

Bad Manors and the Good Welfare State:
A Nordic Perspective on Jacoby's
Modern Manors
and American Welfare Capitalism

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FOR A LONG TIME IT HAS BEEN TOO EASY to think that the welfare capitalism of big, nonunionized employers after the New Deal had been simply marginalized, dormant, and reactive as a managerial, sociocultural, and political phenomenon relegated by organized labor and the welfare state to insignificance for the lives of most Americans. Rich with detail on prominent nonunion corporations that flourished after the 1930s, Sanford Jacoby's new book on welfare capitalism now makes it impossible to hold those views. Instead, his *Modern Manors* shows companies like Kodak, Sears Roebuck, and TRW (formerly Thompson Products) to have been a powerful force whose practices reemerged ascendant in the 1970s onward, having in the meantime exercised considerable influence over unionized sectors of the labor market and over the welfare state itself.

From the beginning, employer paternalism in its many forms developed not simply as a reaction to the rise of organized labor militancy, although the threat of unionism certainly prodded many an employer in that direction. Early on, as Jacoby indicates, public criticism of concentrated wealth and antitrust forces applied additional outside pressure. Quaker ethics and Protestantism's "social gospel" probably contributed a moral impulse to some employers' early experiments. The rise of the professions in education, economics, social work, and psychology contributed

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beginning in the late 1800s with ideas about social engineering that paternalistic employers could apply in their search for workplace order. They recognized that efforts to achieve a pacified, stable work force with company housing and recreational facilities, seniority-based layoff practices, profit sharing, and pensions were simply “good business.” Kodak, Jacoby notes, originally adopted its welfare plans to “ward off external threats” but later came to believe that things like profit-sharing engendered a spirit of cooperation with a positive payoff of its own. Executives at Thompson, a major producer of machine parts, especially for the growing aeronautics industry, “became convinced that a cooperative ethos would promote desirable outcomes, even in situations where unionism was not a problem.” Indeed, warding off unions became, in part, for Sears a means to protect the profitability benefits of its highly flexible brand of welfare capitalism just as much as it saw in welfare capitalism a means to stiff-arm unions.

One of the standard views about welfare capitalism in the post-New Deal period has been that large nonunion employers in sectors seemingly vulnerable to unionization continued to avoid that fate simply by following union achievements and unilaterally hitching on to pattern bargaining. Jacoby presents abundant evidence about the large grain of truth here but shows, however, that in some cases welfare capitalists tried to stay a step ahead of the pattern. More important, their practices often deviated significantly, as when they prioritized employment security (through work sharing, pay reductions, and flexible retraining and relocation practices) over the union sector’s income security (layoffs with company benefits supplementing government unemployment insurance). Yet more important, in some ways, was their contribution to the development of applied behavioral science in the modernizing workplace. Nonunion welfare capitalists, with Sears in the lead, enlisted the help of outside academic experts and consultants, in no small way contributing to research and development in “human relations” practices in personnel management. These even found their way, a bit uneasily, into the unionized sector. Had unionism encompassed the entire economy, presumably, the impact of behavioral sciences would not have spread so readily from university campus to corporate executive headquarters. Sheer interest in the profitability advantages of a well-managed workplace kept these practices going, although they were largely set in motion by antiunionism. They then developed a momentum of their own and continue to this day largely in the absence of credible union threats.

According to Jacoby, industrial unionism and welfare capitalism evolved into “separate but overlapping employment systems.” This may

be an apt formulation but perhaps also a problematic one, given his tendency to portray welfare capitalism as inherently antiunion. In talking about its “primitive underside” or “harsher side” (pages 3 and 25), Jacoby comes close to implying that there should be no overlap. Perhaps “harsher variants” would have been better. On the other hand, the problem disappears when he implies elsewhere that the defining elements of welfare capitalism were company-level social protections and bonding processes for employees facing the option of a hazardous, anomic, and conflictual labor market environment. In any event, the systems were overlapping because of capture and spillover; unions appropriated early welfare capitalist practices like benefit systems and seniority preferences in layoffs, unionized companies borrowed from welfare capitalism’s innovations arising out of the behavioral sciences, and nonunion companies often followed (though sometimes led) collectively bargained benefit expansions. They were separate because of nonunionized welfare capitalists’ deviations favoring employment over income security, more flexible deployment of labor allowed by less rigid seniority, pay, and promotion practices, and a microcorporatist dissolution of class loyalties strategically cultivated with popular company-sponsored social activities and services.

Jacoby’s readers might well come away from the book with a starker perception of the naturalness of separation and the uneasiness of overlap than is merited. Such a reading follows from the peculiarities of American industrial relations history that Jacoby attends to well, where welfare capitalism became a piece of territory to be captured in the war between hardened antagonists on the question of unionism’s perpetual challenge to managerial rights and flexibility. Had the implementation of welfare capitalism not been so infected with control conflicts (because it was used to fight unions with designs on the power to manage, and because unions demanded input in and credit for welfare programs, which could strengthen their ability to impose additional constraints on management), then overlap rather than separateness might have become more prominent in the American case.

Without deviating from the substance of his analysis, Jacoby could have, I believe, explicitly distinguished what welfare capitalism is (company benefits and services, etc.) and what it does, in the sense of what employers want it to do for them, to better expose the historical contingency of separation and overlap. Introducing the concept of “efficiency wages” from labor economics, understood here to include “efficiency benefits,” would help clarify the usefulness of the distinction. Many of welfare capitalism’s advantages, sought by employers whether or not they

must deal with unions, can be subsumed under the concept. Relatively high wages, better benefits, more favorable security arrangements, be they in the form of employment guarantees or income maintenance, in comparison with alternative jobs and unemployment (“reservation wages and benefits”) can, it is argued, reduce turnover and “shirking,” increase worker initiative and innovation, and facilitate recruitment of quality manpower. In other words, profitability for welfare capitalists is a positive function of company welfare expenses over some range of those expenses. Some, if not all, of the benefits of being an efficiency wage employer can accrue whether unionized or not. To some extent, then, employers will be indifferent to the combination of unionism with welfare capitalism as long as other needs—most notably flexibility in the deployment of labor in the productive process—are met.

The behavior and strategy of General Motors in the 1950s illustrate the point here. GM executive Charlie Wilson, according to Peter Drucker’s first-hand account, sought to steer the UAW in a welfare capitalist direction by planting ideas about pensions and supplementary unemployment benefits with UAW leaders and therefore quietly signaling that these would be paths of low resistance in ritualized conflict, as opposed to other ways of structuring the wage bill.¹ Meanwhile, the union could take credit for the collective bargaining “victory” by kicking in this open door. The company would gain a number of advantages, despite allowing the union rather than the company to claim credit. First, the UAW would find it easier to justify to members abandoning its demands regarding pricing and production decisions, just as GM wished. Second, negotiated welfare benefits, as efficiency wage components, would help tie workers to the company and reduce turnover. Supplementary unemployment benefits would keep a cheaply hoarded and therefore quickly mobilized supply of labor with company-specific skills on hand for upswings. Finally, because pattern bargaining spread the auto industry’s wage increases across the American labor market faster than the special insurance-type benefits that large employers could better afford (having a larger and more diverse risk pool),² the efficiency differential would be better preserved, if not even widened. Unionized GM was pursuing welfare capitalism for the same reasons that nonunion companies did, not just because of capture or spillover.

¹ *Adventures of a Bystander* (New York: Harper & Row, 1978), pp. 274–278.

² Michael J. Piore and Charles F. Sabel, *The Second Industrial Divide* (New York: Basic Books, 1984), p. 110.

Comparative analysis with experiences in other countries, which Jacoby champions, can help clarify the extent to which welfare capitalism and unionism are compatible, as long as unions allow efficiency differentials and drop their control ambitions. Thus it helps to show just how historically contingent the separation was in the United States. Jacoby indeed brings in some comparative analysis, but I think in a way that obscures rather than illuminates the large potential for overlap. Noting first that “elaborate welfare schemes” were in operation in many companies in Europe, he suggests that, at least using the example of profit sharing, welfare capitalism was more pervasive in the United States early in the twentieth century. He then argues that in northern Europe unionism achieved greater success (because welfare capitalism was less pervasive?); later, a more comprehensive welfare state than ours overshadowed the slimmer remnants of welfare capitalism. Different power relations explain the result, Jacoby seems to suggest. In other words, their labor movements were more powerful, but employers also were better organized to squelch union demands for control and shift bargaining to the multiemployer level, where management rights were off the agenda. Industrial-level bargaining in turn “promoted worker solidarity, legitimated unions as social actors, and made it easier for unions and their affiliated parties to pressure governments to expand the welfare state.” In a nutshell, unionism distinctly shaped and empowered by employer recognition in centralized bargaining seemed to keep welfare capitalism off the workplace agenda and put the welfare state on the political agenda instead.

This suggested conjunction of powerful unionism and limited welfare capitalism, and emerging out of that arrangement, more advanced welfare states, clearly leaves the reader with all the more reason to assume the inherent naturalness of separation and uneasiness of overlap. Facts about the Swedish case cast doubt here, suggesting the need for a different interpretation, or at least more research and comparative analysis about the interplay of unionism, welfare capitalism, and the welfare state. To start with, Swedes did not witness anything like a big bang in welfare state development until the 1940s and 1950s, after the New Deal, despite their superiority in the realms of labor organization, collective bargaining, and left-wing political power. Also, welfare capitalism in Sweden experienced enormous expansion in the postwar period in easy coexistence with unionism. In 1952, the Swedish Employers’ Confederation surveyed its members, all of whom accepted collective bargaining, finding that fully 14 percent of their manual labor-related costs consisted of housing, health, pension, safety, and other social expenses, often company-based.

Across mining, forest products, and chemicals, the averages were 20 percent or more. Given the broad inclusiveness of the confederation's membership, this average probably hides larger companies' higher figures. An earlier survey in 1948, generating a crude average figure of only 3.8 percent (for blue- and white-collar workers), indicates very rapid growth in a brand of welfare capitalism comfortably and almost completely overlapping with blue-collar unionism.

Some elements of Jacoby's generalizations about northern Europe do fit Sweden well. Organized Swedish employers, using the multi-industry lockout, enjoyed stunningly complete victories in breaking the unions' ambitions in the realm of the closed shop and other threats to management rights. They also used the lockout to corral unions into centralized multi-employer bargaining largely over general wage and working condition issues. After this, the facts start to differ from Jacoby's general interpretation, however. Employers' whole-hearted acceptance of a union movement that they had so effectively tamed did not stifle the welfare capitalist impulse. It actually did the reverse. Centralized wage bargaining, especially in the 1940s and 1950s, was so successful in imposing wage restraint on a multi-industry basis across the labor market that it contributed to labor scarcities (i.e., by setting wages below equilibrium and generating excess employer demand for labor), which set off rampant poaching of manpower and job hopping. This in turn heightened individual employers' efficiency wage motives for raising social benefits and therefore cheating on centralized wage restraint. (American employers' motives were exactly the same during World War II, a major period in the development in company benefits. These were used to come out from under strict wage controls under conditions of labor scarcity, not primarily for union avoidance, which was held in abeyance, or because of union policy and bargaining power.) Some of the cheating by Swedish employers was company-based, and some collectively bargained on a sectoral level, where the logic of intersectoral competition over labor mirrored the interfirm process.

This micro-level and meso-level cheating on wage restraint was a cross-class project of individual employers and unions at the subnational level, defecting from the centralized system of wage restraint. Likewise, stemming the growth of welfare capitalism with the welfare state was just as much a joint project, although one pursued at a centralized political level. The Social Democratic labor movement took the initiative, but the Swedish Employers' Confederation was fully supportive of the broad compulsory and universalistic principles of the reforms. In short, the main advantage for the central employer leadership was to neutralize rank-

and-file pressure on individual employers for expanded benefits. Individually, these employers had been only too happy to grant them in the search for market advantage where labor was scarce. The story, therefore, is not a simple one about capital against labor in the spread of welfare capitalism or labor against capital in the expansion of the welfare state.

An efficiency wage story about the New Deal, largely consistent with Jacoby's, also helps explain American welfare capitalists' support for the 1935 legislation that, in the case of unemployment insurance, was far better than the Swedish legislation in 1934 and, in the case of old-age insurance, predated the big universalistic Swedish pension reform of 1946. Jacoby, I think, correctly sides with those who have argued that "corporate liberals" like Kodak's Marion Folsom exercised a great deal of influence on the Roosevelt administration and helped design a welfare state that complemented and therefore coexisted with welfare capitalism.³ Folsom and others had encouraged the Roosevelt administration to legislate on social security in the context of depression and then, to a considerable extent, helped apply the brakes in the context of postwar growth and tight labor markets. (This sequence, as will be seen, is roughly the reverse of the leading Swedish employers' position over time.) In the context of slack demand and excess labor, American welfare capitalists, trying to uphold their social contract with their workers, experienced the distress of low-price competition from low-wage, low-benefit product market competitors who operated with greater flexibility in laying off workers and reducing their wages. In many cases, as Jacoby points out, welfare capitalists had to renege and cut back; it was these who were the most vulnerable to unionization. Companies like Kodak, DuPont, and others enjoying more buoyant demand could better maintain their benefits and therefore emerged unscathed after the depression as the leading nonunionized welfare capitalists.

Because mass-producing (and servicing) welfare capitalists were vulnerable in product market competition under conditions of slumping demand and loose labor markets, many, like Jersey Standard's Walter Teagle, saw compulsory social insurance as a complement to company welfare by compensating for its product market disadvantages during business downturns. Later, even in the period of sustained growth and

³ See my "Arranged Alliance: Business Interests in the New Deal," *Politics and Society*, 25:1, (March) 1997. It is difficult, however, to reconcile Jacoby's assertion (p. 206) that businessmen who "clung to the welfare capitalist ideal" were especially inclined to oppose social security, with his assertion on the next page that "the only major management group to sanction social security was the Commerce Department's Business Advisory Council, made up of the leading corporate practitioners of welfare capitalism," including Folsom.

tighter labor markets, Folsom continued to promote broad coverage, arguing as late as 1943, Jacoby notes, for extension of social security to uncovered firms “to remove unfair competitive advantages.” But he also played a role in keeping the welfare state “sufficiently parsimonious to preserve a role for private welfare capitalism”—i.e., to allow companies like Kodak to continue to use premium benefits for an efficiency advantage in tighter labor markets. Under these conditions, welfare capitalists could readily expand their labor force flexibly without wage increases, since there was always an excess supply (a queue of workers, figuratively speaking) waiting at the company gates. Thus the American welfare state, developed with Folsom’s considerable input, helped compensate welfare capitalists for their vulnerability during downturns without neutralizing their advantages during upturns.⁴

In this way, the efficiency wage motives of welfare capitalists in the United States help explain differences in both the timing and shaping of welfare state development in America and Sweden. In Sweden, leading capitalists confronted more threatening foreign, not domestic, competition during the depression and thus did not call for leveling the playing field among domestic product market competitors with the help of major welfare state initiatives. The big Social Democratic reforms indeed waited until later, when leading employers favored them. That moment came in the context of extremely tight labor markets associated with a combination of strong external demand and wage restraint in multi-industry, multiemployer collective bargaining with a labor movement that had abandoned all designs on managerial rights. To repeat, this brought labor scarcity, making welfare capitalism a tempting device for individual employers to defect from wage restraint in the search for efficiency advantages in labor market competition. The Swedish welfare state, in turn, appeared useful to leaders of the employers’ confederation as a device for checking this behavior and maintaining control on labor costs for the sake of international competitiveness.

In sum, Jacoby’s book brightly illuminates important new facts and knowledge about the nature of American capitalism and industrial relations since the New Deal. It also ventures a nuanced interpretation of the complex relationship between unionism, welfare capitalism, and the welfare state and leaves the conceptual door open to comparative analysis

⁴ Jacoby, it appears, incorrectly characterizes the National Association of Manufacturers as hostile to social security well into the 1940s (p. 218). His argument that important welfare capitalists both supported the New Deal and took a leading role in the NAM afterwards conforms better with the fact that by 1943, NAM officially and unequivocally supported the welfare state, declaring in its “Better America” program that “the need for Social Security is not questioned.”

that can untangle the complexity of those relations even further. If there is a shortcoming, it lies largely in Jacoby's tendency, perhaps inadvertent, to emphasize the natural separateness of the phenomena, which seems in turn to result from his neglect to distinguish analytically what welfare capitalism offers workers from what welfare capitalists want it to do for themselves. What employers want from it, perhaps more than what they deliver with it, varies considerably from time to time, employer to employer, and country to country, including stilling an uneasy conscience, battling hostile public opinion, staving off antitrust action, promoting productivity and profits, and warding off a union threat. The role of big employers in shaping industrial relations and the welfare state, even supposedly marginalized ones like nonunion welfare capitalists in the United States, or relatively disadvantaged ones like those facing off against extraordinarily well-organized unions in Sweden, varies from time to time and country to country, depending on political, social, and economic conditions that influence what employers want welfare capitalism to do for them. In any case, as Jacoby shows, the employer role is a powerful one.

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