

Business Power and the Welfare State:  
 Comment on Walter Korpi and His “Power Resources and Employer-Centered  
 Approaches”

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Some time ago, back in the 1990s, I spent more than a year in Sweden at the archives of the Swedish Employer Confederation (SAF), investigating a puzzling thing about that country’s welfare state—the remarkable cross-class consensus surrounding it—that I thought was not adequately explained. In the following years I wrote *Capitalists against Markets*, which presented extensive details of what I learned about the surprisingly positive role of capitalists in the building of, not just friendly acceptance of, the “Swedish model.” I was fortunate that the book was received, on the whole, quite favorably. It has also been subject to respectful criticism, which I have to a certain extent benefited from. So I looked forward with considerable interest to reading Walter Korpi’s critical article, “Power Resources and Employer-Centered Approaches in Explanations of Welfare States and Varieties of Capitalism: Protagonists, Consenters, and Antagonists,” published in *World Politics* in 2006.<sup>1</sup>

Of course it was less than encouraging to read Korpi’s characterization of my work as “deeply flawed.” Thinking he had failed to justify that harsh judgment, and because in the text and notes Korpi mentions my name no fewer than 46 times, I requested the editors of *World Politics* to allow me to publish a response, and perhaps to engage in some back and forth with Korpi about my reactions. Because the journal would not accommodate me with that, I offer these thoughts, below, in lieu of a publication.

To begin with, I was confused by the abstract to Korpi’s article. He claims that my analysis of American and Swedish welfare states is theoretically and empirically problematic because employers “have often been antagonists, under specific conditions consenters, but very rarely protagonists” in welfare state expansion. This is curious as a criticism because in fact I strongly agree with all three, and nothing in my work suggests I disagree that employers are (1) often antagonists, (2) sometimes conditional consenters (depending on market factors – see my theory in Chapter 2), and (3) rarely proponents. I would qualify (3) however, saying “rarely open proponents.” In my book I provide both theoretical and empirical reasons for thinking along

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<sup>1</sup> Walter Korpi, “Power Resources and Employer-Centered Approaches in Explanations of Welfare States and Varieties of Capitalism: Protagonists, Consenters, and Antagonists,” *World Politics* 58:2 (January 2006), 167-206.

these very lines. I go out of my way to avoid portraying employers as “proactive.” Strangely, while claiming that I focus on employers’ “proactive” role, only two pages later Korpi actually quotes me saying “*employers are rarely the initiating or driving force* [his italics!].”

Clearly the central matter of contention between Korpi and me is something else. My argument is that by and large *non-capitalist actors* take the initiative in formulating and passing major welfare policies but they tend, quite rationally, to make the policies harmonize with the interests of major capitalists. That is to say, they rationally seek to anchor and stabilize welfare reforms in “cross-class alliances” Stable, durable welfare regimes are those that rest on broad alignments of interest behind the reforms. Major welfare developments result from a converging of interests over time, while politicians’ seize opportunities to take advantage of convergences.

By contrast, Korpi believes in a more conventional argument that welfare reforms happen with shifts in the balance of power resources between classes, not a shifting alignment of interests. Employers will consent to welfare and other reforms only when (1) their “options in market action” are constrained by the power resources of the Left, while (2) at the same time being offered “new alternative forms of positive-sum interaction” in policy making. In other words, a changing balance of power, not realignment and sharing of interests, is what matters.

Korpi’s argument would be a powerful one against my theory and research if he had engaged with my evidence and backed his assertions with contrary evidence of his own. But he brings nothing new to bear. For example, look at Sweden in the 1930s to assess Korpi’s notion that because of the Social Democratic rise to power in 1932, “the feasible set of policy alternatives shifted leftwards, from labor market conflict into political competition.” Militant industrial action against labor demands were now, supposedly, politically risky. Korpi gives this no empirical support from either secondary or primary sources. In my book, however, I presented hard evidence for the *opposite* argument. Some of it comes from a private letter written by the employer militant Ivar Larson, SAF’s vice director, in 1934. This was right after the wildly successful conclusion to the huge and seemingly interminable construction conflict. Employers were jubilant. According to Larson, the lockout “has not been blunted,” but rather “still has its old edge.” Two years later, in 1936, he says SAF had been extremely successful in controlling wages. And other basic contract terms had “*if anything been even sharpened*” (my italics). The Swedish employer, he said, “is still lord of his manor, *herre i sitt eget hus,*” despite several years of Social Democratic government.<sup>2</sup> Korpi does not comment on this evidence. How could it square with increasing constraint on employers’ market actions? How could it indicate employer frustration with its possibilities in labor market conflict?

As I pointed out in my book, Korpi not only fails to note, but would have difficulty making sense of the fact that most major Social Democratic reforms did not occur until the following decades—the 1940s and 1950s, long after industrial conflict had drastically subsided.<sup>3</sup> He says that industrial conflict – strikes and lockouts – almost disappeared because workers started

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<sup>2</sup> Peter Swenson, *Capitalists against Markets: The Making of Labor Markets and Welfare States in the United States and Sweden* (New York: Oxford University Press, 2002).

<sup>3</sup> Before that there were only some family policy legislation that employers were favorable about because of worries about low birth rates and therefore labor supply.

getting things through legislation instead of striking.<sup>4</sup> But all they got was the 1935 unemployment legislation, a puny reform (“*ynklig*” as one left-wing critic put it, correctly), and it wasn’t even interesting to the most powerful union, Metall, which chose not to accept the tiny government subsidies for its autonomous unemployment insurance fund. By contrast, American unemployment insurance was much bigger, passed the same year. It wasn’t until the 1950s that Swedish unemployment insurance began covering many workers, and only in the 1970s that it became more generous (“decommodifying” according to Esping-Andersen’s data) than the American system. Furthermore, the 1936 pension reform was only a tiny improvement of the previous system passed by bourgeois parties, and employers welcomed the improvement.<sup>5</sup>

As regards (2), new opportunities for “positive-sum policy interaction”: Korpi says employers were appeased because Social Democratic policies created “favorable opportunities for investment and expansion of the most effective and profitable enterprises.” I agree here, in light especially of the major corporate tax reform handed to them on a silver platter in 1938. What is problematic for Korpi is that big industry got this Social Democratic kindness well before workers got any major social insurance legislation. It was hardly something a bourgeois government couldn’t also have offered.

Consider now the first major social legislation the pension reform of 1946. Korpi skips over the fact that it came long after 1932, and ignores the fact, presented in my book, that the reform was a “triumph for the right” according to the conservative newspaper *Sydsvenska Dagbladet*. It was even more expensive than the version the Social Democrats proposed (which was income/means tested, and therefore less universalistic and expensive). The reason lay in the interests of employers – who preferred universalistic legislation to no legislation. *For SAF, no legislation was worse than a progressive universalistic reform*. The documentation of that is in my book, which Korpi does not mention much less attempt to explain away.<sup>6</sup>

In his discussion of the big pension reform of 1959-1960 Korpi notes that the Conservative party, which was close to employers, demanded its immediate repeal. But he neglects to note what I reported, based on my discovery and extensive use of SAF director Bertil Kugelberg’s diaries (*minnesanteckningar*) and his minutes from various meetings, that employers told the party to cease and desist with its criticism. The party obeyed. Employers liked the reform as implemented. The archival evidence shows that a complicated political dynamic starting with a national referendum, pushed by the Liberals and Conservatives, had forced a divided and reluctant SAF into a dynamic of polarized political conflict with the Social Democrats that the leadership subsequently regretted. SAF employers on the whole favored in principle a legislative expansion of income-linked pensions – because it promised the uniformity they were seeking better than collective bargaining could.<sup>7</sup> In short: Korpi’s criticism of my argument, using SAF’s

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<sup>4</sup> I show that most of the conflict that Korpi measured was lockouts, and lockouts stopped not because employers were inhibited by labor power but because the Social Democrats and LO acted in ways that made lockouts less necessary to achieve ends desired by both employers and unions.

<sup>5</sup> Swenson, *Capitalists against Markets*, 254-261.

<sup>6</sup> *Ibid.*, 262-265.

<sup>7</sup> *Ibid.*, 281-283.

initial criticism of the pension legislation under consideration cannot simply rely on outdated works and ignore the existence of the new evidence I uncovered.

In order to defend his argument that employers were vehemently opposed to the Social Democratic agenda, Korpi argues that shortly after 1932 the “Directors’ Club” of five big engineering firms set about taking “militant action intended to oust the Social Democratic government.” He gives no reason to think this is true. The facts are that the Directors’ Club never organized any militant action. Internal discussions about the reason they created the association in 1933 was to coordinate the big firms’ mutual affairs primarily in export markets and for lobbying about related government policy making. The most unfriendly move against the labor movement was a decision that the companies should not buy advertising space in the union confederation’s newspaper (!!!).<sup>8</sup>

Indeed, these industrial leaders’ relations with the Social Democrats were very smooth over the years, given the party’s and the dominant unions’ solicitousness of export interests and jobs. In 1938 none other than Social Democratic prime minister Per Albin Hansson told his industrialist poker partner J. Sigfrid Edström--simultaneously chairman of the Director’s Club, SAF, and VF (the engineering association), and director of ASEA (Sweden’s General Electric)--that industry needed better representation in the Riksdag than it was getting from the political parties it was close to. Edström says he responded “in jest” by asking “Can you give me some votes so we get a Riksdagman in?” At Hansson’s prompting he set up a research institute (Industrins Utredningsinstitut) to more persuasively advocate for big industry’s interests. At one point in the business and party leader deliberations about the new institute, the idea of bringing a union confederation representative onto the board of the research institute was even suggested.<sup>9</sup>

Korpi finds it “surprising” that I conclude Edström “actively promoted cross-class consensus building.” It seems he paid no attention to the evidence I brought to bear on that, for again he did not bring it up to try and refute it with evidence of his own. Edström was the decisive person in finding Gustaf Söderlund and putting him in place as SAF’s director shortly before it pushed for the Basic Agreement of 1938, which is often hailed as a keystone of Sweden’s cross-class harmony. Söderlund negotiated the Basic Agreement at Saltsjöbaden with LO (labor confederation) leaders, exactly the kind of agreement that SAF had long sought, well before 1932 and the putative rise in labor’s power resources against capital.<sup>10</sup> According to archival evidence, Edström took pains to inquire, through indirect channels, what the Social Democrats

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<sup>8</sup> At the first meeting was 26 April 1933 there was no discussion of politics according to the Directors’ Club Minutes. The main motivation was the need for “exchange of experiences . . . in particular regarding the companies’ “marketing organization abroad.” Subsequent meetings in 1933, one a month, discussed things like a visit from foreign tariff experts, taxation abroad of foreign divisions of the five companies, repatriation of assets from countries with exchange controls; the Chamber of Commerce in Riga; publication of stock holdings, the undesirability of wage reductions because of inflation; visit of foreign tariff experts, taxation of foreign divisions, repatriation of assets in countries with exchange controls, prolongation of wage contracts to be advocated in the Fall contract council. It wasn’t until 24 April 1934 that discussions ever turned to politics: “possibilities of asserting interests in political respects . . . securing of industry’s political interests.” This was largely about the need for lobbying, not militant action against the Social Democrats. From then on, through the 1940s, there is never discussion of anything more militant than providing money to the bourgeois parties and financing an industrial research institute.

<sup>9</sup> Swenson, *Capitalists against Markets*, 245.

<sup>10</sup> On this, see Swenson, “Solidaritet mellan klasser: Storlockouten och Saltsjöbadsandan,” in Christer Lundh, ed., *Nya Perspektiv på Saltsjöbadsavtalet* (Stockholm: SNS, 2009), also available in English as “Solidarity between Classes: The Mass Lockout and the Spirit of Saltsjöbaden” on the Social Science Research Network website.

thought of Söderlund. He was told they respected the man greatly, in contrast to a more militant employer leader who was also under consideration. That settled the matter for Edström, not just the fact that Söderlund was well connected in the commanding heights of Swedish finance.

Korpi's main case against my arguments concerning the alignment of labor and capital interests behind Social Democratic policies is that big employers continued to give money to the two bourgeois parties after 1932. If capitalists were funding the Social Democrats' opponents, according to Korpi, it makes no sense to speak of an alliance of big business interests with the Social Democrats. In this, Korpi sloppily misstates and distorts my argument, claiming wrongly that I say in my 1991 *World Politics* article that employers "no longer" (his words) worked with and through the bourgeois parties. In fact, I wrote that the employers ceased working "primarily" (my word) with and through the bourgeois parties.<sup>11</sup> Worse is that Korpi neglects to mention and address the evidence I brought to bear later, in my book, on the financial ties between capitalists and the bourgeois press. The facts are that Edström and the Directors' Club did indeed continue to support the bourgeois press, but only the larger papers. By 1941, the Social Democratic leadership had so proved its merit that Edström decided to cut off financial life support to numerous small Conservative newspapers. In exasperation at the unprofitable newspapers' unending requests for handouts, Edström privately justified the move saying, only half-facetiously, "for that matter, the Soshies are becoming Conservatives themselves" [*förresten håller ju sossarna på att bli högermän själva*].<sup>12</sup>

Strangely, to support his argument about vehement business opposition to the Social Democrats, Korpi cites a well-researched book by Niklas Stenlås, *Den inre kretsen* [The Inner Circle], which describes the group of major industrialists and bankers who wanted to rationalize and coordinate the flow of money to a smaller number of better managed bourgeois newspapers as well as the two bourgeois parties. Again, Korpi is sloppy with the use of evidence. Here is what Stenlås actually says: "During the summer of 1941 Edström opposed the idea that SAF should support the bourgeois press. He even doubted the desirability, as far as industry was concerned, of bringing about a bourgeois government." Stenlås of course goes on to say that Edström was eventually persuaded to help out in channeling SAF money to the bourgeois press and parties. But Stenlås gives no example of anything that could be called militant opposition to the Social Democrats.<sup>13</sup>

What the industrialists decided was just common sense, not evidence of militant hostility to the Social Democrats. Despite being rather happy with their policies it would have been unwise of

<sup>11</sup> Swenson, "Bringing Capital Back In, or Social Democracy Reconsidered: Employer Power, Cross-Class Alliances, and the Centralization of Industrial Relations in Denmark and Sweden," *World Politics* 43:4 (July 1991), 536.

<sup>12</sup> In response to one newspaper's cry for help, Edström wrote, "I must say I am despondent (*förtvivlad*) about these badly managed conservative newspapers that we are always supposed to assist. In my own company we have ceased with this. If the conservative press cannot run on its own steam then may it die." Swenson, *Capitalists against Markets*, 295.

<sup>13</sup> "Edström var... under sommaren 1941 motståndare till tanken på att Arbetsgivareföreningen borde lämna stöd till den borgerliga pressen. Han betvivlade till och med det för industrins räkning önskvärda i att få till stånd en borgerlig regering." Niklas Stenlås, *Den inre kretsen—Den svenska ekonomiska elitens inflytande över partipolitik och opinionsbildning 1940-1949* (Stockholm: Arkiv, 1998), 95. For a detailed reevaluation of the view of Edström as a "militant" – a view erroneously generated by Söderpalm's *Direktörsklubben* and, based on that, perpetuated by Korpi -- see Rolf G.H. Henriksson, *Som Edström ville--hur IUI blev till* (Stockholm: Industrins Utredningsinstitut, 1990). Stenlås agrees that Söderpalm was in error about Edström's and the Director's Club's relative hostility to the Social Democrats. *Den inre kretsen*, 14-17.

them to let the bourgeois press and parties starve and die – like dropping your life and health insurance policies because your health is improving. Sustained pro-capitalist opinion formation and viable electoral contestation would help keep the reformist Left sensitive to the costs of moving away from consensus with capital. In short, to say there was a broad-based cross-class alliance is not to say that it was an alliance *against* the bourgeois parties. The alliances were behind *policies*, not *parties*. There was a cross-class alignment of interests behind the policies of the Social Democrats, not a capitalist alliance with the party against the bourgeois parties. For example, SAF’s favorite policy of all was active labor market policy, which the SAF-supported bourgeois parties sharply criticized at various junctures. Internal discussion within SAF, however, insisted that the parties’ attacks against active labor market policy “conflict totally with our interests” (*helt strider mot våra intressen*).<sup>14</sup>

Because the subject of this piece Walter Korpi’s deeply flawed (but sometimes favorably cited) critique of my work, it is not the place for elaborating and defending the theory and analysis that underlies my concept of cross-class alliances. Readers can consult my book for the microeconomic foundations of Swedish employers’ interests in broad based social insurance. It was incumbent on Korpi to present the theory as well as the detailed archival evidence for them for a well substantiated and reasoned critique. While he offers no historical research of his own to back his assertions and critique, he leaves behind strongly suggestive evidence that he neglected to read my book carefully for its extensive research. He cites only one page from the book that is not from the short introduction of a dozen or so pages. Eleven of his sixteen citations are of previous works, my 1989 book, *Fair Shares*, and especially my *World Politics* article from 1991. -- Neither dealt with the welfare state, the subject of Korpi’s article and critique.<sup>15</sup>

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<sup>14</sup> Swenson, *Capitalists against Markets*, 281.

<sup>15</sup> *Fair Shares: Unions, Pay, and Politics in Sweden and West Germany* (Ithaca NY: Cornell University Press, 1989).