing the book that the reviewer would have preferred. But his achievement is limited in at least four ways. First, he discusses the politics of reducing government spending on the welfare state without discussing the politics of taxation. Expenditure on welfare-state programs tends to increase over time, even if the programs themselves do not change, because the behaviour of the beneficiaries of, and employees in, welfare-state programs changes in response to the incentives and opportunities provided by such programs. Although not to cut a program may, as Pierson explains, be the line of least political resistance, this strategy is likely eventually to result in an increase in taxation. Tax increases are no more popular than reductions in social programs. The judicious politician would be well advised to avoid excessive increases in taxation by reducing spending on some of the softer targets so helpfully pointed out by Pierson. Or perhaps, as so many recently have done, he might attempt to postpone the twin evils of spending reduction and taxation increase by accepting government dissaving on an increasing scale.

This leads to the second point. Pierson accepts that welfare-state programs may have to change if circumstances change. His analysis points to the difficulty of reducing spending on particular programs. But this cuts both ways. Not only is it difficult to reduce government spending on the welfare state; it is equally hard to transfer spending to address newly emerging priorities — particularly if governments are unwilling to increase taxation. Thus, the welfare state may become increasingly irrelevant to the needs that it is supposed to meet. This is the nightmare of government immobility that the American journalist, Jonathan Rauch, conjures up in his 1994 book *Demosclerosis*. As Rauch points out, demosclerosis is particularly fatal to the hopes of those who favour activist and effective government.

Third, nothing in Pierson's analysis suggests that the Reagan and Thatcher administrations were wrong to attempt to reduce spending on the welfare state. Spending reductions might have been in the interests of both societies. Pierson points out that reductions in spending can be politically costly. Governments may feel, nevertheless, that the costs are worth incurring, particularly if they are faced with a financial crisis. Indeed, an important aspect of statesmanship is to be able to judge when a potentially difficult course of action can be embarked on with a reasonable chance of success.

Fourth, it is understandable that Pierson has chosen to emphasise the remarkable administrations of Margaret Thatcher and Ronald Reagan. Study of other instances of expenditure reduction may provide further insight into the conditions for success. Australia and New Zealand, for example, provide examples of successful reductions in welfare spending in recent years: the Hawke Government's greater targeting of welfare expenditure during the mid-1980s and the New Zealand government's changes to welfare during the early 1990s. Although these policies have not been overwhelmingly popular, and have been reversed to some extent, they

were not fatal to the re-election of the governments that introduced them. There are, undoubtedly, lessons to be learned from these experiences.

What, finally, should we make of the machiavellian policy advice that can be taken from Pierson's book? It would no doubt be unrealistic to expect politicians who hope to gain or continue in office to be entirely open about their intentions for welfare state programs and their financing. Readers of *Dismantling the Welfare State* will not be surprised to learn that the part of the US Republicans' 'contract with America' that has achieved greatest acceptance in US federal government circles is the idea that the onerous task of reforming income-support programs for the poor ('welfare') should be passed to the States. Nevertheless, to build an understanding of the need for change, societies need to be reminded of the longer-term costs of the policies that they have adopted. Since politicians will not do this (or not often enough), others must. I think Australian economists have done a good job at pointing, for example, to the eventual consequences of the ageing of the population for social expenditure. In so doing, they have attracted all the unpopularity that comes to those who spoil a good party. They will need to continue to court such unpopularity.

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Juries and Justice

*Jeffrey Abramson, **We, The Jury: The Jury System and the Ideal of Democracy,** Basic Books/Harper Collins, New York, 1994*

Reviewed by ***Mike Ross***

JURY service is proclaimed to be a civic duty. The zeal of prosecuting authorities acting on behalf of the state is tempered by the moderating influence of twelve jurors picked at random. But this benign view of the jury is shattered by Abramson's study of the jury system as it operates in America. Juries are blinded by prejudice, confused by procedure, distracted by lawyers and often just plain fed up. The position is probably no different in Australia and New Zealand, but we have no way of knowing. The Antipodes follow the English model: the jury is as anonymous as the hangman. Jurors' identities may not be published, their deliberations are secret, their conclusions are delivered in a curt guilty/not guilty response. The process is protected by a veil of silence.

Abramson, in contrast, has a wealth of data and anecdote to work with. American jurisprudence puts jurors into the public arena. Potential jurors' personal views go on the court record as they are cross-questioned by lawyers prior to selection of the jury pool. Concealed listening devices have secretly recorded jury room discus-