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The Welfare State

A WORLD AGAINST EMPLOYERS?

During recent decades, welfare states in advanced industrialized societies have experienced a bifurcated trajectory of reform (Kitschelt et al. 1999, Huber and Stephens 2001, Pierson 2000b). A number of countries have enacted radical measures of social policy retrenchment that have restricted the generosity and tightened the eligibility criteria for social policy benefits. In other countries, welfare state and labor market reforms have been more limited in scope. Social policy reforms have only attempted to strengthen the actuarial soundness of social insurance and to put existing social insurance programs on a firmer financial basis.

The bifurcation of these reforms is intriguing for a number of reasons. The first is that the magnitude of social policy retrenchment was much larger in the less generous and more market-conforming welfare states, such as the United Kingdom or New Zealand (Huber and Stephens 2001: 6). In contrast, the depth of retrenchment experienced by the generous welfare states of continental Europe has been more modest. The evolution of wage-bargaining arrangements and other institutions protecting labor, such as employment security regulations, reveals a similar pattern. Liberal market economies – such as the United Kingdom or the United States – have introduced the most dramatic measures deregulating labor markets and weakening the rights of organized labor (King and Wood 1999: 371). In contrast, reforms have been more modest in continental welfare states and a number of countries (such as Norway or Italy) have experienced a recentralization of the institutions of wage bargaining. The trajectory of these reforms has strengthened rather than undermined existing cross-national variation among welfare states.

A second surprising finding of these recent political developments is the broad cross-national variation in the political coalitions forged in support of or opposition to these reforms. The response of employers to these reforms has varied widely across countries. In the United Kingdom, for example, employers have strongly embraced proposals for labor market deregulation and social policy retrenchment (King and Wood 1999, Thelen 2001: 72). In contrast, employers in continental or Northern European economies have "shown only lukewarm support for attempts at profound social insurance reform" (Manow 2000b: 161) and have often defended the core institutional features of their welfare states (Giaimo and Manow 1999). Thus, many scholars have attributed the relatively stronger resilience of welfare states in continental European economies to the presence of cross-class alliances among trade unions and important sectors of the business community strongly supporting the policy status quo (Kitschelt et al. 1999, Manow 2000b: 146–164, Rhodes 2000: 165–196).

The finding that business associations supported existing institutions of social insurance poses, however, a challenge to welfare state scholars. Existing research on the development of the welfare state had been premised on the assumption of business opposition to social insurance. A class-based perspective that has dominated social policy studies for several decades posited that employers have played a reactive role in the political history of the welfare state, by opposing the demands of labor associations for the expansion of social programs and by counteracting the administrative largesse of bureaucratic officials. This research perspective has characterized the expansion of the welfare state as "politics *against* markets," the political triumph of labor-based organizations on a business community forced into retreat (Esping-Andersen 1985). Given this assumption, most scholars of the welfare state lack the analytical tools allowing them to explain the conditions under which employers support the development of social policies. Without a theory specifying the social policy preferences of employers – and the conditions under which the benefits of social insurance outweigh the costs of social policy for firms – the notion of cross-class alliances, which is often invoked in current research on the welfare state, lacks analytical precision.

In an effort to fill the existing gap in our understanding of the political role played by employers in the development of the welfare state, this book has two broad analytical objectives. First, I develop a theoretical model specifying the sources of business preferences toward different institutions of social insurance and the conditions under which profit-maximizing firms – facing competition in domestic or international markets – nevertheless support social policies. Under what conditions can policies designed to compensate employees for the risks encountered during the employment relationship generate positive externalities and tangible benefits for employers? What precisely are the institutional advantages provided by social policy to firms? When do these benefits outweigh the costs of social insurance to firms? What set of factors explains the conflict and disagreement among employers during social insurance reforms?

This model generates the necessary microfoundations allowing us to introduce employers into political analyses of the bargaining over the design of institutions of social insurance. Rather than regarding capital and labor as unified actors involved in a zero-sum conflict over the design of a new social policy, the analysis specifies more rigorously the conditions under which cross-class alliances among sectors of capital and labor form. I distinguish among *prestrategic* and *strategic* alliances. The former are formed if unions and employers support their preferred outcome, the latter if either unions or employers support a social policy that is their second-best choice. I specify the broader political and institutional conditions that contribute to the formation of these alliances and the range of social policy outcomes supported by various cross-class alliances.

In exploring these questions empirically, I examine the role played by employers during the development of the major institutions of social insurance in France and Germany during various episodes spanning more than a century of policy development. I investigate the development of accident, unemployment, and old-age insurance and the development of early retirement policies in recent years. The findings disprove the proposition that business has opposed the development of social insurance, a view that (until recent years) has been widely shared by welfare state scholars. Instead of a monolithic business community uncompromisingly opposing social policies, I find a widespread but clearly predictable divergence among employers when faced with the introduction of a new social policy. Instead of irreconcilable class-conflict, I find that cross-class alliances among parts of the labor movement and some sectors of the business community have played a critical role in the development of policies of social protection.

This chapter situates the analysis of this book within existing research on the welfare state. I begin by discussing the causes accounting for the misunderstanding of the political role of employers in the development of modern institutions of social insurance. Next, I review the most significant recent challenges to the class-based perspective on the development of the welfare state. The chapter concludes by previewing the argument developed in this book.

Class Conflict and the Development of the Modern Welfare State

The literature examining the causes of welfare state development is one of the most developed subfields in comparative politics, a genuine laboratory of research for some of the most influential theories of the determinants of public policy (Köhler 1979, Shalev 1983, Uusitallo 1984, Skocpol and Amenta 1986, Skocpol 1992: 1–66). During the past four decades, an overwhelming number of explanations have been formulated to account for broad aggregate patterns and minute characteristics in the institutional design of many existing social programs. Yet despite the significant achievements of this research, we still lack a systematic account of the role played by employers in the development of the modern welfare state. We lack a broad comparative theory that identifies the variation in the social policy preferences of firms and the mixture of support and opposition in the social policy demands of employers. What explains this paradoxical situation? Why have welfare state scholars ignored or mischaracterized the role played by employers during the process of social policy development? What are the consequences of this analytical omission?

Beginning in the 1970s, the power resource perspective was the dominant analytical perspective informing comparative research on the welfare state (Korpi 1978, 1983, Stephens 1979, Esping-Andersen and Korpi 1984, 1985, Esping-Andersen 1985). The crucial theoretical proposition advanced by this approach was that cross-national differences in social policies resulted from differences in the political "balance of power" between working-class parties and bourgeois or conservative political forces. Power resource scholars have attributed changes over time in the generosity of social insurance programs to factors that contributed to sudden increases in the organizational resources of labor or to exogenous political shocks – such as wars or depressions – that reduced the capacity of employers to oppose reforms (Swenson 2002: 12, Block 1977). Quantitative applications of this theory have been used to explain cross-national variation in the design of social policy programs using various measures of labor strength – such as union density, centralization of wage bargaining, or participation of social democratic parties in the governments (Stephens 1979, Castles 1982, Huber and Stephens 2001, Hicks 1999).

An important limitation of the power resource scholarship is the strong disjunction between the *theoretical* claim that class conflict is crucial for the understanding of social policy development and the *empirical* analysis of this conflict. In fact, power resource scholars provide empirical evidence documenting only one aspect of their theoretical claim, namely that labor-based parties have actively supported the expansion of the welfare state. Most studies devote only a very limited attention to the role played by employers in the deliberations preceding the introduction of a new social policy (Esping-Andersen and Korpi 1985). Employers' opposition to a new social policy is often *assumed*, rather than documented. These analyses fail to examine the causes of intersectoral disagreements among employers when faced with the introduction of a new social policy. In short, the empirical analysis of the social policy preferences and political strategies of employers developed by power resource scholars is often superficial, ad hoc, and unsystematic. Thus, the question about the importance of class-based conflict in the development of modern institutions of social insurance remains an empirically open question.

Often, the specification of the functions of social policy proposed by power resource scholars is premised on the assumption that employers are opposed to the introduction of a new social policy. According to Walter Korpi, the aim of social policy is to "compensate labor for its disadvantaged position in the labor market . . ., by redistributing income between different groups or citizens and between different periods of an individual's life" (Korpi 1983: 83). As Michael Shalev remarks, this restrictive conception of the welfare state that "places much emphasis on the modification of distributional inequalities . . . invites a class-based analysis" – in other words, an analysis premised on the assumption that labor has a strong interest in the expansion of social insurance, whereas capital opposes social policy (Shalev 1983: 320). The most ambitious theoretical conceptualization of the functions of social policies proposed by power resource scholars is Gøsta Esping-Andersen's notion of "decommodification." According to Esping-Andersen, the aim of social policy is to "emancipate workers from market-dependence" and to "minimize the importance of market-generated income" (Esping-Andersen 1990: 26). As this definition implies, "decommodification strengthens the worker and weakens the absolute authority of the employer. It is exactly for this reason that employers have always opposed decommodification" (Esping-Andersen, 1990: 22). Thus, the very definition of social insurance proposed by power resource scholars precludes an empirical examination of the policy preferences of employers. By narrowly focusing only on those aspects of social insurance premised on a zero-sum conflict between capital and labor, power resource scholars fail to identify aspects of social policy design around which cross-class alliances among unions and employers can form.

Recent Challenges to the Power Resource Perspective

In *The Politics of Social Solidarity*, Peter Baldwin has formulated an important empirical and theoretical challenge to the power resource perspective (Baldwin 1990). By examining the historical experience of five European nations for nearly a century, Baldwin demonstrates that parties and other political organizations representing middle classes – and not labor-based parties alone – have, on numerous occasions, pushed for the expansion of social insurance. Although Baldwin's effort to describe the interests of middle classes in social insurance and to expand our "understanding of the 'social bases' of the welfare state" is extremely persuasive, Baldwin is less successful in identifying the interests of employers in the development of institutions of social insurance.

Baldwin challenges both the empirical and the theoretical propositions of the power resource perspective. First, he shows that the key institutional features of the Scandinavian welfare states were not established during the 1930s or 1940s, thus, during a period of Social Democratic governments. Tax-financed, universalistic pensions were introduced at the turn of the century by parties representing the rural countryside, "in an effort to reduce expenses of poor relief and the pressure it put on local land taxes. . . . Tax financing spoke to agrarian interests, by shifting burdens from local land taxes to the central authority's indirect consumption levies. A universalistic approach was necessary to ensure that social policy benefitted the farmers' heterogenous labor force" (Baldwin 1990: 74–75). Second, Baldwin argues that even during the postwar years, Social Democratic parties were highly ambivalent about the proposals to remove means testing (due to the concerns about the financial implications of this measure) and only "grudgingly" accepted the proposals to introduce universalistic reforms (Baldwin 1990: 137). Thus, as Baldwin argues, "the view of an essential link between Social Democratic power and the apparent solidarity of early Scandinavian welfare policy is misleading. . . . It anachronistically reads back a misunderstanding of postwar reforms to an earlier period when other factors were at work" (Baldwin 1990: 62).

On theoretical grounds, Baldwin challenges the assumption of power resource scholars that labor is the only political agent having an interest in the expansion of social insurance. In his elegant formulation, the "proletariat has had no monopoly on uncertainty" nor "has the industrial working class been the risk-prone group in every country at the time social insurance was first developed" (Baldwin 1990: 12). According to Baldwin, in specific historical circumstances, various segments of the middle classes – such as farmers, artisans, liberal professionals, shopkeepers – also had pressing needs for social insurance programs, "not as Bonapartist manipulators but as creatures subject to misfortune surpassing their capacity for self-reliance" (Baldwin 1990: 9). Thus, power resource scholars mischaracterize the major dimensions of political conflict formed during the introduction of a social policy. According to Baldwin, political conflict along class lines is only one line of conflict formed during the extension of policies of social insurance. The social policy preferences of various groups emerge as a result of the interaction among class and a range of additional variables, such as the "capacity of a group for self-reliance," the "demographic outlook," "risk incidence," and "economic prospects" of a group (Baldwin 1990: 12).[1] Baldwin suggests that the structure of existing policies also influences the policy demands of various groups and the political coalitions that can form during the introduction of social insurance.

Baldwin's analysis is successful in specifying the concern of middle classes in the provision of social insurance and in demonstrating that parties representing middle classes have played a critical role in the expansion of the welfare state. However, he remains largely uninterested in exploring the social policy preferences of employers. Important questions concerning firms' preferences in the development of institutions of social insurance remain unexplored. What are the specific policy considerations of firms during the process of social policy reform? Do we encounter variation in the policy preferences of employers, and, if so, what variables explain this variation? One important cause of this omission is the selection of cases. Baldwin's analysis focuses primarily on the development of public pensions and leaves out other important policies, such as unemployment or sickness insurance, policies with significant labor market implications for firms. The justification for this selection of cases presented by Baldwin is rather problematic. "Many aspects of the welfare state are clientelistic, in the sense that their constituencies have largely been set by definition. The issues they raise have therefore rarely passed beyond the calculations of how generous a treatment a particular group can wrest from society as a whole. That unemployment insurance has, until recently, been the concern mainly of wage earners or that measures against work accidents are a matter of most pressing concern

[1] As Baldwin points out both the "capacity for self-reliance" and the "incidence of a risk" of a particular group can evolve over time. These variables also vary between nations (Baldwin 1990: 16–18).

to the industrial proletariat will come as no surprise. There has been little to distinguish the politics of implementing or resisting these initiatives from the battles surrounding other, equally clientelistic measures aimed at different social groups: tariffs, for example, or the subsidies, price supports, protection against foreclosure and other generous measures responsible for channeling substantial public resources in the direction of agrarian classes. Disputes of this sort . . . were in *no sense specific to social policy*" (Baldwin 1990: 50). Dismissing the politics surrounding the development of crucial institutions of the welfare state – such as disability or unemployment insurance – as "uncharacteristic for social policy" is an unnecessary self-limitation of Baldwin's approach.

During recent years, the study of employers has moved to the forefront of research in comparative political economy (Hall and Soskice 2001a, Hollingsworth and Boyer 1997, Crouch and Streeck 1997, Kitschelt et al. 1999). In part, this revival of interest in the political role of business is a consequence of the inability of labor-centered explanations to account for recent patterns of change in the institutions of wage bargaining (Thelen 1994: 107). Differences in the organizational resources of labor movements or in the political strategies pursued by trade union organizations remained insufficient in explaining the resilience or transformation of corporatist institutions during the recent two decades. The greatest shifts in the level of centralization of the institutions of wage bargaining involving either a decentralization from national-level to industry-level bargaining (experienced by some Northern European economies) or a recentralization of wage bargaining (experienced, for example, by Italy), were the result of the political moves of employers' associations (Thelen 2001). Similarly, as Kathleen Thelen argues, despite the current strains, the resilience of the German institutions of wage bargaining is the consequence of the "unwillingness of German employers to abandon the German model" due to the high vulnerability of German firms to overt labor conflict (Thelen 2000: 167, Thelen and van Vijnbergen 2000). As Thelen remarked, "a fact that became painfully clear in the dynamics of corporatism's breakdown" was that "scholars had misunderstood the genesis of corporatism" (Thelen 1994: 107). Peter Swenson's pioneering research has corrected this misunderstanding. Swenson's analysis shed important light on the role played by large export-dependent firms in bringing about the centralization of wage-bargaining systems in Sweden and Denmark as a means to contain the wage militancy of unions in the sheltered sectors (Swenson 1991: 513, 544).

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Isabela Mares
Excerpt
More information

This new, business-centered literature has made important contributions to the analysis of labor-based institutions in advanced industrialized societies. First, these studies have shown that centralized institutions of wage bargaining provide important policy benefits to firms (as well as labor-based organizations). Among these benefits are wage restraint and labor peace. Second, these studies have described a range of policy trade-offs faced by employers during the process of design of these institutions and have developed specific hypotheses about the policy preferences of different sectors when choosing between firm-level and national-level wage bargaining institutions. Finally, this literature has contributed to our understanding of the conditions facilitating the formation of cross-class alliances in support of or opposition against centralized institutions of wage bargaining.

Given the pivotal role played by employers in the centralization of wage bargaining, what is the importance of business in the development of policies of social insurance? For power resource scholars, the answer to this question seemed unproblematic. A new wave of empirical research has begun to challenge this proposition, suggesting that the answer is far from self-evident. A number of studies have pointed to the beneficial economic consequences of social insurance for firms. Scholars of Japan have suggested that the extensive provision of social policy benefits at the firm level was an important factor accounting for the unique combination of high levels of employment and high levels of provision of firm-specific skills (Estevez-Abe 1999). Recent historical research has documented the support shown by employers of key policies of the Swedish and American welfare states, challenging the assumption of monolithic business opposition to social insurance proposed by power resource scholars (Swenson 1997, 2002, Gordon 1994, Jacoby 1997, Martin 2000). The goal of this book is to contribute to this new direction of research and to develop a systematic account of the role of employers in the development of modern institutions of social insurance.

A Preview of the Book

When and why do employers develop an interest in social insurance? I argue that social policies play an important economic role for the labor market strategies of firms: they reduce the reluctance of workers to invest in skills. To illustrate this statement, consider the following example. Both a worker and a firm face an initial choice whether to invest in some skills, but they both face a high level of uncertainty about the expected return on these skills over various employment states. Investment in skills may bring higher returns to the worker and the employer in the form of higher productivity and higher wages. To make these investments, the worker needs some guarantees that during periods of nonemployment – such as sickness, disability, and unemployment – she will be able to retain a relatively higher wage than low-skill workers. I suggest that the presence of public and private social policies helps workers and employers solve this problem and make these investments in skills. Private social policies lower the mobility of workers across firms and increase the incentives of workers to invest in firm-specific skills. Contributory insurance, policies with earnings-related benefits, that replace a significant part of the income lost by the workers also increase some of the incentives of workers to invest in skills. These policies, which are often administered, in a corporatist fashion, by associations of capital and labor, also allow employers to influence the operation of labor markets and reduce the pressure on high-skill workers to accept jobs that are in conflict with the preexisting skill qualifications of workers (Mares 1997). As existing scholarship has pointed out, policies of social insurance protect workers for the loss of income experienced during employment-related risks. However, they also protect the investment in skills made by *employers*.

These observations are the starting point of the model of business preferences toward different social insurance policies developed in Chapter 2. This model studies two questions. First, what are the social policy outcomes preferred by different firms? What are the most significant variables that affect the social policy preferences of firms and that predict the cleavages in the business community during the introduction of various social policies? The preceding discussion has suggested that in the presence of skilled workers, the benefits of social policies for various firms can outweigh the costs of social insurance of employers. The model suggests that additional variables that affect the social policy of employers are firm size and the relative incidence of risk facing a firm. (The latter variable is defined as the difference in the incidence of risks of workers facing a firm and the economy-wide incidence of risk.)

What is the relative role of unions and employers during the process of bargaining over a new social policy? Incorporating the predictions about the social policy preferences of employers, I characterize the conditions under which cross-class alliances among trade unions and employers will form. I distinguish among prestrategic alliances, in which unions and employers support their preferred outcome, and strategic alliances, in which