

Capitalists against Markets

THE MAKING OF LABOR MARKETS AND WELFARE STATES IN THE UNITED STATES AND SWEDEN



PETER A. SWENSON

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OXFORD
UNIVERSITY PRESS

2002

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198 Madison Avenue, New York, New York 10016

Oxford University Press is a department of the University of Oxford
It furthers the University's objective of excellence in research, scholarship,
and education by publishing worldwide in
Oxford New York

Auckland Bangkok Buenos Aires Cape Town Chennai
Dar es Salaam Delhi Hong Kong Istanbul Karachi Kolkata
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British Library Cataloguing in Publication Data
Library of Congress Cataloging-in-Publication Data

Swenson, Peter A.

Capitalists against markets : the making of labor markets and welfare states
in the United States and Sweden / Peter A. Swenson.

p. cm.

Includes bibliographical references and index.

ISBN 0-19-514296-9 ISBN 0-19-514297-7 (pbk.)

1. Labor policy—United States—History—20th century. 2. Labor policy—
Sweden—History—20th century. 3. Labor market—United States—History—
20th century. 4. Labor market—Sweden—History—20th century. 5. Capitalism—United
States—History—20th century. 6. Capitalism—Sweden—History—20th century. 7. United States—Social policy. 8. Sweden—Social policy. 9. Public
welfare—United States—
11. New Deal, 1933–1939. 12. Welfare state. I. Title.
HD 8072. S 92 2002
331. 12' 09485—dc 21 2001036133

Ultimately . . . it is the relation of a class to society as a whole which maps out its part in the drama; and its success is determined by the breadth and variety of the interests, other than its own, which it is able to serve. Indeed, no policy of a narrow class interest can safeguard even that interest well.

Karl Polanyi, *The Great Transformation* (1944)

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Preface

In the politics of work and welfare in capitalist democracies, capitalists invariably play a conservative role according to most historical, sociological, and political analysis. Projecting onto them a cold disinterest in almost everything except market action for their exclusive material gain, this scholarly consensus, I believe, underestimates capitalists' contributions toward the passage of egalitarian and protective social reform. By attributing the many reforms that take place exclusively to other political forces, it also tends to underestimate the power of capitalists in capitalist society.

These errors are probably a consequence in part of the politics of those who study labor and social policy. For most of them, capitalism is something we probably have to live with, and perhaps even should live with, but not without trying to modify and improve it. Thus, it stands to reason, if capitalism needs reform, then capitalists—with perhaps a few politically irrelevant exceptions—are the main obstacle. When reform is imposed, they accept it, supposedly, only in begrudging recognition of a shift in the balance of power against them.

While I also hold strong progressive sentiments for reform, I have come to disagree with the idea of capitalists as invariant and unregenerate opponents. This book explains why. It looks in depth at capitalists' interests in the shaping of labor markets and social policy making over the course of a century in the United States and Sweden. Within the broad category of economically advanced capitalist democracies, these two countries differ radically in the character of their industrial relations systems and social policy regimes. Capitalists' interests there have also differed in the same measure. My analysis of these variations across the countries, and over time within them, shows that the political weakness of Swedish capital gives a less than persuasive explanation for the extraordinary successes of the social democratic labor movement relative

to what labor and liberals have accomplished in the United States. It also shows that the ebbing of capitalists' relative power cannot adequately account for when and why these societies imposed some measure of equity and security on the arbitrariness and uncertainty of markets.

The economic, historical, and political analysis indicates that some of the error in conventional thinking arises not just from ideology but from our difficulties as outside observers in seeing through the deceptive game of politics. In that game, capitalists' strategic positions may obscure their real wants. Their wants or preferences may not quickly and faithfully adjust to the complex workings of real, underlying, and changing interests over time. Thus, economic theory about capitalists' varying interests and in-depth comparative historical research on their evolving wants and strategies are the means used here to develop an alternative and, I hope, more penetrating understanding of capitalists and reform.

Private sector employers and their organizations are the analytical and research focus. I chose to study them not because I believe they are the only important agents of social policy reform. Nothing could be further from the truth. Most initiative takers come from outside the ranks of capitalists and many of the most vocal opponents step forth from among them. I selected this focus because most literature neglects employers in the investigation of other agents of change: party politicians, for example, who appeal to popular, especially working-class interests, or policy intellectuals and bureaucrats with their potentially "autonomous" agendas. Therefore, I make no claim that impersonal capitalist mechanisms frictionlessly or even clankingly drive political systems. Nor do I claim that capitalist elites pull all the strings attached to puppet-like actors on the political stage. Instead, the politics of reform, I argue, is usually the result of a pragmatic and strategic search by noncapitalists for policy founded on *cross-class alliances of interest*. In this building of bridges, the interests of neither capitalists nor of other groups exclusively determine who gets what from the two-way traffic in benefits.

Some readers may be disappointed to find no formal elaborations and quantitative testing of theory. Here I follow a tradition of qualitative work in comparative political economy, hoping to achieve another kind of rigor through the gathering and analysis of historical evidence. In this tradition, slippery metaphors like "the balance of power between labor and capital" appear with frustrating frequency, without clear definition, and never face the criticism that similar notions about power among nation-states endlessly suffer in the international relations literature. My notion of cross-class alliances may not be an enormous improvement in precision. I do not even think it can account for all reform. Indeed, "class compromise" resulting from changing power balances between social classes—or better, shared recognition that the costs of continued conflict exceed the costs of compromise—no doubt accounts for some progressive change at the margin. I believe, however, that the cross-class alliance analysis has more traction for pulling together the facts about the labor and social politics of capitalist democracies into a realistic argument.

Although class compromise does take place, I have concluded that cross-class alliances are the real foundation for *enduring systems* of equity and social protection. In cross-class alliances, there are often losers on both sides of the class divide, and it is they who have to do most of the compromising.

Also, in this qualitative literature, the interests of political actors identified in causal narratives are often left conceptually indistinct from their strategic positions and real preferences. That all these things vary significantly across and within many levels of aggregation in heterogeneous social structures and complex hierarchical organizations is barely hinted at. Though this book shares some of that inevitable imprecision, my hope is that it improves on the tradition and partially clears the conceptual fog. Hopefully it will inspire further clarifying research and debate.

These shortcomings, and all others, are not the responsibility in any way of the many people who helped me along the way, in many ways, in my research and writing. Some read and commented critically and almost always encouragingly on pieces and versions of this work as it progressed; others helped immeasurably in my investigations; some just helped with their friendly and generous hospitality during my visits to Sweden. They are Klas Åmark, Måns and Lolita Arborelius, Edward Berkowitz, Svala Bjorgvinsdottir, Fred Block, Lennart Bratt, Youssef Cohen, Hans De Geer, Bill Domhoff, Per Gunnar Edebalk, Nils Elvander, Gøsta Esping-Andersen, Karl-Olof Faxén, Curt-Steffan Giesecke, Colin Gordon, Jacob Hacker, Peter Hall, Ann-Britt Hellmark, Torben Iversen, Sandy Jacoby, Michael Katz, Baldur Kristiansson, Matts Bergom Larsson, Philip Manow, Jeff Manza, Andy Martin, Cathie Jo Martin, Rudolf Meidner, Stig Nilsson, Ben Page, Åke Nordlander, Paul Pierson, Jonas Pontusson, Bo Rothstein, Ben Schneider, Ian Shapiro, Kicki Sjöquist, Sven-Anders Söderpalm, David Soskice, Kjell Treslow, and Robert Wiebe. Kathy Thelen and Michael Wallerstein, my friends and colleagues at Northwestern, deserve a separate and special thanks for their enthusiastic interest in my work and ideas for improving it.

I am of course grateful to a number of institutions that made my research and writing possible with financial assistance and the temporary release from teaching responsibilities. These are the German Marshall Fund of the United States; the Hagley Museum and Library in Wilmington, Delaware; Northwestern University and its Institute for Policy Research; the American-Scandinavian Foundation; and the University of Pennsylvania. Much of the material in chapters 9 and 10 appeared earlier in "Arranged Alliance: Business Interests in the New Deal," *Politics and Society* 25: 1 (March 1997); its revised presentation here benefitted from the reactions the article received. I am especially grateful to the Swedish Employers' Confederation (SAF) and the Swedish Engineering Employers' Association in Stockholm for granting me permission to use voluminous minutes and other documents from their archives. Warm and special thanks must go to Margareta Englund, Vivi-Ann Melander, Björn Holmberg, and Susanne Palmer at SAF for their generous good will and enormous help in locating and retrieving hundreds of documents from vaults and basements.

Thanks also to the late Bertil Kugelberg for agreeing to let me use extensive notes he recorded from his many meetings and conversations with key figures in Swedish labor relations and politics during his years at SAF.

Loving and laughing thanks also to my wife, Pauline, and my sons, Mattias, Samuel, and Diego. They teased me mercilessly about how slow I was in finishing this book. That was their most direct contribution to the long-delayed outcome, though time has told that it didn't work all that well. Finally, it is dedicated with loving memory to my mother, Shirley Taylor, for all she gave.

A Note on Sources

This book draws on many primary and secondary sources. Of greatest importance for the discussion on the United States is the vast secondary literature in history, political science, sociology, and economics. The scale and resources of the country's system of research universities has made available a rich supply of information to draw on without direct recourse to primary sources. Of course the best of the secondary literature brought a wealth of archival evidence to light for use in the analysis. The Hagley Museum and Library in Wilmington, Delaware, houses a few of the archives directly consulted, especially the collection of the National Association of Manufacturers. Box and file designations for the NAM documents cited may have changed, for, unfortunately, the entire collection has undergone reorganization. Use was also made of transcribed interviews with Marion Folsom, Arthur Altmeyer, and Herbert Lehman housed at the Columbia University Oral History Collection, Columbia University, New York. Newspapers, especially the *New York Times*, and other periodical literature also proved invaluable.

By contrast, the research on Sweden relies heavily on archival sources, although I also draw on practically all the secondary research available. Most valuable by far were minutes transcribed from meetings of the board of directors (*styrelsen*) of SAF (*Svenska Arbetsgivareföreningen*), the Swedish Employers' Confederation, and of its directors' conferences (*ombudsmannakonferenser*; later *förbundsdirektörskonferenser*). The former consisted of full-time company executives and owners, usually prominent ones, elected by the confederation's membership. The latter included the full-time executive leadership of SAF and of its sectoral affiliates. Other important collections consulted at SAF were those of former executive director Bertil Kugelberg, who granted me permission to consult his extensive notes from conversations (*minnesanteckningar*) and other documents. I also consulted minutes of meetings at VF (*Verkstads-föreningen*),

the Swedish Engineering Employers' Association, and archives of other SAF sectoral affiliates housed at their respective headquarters. (SAF has since been reorganized into *Svensket Näringsliv*, or the Confederation of Swedish Enterprise, and VF into *Verkstadsindustrier*, the Association of Swedish Engineering Industries.)

Other valuable sources were from the Swedish National Archives (*Riksarkivet*) in Stockholm. In particular, J. Sigfrid Edström's collection, including extensive correspondence, and that of his Directors' Club (*Direktörsklubben*) of executives from the country's five top engineering firms, were indispensable. Finally, the collection of Finnish employer confederation leader Axel Palmgren, at the library of Åbo Akademi, Åbo, Finland, contained much illuminating correspondence with Swedish employer officials.

Full citations for any secondary work referred to in any chapter in abbreviated form can be found earlier on in that chapter's endnotes. A bibliography of secondary sources will be made available upon request to the author.

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Abbreviations

United States

ACWA

Amalgamated Clothing Workers of America

AFL

American Federation of Labor

AGC

Associated General Contractors of America

AIC

Associated Industries of Cleveland

BAC

Business Advisory Council

CCF

Central Competitive Field

CES

Committee on Economic Security

CIO

Congress of Industrial Organizations

EAD

Employers' Association of Detroit

FLSA

Fair Labor Standards Act

IAM

International Association of Machinists

ILGWU

International Ladies' Garment Workers' Union

IMU

International Molders' Union

IRC

Industrial Relations Counselors

NAM

National Association of Manufacturers

NCF

National Civic Federation

NEA

National Erectors' Association

NFA

National Founders' Association

NICB

National Industrial Conference Board

NIRA

National Industrial Recovery Act

NLRA

National Labor Relations Act

NMTA

National Metal Trades Association

NRA

National Recovery Administration

NWLB

National War Labor Board

OAI

Old Age Insurance

SCC

Special Conference Committee

SFNDA

Stove Founders' National Defense Association

SSA

Social Security Act

SSRC

Social Science Research Council

UAW

United Auto Workers' Union

UI

Unemployment Insurance

UMW

United Mine Workers' Union

USW

United Steel Workers' Union

WIC

Wisconsin Industrial Commission

WLPB

War Labor Policies Board

WMA

Wisconsin Manufacturers' Association

Sweden

AMS

Arbetsmarknadsstyrelsen (The Swedish Labor Market Board)

ATP

Allmänna Tillägspensionen (General Supplementary Pension)

BIF

Byggnadsindustriförbundet (The Swedish Building Industry Employers' Association)

BMF

Byggmästareförbundet (The Swedish Building Masters' Association)

JBF

Järnbruksförbundet (The Swedish Iron and Steel Industry Employers' Association)

LO

Landsorganisationen i Sverige (The Swedish Confederation of Labor)

Metall

Metallindustriarbetareförbundet (The Swedish Metalworkers' Union)

PBF

Pappersbruksförbundet (The Swedish Paper Industry Employers' Association)

PMF

Pappersmasseförbundet (The Swedish Paper Pulp Industry Employers' Association)

SAF

Svenska Arbetsgivareföreningen (The Swedish Employers' Confederation)

SPIAF

Svenska Pappersindustriarbetareförbundet (The Swedish Paper Industry Workers' Union)

TCO

Tjänstemännens Centralorganisation (The Swedish Confederation of Salaried Workers' Unions)

TIF

Textilindustriförbundet (The Swedish Textile Industry Employers' Association)

VF

Verkstadsföreningen (The Swedish Engineering Employers' Association)

Part I History and Theory

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1 A Historical Puzzle

The odds that a child born in America today will lead a life of extraordinary material comfort and benefit from all manner of expensive medical wonders are higher, it is fair to say, than anywhere else in the world. Born in a country like Sweden, with an economy at a roughly equal level of development, that child would start with different, and in a way, better odds: less chance of luxury, but also less chance of misery. In other words, a Swedish child is more likely to reach old age without ever having to face economic privation and an avoidable or surmountable medical catastrophe. For those reasons, quite possibly, even the prospects of surviving infancy and growing old in Sweden are higher.¹

Across the world, large differences in labor markets and welfare states account for most of people's uneven life chances as they go from cradle to grave. Today, for example, Swedish employers pay about the most egalitarian wages and salaries in the world. The Swedish government also enjoys, or suffers, a reputation as a vanguard among welfare states. It is hardly surpassed in the generosity of its monetary benefits and supply of services for people needing them because of childbearing, child rearing, unemployment, sickness, disability, and old age. America, by contrast, stands out among affluent capitalist societies with its highly unequal distribution of pay and benefits, including private health insurance, attached to gainful employment. Likewise, its welfare state, though important for keeping many out of poverty, is rather meager. For example, it is the only wealthy nation where vast numbers of people, roughly 40 million at current count, have no health insurance and therefore often miss out on timely, high quality medical care—that is to say, if they get any care at all.

That market-generated inequalities are high in the United States is well known. It is also beyond dispute that the American welfare state deserves to be characterized as laggard or limited in comparison to other affluent societies.

People continue to research and argue about why there are differences—many of them perhaps harboring the hope of discovering what is politically possible in the way of improvement, especially in the United States. Their research on labor markets identifies a number of causes of relative inequalities. The relative centralization of wage determination appears to be the strongest. Decentralized pay setting in the United States creates inequalities; centralization of collective bargaining in Sweden compresses them. Research on comparative levels and forms of social security frequently finds, not surprisingly, the ideological agendas of partisan governments to be most important. America, lacking strong Social Democratic or Christian Democratic parties, falls well behind Sweden, Germany, and the Netherlands, for example.²

Two intuitively plausible theories about underlying causes commonly figure in these comparative analyses. One, a “power resources” or “political class struggle” argument, points logically to differences in the clout of reform-oriented political forces, which in the case of Swedish Social Democracy include the large and unified labor unions allied with the party. This kind of argument attributes America's limited welfare state in part to weak labor unions and the absence of a labor party that could assert their power, together with electoral pressures, in the legislative process.³ The same power factors implicitly or explicitly figure in varying explanations of wage and salary inequalities because of their causal link to the centralization of collective bargaining.⁴ Recent welfare analysis turns its attention to Catholic or Christian Democratic power resources, arguing they are of equal significance in some countries in the allocation of comforts and miseries within nations through institutionalized pay setting and redistributive social policy.⁵

Another influential but somewhat less obvious line of analysis, focusing on America's “exceptionalism,” blames the country's inequalities on its decentralized and fragmented political institutions. In this view, hopeful movements for progressive and egalitarian reform in America lose energy and cohesiveness as they scrape and fracture on the rough terrain (the “veto points”) spread out across this vast country's complex political system. “There is an excessive friction in the American system, a waste of force in the strife of various bodies and persons created to check and balance one another,” British observer James Bryce noted in 1893. “Power is so much subdivided that it is hard at a given moment to concentrate it for prompt and effective action.”⁶ Later, state-centric “institutionalist” reasoning of this nature also comes into service to help explain the failure to develop centralized labor market institutions and therefore relatively uneven wages. Recent comparative analysis argues implicitly that in Europe, constitutional differences combined with the power resources of both Christian Democratic and Social Democratic movements effectively overcome capitalist resistance.⁷ A good summation of this point of view identifies the American institutional terrain as particularly biased in favor of capitalists and their power resources, even as they obstruct the accumulation of power resources in “large cohesive labor unions and parties.”⁸

The Welfare State: A Question of Timing

Compelling or even downright obvious though they may sound, power resource and institutionalist arguments strain to make clear sense of historical facts about the timing of twentieth-century welfare state development, at least in the United States and Sweden. What is puzzling from the standpoint of these theories is that the United States experienced a “big bang” in development of modern welfare before Sweden did, but without electorally and organizationally strong labor or Christian Democratic movements. With social legislation passed by a Democratic Party, representing both labor and farm interests even as it drew on substantial funding from capitalists, America's New Deal dramatically departed from the past and gave the country a progressive head start on Sweden.⁹ Swedish Social Democrats, ruling in a similar sort of alliance with agricultural interests, introduced little change in the 1930s. Though both countries had unchanging institutions in place over the period in question, the Swedish welfare state evolved rather slowly at first and started to accelerate past America's only in the 1940s and 1950s. Invariant institutions and power balances seem to have generated highly variant results.

To be more specific: in Sweden, during the 1930s, the Social Democrats only barely improved on earlier and limited government benefits passed by centrist and conservative parties. Although they were self-professed socialists almost exclusively dependent on labor for outside financing, their reforms in 1935 and 1937 of the existing public pension scheme they had inherited were so modest that the employer support they enjoyed hardly demands an explanation. Their unemployment insurance legislation of 1934 did encounter business hostility, but it was actually inferior, as explained later, to what business-financed New Deal Democrats installed as part of America's Social Security Act of 1935.

So it is not surprising that when journalist Marquis Childs elevated Swedish Social Democracy to celebrity status among liberals in Depression-era America as a “middle way” between capitalism and socialism, it was not because he found much to write home about in its social legislation. Instead, his books extolled the country's consumer and producer cooperatives, limited but robust state enterprise, and “a strong, all-inclusive labor movement” for making capitalism work “in a reasonable way for the greatest good of the whole nation.”¹⁰ If there were advantages to a strong labor movement, it was not its ability to force through the kind of social insurance legislation that would be passed as part of the New Deal—much less to bring capitalism to ruin as the more hysterical among American businessmen and their ideologues seemed to fear.

Confirming Childs's observations on the Swedish welfare state, a recent study of the American case found that, in 1938, “American performance outpaced the efforts of Sweden, today's world leader in social spending.”¹¹ Peter Flora's

and Jens Alber's broad comparative analysis of welfare state development informs us that to the limited extent Sweden stood out before the 1970s, it had already done so by 1913 when the Social Democrats' parliamentary power was still limited and its unions still enfeebled by the severe thrashing employers meted them in the gigantic conflict of 1909. Because of Sweden's low level of industrial development relative to other European countries at the time, its backwardness relative to the United States in the 1930s can be of only limited value in explaining its lagging performance then.¹²

Later, through the 1930s and 1940s, according to Flora and Alber, other European countries under varying kinds of political control narrowed the gap, even though Social Democrats, easily boasting the best-organized labor force in the world, dominated Swedish politics and government. Ultimately, other than some innovative family welfare policies, practically all of Sweden's major improvements had to wait until the mid-1940s and beyond, despite the labor movement's firm grip in national politics since 1932.¹³ The Social Democratic minister of social affairs was even able to invoke Sweden's relative laggardness in 1953 to justify improvements in social insurance.¹⁴ As one prominent Scandinavian expert puts it, "by international standards Sweden was a rather average welfare state in 1960." In sum, according to another author, "welfare expenditure in Sweden lagged far behind what one might have expected after thirty years of social-democratic hegemony."¹⁵

It should be granted, however, that in terms of form or structure, not expenditure levels, the Swedish welfare state had begun to assume some exceptional features by 1960. According to the eminent comparative social policy expert Gøsta Esping-Andersen, "the cornerstones of the contemporary welfare state [in Sweden] were set during the 1940s and 1950s."¹⁶ Those comprehensive health and pension reforms that were eventually to put Sweden way ahead in terms of "decommodification" (the use of social policy to "emancipate individuals from market dependence") came in 1955 and 1959. But even on this dimension, Swedish progress was still modest. Social Democrats in fact did very poorly with their unemployment insurance scheme in 1934, which covered barely one third of the labor force by 1950, only increasing to over 80 percent in the 1980s. By his measurements of decommodification, Esping-Andersen even finds that, as late as 1980, Swedish unemployment insurance ranked exactly at the mean among 18 affluent countries. Alongside Sweden, but slightly above the mean, was the United States.¹⁷

Because Sweden's labor unions had somewhat amazingly grown in membership rather than declined as in the rest of the world during the 1920s, and maintained a clear lead ever after, these comparisons probably come as something of a surprise. Here more than elsewhere, one would think, the Left should have been quickly able to overcome powerful forces of resistance to social insurance, whatever their source. Instead, their success came much later and more in the realms of health and retirement security than in unemployment insurance. But employers—our usual suspects rounded up to explain the resistance—were less than terribly inconvenienced in these areas. The reforms,

after all, spared mostly the sick and elderly, rather than the able-bodied unemployed, from the labor market's rod. The health and pension reforms actually left employers feeling, on the whole, well cared for. The same holds for “active labor market policy” of the 1950s and onward. This policy, according to Esping-Andersen, “was only possible due to the extraordinary labor market powers of the union movement.”¹⁸ But such an assessment is hard to square with the fact that labor market intervention was designed to equip workers with the most up-to-date and marketable industrial skills and move them about the country to meet employers' needs. In other words, it promoted commodification, at least in the sense of keeping workers circulating in the labor market and away from their fishing spots, gardens, pubs, and sofas. Development and expansion of day care starting in the 1960s had a similar employer-friendly purpose. The public sector hired female labor to free up female labor, a net gain for the private sector. Getting potential workers away from domestic, labor-intensive kitchens or bedsides and onto factory production lines was a service Social Democrats helped provide employers with their rapid expansion of public child care. Having pleaded for government action in the 1950s, manufacturing employers welcomed the Social Democratic initiatives of the 1960s and participated actively in government commissions that designed day care policies.¹⁹ Later analysis in this book will explain why.

The Equivalency Premise

Two plausible assumptions fully consistent with the conventional thinking are what make these facts about the timing of welfare state development in the two countries so puzzling. The first is a specific historical one already mentioned in passing: that the relevant political institutions in the two countries did not change over the period in question. Sweden remained a relatively centralized parliamentary system with strong parties and therefore a limited number of veto points. The United States remained a federal and presidential system with weak parties, strong committees in a bicameral legislature, Senate filibusters, and an independent Supreme Court exercising powers of judicial review. The countries' different coefficients of institutional friction then are hard-pressed, by themselves at least, to explain the fact that Sweden lagged behind the United States in the 1930s and then sped up in the 1940s and 1950s to pass it on the left. Other variables are needed, it seems, possibly related to the changing interests or power of groups like labor and capital, and possibly interacting somehow with the fixed institutions.

The second conventional assumption that makes a puzzle out of historical facts deals directly with these interests. It maintains that labor and capital in Sweden and the United States held consistently opposing interests regarding the welfare state in both countries over time. This assumption applies a broader premise about enduring class interests in all national settings. As Esping-Andersen,

a leading proponent of the labor power argument, puts it, “Employers have always opposed decommodification.” Likewise, in his view, labor's interests across countries are roughly equivalent. For labor movements, decommodification “has always been a priority” and therefore, presumably because of capital's perennial opposition, it is a “hugely contested issue” within countries.²⁰ In short, there is a practical equivalence of interests among like classes in different countries, and equivalence of conflict across their respective class divides. By this *equivalency premise*, the stronger Swedish labor movement, with backing from a socialist party in government entirely independent of funding from business, should not have been outclassed by the New Deal. After all, that was the project of a Democratic Party relying on considerable financial support from business and backed by a divided labor movement that was struggling to get back on its feet.

Revealing the equivalency premise as the source of puzzlement points to the need for comparative empirical validation of the premise itself—not just a resumption of the search for new interactive variables. In general, comparative research tends simply to accept the premise on faith and then look for factors other than variations in interests that might explain national variations in welfare states. In practice, this actually goes for institutionalists and power theorists alike—although that, to be sure, is not logically required by either approach. Institutionalists, one critique points out, tend in practice to start from unexamined assumptions about broad structural or economic similarities across countries, including class interests, in order then to identify institutional variations that explain different historical outcomes.²¹ An influential model of this tendency is Theda Skocpol's comparative analysis of social revolutions. She assumed outright that peasant exploitation was virtually equivalent across old-regime agrarian societies, only some of which experienced social revolutions. What therefore endowed only some peasant classes with revolutionary potential were particular state-related institutional structures that, in some countries and not others, facilitated the translation of objective exploitation into subjectively and collectively perceived grievances and then facilitated collective action.²²

Institutionalists are usually not this extreme, or at least this explicit. Recent institutionalist work on the welfare state, most notably that of Kathleen Thelen, even avoids the problems entirely. Indeed, she astutely shows how capitalist interests can coincide with those of labor regarding market intervention in the realm of skill formation. Thus the problem lies not in institutionalism as an approach, but only in applications of it that assume too much about capitalists' interests against reform.²³ But typical analyses of health care reform by comparative-historical institutionalists, for example, implicitly treat the variable, and therefore potentially pivotal, interests of capitalists as exclusively oppositional. Ellen Immergut comes very close to the equivalency position in explaining why Swedish employers “seemed ready to acquiesce to national health insurance,” a description that understates their profound amenability. In her view, it was only in their strategic, not immediate interests, for they

wanted to preserve good will in their dealings with an extraordinarily well-organized and politically muscular labor movement in other policy realms. Thus, she attaches no particular causal importance to variable business interests; the conventional argument about the unusual power of Swedish labor suffices. Consequently, she leaves unexamined the possibility that if French or Swiss capitalists had been equally favorable, then constitutional factors delaying or limiting reform in those places may have proved less important.²⁴

Those who look elsewhere than institutions seem even more unambiguously inclined to tie themselves down to an unexamined equivalency premise about fixed class interests, and in particular capitalist interests against reform. Doing so allows if not requires them to turn to variations in the power of the working class against capital for their causal logic. The variable and changeable “balance of class power,” as it is sometimes put, explains important variations in social and labor policies. In Fred Block's influential analysis, for example, changes over time can be accounted for by changes in the balance, as when capital's “structural power” against reform is neutralized or disabled by war or depression.²⁵

Others, like Esping-Andersen, find evidence in cross-national quantitative analysis of data from recent decades for the role of “working class power mobilization” in welfare state formation. Power mobilization in this “political class struggle” perspective is measured, for example, by legislative and cabinet seat shares for left-wing or labor parties. All in all, Esping-Andersen finds the power of the Left in the postwar era explains a substantial amount of variation in the structure (though not, interestingly, size) of welfare states in advanced industrial countries. Left power correlates strongly with universalism (lack of de-meaning means-testing) and degrees of decommodification (e.g., measured as short waiting periods, long benefit periods, and high income-replacement rates for sick pay and unemployment benefits).²⁶ In Sweden specifically, Esping-Andersen argues that the power of the Left “is the key to the evolution of Sweden's postwar political economy.” More than in any other European nation, he asserts, the “working class has been capable of initiating and imposing its policy preferences.” In sum, the “evolution of Swedish state policies is therefore largely a reflection of their labor market strategies and powers to tame the private economy via the state.”²⁷ Even an institutionalist like Skocpol, in turning from social revolutions to comparative social policy, resorts to this conventional brand of power analysis, and therefore unambiguously adopts the equivalency premise. “The political class struggle between workers and capital,” she says, “helps to explain why the United States has not developed a comprehensive full-employment welfare state along postwar Scandinavian lines.” In other words, the political dominance of the Social Democrats “induced business to come to terms . . . with the emerging Swedish welfare state.”²⁸

Though measures of working-class power mobilization may well statistically vary with welfare state development in the late twentieth century, as Esping-Andersen and others show, the correlation does not prove causation was at work. This skepticism is bolstered by the historical puzzle of the early to

mid-twentieth century. Again, confidence about causality requires independent empirical substantiation of the initial equivalency premise. If further investigation were to reveal that employer interests regarding social policy are strikingly more positive where labor is “strong” according to the typical measures, then the conceptual treads in the causal analysis would lose all traction. The same would hold for employer interests regarding equalization of results in labor markets, another central subject of this book. For example, a recent attempt to demonstrate how labor's power (measured by union organization levels) compresses wages in various countries fails to control for variable capitalist interests for or against wage equalization. It therefore implicitly adopts the equivalency premise as an operational assumption. To put it another way, it fails to consider the possibility that union strength and employer interests in equalization may partially coincide. To the extent they coincide, no conclusions about the use of union power to achieve equalization can confidently be drawn from the study's results.²⁹

In short, empirical analysis of labor's power over things that capitalists care about—labor markets and welfare states—must step back and either prove the equivalency premise or control for measured variations in employer interests before reaching causal conclusions. Though not acknowledging the challenge formulated exactly in this way, Esping-Andersen does, somewhat cryptically, wrap up his analysis of the welfare state and the capitalist power structure with an appropriately skeptical question: “[I]s political power a decisive or only spurious historical variable?”³⁰ The answer offered here is that the political power of labor, measured conventionally, is indeed spurious if conceived exclusively as “power against capital and its interests.” But as the cross-class alliance analysis indicates, the power of labor, otherwise conceived, is indeed decisive. It can be used against capitalist interests or for them, and the choice makes a big difference for the durability of reform.

Labor Brings Capital In: Reformer Initiative and Cross-Class Alliance Making

Empirical evidence about employer interests presented later in this book shows beyond a doubt that the equivalency premise is a shaky one. This conclusion holds for both wage compression and social policy. Some of the most astonishing evidence shows that the Swedish Employers' Confederation was remarkably eager to create a more level structure of wages across firms and industries, well before the unions unified behind a “solidaristic wage policy” in the 1950s onward. The power of well-organized unions helped employers achieve results that their organization could not achieve on its own in the face of market forces.

In the realm of social policy, history shows that Swedish employers were

anything but foot draggers when it came to the belated post–New Deal reforms of the 1940s and 1950s and were, in some cases, even more generous reformers than the Social Democrats themselves. With the one exception of a pension reform in 1959, their confederation favored legislation over no legislation. Even after the 1959 reform, however, they decisively intervened to muzzle the Conservative Party when it called for dismantling the reform once it passed. In the debate leading to the 1946 pension reform, the employers' organization rejected a cheap “means-tested” version of legislation (targeted to poorer applicants who could demonstrate need) initially favored by leading Social Democrats. Employers favored the more expensive “universalistic” (non-targeted) proposal up for discussion, which is what the Social Democrats ultimately chose. In the case of health insurance in 1953, employers preferred the legislation's expensive sick-pay linked to previous earnings over a cheaper flat-rate system and were glad to jettison company provision of health benefits. After coming around to the employers' view, the Social Democrats discarded the flat-rate system they had passed in 1946, but not yet implemented, having once intended to leave ample room for American-style supplementary private benefits provided by individual employers.

And in 1947 organized employers eagerly signed on to the idea of “active” labor market policy measures, which were rolled out in large quantity the following decade. Active labor market policy, possibly more than any single piece of the welfare state, makes Sweden famous among social and labor policy experts as what Skocpol calls a “comprehensive full-employment welfare state” coherently integrating economic and social policy. Employers warmly endorsed activist training and mobility measures even before the labor confederation included them as the centerpiece of their plan for economic stabilization and industrial development (the “Rehn-Meidner Model”). This cross-class consensus emerged well before Social Democratic government leaders abandoned their incredulity about the plan's economic logic and reluctance to dig into taxpayers' pockets to finance it. As in the other cases, the interests that employers expressed in active labor market policy were not, as one might suppose, the “strategic” preferences of a capitalist class that was, at heart, antagonistic to social and labor market legislation. Organized employers were not merely resigned to hegemonic Social Democrats and hoping to appease them for special consideration on particular details, for nicer treatment in other domains, or to avoid public disfavor. They knew what they wanted. Sometimes they liked best what they got and got what they liked best.

Intriguing historical details like these presented throughout this book indicate the need for an entirely different kind of comparative argument—one that rejects the equivalency premise common, though by no means logically necessary, in existing power and institutionalist analyses of the welfare state. In broad strokes, the analysis developed in this book builds on a *contingency premise*, backed by theoretical analysis of how employer interests in wage distribution and social policies derive from their variable strategies and institutions in labor markets. In other words, capitalists and workers sometimes

agree, and sometimes do not agree, about egalitarian policies. As economic actors in labor market formation, or political actors in welfare state development, Swedish employers were nothing like American employers.

Elaboration of theory about how employer interests in social policy vary with their labor market strategies and institutions will have to wait until the next chapter. It will suffice to say here that there is usually a *regulatory logic* to their interests, and therefore the support they show, before and after, in varying ways. Capitalists often like government regulation when they see a net benefit and little risk. Like a powerful solvent, interests often quickly dissolve ideological sentiments against advantageous government regulation. Welfare policies can provide just such intervention. To say that capitalists have interests in reform is not, however, to say that they always act according to those interests as opposed to competing ones, institutional constraints, free-market liberalism, or just plain stick-in-the-mudism. For many, the road from interests to action is a long and rocky one, and their means of transportation often fail.³¹

The comparative historical argument maintains that, because of these obstacles and handicaps, reformers with considerable organizational distance from the capitalist world (mostly liberal Democrats in the United States and Social Democrats in Sweden) were usually responsible for taking the political initiative. Responding eagerly to popular pressures “from below,” they of course exercised autonomous power and put their own stamp on legislation. But they also took into account variable capitalist interests, about which they were usually quite knowledgeable, regarding the regulatory value of social and labor policy. They usually hesitated, it seems, to take full advantage of electoral and parliamentary opportunities to roll over these interests in the shaping and timing of their legislation.

Even the exceptional cases examined here, where capitalist opposition seemed monolithic and positive signals about favorable interests weak, are few and ambiguous. In the United States the major exception was the 1935 National Labor Relations Act; in Sweden the exceptions were unemployment insurance in 1934 and the 1959 pension reform. The Sweden-U.S. comparison suggests that reformers tended to proffer their major initiatives when clear signals of interest emanated from important circles in the capitalist camp. In the United States, those signals came through with considerable strength during the interwar depression; in Sweden, they came through during the postwar period of vigorous growth. The differences in timing derived from profound differences in employers' regulatory interests.

Political survival instincts told the reformers that opportunistic initiatives founded solely on episodic and unstable mass electoral support could be undermined after passage due to the anticipated ability of capital to regroup and shift the sands of electoral and parliamentary support under their feet. New York's Senator Robert Wagner, the legislative pilot of the New Deal, was well aware from Progressive-era experiences in his state that, according to his biographer, “passage of a measure [did not] mean that it was permanently secure.” Businessmen of all sorts had “maintained powerful lobbies at Albany

and could always find lawmakers who were willing to sponsor bills that would repeal, or amend into insignificance, the Factory Commission laws.” And as leading New Dealer and “cautious reformer” Edwin Witte saw it, the Roosevelt administration could have shrugged off concerns about business or labor support for the Social Security bill “and still force a measure through Congress.” But a major objective was robust legislation, anchored in a cross-class alliance, capable of weathering future challenges. “The violent opposition of either group is likely to mean trouble hereafter,” Witte wrote as the debates raged.³²

“Interested” employers were rarely the initiating or driving force, especially on a collective level. There were good reasons for this de facto political division of labor. In the United States, especially, major employer organizations like the National Association of Manufacturers had long been dominated by antilabor ideologues whose suspicions spilled over onto social reform. The majority of manufacturers were not members, especially the union-friendly ones, and many moderates quite possibly voted with their feet and stayed out. Of course, individual capitalists had to consider the entirely avoidable business or social costs of taking progressive political stands for their relations with buyers, suppliers, stockholders, and fellow country club members when reactionary organizations set the tone of debate. Most, of course, had neither the time nor inclination to devote resources to studying the advantages or disadvantages of social legislation. Furthermore, proposing social legislation was simply not in the mandate for the organizations or in the job description of their staff experts. Even if it had been, business leaders could not take or maintain the initiative in social reform because of the high and certain cost of internal divisiveness and uncertain payoff from success. Moderate leaders who did go over the line into progressivism were vulnerable to activist ideologues ready to take power from them, something that actually happened in the U.S. Chamber of Commerce in 1935.

For those businessmen with progressive tendencies, therefore, it was probably better to lie low and wait for outside forces to push for change. The added advantage was that they could blame a *force majeure* for the reformist course of events they supported once reform was under way and justify their participation by saying that if they did not go along, worse things could happen. At that point, prominent business supporters of reform could help push things in regulatory directions they favored, sometimes surprisingly progressive in character. Sometimes they even put the brake on reactionary movement. The same logic probably applied to conservative parties strongly dependent on business support and paralyzed by the need to shun highly divisive positions on social policy questions. This syndrome of left-wing reform happiness and right-wing inhibition no doubt helps explain the usual statistical correlations found between leftist and Christian Democratic control of government and social legislation across economically advanced democracies in general. Thus the distribution of parliamentary or cabinet seats among various parties says relatively little about the zero-sum distribution of power between capital on the one side and various heterogeneous social forces on the other.³³

As research on the United States and Sweden shows, though reformers from outside the capitalist camp took the initiative, their sensitivity to capitalist interests left its stamp on the reform. This probably helps explain the subsequent weakness or absence of reactionary pressures. Reformers tended to act in prudent anticipation of delayed reactions from capital, hoping to design reforms that maximized supportive reactions and minimized backlash. Analysis of the reformer initiative in pulling together cross-class alliances behind major legislation reform suggests that, by favoring a part of the capitalist class with regulatory assistance (necessarily at the expense of others), they guaranteed themselves post facto support for their initiatives. More important for them than overt prior support was anticipation of tacit support after passage. Electoral advantage may have been enough, as Witte argued, to win the day for a time—but probably not over the long haul.

In examining the two countries over a period from the beginning of the twentieth century, this book first analyzes their dramatically different labor market systems. It then reveals the effect of their labor markets on welfare state development, mediated by the political process.³⁴ As economists might put it in their peculiar way, welfare states are at least in part endogenous to labor market systems. Therefore, it appears as no accident that America's limited welfare state today is causally related, via a political process sensitive to employer interests, to higher levels of inequality in the labor market. However, despite the strong interaction, there is unlikely to be a certain “welfare regime” for any given “labor market regime.” The relationship is, after all, only partial. For in principle the analysis is political, not economically deterministic. It upholds the essential role of noncapitalists with their own agendas in shaping labor markets and welfare states, enlisting capitalists into broad cross-class alliances. In the process, reformers leave their own distinctive stamp, as well as that of capitalists, on both systems. In the end, politics, and therefore choice within a range of opportunities, matters immeasurably. Even political institutions are likely to matter, as institutionalists rightly claim, in shaping values and interests and structuring coalitional opportunities and strategies.

Nevertheless, to compensate for neglect of employers in the literature to date, most of the analysis in this book focuses on them, not powerful labor leaders, politicians, and institutions. The next chapter begins with a theoretical analysis, drawing partly from an important school of thought in labor economics, of three important systems of labor market governance: *cartelism*, *segmentalism*, and *solidarism*. These, as later chapters demonstrate, characterize varying kinds of labor market governance that radically differentiate the United States and Sweden. The analysis introduces economic reasoning behind differences and changes in employer interests arising from those different systems with regard to the socialization of welfare tasks. By explaining changes in interests over time and identifying when capitalists are likely to signal amenability to welfare legislation, it helps solve the historical puzzle about Sweden's delayed welfare state.

Chapters 3 and 7 examine the evolution, location, and logic of segmentalism and cartelism in the United States. Chapters 4 through 6 do the same for solidarism in Sweden. Along the way, the discussion presents reasons why and how employers helped shape the different systems. Their choices had weighty consequences for later welfare state formation. One dramatic and politically consequential difference is the diametric contrast in interests between employers in the two countries with regard to pay inequality across firms. Big American employers individually sought to establish and maintain wage inequalities (within limits) across the labor market, while large Swedish ones collectively sought pay compression. Related to that contrast, another was American employers' whole-hearted promotion of company-based social benefits ("welfare capitalism") and their Swedish counterparts' collective or solidaristic efforts to suppress and eliminate the same practices. A third is the dramatic differences in unionization and centralization in the two countries, in part a result of employer strategies. In the United States, employer hostility to unionism, except in some sectors, effectively hindered its growth. In Sweden, a powerful employers' confederation helped create the world's most powerful social democratic labor movement and had minimal regrets about doing so.

At times, the discussion in these chapters shifts back and forth between the two countries to explain other intriguing differences between them arising from differences in employers' labor market strategies. These differences have had important economic and political consequences. Among them are the remarkable and hitherto unexplained differences between the two countries in the prevalence of pay-for-performance schemes ("piece work") and their radically different incidence of corruption and labor racketeering. An even more important part of the comparative analysis shows how the varying levels of overt hostility between capital and labor in America and Sweden resulted in part from the opportunities for cross-class alliances that employers' differing strategies in labor markets provided. In particular, a burning issue in both countries for major employers in the 1920s and 1930s was the problem of intersectoral wage differentials, especially between manufacturing and construction enterprises. In Sweden, a cross-class alliance with organized labor and Social Democrats helped solve the problem and thereby helps explain the politics of consensus in the interwar period and beyond—despite the socialist ideology inspiring its labor movement. In the United States, similar problems exacerbated hostilities toward labor among major employers in the same period because a cross-class alliance to deal with it was not in the offing.

The next four chapters then direct the analysis to employers' roles in the New Deal in the United States in the 1930s and Social Democratic legislation from the 1930s through the 1950s. Here the formative effect of labor market systems on the development of welfare states comes into focus. The argument and evidence incorporate the role of reformers as cross-class alliance makers in designing their initiatives to deal with employers' regulatory problems arising from their labor market practices. The evidence suggests that, all in all, reformers acted in response to a favorable alignment of employer interests with

those of the reformers themselves. They did not, it seems, take advantage of a shifting balance of power against capital.

In these final chapters, I subject competing historical arguments about specific developments and reforms in the two countries to a critique based on evidence more consistent with my theoretical perspective. Chapter 10 in particular examines evidence against Theda Skocpol's "state-centric" institutionalist analysis of the New Deal. Studies by her and collaborators merit detailed attention, I think, because of their explicit and contentious aim of proving the irrelevance of capitalists in the American reform process—and because of the considerable influence that her arguments continue to have. Chapter 12, on the Swedish welfare state, focuses the critique on influential authors whose understanding of Sweden has been, I believe, skewed by both theory and mythology about the power of the Swedish labor movement, fortified in a sense by the relative paucity of research on Swedish employers and their labor market interests.

The conclusion, chapter 13, looks at developments since the 1960s. Among other things, it examines the variable importance of international market forces in the recasting of alliances and thus changes in labor market organization and welfare. It also looks at the role of strategic choice and mistakes in the use of power by labor in response to social and economic changes of the 1960s and 1970s, especially in Sweden. It suggests, for example, that Social Democrats and labor leaders fell victim to illusions about the role of labor's power in the country's remarkable labor market and welfare state accomplishments of an earlier time. As a result they used their power in risky initiatives without cross-class foundations and, therefore, invited a costly capitalist reaction. It analyzes the rise and abandonment of efforts in the 1990s to install a national health insurance system in the United States as a failed attempt to forge a cross-class reform alliance. Thus, in turning to these and other developments in the two countries, it looks at recent events through the lens of theoretically informed analysis of the more distant past.

2 Solidarity, Segmentation, and Market Control

In conversations with management expert Peter Drucker, during Drucker's time at General Motors in the 1940s and 1950s, GM President Charles E. Wilson once made a peculiar and extravagant boast. Wilson claimed, as Drucker recalled, "We have the union relations *I* designed . . . and they are right for our industry and our union."

We lose fewer days to strikes than any other major company in this country or in any other unionized country. We have greater continuity of union leadership. And both the union and we get the things the country, the company, and the union need: high discipline, high productivity, high wages, and high employment security. A union is a political organization and needs adversary relations and victorious battles. And a company is an economic organization and needs productivity and discipline. At GM we get both—and to get both we need the union relations we have.¹

To illustrate unions' need for adversary relations and victorious battles, Wilson pointed to circumstances leading up to the company's collectively bargained Supplementary Unemployment Benefits (SUB). GM began paying these benefits in 1955 to complement the limited unemployment support provided by twenty-year-old New Deal legislation. The plan for the company welfare scheme was, Wilson said, worked out under his and board chairman Alfred Sloan's watch, not by the United Auto Workers (UAW). Instead, the union had long called for a "guaranteed annual wage" connected to work sharing during production downturns. GM had formulated its SUB scheme, probably early in 1947, as a good place to put some of the auto industry's increased earnings instead of wages.²

Intrigued, Drucker asked Wilson when he planned to introduce the SUB scheme. Wilson responded, "*I* am never going to put it into effect. . . . I grudgingly yield to a union demand for it when I have to." The reason: the union

leaders “won't go along unless it's a ‘demand’ we resist and they ‘win.’ . . . No union can believe that what management offers can be anything but harmful to the union and its members as well. Sure, I'll plant the idea—I know enough UAW people. But we'll yield to them, after a great show of reluctance, only when it's worth something to them. The time will come.”³

Sure enough, the time came in 1955, eight years later, when the UAW geared up for militant action. Ford, which the union reportedly believed to be even more amenable in principle than GM, was chosen as the target of the first strike threat. Ford settled quickly and favorably, and GM simply followed suit, agreeing to supplement statutory unemployment insurance so that auto workers would receive roughly 60 percent of take-home pay for 26 weeks of joblessness.⁴ Over the next twelve years, SUB plus regular unemployment insurance would be increased to 95 percent for 52 weeks of unemployment. A similar procedure, Wilson said, had already worked for introducing company pensions to supplement Social Security, in 1950. According to Drucker, Wilson had favored improving company pensions, but “waited until employee pensions became a union demand.”⁵

For the American blue-collar industrial worker, the auto industry's wages and benefits were about the best thing going, even if the work pace was grueling. The UAW's president, Walter Reuther, got a great deal of credit, complete with his portrait on the cover of *Time*. That probably suited Wilson just fine. Privately, Wilson regarded Reuther as “the ablest man in American industry”; Reuther, in turn, regarded Wilson as “a very decent, genuine human being.”⁶ But the gulf between Reuther and Wilson was probably broad and deep with regard to Wilson's hope and apparent belief that his union's vanguard actions would pave the way to more generous material benefits for the entire working class. In historian Nelson Lichtenstein's assessment, “by 1955 Reuther thought collective bargaining with the Big Three automakers might well generate in the United States the kind of classwide settlement that was characteristic of industry-labor relationships in northern Europe.” He reasoned that the UAW's unusual leverage at the bargaining table “could be used to pry open the doors long closed to government expansion of the welfare state.” Big employers, went the political logic, would respond to the proliferation of collectively bargained benefits “by seeking government assumption of the costs.” Union power would neutralize capital's opposition to an expansion of the welfare state.⁷

Employers, however, did not follow Reuther's script. Events showed that GM and other major employers making benefit “concessions” to unions were easily able to pay for their premium pension, health, and unemployment benefits with higher product prices in the well-insulated national market. More important, as Lichtenstein put it, “managers recognized that company-specific benefits built employee loyalty, and at some level they understood that a low social wage [a limited welfare state] was advantageous to their class interest, even if their own firm had to bear additional costs as a consequence. Ironically, it was the UAW's own commitment to an expansion of the welfare state that began

to flag.” And it is not hard to see why union pressure subsided. As Jill Quadagno argues, the expansion of the welfare state was impeded because “independent negotiations for private pensions reduced whatever incentive they might have had to support Social Security benefit increases.”⁸ This was exactly the interpretation of Marion Folsom, former Kodak executive and “corporate liberal.” Folsom noted on the eve of the limited Medicare and Medicaid reform of 1965 that “there's nothing like the pressure among the labor unions for compulsory health insurance for the laboring population that there used to be. . . . They lost a lot of their enthusiasm when they began to get all those fringe benefit contracts.”⁹ Medicare and Medicaid, of course, did not cover the “laboring population” Folsom spoke of. In other words, millions of working Americans were left uninsured, while employment-based benefits that others received were left, as Folsom wanted, intact.

Eventually Reuther would lower his social reform expectations to realistic levels suiting employer figures like Folsom and Wilson. Wilson wanted a broad old age security system but only “on a minimum basis,” so he told a gathering of corporate executives in 1950.¹⁰ Reuther's earlier hopes for better things to come had possibly been inflated by knowledge of northern European conditions, Swedish ones in particular. He was a close friend of Arne Geijer, the leader of the Swedish Metalworkers' Union, and beginning in 1956, head of the country's entire blue-collar labor confederation.¹¹ In Sweden, the 1950s brought highly centralized multi-employer, multi-industry collective bargaining, a system capable of and used for negotiating an increasingly egalitarian structure of pay across firms and industries. It was also the decade when major compulsory health insurance and sick pay reform was looming. Employers in Sweden, as Geijer would have known, were collectively favorable to the idea of reform, for they had struggled for decades to eliminate the practice of company benefits.¹²

Perhaps illusions about the Swedish labor movement's power, and employers' interests, fed Reuther's optimism about employers' readiness to accept social democracy in America. Sweden's Social Democratic labor leaders may have been unable to disabuse him of those hopes, for they probably had no more than a dim understanding of the huge differences between Swedish and American employers. As different as they were, however, there is reason to think that business leaders on both sides of the Atlantic shared a similar understanding about the psychology of organized labor and how to work with it for their distinctive ends. For example, in 1955, when the Swedish Confederation of Labor (LO, or *Landsorganisationen*) had begun heavily promoting its famous egalitarian “solidaristic wage policy” (*solidarisk lönepolitik*), Hans Söderlund, a staff economist with the negotiation division of the Swedish Employers' Confederation (SAF), found nothing particularly objectionable. After all, the unions' ideas about wage compression were quite similar to organized employers' own for standardization of remuneration across firms and industries. However, in a remarkable internal memorandum, he echoed GM's Wilson, recommending that employers should hold their cards close to the chest.

If the employer confederation openly promotes wage policy goals whose general purpose is so closely related to solidaristic wage policy, we cannot exclude the possibility that the unions might strike off in a different direction. Unity among workers and confidence in their organizations' leadership depends of course to a large extent on members feeling that the organization has some impact on results in the area of wage policy that otherwise would not have been achieved [without the union]. The feeling that this is happening can be weakened of course if the distance narrows between [employers and the unions] with regard to their conceptions about the "correct" wage structure.¹³

In this, the young Hans Söderlund, 33 years old, was probably speaking less from direct experience than from what he had learned from his father. Gustaf Söderlund had been executive director of SAF from 1931 to 1939 and 1943 to 1945 and was currently one of the country's most powerful bankers. His lesson was identical to the one Wilson conveyed to Drucker about the need for adversarial relations: union leaders may be more willing and able to push harder for something both sides want if employers disguise or conceal their interests in it.

Twenty years earlier, in a 1935 SAF board meeting, Gustaf had advocated official silence about rules changes that LO leaders were seeking for more power over its affiliates, and through them, over militants in the membership who frequently overturned central agreements in membership referenda. The centralization of union authority was something SAF looked forward to with quiet glee.¹⁴ "If the . . . revision is carried out, employers' wishes are likely to be satisfied as much as we can desire," the elder Söderlund predicted. Now that the revision was under way, a pronouncement in favor "would only cast suspicion on LO and obstruct a solution of the problem."¹⁵ To clam up about a cause it had long advocated, and so help preserve unity within the union confederation, was good for employers. Unity behind a more secure and powerful leadership was not going to be a source of power against them. With SAF's silence, the LO leadership was better able to represent the reform, which it finally passed in 1941, as necessary for union solidarity against employers. Radical critics knew better, that it was "in the spirit of class collaboration" (*i klassamarbetets anda*).¹⁶

In the realm of social legislation, in contrast with collective bargaining, Swedish employers adopted a quietly favorable position. However, they routinely waited for the Social Democratic labor movement to take the initiative. This division of political labor probably influences how, in retrospect, we measure the forces of change. Our understanding of what happened is probably also skewed by employers' abstinence from claiming credit after the fact. In any event, they more or less played the role that the UAW's Reuther had wrongly anticipated for American employers. For example, compulsory health insurance, complete with generous sick pay, was passed in 1953, to take effect in 1955, with only minimal employer opposition to various details of the legislation. Overall, leading Swedish employers, for reasons discussed later, welcomed

the chance to hand over the role of providing insurance and health services to the Swedish state.

These major events in the history of labor markets and the welfare state during the 1950s, when labor unions in the United States and Sweden took both the initiative and the credit, but mostly kicked in doors left open by leading employers, give reason to ask the following question: how much illusion and myth lies behind our understanding of the role of labor's power in the shaping of industrial relations systems and welfare states? If the grandiosity of Wilson's boast invites some skepticism, the similarity of the two Söderlunds' statements lends it credibility. If true, at least in these important instances, organized labor's ability to achieve something of value to workers had more to do with capital's friendliness than its relative weakness.

To develop an argument about the causally interdependent interests of capitalists in market governance and social policy making, the remainder of this chapter moves to an analysis of what employers want to accomplish in and with labor markets, and sketches out three different means of achieving them: (1) *cartelism*, a collective multi-employer strategy for enforcing wage and benefit floors; (2) *segmentalism*, a decentralized firm-level strategy of providing higher wages and benefits than other firms; and (3) *solidarism*, another collective strategy, whose main purpose is to enforce ceilings, not floors, on wages and benefits. As indicated later, the three practices are not entirely mutually exclusive, and various admixtures can be found in practice. Nevertheless, in the two countries and period studied here, cartelism and segmentalism strongly characterizes distinct parts of the American labor market, while solidarism gives the Swedish labor market its striking distinction.

The analysis draws on theory from labor economics, which helps identify a number of explanations, though not all possible ones, about when and why employers will favor social legislation in support of their labor market strategies. These reasons thus explain why employers may become partners of sorts in *cross-class alliances* that support social legislation in active and tacit ways. The chapter's conclusion summarizes the comparative historical argument developed in the rest of the book. The evidence throughout reveals the important role—and often a progressive one—that capitalists in both countries played, together with liberals and labor, in the interactive development of labor markets and welfare states. The following theoretical analysis helps to make sense of the evidence.

Employers Against Markets

Employer dispositions, both positive and negative, toward collective bargaining and social legislation originate to a great but not exclusive extent from strategies pursued to secure their interests in labor markets, and through labor market control, in their product markets. The strategies employers choose to pursue depend no doubt on established organizational practice and

hospitable or compelling economic, cultural, political, and legal conditions for adapting organization toward those strategic ends. By that token, current politics and institutional and ideological legacies of the past, and feedback from current strategies on later developments probably matter too and would have to be included in a broader and deeper analysis. So, too, would the vagaries of leadership decisions about different options, no matter how constrained the environment. The consequence of including all this, however, would be an even larger book than this one or, probably because of the amount of research necessary, no book at all.

What mostly concerns this analysis are employers' immediate interests in managing and shaping labor markets for their larger objectives in market competition. In the search for high and secure profits, employers endeavor to structure the price of labor, to create incentives promoting labor productivity, and to secure a reliable supply of labor with an appropriate mix of skills. Here, wages influence the supply of labor, both in the sense of bringing bodies and minds in contact with capital that can employ them and inducing physical and mental exertion. Employers also want to manipulate the overall level of wages, both for themselves and for competitors, to influence prices of their goods or services in shared markets. They may also recognize the role of high and stable wage levels as a source of demand for the goods and services they sell. Employers can try to achieve these related but varied and often contradictory objectives with different devices, both individually and collectively. Inevitably, distinctive benefits and complications arise from each particular strategy. Their choices will in turn pattern their interests in welfare state development, to which this chapter turns at the end.

Cartelism

Businesses often try to collude with each other to set product prices and restrict competitive entry into their markets. The familiar argument goes as follows. Whenever possible, firms pursue independent monopoly strategies to maximize and stabilize profits in product market competition, carving out secure niches with strategic location, advanced technology, product patents, and consumer loyalty. Some sectors of an economy, however, lack the technological or other bases for individual firms to achieve stable "monopoly rent." Labor-intensive sectors, with small-sized firms producing uniform and easily transported goods, requiring only quickly learned skills, and using inexpensive and simple machinery, are among them. These factors allow easy entry to competitors, who trigger intense and often ruinous price competition. Slim, unstable, and sometimes nonexistent profits result. This was often the case, historically, in the American coal mining, building, and garment industries, for example, as well as in services like retailing, transportation, and others.

In addition to other problems, intense competition among capitalists in their sales markets can set off bruising conflict between classes, as both employers and workers try to protect their incomes at the other's expense when

prices for their products and services sag. Low morale and effort, high turnover, absenteeism, theft, and other costly manifestations of worker discontent become endemic. For purely pragmatic and profit-seeking reasons, and probably often humanitarian ones, employers regret that market competition compels them to shift hardships onto their workers. As Samuel Gompers, head of the American Federation of Labor, wrote in 1897, “Is there . . . an employer who is at all inclined to be fair to his employees, who has not felt the awful and degenerating influence which some of his unscrupulous—commonly known as “cut throat”—competitors have wrought . . . by contemptible methods of hiring the lowest priced labor and demanding the longest hours of labor?”¹⁷

In the absence of government protection from competition through price and entry regulations, and where the law allows, firms' remaining chance of increasing and stabilizing profits is to band together in a collusive cartel against competitive price reductions. However, because of cheating by cartel members, and new entrants to the market, the difficulties of maintaining such an arrangement are enormous, even where the practices are legal. When cartel collusion is effectively illegal or unenforceable, firms may yet have another option. They can turn to labor unions as a useful enforcement mechanism against cheaters and new entrants.¹⁸ All unions may have to do to stabilize competition is to impose a floor under wages paid by competing firms. Minimum wage standards can prevent the destabilization of product market competition caused by wage “chiseling.” Low-wage entrants to the trade are blockaded. Even exit by firms with unusually high nonlabor costs may be accelerated, a loss to the industry that other firms will more likely celebrate than mourn. Here, the union performs a function similar to that of the purchasing pool in cornering the supply of a key input or factor of production, or of a monopolistic supplier or financier, who might be willing to cooperate in choking off competitive entrants and punishing violators.¹⁹

Capitalists' desire to regulate product market competition is among the most widely understood of employer motivations for organizing and engaging in collective bargaining with unions strong enough to police competition effectively. Existing literature, in fact, focuses almost exclusively on this as the primary regulatory motive for bargaining on what is often called a multi-employer, or centralized, basis with unions. In this arrangement, usually in the small-scale, easy-entry industrial or service sectors, organized labor steps in as an ally in a regulatory cross-class alliance.²⁰ In short, this *negotiated cartelism*, sometimes called “bilateral monopoly” by economists, substitutes for government protection or unilateral cartelism. It can stabilize and pacify relations at unionized workplaces by displacing their distributional conflict onto other employers and workers, whose higher wages are not affordable. Conflict is also displaced onto relations between a cross-class alliance of producers with the consumers who pay higher prices for their products. Consumers do not necessarily lose, however, because negotiated cartelism does not eliminate all price competition. It only moves it to other dimensions. As it is sometimes put, negotiated cartelism “takes wages out competition.” In taking only wages

out of play, it probably displaces entrepreneurial and managerial energies into a more intensive search for efficient labor-saving technology. Both innovators and consumers may benefit: first, the innovators, who in the short run can capture a larger market share, and then consumers in the long run by paying lower prices.

Ironically, a successful unilateral cartel may make unions superfluous as a source of entry control, price maintenance, and stable workplace relations. Employers in that case are probably more inclined to play the role usually expected of them in fighting off unions, especially because of the challenge they represent to managerial sovereignty. German heavy industrialists' powerful cartels early in the twentieth century are probably a good case in point. *Unilateral cartelism* thereby eliminates a main source of union strength, that is to say, "employer recognition."²¹ But where employers cannot solve the problem unilaterally, unions can undergo a remarkable transformation from menace to savior—as long as they become strong enough to be an effective police force. Firms favoring control of competition but unable to bring it about on their own may therefore even find it in their interest to subsidize the union, usually indirectly (by the check-off system, or automatic enrollment of their workers and deduction of union dues from their pay).²²

The cross-class alliance underlying negotiated cartelism does not eliminate class conflict. Strikes are, of course, the union's mechanism of enforcement on recalcitrant employers. This conflict can be intense, violent, and even murderous. Conflict on a broader scale between the union and employers' associations does not disappear either. Unions may still choose to use the power conferred upon them by the arrangement or by other circumstances to impose and maintain wage standards higher than the bulk of employers wish to go. They might use their power to impose constraints on managerial rights. Large-scale strikes and lockouts do not necessarily become obsolete, in other words, even if they decline in quantity. Unions may take such advantage of their power position that they create a climate of open and permanent hostility. But chilly and conflictual relations do not imply the absence of an alliance, just as permanent conflict in a marriage does not always mean divorce. The labor union may, of course, recklessly use a short-term power advantage to push relations to the breaking point. After that comes the strong likelihood of a long-term loss of power with the loss of employer recognition. Many employers will share a loss with workers from the decline in their union's power. But pragmatic union leaders do not often let things get so out of hand.

Segmentalism

Firms in less competitive product markets than the ones just described have dramatically different problems and options with regard to managing their affairs in labor markets. Often they prefer to deal with their workers without the intermediation of outsiders like union leaders. When they deal with unions, they are likely to prefer negotiating agreements about wages and other conditions

of employment tailored only to the company, not to the industry as a whole. Nonregulated or decentralized arrangements with workers have a dramatic and distinctive effect on the structure of income in labor markets. To understand how and why they do so requires first an introduction to concepts from labor economics, especially from the literature on “efficiency wages.”

The core assumption of a number of efficiency wage models about employer behavior in labor markets is that, in some firms at least, workers' efficiency may be a positive function of their wage relative to wages paid in alternative employment and relative to other sources of income attached to unemployment. The better employer gets better workers, in a nutshell. “Where wages are high,” Adam Smith wrote, “we shall always find the workmen more active, diligent, and expeditious.”²³ Various efficiency wage models work from distinct but noncontradictory angles about this *wage-productivity nexus*, though policy implications of the distinct models vary.²⁴ All, however, focus on reasons some employers might *voluntarily* pay higher wages than others, or more than appears necessary in the face of surplus labor or unemployment. High wages do not always require coercive intervention of powerful outsiders like unions or governments.

Early theory along these lines, coming out of development economics, stressed the productivity advantages to employers of income-related improvements to workers' nutrition and vitality.²⁵ Later theory focused on “information asymmetries” leading to the “selection” or “sorting” effects of high wages. This theory says firms with supracompetitive wages attract more able workers, which spares the employer some costs of discerning who should be chosen, even as they enlarge the pool from which to choose.²⁶ Another current in the literature focuses on the behavior of workers once employed by the firm. High wages, for example, it is supposed, reduce quit propensity, or turnover, which is especially costly for some firms, and therefore reduce expenditures on recruiting and training good new workers.²⁷ Behavior on the job is also the subject of important “shirking models” in the literature, which stress the incentive effect of high wages on worker effort. For example, the possibility of getting caught loafing and being fired, and forced into unemployment or a job with lower pay, induces effort levels that could otherwise be generated only with more authoritarian and, in terms of worker morale and money, costly “monitoring” (what labor historians call the “drive” system).²⁸

An important variant invokes “sociological” or normative motivations behind workers' efforts. These motivations are inconsistent with most economists' simplistic and monotonous assumptions about workers' preferences (e.g., for indolence over exertion, or for daydreaming over problem solving). For example, employers may offer a gratuity or “gift” of high wages in excess of what would be necessary to attract enough workers or to make current workers indifferent to the job with respect to outside options. The superior wages may therefore generate good will and a normative obligation (i.e., an endogenously created preference for working over shirking) to reciprocate with more than minimum effort. Employers spend less on monitoring and discipline. In

this variant, efficiency wages elicit greater effort by cultivating norms, enforced by peer influence, of what constitutes a fair and respectable day's work for their employers' generosity.²⁹ Norms of pay equity and the dynamics of group cooperation may transmit upward pressure on wages within firms from occupations where the wage-productivity nexus is present to occupations where it is not.³⁰

The most important and consistent implication of this theoretical literature—whether it is built on biological fundamentals, rational maximizing behavior based on exogenous preferences for shirking over working, or endogenous normative motivations favoring working over shirking—is that it helps us explain a certain kind of unemployment. In short, if enough firms voluntarily pay supracompetitive wages, they can cause *involuntary unemployment at equilibrium*.³¹ The theory makes sense of the commonly observed fact that employers often do not cut wages when faced with an excess supply of labor. Instead, with the high pay they offer, they voluntarily cause “queues,” figuratively or literally speaking, to form at the factory gates, and then “ration” jobs among the surplus of workers available. Reducing wages would cause some applicants to turn on their heels and make the queue disappear. Some current workers would also leave, and probably the better ones at that. Thus, regardless of aggregate demand levels, labor markets will not always clear at the micro-economic level. Involuntary unemployment created by efficiency wages may be therefore structurally part of the “natural” rate of unemployment.³² It is therefore beyond the reach of Keynesian demand manipulation, except at the risk of accelerating inflation.

The second major implication of efficiency wage theory concerns the existence of labor market segmentation. Segmentation refers to “dual” and “internal” labor markets, where *wage levels and managerial practices differ markedly across firms or sectors* in ways that cannot be accounted for by worker or job attributes, as in traditional neo-classical models. Those models predict far more uniformity for similar workers and jobs, regardless of employer or industry. In some sectors (primary labor markets, in dual systems), efficiency wage theory says, in contrast, there will be voluntary payment of wages exceeding market-clearing levels, whereas in others (secondary labor markets), we are likely to see lower and more flexible wages of the neo-classical, market-clearing variety.³³ Some models also predict intrafirm wage differentiation and related administrative or managerial practices (so-called internal labor markets) that are not explicable in terms of worker quality, task difficulty, and the operation of external labor markets. Among these are wages rising with seniority without regard to individual workers' specific ability and effort. Young workers are not attracted away by higher wages elsewhere, expecting large deferred rewards. Older workers are not discarded despite availability of more productive replacements willing to accept a lower wage.³⁴ One thing likely to explain such differentiation of pay practices across firms and sectors is heterogeneity in capital/labor ratios. Some firms utilize sophisticated, expensive, and secret technology, where shirking, quitting, absenteeism, low ability, and worker ill-will

(leading to sabotage, theft, and spying) are extra costly. These firms will find payment of supracompetitive efficiency wages advisable. Also, some firms' product market power, and therefore high operating profits or value added per worker, makes "rent sharing" (or profit sharing) in the form of high wages especially affordable.³⁵

Firms choosing to pay an efficiency premium, voluntarily and for profit-maximizing reasons, need not put the money into cash wages alone, though the labor economics literature seems without exception to theorize and test only in those terms. The firm may pay a premium in the form of free vocational training in needed skills, while later even sharing the firm's returns to the skills thus acquired in the form of pay increases. Naturally, in the desire to reduce costly turnover, it is likely to concentrate training expenditures on firmspecific skills, that is, specific to its own technology, so as to reduce the risk of losing the investment, a risk that increases if the investment is in more general-purpose "human capital" of value to many other employers. A competing employer may even be able and prepared to offer higher wages for those skills, having not had to finance their creation. Retaining skilled workers by the firm that trains them is also aided by promises of internal promotion up the career ladders associated with internal labor markets.

Most important, firms may find it expedient to offer nonwage benefits and services associated with "welfare capitalism"—health, pension, unemployment, and other kinds of insurance, and sports, cultural, and entertainment facilities available only to employees (and very often their dependents). Even expenses put into better lighting, heating and air-conditioning, ventilation, noise, and safety conditions may have efficiency payoffs for the employer. Large employers are especially likely to provide an efficiency premium in the form of insurance benefits. Their per capita costs, given underwriting and other administrative economies of scale and their larger and therefore less risky pool of beneficiaries, will be lower than for smaller firms. Also, paying higher wages may attract a larger pool of applicants from which to select healthier workers. Depending on workers' preferences, such benefits, perceived as a kind of "gift," may provide productivity benefits in excess of what could be achieved from paying the same costs in cash wages.³⁶

In the case of these and other paternalistic practices, attitudes, and emotions about what constitutes a fair day's work for a fair day's pay—again what economists call "sociological" causes of a "fairness-productivity nexus"—might sometimes play a more powerful efficiency role than mere cash benefits. Sometimes insurance-type benefits, like pensions, take the form of "deferred wages," further inhibiting turnover by inducing workers to stay long enough to qualify for and then receive them. The efficiency differentials might also come in the form of "implicit contracts" that partially protect workers from wage cuts or layoffs when prices and profits decline. Naturally, only some kinds of firms will believe they have the necessary "reserves" to shoulder these risks and offer the insurance benefit.³⁷

For the remainder of this book, the payment of efficiency wages or benefits