



War and Welfare

Europe and the United States, 1945 to the Present

Jytte Klausen

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First published by
MACMILLAN PRESS LTD
Houndmills, Basingstoke, Hampshire RG21 6XS
and London
Companies and representatives
throughout the world

ISBN 0-333-74921-9

A catalogue record for this book is available
from the British Library.

10 9 8 7 6 5 4 3 2 1
07 06 05 04 03 02 01 00 99 98

Internal design and typesetting by Letra Libre

Printed in the United States of America by
Haddon Craftsmen
Bloomsburg, PA

Acknowledgments

This book has taken a long time to write, and I have accumulated many moral debts. The largest one goes to my family, to my husband Alan and my three children, Rebekka, Jan, and Andreas. I do not think there has been any wife and mother who has had a more supportive family than I have.

I extend my thanks for support to Brandeis University, the Mazer Fund and the Marver Bernstein Fund, which have supported me financially at various stages. Thanks to the Bunting Institute at Radcliffe College and the Minda de Gunzburg Center for European Studies, Harvard University, which have housed me. I am grateful to my colleagues in the Department of Politics at Brandeis, who supported me with special thanks to Sid Milkis, Mark Hulliung, George Ross, and Steve Burg. John D. Stephens, Robert O. Keohane, Carl Strikwerda, Cathie Jo Martin, and an anonymous reader, whose comments on the manuscript helped me greatly, have also earned my gratitude. Loren Cass and Susan Schantz, my graduate student assistants at Brandeis, helped me with a cheerful competence that helped keep me sane. My two Radcliffe Research Partnership associates, Lucia Bigelow and Margaret Schotte, did a wonderful job burrowing for arcane materials at the Widener Libraries. I wish partners never had to part but sometimes they do, and I am grateful for the time it lasted. In addition, I owe thanks to my editor, Karen Wolny, whose enthusiasm for the book pushed me to work harder.

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ONE

Reconstruction and Capitalist Reform

Politics in the Aftermath of War

World War II reshaped capitalism and liberal democracy by re-ordering both the domestic and the international order. This book is about the domestic legacy of the war. In belligerent and neutral countries alike, the war years engendered an expansion of state capacities that permanently changed the balance between state and society. When the war ended in 1945, the reconstruction process rested on piecemeal government decisions to remove or retain wartime controls over society and the economy. In the process of making those decisions, governments shaped society and markets in their own image.

The expansion of the state that accompanied war mobilization and economic shortages between 1939 and 1945 was critical to the creation of the postwar welfare state. Wartime expansion of the state machinery for directing the economy assumed roughly similar forms in different countries and led to a wholly new conception of the possibilities inherent in economic policies. In *War, Economy, and Society, 1939–1945*, Alan Milward (1979) described the convergence of the resource mobilization policies of the belligerent countries. Milward, however, concluded that “There was practically no economic planning during the war in the sense in which that phrase is now used” (130). In his view, the chief legacy of the war was a new consciousness with respect to the government’s role in directing the economy.

The thesis of this book is that significant continuities existed between the warfare and the welfare states, but also concurs with Milward that postwar planning quickly assumed forms quite different from those used during the war years. Continuity persisted amidst change, as postwar planning failed first and then succeeded. Wartime planning policies rested mainly on direct controls, rationing, and corporatist purchasers’ and suppliers’ cartels.

They were coercive controls that were incompatible with democratic constraints on executive power and with interest group autonomy. Planners and reformers, who in the reconstruction debates held high expectations for what planning would accomplish in the future, in many cases underestimated the difference between wartime and peacetime planning, particularly the implications of associational autonomy. The shortcomings of planning theory should not overshadow the importance of the institutional and technological innovations in state capacities for planning made during the war, innovations that in many cases not only survived but were amplified in its aftermath.

The warfare-to-welfare state thesis rethinks the origins of the welfare state by stressing institutional continuity and the unprecedented state expansion caused by war mobilization as causal variables for the permanent reordering of state-society relations that the postwar welfare state represented. It does not explain subsequent changes in economic policy, nor does it address why the postwar commitment to full employment has been abandoned in recent decades. It does, however, suggest a new perspective on how and when states can plan. The state was central to postwar growth strategies in part because wartime state building had radically extended the state's reach and capacities. States are both formal-legal constructions of authority and a social fact.

European states re-entered global trade after 1945 with a slow crawl out of economic autarky. (The term *autarky* means "self-sufficiency" and is used to describe an economic condition of radical insularity. *Autarchy* means self-government or totalitarianism. The terms are sometimes used interchangeably and, in practice, one sometimes follows the other; fascist and communist political theory embraced both, for example. We are in this book concerned only with the economic condition of autarky and its consequences for policy.) Planning was necessary to bridge the gap between scarcity and national economic development. It also helped governments keep promises made during the war years to citizens in return for support for the war effort—promises that are best epitomized by the popularity of the "Beveridge Report" and President Roosevelt's "Second Bill of Rights."

Economic Planning: A New Public Philosophy

Planning and ideas about economic management predate the war. Socialists (and communists) had long argued for state control of economic activity. European and U.S. business and industry groups were engaged in wide-ranging plans for self-government in response to the deflation in the 1920s (Chandler 1990). The publication of J. M. Keynes' *General Theory* in 1936 also summarized a new perspective on the government's obligations

for national economic development. Yet prior to the war, liberal democracy had not become reconciled with planning. Business planning had not been effective in arresting deflation and the Great Depression. The Roosevelt administration's National Recovery Administration and Code Authorities had been found unconstitutional. Leon Blum's "little New Deal" had not had produced a turn-around in the French economy. In Germany, Hjalmar Schacht's protectionist program had been used to sustain unheard-of military aggression. Only in Sweden had a positive (but very cautious) beginning been made before the war.

War mobilization put an end to unemployment. The war controls created a functional template for cartelization and for industry-state collaboration. Trade unions were brought into the administration of wage control policies. Economists applied Keynesian formulas to the calculation of the national income and for forward planning of incomes and taxes, proving that it could be done. The war provided a deadly blow to liberal capitalism, for the war economy showed that full employment was possible within the confines of a capitalist economy. Postwar planners widely assumed that controls would have to be continued in order to prevent deflation and a slump similar to the one that had followed after the prior was in 1920–1921. This, it would turn out, was a key mistaken assumption, one that caused unions and planners to be ill prepared for dealing with wage inflation when that proved to be the greater threat to economic stability.

Planning and the Welfare State

Current terminology increasingly identifies the "welfare state" with social policy. That was not the way the term was used 50 years ago when full employment was given first priority, and social policy was regarded as a stop-gap measure at best. This book speaks of the "welfare state" in its original sense, namely state responsible for maintaining growth and for social and economic fairness. In postwar debates, the welfare state was seen to have two pillars, full employment and inclusive social policies (Marshall 1950). Economic planning was needed to guarantee full employment, and social policy was necessary to provide for those who were unable to work. It was widely assumed that, with full employment, "need" could be eliminated (Beveridge 1942). Thus social policy became an adjunct to economic policy.

A subcommittee under the postwar planning committee set up by the Swedish economist Gunnar Myrdal that had been created to deliberate on issues related to social policy, family policy, and the position of women, illustrate the extent to which postwar planners prioritized economic policy

over social policy. In a report on the economic consequences of social policy, the subcommittee concluded that social policy was indistinct from economic policy, concerned as it was with “the formation of the national income, its distribution, and use” (Sweden 1945, 7). The report spent more pages discussing capital formation and income distribution than social policy, narrowly understood. If social policy had the same aims as economic policy, it followed that it was the least effective means of the two, useful only for “plugging the holes.”¹

Some believed that the core of planning was the creation of a “Plan.” However, this proved to be too narrow a view. Planning is, strictly speaking, a matter of coordination and can be accomplished by many means. In practice, planning objectives could be piggybacked onto other policies. Consequently, planning can be viewed as a mind-set or an aspect of various policies. Fiscal policy aims to raise enough revenues to pay for government outlays but also can be enlisted for purposes related to the full employment goal. Penalties or tax rebates can be applied to encourage industry to reinvest earnings and create new jobs, for example. The existence of a government document designated as a “Plan” is by no means the only indicator that planning took place. While one version of planning, which we can call *dirigism* in deference to the French application of this version (it is sometimes also referred to as *planification*), was wedded to the idea of a formal “Plan” to be fixed and administrated primarily by government officials; another version focused on the creation of a “Social Pact” between the main economic actors, unions and employers, the designated “Social Partners.”

Another complication is that different people have different ideas about the objectives of planning. Aside from full employment, any number of additional beneficial outcomes often were attributed to planning, including greater efficiency, social fairness, higher growth, and economic democracy. The diverse meanings make it hard to come up with a fixed definition, but we are here concerned with the social dimensions to economic development and planning rather than, for example, the rationalization of production. This focus is well in tune with postwar debates on economic policy, which invariably stressed the social obligations of capitalists and made social fairness a primary objective for economic policy. Broadly conceived, the definition of planning used in this book designates the public direction of the allocation of nongovernment economic resources to specific purposes whether exercised through public and private actors. Even when planning was done by interest groups—the confederations of labor and employers in the case of wage policy, for example—“state direction” still was involved. The erasure of a clear distinction between public and private interests was an important aspect of postwar planning.

Postwar planners were far from neutral on the question of who should do the planning. High regard for civil servants and planners was a conspicuous aspect of reconstruction debates on planning. Jean Monnet, the architect of the French planning system, explained in his memoirs that he had studied Stafford Cripps' 1945 "Working Parties" for British industry but concluded that they were handicapped by the absence of a strong presence of civil servants representing the public interest (Monnet 1978, 237). Evan Durbin, a Labour Party intellectual, called for the creation of "some kind of Central Authority with power over industry and finance" to act as a "Supreme Economic Authority" (1949, 52–53). Despite Monnet's criticism, Cripps had very high regard for civil servants. The benefits of public control would be twofold. Economies of scale would produce an efficiency gain in themselves—by eliminating "wasteful" competition—which would pay for social reform. Civil servants would make fairer decisions than businessmen. The latter were motivated by self-interest, the former by the national interests. (See chapter 3.)

Planners agreed that Western planning would differ from Soviet planning by showing greater respect for liberty, but they remained bedeviled by the questions of compliance. How could meaningful planning take place without crossing over into a command economy, and how could planners ensure that planning amounted to more than forecasting? There were two answers to the questions. One was to substitute interest-group negotiation for government dictate and plan by corporatist coordination. This was the road preferred by the Swedish Social Democrats. Another was to rely on the bureaucratic apparatus of the state in what was called central planning. In actuality, there were many stops on the road between the extremes.

The Dutch economist and planner Jan Tinbergen (1956, 1964), who was an ardent advocate of central economic planning, had an answer: Expand the bureaucracy. Planners would prevail by the sheer weight of presence binding private actors to the "plan." Planning, in his view, was a "general rehearsal" of real economic life. Tinbergen (1964, 77–78) predicted that a convergence between communism and capitalism would take place as Western welfare states worked to give "a decreasing weight" to the interests of the owners of the means of production, and in both East and West planning worked to equalize "the weights given to the interests of the various groups of the population." He suggested an elaborate typology for the successive "stages" of economic planning, reaching from central planning boards to "instruction to cells" (88–89). Planners could compensate for their lack of power to command compliance to the "plan" by increasing the size of their organization. The advocacy of central planning without communism seems particularly bizarre given the historical failures of

Soviet planning. While few had illusions about the oppressive political system of the Soviet Union, many continued to believe that it was an economically viable alternative to capitalism.²

Gunnar Myrdal represented a somewhat different perspective, although he too took for granted that civil servants (and economists) would make better decisions. Planning was a fact of life and grew naturally out of the expansion of government responsibilities. But Myrdal emphasized planning as an open-ended process of interest coordination between different parts of the government and between government and private actors (1960, 19). He was agnostic about the exact means and methods for planning, but believed firmly that the welfare state required national economic planning. Myrdal accurately perceived that significant cross-national variation would exist with respect to how planning was done.

By 1947 a new conception of planning had begun to emerge, one that substituted group coordination for government dictate. A distinct functional advantage of the corporatist conception of planning was that it avoided tricky questions about the public-private distinction by turning planning into a question of self-regulation. It also accommodated Keynesian macroeconomic theory. The British economist Alec Cairncross (1978) once noted that Keynes spoke of planning as road rules, or rules of conduct that applied to everybody in equal measure. In this conception, an agreement, for example, to deferred pay matched with some other measure alleviating the sacrifice or spreading sacrifice equally across the classes qualifies as planning. But this was not what most planning advocates considered to be “real” planning.

Some planning advocates believed that states needed to step in to compensate for the failings of capitalism, while others thought that the need for planning arose because liberal capitalism could not cope with the rise of organized labor. The latter view was taken by two U.S. political scientists, Robert A. Dahl and Charles Lindblom, who argued that wage rigidity caused by trade union wage control necessitated planning (1953, 1976). In practice most postwar efforts to plan income formation arose precisely from the need to control inflation. Yet the view that planning was needed to further union control continued to hold sway, too. In an study that resonated with Durbin’s argument made three decades earlier, Stephen Cohen, also an American political scientist, held in a study of French planning policies that planning should be regarded as a political exercise rather than an economic one because planning “could only be democratic when workers, through their trade union representatives, had sufficient power in the planning process to make working-class priorities prevail” (1977, 203). Durbin and Cohen were emblematic of roughly four decades of left-wing enthusiasm for planning, one mark-

ing the dawn, the other the sunset of an outlook on economic policy that was spawned by the war experience. To them, the war years had shown that capitalism and planning were compatible, and that economic reform could succeed without a political revolution. For many on the left, planning was a way of reconciling labor's economic strength with its political weakness.

The left's desire for a "Supreme Economic Authority" sprang from a wish to circumvent electoral politics and to use planning as a correction to liberal democracy. The alliance between state and labor was a way to thwart capitalism, using public power against private ownership. The intellectual elites' distrust of electoral democracy as a vehicle for enduring control of the economy was matched by the unions' abiding distrust of the state. Once wages and trade unions became the central object of planning, the left was deeply divided. Trade unions liked the idea of the state preempting their organizational prerogative to negotiate wages and represent workers no more than business liked the idea of the state setting production targets and deciding who could trade with whom.

High Hopes and Some Disappointment

Some economists argued then, as did the Austrian economist and émigré Friedrich A. von Hayek in his 1944 book, *The Road to Serfdom*, that all planning was incompatible with liberty. But even those who were critical of planning fully expected it to prevail. With regrets, Joseph Schumpeter (1950, 375), also an Austrian émigré, pointed out at the time that the planners had already won the debate at war's end. The war controls had made planning a fact, and privatization was barely on the agenda for reconstruction. The mystery, in retrospect, is why Schumpeter's dire prediction did not come to pass.

In *Modern Capitalism: The Changing Balance of Public and Private Power* (1965), Andrew Shonfield concluded that postwar economic planning had worked to scale back private power. Now, reconsidering the same events three decades later, it appears that his perspective was distorted by the closeness of his object of study. Beginning with demobilization, the thread of history running from 1945 to the present is one of disappointment for planners and their ambitions regarding public control. On balance, we have witnessed a gradual restoration of private power, not vice versa. The planning optimism that dominated the reconstruction debates can seem both naive and puzzling in retrospect. Planners and planning have gone from being regarded as the key to social welfare and economic growth to being considered an obstacle and even a deterrent to growth. Part of the transformation in attitudes and expectations has to do with the failure of the

planned economies and the injustices of bureaucratic rule, which over the years have been increasingly widely perceived.

The reversals in our ideas about planning are, at times, almost startling when compared against the backdrop of postwar debates. The collapse of the Soviet Union and the bankruptcy of the East European economies eliminated whatever sympathy remained on the left for state-centered planning. The British Labour Party finally decided to remove the infamous Clause Four from the party constitution at its 1995 annual Conference. The clause dated back to the party's 1918 constitution and declared the party's objective to be "the common ownership of the means of production." Labour's stunning 1997 electoral victory on a liberal platform completed its rebirth as a middle-class party.³ The conversion of a British Marxist, Andrew Gamble (1996, 192), to the view that Hayek was "more right than wrong" is another sign, albeit on a smaller scale, of the disintegration of an intellectual paradigm that can be traced back to the origins of electoral Marxism.⁴

War Mobilization and the Citizenship State

The convergence of social and economic policy was itself a product of war mobilization. Nineteenth-century wars were fought by lining soldiers up along military front lines. In 1914 the United Kingdom started out fighting as it had fought the Napoleonic Wars, by paying for what was needed: soldiers, ships, and provisions. Men went off to war, and meanwhile life continued. But in the twentieth century, bombing exposed civilian populations directly to destruction and dislocation. Conscription and rationing put the national economy in the service of the war. The feeding and protection of civilians became a matter of concern for states on par with that of providing for soldiers. Planning aimed to balance military and economic needs. During World War II, the crisis was international. Neutral countries, one of which—Sweden—as discussed herein, were drawn in by submarine warfare and the claims made on international shipping tonnage by the joint Anglo-American war effort. The economic effects of the war were many and diverse, but most important for countries not drawn directly into the war was the fact that world trade was brought to a halt. In belligerent and nonbelligerent countries alike, emergency legislation suspended electoral democracy and imposed restrictions on free speech and political activity.

Between 1939 and 1945, society and markets became subordinated to states in ways that endured beyond the cessation of war. State-society relations were permanently altered. When the time came to decide on post-war reconstruction, reform and reconstruction became indistinguishable.

Economic and political development were intimately tied due to the pervasive state presence. Reconstruction was as much a matter of restoring trade and rebuilding housing as it was a matter of intense group competition for control of the state, for shares of the national product, and for the moral and political authority to define the aims of reconstruction.

The state's omnipresence caused a dilemma for those who were reluctant to embrace the state; even the transfer of functions from the state to society required state action. The process required governments to become overseers of reform. Irrespective of ideology, postwar governments became reform governments. Governments and parties that failed to embrace the state with an affirmative program for how to use government to shape society and markets, either because they distrusted the state or were principally opposed to strong states, gave way to those that had no such objections.

The Postwar Consensus

The shift to a new epistemology of government responsibility for shaping socially responsible capitalism encompassed both left and right. In his book on agrarian socialism in Canada, the political scientist Seymour Martin Lipset (1959) argued that reform movements succeed when the entire spectrum of politics shifts in favor of reform. This holds for postwar Europe. But Lipset also traced the shift to popular mobilization, a connection that is much more ambiguous in the case of postwar Europe. There, elites and the public too embraced a new public consciousness, but reform was not the result of popular mobilization for new state action as much as it was in defense of preserving the state. State-expansion often preceded electoral mobilization in favor of the state and postwar elections and changing party alignments ratified a process of change that had started early on in the war, at a time when partisan competition was suspended and unprecedented executive powers founded on emergency legislation allowed governments to act without constitutional constraints.

In France, reconstruction debates took place in Algiers, where the "Free French," the French resistance forces, were located, and in Washington, D.C. In Germany, they took place among displaced and suppressed groups of survivors and, most important, among Allied policymakers. In Sweden and the United Kingdom, displacement and the suspension of partisan activities that accompanied national emergency governments reduced political activity while government-sponsored agencies cranked out "war aims" platforms that promised the attainment of social justice as the reward for shared sacrifice during hard times.

The impulse for a new public philosophy derived in the first place from the functional and institutional changes in the state caused by the war,

rather than from popular political mobilization. Adjustment to the “new” state occasioned large-scale changes to national party alignments. In Britain, the Labour Party assumed power in 1945 backed by an election that was a vote for continuity and for change. Voters correctly saw the party as one the more likely to carry on the aspects of wartime policies that they supported.

“War Socialism” and the Political Parties

The left recognized that the war controls on the civilian economy were a gift of power. The embrace of war controls as a means for peacetime planning was expressed with great clarity in a 1944 report, *Full Employment and Financial Policy*, from the British Labour Party’s National Executive Committee. It listed a range of controls that should be kept—from state trading to foreign exchange controls—and observed what great benefits the controls had brought to the people. “We must not let this Socialist advance be halted or turned back,” it concluded (7).

The party leader of the German Social Democrats, Kurt Schumacher, whose orthodox positions eventually worked to alienate the party from the reconstruction process, adamantly held to the belief that capitalism and democracy could not coexist in Germany. He fully expected a proletarian revolution to be around the corner in 1945, suppressed only by the presence of Allied military forces. In a public speech in October of that year, Schumacher announced that “the crucial point on the agenda is the abolition of capitalist exploitation and the transfer of the means of production” (Scholz and Oschilewski 1953, 36–50).

In the United States, Walter Reuther, the president of the United Autoworkers Union (UAW) and a self-described social democrat, suggested that the War Production Board, the central planning agency for the direction of the civilian war economy, be turned it to the “Peace Production Board” and made permanent. Philip Murray, president of the Congress of Industrial Organizations (known as the Committee for Industrial Organization until the name change in 1939), who before the re-creation of a joint confederation in the AFL-CIO represented the fast-growing industrial unions, proposed a “Labor-Management Charter” that would have made aspects of wartime planning policies permanent (Lichtenstein 1995, 225).

A decade later socialist parties had changed their programs. By the 1952 congress of the Swedish Social Democratic Party, the party leadership already had decided to scrap most of the postwar program and to aim for shared growth rather than economic planning. In its 1959 Bad Godesberg program, the German Social Democratic Party erased its Marxist heritage

and declared itself a “people’s party.” In Britain, Anthony Crosland launched the idea, in *The Future of Socialism* (1956), that macroeconomic policy had already caused a transfer of power from management to labor and that the goals now should be to enhance opportunity for the working class through improved education and social services and to attain a higher standard of living through economic growth and redistribution. The controls remained, but not principally as part of the left’s program for reform. They were needed as part of a program for macroeconomic stabilization and economic parity between various kinds of incomes—wage incomes, farm incomes, or profit—that both the left and right embraced.

Ralf Dahrendorf (1967, 1980a, b), a sociologist and German statesman, has argued that the new public philosophy that emerged after 1945 was inherently nonliberal. It was nevertheless one to which nonsocialist governments also conformed. By 1950–1951 the British Conservative Party had espoused planning and the welfare state, a change that was signified by the party passage of a new program, *The Industrial Charter* (Conservative Party 1947). The German Christian Democrats’ embrace of responsibility for generous social welfare programs (first proposed by the Social Democrats), as in the case of the 1957 *Rentenreform*, is another example.

The nonliberal bias of postwar policymaking derived from the strategic position of the state and from the advantage that prostatist parties and programs derived from that fact. It was a bias that socialist and social democratic parties could mobilize to their advantage, but only if they gave up their traditional hostilities to the capitalist state. The Swedish Social Democrats did this, but not without difficulties that easily matched those facing right-wing and center parties. A “window of opportunity” was created in 1945 for a socially inclusive strategy for national economic development. The capacity to mobilize that bias for partisan advantage hinged on the dynamic of party competition, the flexibility of elites, and the sociology of class.

The Citizenship State

The tectonic shift of postwar politics to new ground based on state-centered economic and social planning raises questions about the historical meaning of war.⁵ We have so far stressed the development of new institutional capacities and the fact of state-control of the economy in 1945 as precedence-setting phenomena. This discussion has left out the question of legitimation. The state was not only there, it was mostly also very much wanted. Even the United States, not generally regarded as a strong case of welfare state capitalism, conformed to the warfare-to-welfare state thesis in this respect.

With the attack on Pearl Harbor on December 7, 1941, the United States was brought into the war, and many of the features of the warfare state that consumed and transformed European states were applied on U.S. ground as well. Congressional resistance to the Victory Program, a war productions program that put industrial production under unified centralized direction, melted away.⁶ The legacy of the apparatus created to manage this program inspired postwar planners. But politically, promises such as those made by Franklin Delano Roosevelt in his message to Congress on January 11, 1944 changed postwar history.

The message began by listing the control policies still needed to sustain the war economy: industrial conscription, increased taxes, minimum agricultural pricing combined with maximum consumer prices, and an extension of the Stabilization Statute from October 1942, which gave the president extraordinary economic powers. Roosevelt linked control policies with citizenship, promising a “Second Bill of Rights under which a new basis of security and prosperity can be established for all regardless of station, race or creed” (Ausubel 1945, 27). What are we to make of the link among wartime state expansion, coercive planning, and the promise of postwar citizenship? FDR’s guarantees echoed promises made to British subjects by William Beveridge, the unofficial author of the postwar welfare state, in his 1942 report, *Social Insurance and Allied Forces*. The U.S. postwar welfare state never did reach the standard set by Roosevelt (or Beveridge), but the statement nevertheless makes the linkage between citizenship and war mobilization plain.

Historical sociology has put the spotlight on the crucial importance of wars in early European state formation. Brian Downing (1992) has linked medieval constitutionalism to the shift in military technology signaled by the rise of peasant armies, and Charles Tilly (1975, 1989) has demonstrated how modern nation-states were the product of the internal and external coercion associated with military mobilization. Michael Mann has explicitly described the history of citizenship—including T. H. Marshall’s famous “social citizenship”—and the welfare state as a ruling class strategy for national survival in the age of Total War. Mann writes that “[b]ut for the logics of geo-politics and war—including the sacrifices of my own generation—it might have been a very different and infinitely more depressing picture in Europe” (1988, 206). Comparative studies of the welfare state have nevertheless not been attentive to the central role of war mobilization and its institutional and political legacy in shaping the postwar welfare states.

An emphasis on the importance of wartime institutions in shaping postwar policy and on state capacities as central to the understanding of “Golden Age” welfare capitalism nevertheless fits with Alan Milward’s