
Varieties of Capitalist Interests: Power, Institutions, and the Regulatory Welfare State in the United States and Sweden

Peter A. Swenson, *Yale University*

Current wisdom about the American welfare state's laggard status among advanced industrial societies, by attributing it to the weakness of the Left and organized labor, poses a historical puzzle.¹ In the 1930s, the United States experienced a dramatically progressive turn in social policy-making. New Deal Democrats, dependent on financing from capitalists, passed landmark social insurance reforms without backing from a well-organized and electorally successful labor movement like those in Europe, especially Scandinavia. Sweden, by contrast, with the world's strongest Social Democratic labor movement, did not pass important social insurance legislation until the following two decades.

During the global crisis of the 1930s, Swedish Social Democrats barely improved on the rather meager social insurance arrangements they inherited from their predecessors to the center and right. Calling themselves socialists, and relying almost exclusively on organized labor for money, they introduced only modest pension reforms in 1935 and 1937. Organized capital actually supported the changes. To be sure, the Social Democrats' unemployment insurance law of 1934 did encounter employer resistance. However – to return to the historical puzzle – the scheme was distinctly inferior to what business-financed New Deal Democrats introduced with the Social Security Act of 1935.²

1. For a discussion of America's "laggard" status, see Ann Shola Orloff, "The Political Origins of America's Belated Welfare State," in *The Politics of Social Policy in the United States*, ed. Margaret Weir, Ann Shola Orloff, and Theda Skocpol (Princeton, NJ: Princeton University Press, 1988), 38–80.

2. Detailed evidence for these and other assertions is presented in Peter Swenson, *Capitalists against Markets: The Making of Labor Markets and Welfare States in the United States and Sweden* (New

Consequently, we can easily understand why journalist Marquis Childs found nothing much to write home about in Sweden's social legislation when he first brought the country to Americans' attention in the 1930s. Instead, Childs praised Sweden as a "middle way" between capitalism and socialism for its consumer and producer cooperatives, state enterprise both monopolistic and competitive, and "a strong, all-inclusive labor movement" for making "capitalism work in a reasonable way for the greatest good of the whole nation."³ Yet, as powerful as that labor movement was, it was not terribly threatening to Sweden's capitalists. Franklin Roosevelt's blue-ribbon commis-

York: Oxford University Press, 2002); on unemployment insurance, see 6, 201–7, and 254–56. On business money for the Democrats, see Louise Overacker, "Campaign Funds in the Presidential Election of 1936," *American Political Science Review* 31 (1937): 485–87; Thomas P. Ferguson, "From Normalcy to New Deal: Industrial Structure, Party Competition, and American Public Policy in the Great Depression," *International Organization* 38 (1984); Michael J. Webber, "Business, The Democratic Party, and the New Deal: An Empirical Critique of Thomas Ferguson's 'Investment Theory of Politics'," *Sociological Perspectives* 34 (1991): 486–87.

3. Marquis Childs, *Sweden: The Middle Way* (New Haven, CT: Yale University Press, 1936, 1951), and *This is Democracy: Collective Bargaining in Scandinavia* (New Haven, CT: Yale University Press, 1938). In his recent study, Edwin Amenta finds that, in 1938, "The American performance outpaced the efforts of Sweden, today's world leader in social spending" (*Bold Relief: Institutional Politics and the Origins of Modern American Social Policy* [Princeton, NJ: Princeton University Press, 1998], 5). Had Amenta counted "general" not just central government spending, he would have found that Sweden actually surpassed the United States modestly in terms of social spending as a percent of GDP (about 8.5 percent for Sweden, 6.3 percent for the United States) and almost matched it in total government spending as a percent of GDP (27.6 percent in Sweden, 29.4 percent in the United States). The source for these calculations is Peter Flora et al., *State, Economy, and Society in Western Europe 1815–1975* (Chicago: St. James, 1983).

sion, sent to Sweden to study its industrial relations, reported in 1938 that employers there were altogether content with the centralizing trajectory of changes in the labor market. Business leaders Gerard Swope of General Electric and Charles R. Hook, director of the National Association of Manufacturers (NAM), signed the report.⁴

What makes these comparative and historical facts so puzzling is the commonly held view that, when and where labor is organizationally and politically powerful, progressive reform is more likely. To cite an influential authority, Gøsta Esping-Andersen explicitly subscribes to this view's central premise: that "employers have always opposed decommodification." By decommodification, he means governmental social insurance, assistance, and services that render people less critically dependent on gainful employment. Most comparative literature on the social and political foundations of social policy agrees, implicitly at least, giving Esping-Andersen the go-ahead to assert his contention so confidently. Also, in Esping-Andersen's view, labor's interests across countries are roughly equivalent. For labor movements, decommodification "has always been a priority." Therefore, because of capital's invariant opposition, decommodification becomes a "hugely contested issue" within countries.⁵ In short, there is a rough equivalence of interests among like classes in different countries, and equivalence of zero-sum conflict across their respective class divides.

From the vantage point of this *equivalency premise*, much comparative research looks for factors other than differences among capitalists to explain national peculiarities in welfare states. Logically enough, it routinely turns to "working class power mobilization," the "structuration of class power," or the "political power balance" between labor and capital. Typically, the literature finds evidence in cross-national quantitative analysis of recent years (typically after the 1970s) for the progressive impact of working

class power. The oppositional muscle and volition implied by concepts such as labor's "power mobilization" is operationalized, dubiously the Swedish case will show, by union membership levels, organizational structure, and legislative and cabinet seat shares for left-wing or labor parties in advanced capitalist democracies. Esping-Andersen finds, for example, that variations in the "power of the left" in the postwar era explain a substantial amount of variation in the structure (though not, apparently, size) of welfare states in advanced industrial countries. Left power correlates strongly with universalism (no demeaning "means tested" benefits) and degrees of decommodification (measured as short waiting periods, long eligibility periods, and high income-replacement rates for sick pay, unemployment, and retirement benefits).⁶

As in comparative cross-national analysis, the equivalency premise also appears in *temporal explanation* of welfare state development within countries. Walter Korpi on Sweden offers a good example. He attributes social democratic reform in the 1930s to impressive organizational and electoral progress in the 1920s and early 1930s, accompanied by record levels of costly industrial conflict. (He fails however to note how meager the reform was in cross-national terms until the 1940s and beyond, when labor's power had not substantially increased and militancy had practically disappeared for over a decade.) On the United States, Fred Block tells a somewhat different story. He attributes reform episodes, the New Deal in particular, to capital's transitory loss of "structural power" over semi-autonomous democratic politicians. During the Depression, this power to disinvest was exhausted, for investment activity could hardly have sunk any deeper. Although they differ on how to conceptualize and measure power, both Korpi and Block see the welfare state progressing within countries when the balance of power, albeit differently conceived and measured, shifts to labor's advantage.⁷

The equivalency premise now turns up once again, largely intact, in a recent and important contribution to the debate. Jacob Hacker and Paul Pierson, in an

4. U.S. Department of Labor, *Report of the President's Commission on Industrial Relations in Sweden* (Washington, DC: Government Printing Office, 1938); "President's Study of Swedish Labor Finds Peace is Key," *New York Times*, 25 Sept. 1938, 1.

5. Gøsta Esping-Andersen, *The Three Worlds of Welfare Capitalism* (Princeton, NJ: Princeton University Press, 1990), 21–22. Of course, employers gain from the disciplinary effect of workers' dependence on market income; however, the question remains whether that truth tidily sums up all of employers' complex managerial and market interests regarding social policy. A recent and growing literature indicates not. See, for example, Margarita Estevez-Abe, Torben Iversen, and David Soskice, "Social Protection and the Formation of Skills: A Reinterpretation of the Welfare State," in Hall and Soskice eds., *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage* (Oxford: Oxford University Press, 2001), 145–18; Isabela Mares, *The Politics of Social Risk: Business and Welfare State Development* (New York: Cambridge University Press, 2003); and Duane Swank and Cathie Jo Martin, "Employers and the Welfare State: The Political Economic Organization of Employers and Social Policy in Contemporary Capitalist Democracies," *Comparative Political Studies* 34 (2001).

6. Esping-Andersen, *Three Worlds*, 105–38. See also Esping-Andersen and Roger Friedland, "Class Coalitions in the Making of West European Economies," in *Political Power and Social Theory* 3 (1982): 17, 19, 47, where they argue 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," they argue, the "working class has been capable of initiating and imposing its policy preferences." Recent work continues in this vein, neglecting to theorize and research about interests in order to draw confident conclusions about the relative power of classes. See especially Evelyn Huber and John D. Stephens, *Development and Crisis of the Welfare State: Parties and Policies in Global Markets* (Chicago: University of Chicago Press, 2001).

7. See especially Korpi's *The Working Class and Welfare Capitalism: Work, Unions and Politics in Sweden* (London: Routledge & Kegan Paul, 1978); Fred Block, "The Ruling Class Does Not Rule: Notes on the Marxist Theory of the State," *Socialist Revolution* 33 (1977).

intriguing theoretical synthesis, combine an analytic focus on the structural power of capital against reform with a historical-institutionalist narrative.⁸ Before the Depression, they assert, capitalists' power to divest locally and move across state lines in America explains the country's relative delay in welfare development until the 1930s. State-level politicians' fear of driving mobile capital out of their states gave business the upper hand as long as politics at the state level monopolized social policy-making. Federalism thus imparted a powerful conservative bias to American politics independent of the country's peculiar ideologies or mobilized interests. Come the Depression, however, and the shift of social politics to the federal level due to massive Democratic party electoral victories, capital suffered a severe structural loss of power and therefore a major defeat with passage of the Social Security Act. Because Hacker and Pierson present their argument as a direct challenge to the one advanced below, it will come under close scrutiny and criticism later.

INTERESTS, POWER, AND INSTITUTIONS

A central purpose of this article is to cast doubt on the equivalency premise and therefore the importance of variable "class power" in comparative and temporal explanation of welfare state development. It indicates, first, that *capitalists' interests vary at least as much if not more than their power*. I refer to interests as economic and objective in nature. Preferences, by contrast, are strategic and subjective; only partially and sluggishly responsive to interests; and often clouded, or as the case may be illuminated, by ideology or distrust of government. Second, the analysis shows *capitalists' variable interests may often and to a large extent be shaped and constrained by institutions of their own making*. They forge these institutions in part through the strategic expenditure of their enormous instrumental resources – transactional, persuasive, and coercive – over time. To say *strategic* is not to say that final consequences are intended, for other forces intervene and interact with their creations. A third implication of the analysis is, therefore, that *macroeconomic*

8. Jacob S. Hacker and Paul Pierson, "Business Power and Social Policy: Employers and the Formation of the American Welfare State," *Politics and Society* 30 (2002): 277–325. The synthesis is interesting because most historical institutionalist work, starting with Theda Skocpol, seems to have an underlying intellectual agenda against attributing decisive power over legislative events to capitalists. See for a relevant example Theda Skocpol and John Ikenberry, "The Political Formation of the American Welfare State in Historical and Comparative Perspective," *Comparative Social Research* 6 (1983): 87–148. Recent historical institutionalist work of Kathleen Thelen, by contrast, has begun seriously bringing capitalist interests into the story of labor market governance through social legislation. *How Institutions Evolve: The Political Economy of Skills in Germany, Britain, the United States and Japan* (Cambridge: Cambridge University Press, 2004).

forces exogenous to the institutional system can play a decisive intervening role in determining where capitalists' interests lie.

In short, I argue, institutionalized and therefore varied capitalist interests explain a good deal of variation in welfare state development across countries, and over time, in a way that has never been fully recognized. Macroeconomic conditions play a role, but not in the way Block, and now Hacker and Pierson, believe. Therefore it follows that a changing alignment or sharing of interests across class lines, not a shifting balance of class power favoring labor at capital's expense, might be the most significant source of progressive and enduring change.

This is not to say that *cross-class alignments or coalitions of interest* are all that determine the course of social policy history. It is thoroughly possible that *class compromises* also give rise to reforms, particularly incremental ones, when both sides recognize that the likely costs of entrenched class conflict exceed the benefits of complete victory, discounted as it would be by its limited probability. However, policy accepted by capitalists under threat from labor is less likely to take root than policy that both sides welcome for its own sake. Fully institutionalized labor market and social policy regimes endure under more auspicious conditions than treaties between hostile parties with nothing in common save a desire to avoid war.

EMPLOYERS AGAINST MARKETS

To see the possibilities of an institutionally conditioned alignment of labor and capital interests behind welfare state development requires one to grasp a simple, important, and incontrovertible fact: *social policies often regulate competition among capitalists in ways that protect the profits of a politically significant portion of them*. Edwin E. Witte, the Roosevelt administration's key interest broker in the shaping of the Social Security Act, knew this well. Mentored by University of Wisconsin economist John R. Commons, part of whose salary was once paid by capitalists, Witte wanted and expected to appeal to business interests through social and economic regulation, not to ignore or defy them. Commons's experience with the Wisconsin Industrial Commission, set up to administer workmen's compensation and factory safety regulation, was that employers on its advisory committees were "more exacting in their search for the highest practicable standards than the representatives of labor on the committees."⁹ Why more exacting standards? Because they would cost the large employers represented on the Commission less to implement than their smaller competitors.

Thus, as his biographer put it succinctly, Witte

9. Commons, "Constructive Investigation and the Industrial Commission of Wisconsin," *Survey*, 4 Jan. 1913.

“conceived social insurance to be ‘a form of labor legislation’ and hence of regulation.”¹⁰ Commons and Witte knew that almost all capitalists pay lip service to free market ideology while actively seeking protective legislation. Capitalist interests provide the market for “rent seeking” politicians who can deliver profitable regulatory legislation. In other words politicians traffic in entry, price, and output regulations that generate monopoly rents for businesses, who then reward them with a slice of the rent in the form of, among other things, campaign contributions. Political entrepreneurs, of course, also seek broad electoral support and complex patterns of cross-subsidization when designing regulations.¹¹

The last thing reformers want, or should want if they are wise self-preservationists, is legislation that antagonizes large numbers of capitalists able to fund a massive counteroffensive. Electoral reaction against welfare dependency and government profligacy can fairly easily be aroused with moralistic hand-wringing over the futility of assisting the poor, perverse incentives that generate welfare dependency, and taxation that jeopardizes the precious liberty and prosperity of those who pay.¹² Thus, if politicians can design social policy in which the most politically important capitalists see a regulatory advantage, their prospects of passing durable legislation and staying in power are greater. Politicians in capitalist democracies do not, as a rule, flourish long as bold class warriors. The best approach for Edwin Witte, a “cautious reformer” according to the title of his biography, was not logrolling or horse trading – buying off businessmen with side payments whose value exceeds the costs of the undesirable social policy packaged with them; rather, it was developing social policy that, as regulation, was a benefit *in and of itself*.¹³

Progressive reform politicians often acquire their economic and strategic learning about the cross-class alliance politics of regulatory reform from collective bargaining in the realm of industrial relations. Collective bargaining itself is a form of regulation wel-

comed by many employers, as Commons and Witte learned in Wisconsin. FDR learned the same lesson from the garment industry while governor of New York.¹⁴ One consequence of union action is the generation of monopoly rent by enforcing wage floors across a product or service market, thus “taking wages out of competition.” This benefits employers unable or reluctant to lower wages in response to disruptive and sometimes ruinous price reductions and low-price competitive entry. The rent from repressing low-wage, low-price competition gets shared between employers and workers, as higher profits and wages, out of the revenue generated from higher product or service prices. Politicians who support collective bargaining with laws and other services skim off their share of the rent in the form of campaign contributions.

Students of American industrial relations in the past are quite familiar with the phenomenon of centralized collective bargaining, for example in the coal, clothing, construction, and trucking industries. The late nineteenth-century iron industry – as well as the steel industry from the mid-1950s to the mid-1980s – experienced multi-employer collective bargaining with these purposes and effects.¹⁵ The solicitousness of Republicans, even such nationally powerful ones as Marcus Hanna and Herbert Hoover, to multi-employer collective bargaining explains warm relations of some unions with the Republican party during the first half of the twentieth century. Ohio’s Hanna, the maker of Republican William McKinley’s presidential career, was a prominent mine owner and leading employer statesman in the cross-class National Civic Federation who pioneered multi-employer collective bargaining in coal. That Hoover, once a mining engineer, supported unions in coal mining (“a normal and proper antidote to unlimited capitalistic organization”), and that mining operators in coal states including Ohio and Pennsylvania financed the Republican Party, is not a mysterious contradiction. In New York, the Democratic Party was the main

10. Theron F. Schlabach, *Edwin E. Witte: Cautious Reformer* (Madison: State Historical Society of Wisconsin, 1969), 194, emphasis added.

11. George J. Stigler, “The Theory of Economic Regulation,” *Bell Journal of Economics and Management Science* 2: (1971): 3–17; Sam Peltzman, “The Economic Theory of Regulation after a Decade of Deregulation,” *Brookings Papers on Economic Activity*, Special Issue (1987): 1–41; James Q. Wilson, “The Politics of Regulation,” in James W. McKie, *Social Responsibility and the Business Predicament* (Washington, DC: Brookings Institution, 1974).

12. Albert O. Hirschman, *The Rhetoric of Reaction: Perversity, Futility, Jeopardy* (Cambridge, MA: Belknap/Harvard University Press, 1991).

13. Thomas P. Ferguson presents a deeply problematic logrolling argument for capitalist support of the New Deal. See his “From Normalcy to New Deal: Industrial Structure, Party Competition, and American Public Policy in the Great Depression,” *International Organization* 38 (1984); and Swenson, *Capitalists against Markets*, 240–42.

14. John R. Commons, *Labor and Administration* (New York: Macmillan, 1913), 91, 103–5; Edwin E. Witte, “Economic Aspects of Industry-Wide Collective Bargaining,” in *Industry-Wide Collective Bargaining: Promise or Menace?*, ed. Colston E. Warne (Boston: D.C. Heath, 1950). For FDR’s view on the clothing industry, see “The Situation in the Women’s Garment Trades,” *Monthly Labor Review* 29 (1929): 30.

15. John R. Bowman, *Capitalist Collective Action: Competition, Cooperation and Conflict in the Coal Industry* (Cambridge: Cambridge University Press, 1989); Jesse T. Carpenter, *Competition and Collective Bargaining in the Needle Trades 1910–1967* (Ithaca, NY: New York State School of Industrial and Labor Relations, 1972); William Haber, *Industrial Relations in the Building Industry* (Cambridge, MA: Harvard University Press, 1930); David Previat, “Economic and Political Implications of the National Trucking Agreement of 1964,” *Proceedings of New York University Seventeenth Annual Conference on Labor* (Washington, DC: BNA Incorporated, 1964), 285–86; Garth Mangum and R. Scott McNabb, *The Rise, Fall, and Replacement of Industrywide Bargaining in the Basic Steel Industry* (Armonk, NY: M.E. Sharpe, 1997), 13–46.

political connection for that state's economically important garment industry.¹⁶

By incorrectly pricing labor from the standpoint of market equilibrium, collective bargaining generates surpluses or scarcities, depending on fluctuations in demand and supply. When dramatic macroeconomic events intervene, acute instability can result. For example, depression in the 1930s destabilized collective bargaining in sectors such as mining and clothing by disgorging large numbers of workers into the unemployed labor pool who were ready and willing to take jobs with non-union employers for substandard terms of employment. Non-union entry on a low-wage basis, corrupt sweetheart contracting, and corrosive scabbing became injuriously rampant for centralized bargaining. Mine operators and garment manufacturers, therefore, joined their respective unions in strongly supporting federal legislation such as the National Industrial Recovery Act of 1932 and the Guffey bills of 1935 and 1937 to prop up wages and control production and prices.¹⁷

This illustration from industrial relations, where people like Commons and Witte learned about regulatory cross-class alliance making, teaches an important lesson about the politics of the welfare state. Cross-class constituencies of price setting institutions have interests in laws sheltering them from macroeconomic and competitive threats that their institutions leave them exposed to. Reformers offered welfare legislation, the American and Swedish cases will indicate, with a regulatory as well as social insurance logic in mind. They wanted to serve labor *and* capital, not labor at the expense of capital.

CARTELISM, SOLIDARISM AND SEGMENTALISM: INSTITUTIONS THAT GENERATE INTERESTS

A clear grasp of the likely motivational and therefore causal connections between labor markets and reformist social legislation requires first a short survey of distinctly different labor market institutions in which capitalists stake their interests. To understand their stake is the first step in understanding why they also might acquire interests in a regulatory social policy.

(1) Cartelism

In some sectoral settings, most notably in coal, clothing, construction, transportation, and some light manufacturing, employers often collectively desire to maintain wages that are above market clearing levels. Sectorally organized unions are necessary partners in the setting of such wages with centralized institutions of *negotiated cartelism*. Using strikes, they

enforce on wayward employers the minimum standards agreed upon in collective bargaining, and reduce entry on a low-wage basis. Both sides share the monopoly rent from this non-governmental regulatory floor under product and service prices.

(2) Solidarism

Capitalists might also organize to hold wages *below* market clearing levels for the sake of maintaining low prices. Swedish capitalists' organization and collective action, as I will show, is exactly of this "solidaristic" nature (after Swedish parlance), suited especially to keeping Swedish products price-competitive abroad. Organized labor's participation in market-defying wage suppression, unlike employers', might seem somewhat puzzling. Nevertheless, for reasons clarified later, a cross-class alliance for *negotiated solidarism* was the central foundation of the Swedish political economy as its welfare state evolved. The solidaristic system and its supportive cross-class alliance help explain both the unusual organizational strength of the labor movement and puzzling questions about the timing and shaping of the Swedish welfare state.

(3) Segmentalism

Instead of cartelism and solidarism, employers can construct a decentralized, but equally well institutionalized system, defined here as *segmentalism*.¹⁸ As in cartelism, they offer higher and more stable wages than necessary to fill their workplaces, pursuing what economists call an "efficiency wage" strategy.¹⁹ Efficiency wage theory's core assumption is that, in many firms, workers' efficiency rises with their wages over a certain range of income exceeding what they can earn in alternative employment. However, unlike in cartelist sectors, where technological conditions are different, individual firms pay above market wages voluntarily, without external union enforcement. Higher wages help achieve loyalty from workers, reduce turnover costs, reward firm-specific skill acquisition, and secure flexibility and efficiencies in the labor process. Therefore, they help employers reap profits from relationship-specific investments in pro-

18. The term segmentalism is suggested by efficiency wage models of "labor market segmentation." Jeremy Bulow and Lawrence Summers, "A Theory of Dual Labor Markets with Application to Industrial Policy, Discrimination, and Keynesian Unemployment," *Journal of Labor Economics* 4 (1986): 376–414; Alan Krueger and Lawrence Summers, "Efficiency Wages and the Inter-Industry Wage Structure," *Econometrica* 56 (1988): 259–93; and Erica Groshen, "Five Reasons Why Wages Vary Among Employers," *Industrial Relations* 30 (1991), esp. 369–73.

19. Useful introductions are Andrew Weiss, *Efficiency Wages: Models of Unemployment, Layoffs, and Wage Dispersion* (Princeton, NJ: Princeton University Press, 1990), and George Akerlof and Janet Yellen, "Introduction," in *Efficiency Wage Models of the Labor Market*, ed. Akerlof and Yellen (Cambridge: Cambridge University Press, 1986), 1–21.

16. Swenson, *Capitalists against Markets*, 146–60.

17. Carpenter, *Competition and Collective Bargaining*, 572–73; Bowman, *Capitalist Collective Action*, 203–10.

duction and managerial technologies.²⁰ The better employer, in short, gets better workers.

An integral part of the segmentalist labor market regime is the widespread company-level provision of social benefits – “welfare capitalism” in the parlance of historians. Administrative, underwriting, and other economies of scale for group insurance and related benefits make welfare capitalism a cheap efficiency wage strategy for larger employers. The moral economy of equity, reciprocity, and social responsibility in workplace relations – the partly self-imposed normative bounds of managerial sovereignty – help institutionalize the system. Unions may thus participate in a system of *negotiated segmentalism*. This “unionized welfare capitalism,” dominating postwar U.S. labor relations such as autos, steel, and other important mass production sectors, coexisted with negotiated cartelism in other industries.²¹ Tax legislation lobbied for and defended by a cross-class alliance of unions and employers, sparing workers in both systems from taxation of their non-wage benefits, enlisted politicians of both parties as valuable partners in institutional maintenance.

In the following sections, I begin by discussing American segmentalism at length, and cartelism only very briefly, demonstrating how politicians responded to the interests of both in the passage of social insurance legislation. For the sake of brevity, I focus only on the Old Age Insurance portion of the Social Security Act. I then turn to Sweden, where the behavior of political reformers in a different institutional context – solidarism – will reveal the logic of a radically divergent and differently timed course of welfare politics.

AMERICAN SEGMENTALISM AND THE NEW DEAL

Very early in the twentieth century, major manufacturing employers in the heart of American industry began successfully pursuing a highly decentralized strategy for managing their labor markets. This followed upon their intensely frustrating experience with negotiated cartelism in the steel, machinery, and foundry sectors. In the iron industry, for example, manufacturers had once favored cartelism, and, along with it, even accepted considerable union restrictions on their right to manage. Negotiated rigidities in managerial practice as well as wage rates

20. Recent literature seems to underplay the importance of workplace relational contracting in “liberal market economies” like the United States, implying that powerful institutions external to the firm are required to bring it about, not the microeconomic rationality of efficiency wage behavior. See, for example, Peter A. Hall and David Soskice, “An Introduction to Varieties of Capitalism,” in *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*, ed. Hall and Soskice (Oxford: Oxford University Press, 2001), esp. 6–33.

21. Michael K. Brown, “Bargaining for Social Rights: Unions and the Reemergence of Welfare Capitalism,” *Political Science Quarterly* 112 (1997–1998).

regulated turbulent competition by imposing uniformity in labor costs across a technologically homogeneous industry.²²

But around the turn of the century, rapid and uneven technological change associated with the rise of steel, combined with the abundance of unskilled labor suited to the new technology, later changed their minds. A critical event in this process was the ill-fated Homestead Strike of 1892, aimed at enforcing the older technology’s tonnage rates, to which Carnegie Steel dealt a crushing blow. Desiring to regain their managerial control for freer and more profitable introduction of new technology, employers like Carnegie set off on a distinctive individualistic and decentralized course of action. The employers’ decentralized strategy included, along with blacklisting and strike breaking to crush the unions, offering higher and more stable earnings, social benefits, and job security than necessary to fill their workplaces. As the steel industry’s *Iron Age* put it in 1924, “Where there are men at the gates looking for jobs, those inside are always much more efficient.”²³

Abundant evidence indicates that segmentalists, pursuing these policies, turned out to be highly reluctant to reduce their wages and benefits in the face of depression, declining prices, and growing unemployment. Like many other large manufacturers, International Harvester, for example, struggled to maintain wages in the two years of high unemployment after October 1929 “from the standpoint of employee morale rather than short-run profits.” In 1935, M.C. Rorty, President of the American Management Association, praised such employers who consistently paid above market wages and preached against the “evils of excessive wage reductions.” Wage cuts, he thought, would do more harm than wage rigidity.²⁴

Efficiency wage and kindred theories help account for the empirically observed downward wage and benefit rigidity of American segmentalists even under Depression-era conditions of labor surplus or unemployment.²⁵ Many employers did not actually play

22. For more details on the rise of segmentalism, see Swenson, *Capitalists against Markets*, 49–60.

23. “Long Hours in Steel Industry Reduced: Men Generally Satisfied with the Changes,” *Iron Age*, 3 Jan. 1924, 41.

24. Robert Ozanne, *Wages in Practice and Theory: McCormick and International Harvester 1860–1960* (Madison: University of Wisconsin Press, 1968), 52; Ozanne, *A Century of Labor-Management Relations at McCormick and International Harvester* (Madison: University of Wisconsin Press, 1967), 159; M.C. Rorty, “Is Collective Bargaining Compatible with a Free Price and Wage System?” *The Management Review* 24 (1935): 36–38.

25. See Swenson, *Capitalists against Markets*, 24–29 for more on the theory. For more on wage rigidity, see David Brody, “The Rise and Decline of Welfare Capitalism,” in *Workers in Industrial America: Essays on the Twentieth Century Struggle* (New York: Oxford University Press, 1980), 67; Anthony O’Brien, “A Behavioral Explanation for Nominal Wage Rigidity During the Great Depression,” *Quarterly Journal of Economics* 104 (1989); Jason Taylor and George Selgin, “By Our Bootstraps: Origins and Effects of the

the hordes of unemployed off against current employees, bringing in new workers available and willing to underbid them. The trouble came, of course, where segmentalists had to compete at the margin with low-wage and low-benefit competitors who relied more on the “drive system” and external labor markets, rather than worker good will and low turnover, for productive efficiency. Relevant historical examples are found in the numerous smaller producers competing with segmentalists General Electric, Goodyear, and International Harvester in production of light bulbs, rubber heels and soles, and farm implements.²⁶

These competitors, acquiring labor on a more casual basis, took advantage of underbidding and therefore had greater flexibility to lower wages and shed workers to gain advantage in intense price competition when demand was slack and unemployment high. In short, in depressed product markets, especially where heterogeneous production technology allowed, segmentalists lost customers to price-slashing nonsegmentalist competitors. The behavior of consumers short of cash – and of information on the poor quality of cheap products and services they shopped for – made segmentalists all the more vulnerable to substandard competition.

To follow competitors down the low road, segmentalists would have been required, at considerable cost in terms of workplace harmony and efficiency, to violate their company-based moral economy. Firing older, less-productive workers, another option, would also have violated the segmentalist’s promise to loyal workers that they would not have to face grinding poverty in retirement. Because their micro-level social contracts gave them distinct market and managerial advantages, segmentalists sought alternative solutions.

One alternative appeared before them on a silver platter during the Depression: government taxation of the competition through compulsory social insurance. Reluctance to lower wages and benefits to restore profitable efficiency wage differentials from above made them amenable to government action that restored the differentials from below. As J. Douglas Brown, a very prominent corporate-friendly industrial relations expert, put it starkly in his 1935 Senate testimony: social security “protects the more liberal employer,” and “levels up the cost of old-age protection on both the progressive and unprogressive employer.”²⁷ Only a few segmentalists, those cor-

porate progressives who lacked strong ideological blinders and other inhibitions, vocally welcomed regulation of this nature in advance. Many more understood its potential to reduce segmentalism’s vulnerability under conditions of deflation and high unemployment.

Probably most others, more suspicious at the beginning, became converts after the fact. A *Fortune* magazine survey in 1939 found that one-quarter of businessmen surveyed wanted to keep social security as it was, while only about 17 percent wanted to repeal it (though the majority favored some adjustments).²⁸ In 1949, Brown invoked a fairly broad and favorable business consensus in a speech to the American Management Association, saying that the social insurance principles built into the Social Security Act “grew out of employer experience [and] . . . extend to all the principles found effective by leading employers.” Indeed, he said, confirming management’s continuing stake in contributory insurance of a compulsory nature, “they put a floor on competition by short-sighted employers who had avoided the true costs of an effective labor force.”²⁹ Back in 1935, Brown had anticipated this cross-class alliance of interest with capitalism’s most dynamic enterprises behind one of America’s most important reforms of the century.

If reformers, advised by business experts such as Brown, indeed acted knowingly, intentionally, and strategically in anticipation of capitalist reactions, they were also bending to capitalist power.³⁰ That is not to say capitalists pulled any or all the strings of mindless political puppets. Pressures and interests from other quarters also mattered a great deal. As with much progressive reform, ideologically motivated reformers responded to popular pressures, took the initiative, and hoped for electoral payoffs. Rumbles of discontent from below rattled hitherto complacent economic and political elites, jolting them into active search for reforms that could satisfy popular pressures *and* serve capitalist interests at the same time.

Old Age Insurance

A look at the Old Age Insurance (OAI) component of the Social Security Act of 1935 (SSA) will indicate the enormous plausibility, if not certainty, that New Dealers were anticipating capitalist interests and reactions. Corporate progressives from the segmental-

High-Wage Doctrine and the Minimum Wage,” *Journal of Labor Research* 20 (1999): 447–61; Truman Bewley, *Why Wages Don’t Fall During a Recession* (Cambridge, MA: Harvard University Press, 1999).

26. P.W. Litchfield, *The Industrial Republic: Reflections of an Industrial Lieutenant*, rev. ed. (Cleveland: Corday & Gross, 1946), 98; Michael J. Piore and Charles F. Sabel, *The Second Industrial Divided: Possibilities for Prosperity* (New York: Basic, 1984), 57; Ozanne, *A Century of Labor-Management Relations*, 85–86.

27. U.S. Senate, Committee on Finance, *Economic Security Act:*

Hearings on S. 1130 (Washington, DC: U.S. Government Printing Office, 1935), 284.

28. “What Business Thinks,” *Fortune*, Oct. 1939.

29. “Management’s Stake in the Survival of Contributory Social Insurance,” box 64:614, Isidore Falk papers, Sterling Library, Yale University.

30. In other words, they worked within an agenda constrained by capitalist power. See Peter Bachrach and Morton S. Baratz, *Power and Poverty: Theory and Practice* (New York: Oxford University Press, 1970); Steven Lukes, *Power: A Radical View* (Hampshire, UK: Macmillan, 1974).

ist camp were most prominent nationally in revealing to liberal politicians the changing nature of their interests. Most active on the social insurance front were individual businessmen like Gerard Swope from General Electric and Marion Folsom of Eastman Kodak, both of whom were brought into administration discussions of an omnibus Economic Security Act. Swope had advocated corporatist, albeit quasi-private social insurance, including disability protection, in his famous “Swope Plan” of 1931. The plan was an important inspiration for FDR’s corporatist-cartelist National Industrial Recovery Act. (For more on the significance of the NIRA for the SSA, see below.) Furthermore, it was also a strong signal of interest in the regulatory benefits of social insurance. Swope’s plan would have empowered sector-specific trade associations to extend their own – better – standards on non-members, and therefore “place the same social burdens on companies competing in various parts of the United States.” If necessary, federal government enforcement would be enlisted. Likewise, Marion Folsom changed his view from the 1920s that voluntary action was enough. His Depression experiences persuaded him that “the only thing to do” was have the federal government impose a solution.³¹

In deliberations on the SSA, the Roosevelt administration also relied heavily on the intellectual services of experts such as Brown and Murray Webb Latimer, both tied by careers and financial dependence to Rockefeller wealth from the oil industry. (Walter Teagle from Rockefeller’s Standard Oil of New Jersey joined Swope and Folsom as advisors to Witte). Latimer was an employee of Industrial Relations Counselors, Inc. (IRC), a firm subsidized on a yearly basis by John D. Rockefeller, Jr., as G. William Domhoff makes abundantly clear. In fact, according to Witte, “almost the entire research staff of the [IRC] was placed on the payroll” of FDR’s Committee on Economic Security (CES) to study the matter of unemployment insurance.³²

Rockefeller’s possible behind-the-scenes encouragement is interesting to speculate on. In 1933, Raymond Fosdick, Rockefeller’s attorney and close advisor (and FDR friend), reported glowingly to Rockefeller on IRC activities. In his letter, he reminded Rockefeller that his subsidy to the IRC in 1932 was seven times as great as its service revenue and consulting retainers. Among other things Fosdick praised were IRC activities in “shaping and administering [unemployment and pension] legislation” in Wisconsin and Minnesota, and pursuing contracts to do the same in two other states and Canada. All this

31. Gerard Swope, *The Swope Plan: Details, Criticisms, Analysis* (New York: The Business Bourse, 1931). On Folsom, see Jill Quadagno, *The Transformation of Old Age Security: Class and Politics in the American Welfare State* (Chicago: University of Chicago Press, 1988), 112.

32. Edwin Witte, *Development of the Social Security Act* (Madison: University of Wisconsin Press, 1962), 29.

he included in a letter designed to persuade the oil baron to part with *more* money for IRC efforts.³³

The oil industry offers an excellent example of segmentalists with regulatory interests in social legislation during the Depression. Slack demand and high unemployment exposed the oil industry, even the Rockefeller imperium, to disruptive competition from low-wage and low-benefit product market competitors. In written testimony to the Senate, an editor of *National Petroleum News* declared that “most if not all of bigger oil companies now have, and some have had for many years, various forms of pensions.” If their thousands of competitors “were forced to contribute to such protection as bigger companies are now doing, it might help to lessen some of their price cutting by bringing up their costs.”³⁴

Low-standard manufacturers in many other product markets also relied less on worker good will and low turnover for productive efficiencies than their larger competitors. Furthermore, because they reaped the benefits of the major employers’ success in crippling organized labor, they enjoyed great flexibility to lower wages and shed workers to gain advantage in intense price competition. To that extent, segmentalists fouled their own nests. New entrants to competition could enlist unemployed workers at very low wages. To follow sub-standard competitors down the low road, segmentalists would have had to violate their institutionalized, company-based moral economy. Those who went ahead with deep cuts faced worker unrest; those who cut back the most were most vulnerable to a militant strain of industrial unionism.³⁵

Because their wage and benefits practices gave them market and managerial advantages (and relative peace from union organizers), segmentalists’ interest lay in compulsory social insurance taxation of their competitors. This would compensate them for segmentalism’s market vulnerability under combined conditions of deflation, unemployment, and union weakness.³⁶ OAI would reduce the profoundly un-

33. Raymond B. Fosdick to John D. Rockefeller, Jr., 27 Apr. 1933, box 16, folder 127, Economic Reform [RG2COMRD], Rockefeller Archive Center (letter supplied to author by G. William Domhoff).

34. Telegrams and letters to Malcolm Muir, President of McGraw Hill Publishing Co., New York, submitted with statement of L.C. Morrow of McGraw-Hill, editor of *Factory Management and Maintenance*, and representing the National Publishers’ Association, Senate Committee on Finance, *Economic Security Act: Hearings*, 796.

35. Sanford Jacoby, *Modern Manors* (Princeton, NJ: Princeton University Press, 1998), 32–34.

36. Possibly for regulatory reasons, though certainly for the sake of the budget, the reformers imposed a \$15 limit on earned income to qualify for social security. Had they not done so, some workers over 65, involuntarily retired by segmentalists, might simply have stayed in the labor market to work for low-standard employers, possibly even their competitors, to supplement their limited retirement benefits. Substandard employers could then depress standards even further. Thus, the government might have undermined the regulatory purpose of the new tax. Compare this

welcome pressure to cut back on company welfare commitments, or at least make it possible to do so without pushing retirees into poverty. Once passed, it gave companies like International Harvester, as predicted, a welcome escape from its expensive company plan. It also “put the company on an equal pension cost basis with the growing number of farm implement competitors,” according to Harvester historian Robert Ozanne.³⁷

Harvester’s experience in this particular regard sheds light on a fascinating episode, about which we still know relatively little, in the Roosevelt administration’s OAI deliberations. When the cabinet-level Committee on Economic Security (CES) contemplated dropping old age insurance from the bill, New Deal big business advisors *strongly urged them not to*. We know about this truly extraordinary intervention primarily from CES staffer Brown.³⁸ Some scholars argue that the Townsend Movement for a non-contributory pension out of general revenue was the bugbear that kept the corporate and political reformers going. But Roosevelt, Witte, and most Congressmen were in full agreement with the businessmen that the Townsend Plan was a disastrously expensive and fraudulently marketed idea.³⁹ So this is probably not the whole story behind the corporate progressives’ urgent intervention.

For one thing, the OAI carrot was every bit as tempting to the corporate progressives as the Townsend stick was threatening. Not only did it have a regulatory advantage for segmentalists as a whole; it also delivered a large subsidy for many of the 300 or so large employers across America, ones who had company plans, many of them very badly administered. Company pension plans, all too often, were badly or entirely unfunded. An actuary’s nightmare, they were a money-hungry “juggernaut,” as a consultant from the Business Research Corporation put it, that employers had unwittingly set in motion in the 1920s. As much thought had gone into them as into ordering pencils, according to one analysis.⁴⁰ A good deal of

the IRC’s current consulting business consisted of rationalizing company plans to keep them out of dire trouble. These were the same people designing a compulsory public system that would relieve many of them of unaffordable pension promises they had made to their workers.

The crisis was exacerbated by intense price competition from manufacturers who had made no pension promises and employed younger workers, or were now hiring up large numbers of the desperate and undemanding unemployed. Now, with the Depression in full force, the need to retire large numbers of less-productive elderly workers without renegeing on their pension promises assumed crisis proportions. One solution was to purchase retirement insurance on their employees behalf. However, the price for private insurance was, an IRC study estimated in August 1935 (the same month the SSA passed), *33 to 100 percent more than what OAI was going to charge to guarantee the exact same benefits their workers were to receive with OAI*.⁴¹ We know for certain, as evidence in a later section will prove, that the CES and its Business Advisory group perceived advantages like these, if not their exact magnitude, well before August.

In sum, the New Dealers knew that OAI offered a large bailout as well as a regulatory blessing for major segmentalists. They were not, however, the only employers with interests, understood by the reformers, in legislation that would impose a floor on labor costs. Cartelists were also injured by cut-throat low-wage/low-price competition associated with deflation and unemployment. For example, the New York Building Congress, a cross-class confederation composed of over 600 municipal contractor associations and unions, began as far back as 1930 to call for compulsory pensions. It sent a lengthy report in 1932, advocating the same, to the Senate. (Its chairman, a vice president of F.W. Dodge Corporation, also believed a compulsory unemployment insurance system was “inevitable and desirable.”) This same organization testified in favor of New York Senator Robert Wagner’s labor relations bill because it would empower unions to uphold wage standards “for the benefit in the long run of the employers of that industry.” Imposing standard pension costs across the building industry would also conform nicely with negotiated cartelism, especially by enlisting the power of the state to impose new costs on substandard, nonunion contractors.⁴²

with the Swedish system below. There, for clear regulatory reasons, all gainful employment was allowed without loss of benefits.

37. Ozanne, *A Century of Labor-Management Relations*, 85–86.

38. J. Douglas Brown, *An American Philosophy of Social Security: Evolution and Issues* (Princeton, NJ: Princeton University Press, 1972), 21–22.

39. Jeffrey Manza, *Policy Experts and Political Change During the New Deal*, (Ph.D. diss., University of California-Berkeley, 1995), 345–50.

40. Stanley P. Farwell in “Discussion by E. Grosvenor Plowman” (Associated Industries of Massachusetts), in *Pensions: A Problem of Management* (New York: American Management Association, 1928), 33; Manza, *Policy Experts and Political Change*, 317. In some cases, companies controlled the expected damage by shifting partial funding onto employees. Raymond B. Fosdick to John D. Rockefeller, Jr., 27 Apr. 1933. See also Murray Webb Latimer, *Industrial Pension Systems in the United States and Canada* (New York: Industrial Relations Counselors, 1932), 902–5; Steven A. Sass, *The Promise of Private Pensions: The First Hundred Years* (Cambridge, MA: Harvard University Press, 1997), 56–96.

41. Rainard B. Robbins, *Preliminary Report on the Status of Industrial Pension Plans as Affected by Old Age Benefits Sections of the SSA*, (NY: Social Science Research Council, 1936), 17.

42. Latimer, *Industrial Pensions Systems*, 880–82, 890; Letter to Malcolm Muir, U.S. Senate, Committee on Finance, *Economic Security Act: Hearings*, 803–15; Testimony of R. G. Wagenet, U.S. Senate, Committee on Education and Labor, *To Create a National Labor Board* (Washington, DC: U.S. Government Printing Office, 1934), pt. I, 283; Swenson, *Capitalists against Markets*, 201–7.

THE SWEDISH LABOR MARKET REGIME

As the above, abbreviated analysis shows, reform politicians in America knew that social insurance reform would have a regulatory effect on competition benefitting both segmentalists and cartelists. Highly knowledgeable advisors instructed them on the facts, as did actual industry leaders. A plausible if not yet entirely compelling case emerges, therefore, for the verdict that reformers consciously appealed to capitalist interests in passage of the retirement security portion of the SSA. Similar evidence can be brought to bear regarding other aspects of the New Deal, and earlier excellent works with related arguments and evidence (especially those of Jill Quadagno and Colin Gordon) can be consulted.⁴³

Much more will be adduced on OAI in the discussion of Hacker's and Pierson's alternative argument below. But comparative evidence will advance the analysis at this stage better than further detail on the New Deal. It shows that breakthrough reforms in Sweden waited until capitalist interests had swung into alignment with those of the labor movement, and therefore lends further plausibility to the historically specific argument about the New Deal. It does so by fatally undermining the general case for balance of class power theories of welfare state development.

Solidarism

Understanding the Swedish labor market regime requires examining its features in light of economic theory about efficiency wages and segmentalist labor markets. Because Swedish employers in the period before and during the major social policy reforms of the 1940s and 1950s were organized in highly centralized and authoritative organizations, a number of questions arise: If large-scale employers who are inclined to favor an efficiency wage and welfare capitalist strategy are able to overcome numerous obstacles to joining together in a collaborative strategy, how would their wages and benefits differ? If they chose a centralized multiemployer approach, what would the effects on the interfirm and interindustry wage structure be? How would they deal with the problems of labor supply, turnover, and effort? What would make it possible for them to enforce the collective choice?

An interesting offshoot of the efficiency wage literature helps answer some of these questions. Beginning, crucially, with the theory's assumption of a wage-productivity nexus, models of *unilateral centralized pay setting* by a highly disciplined association of employers indicate that *wages would be set lower than in*

43. Jill Quadagno, *The Transformation of Old Age Security: Class and Politics in the American Welfare State* (Chicago: University of Chicago Press, 1988), esp. 100–119; Colin Gordon, *New Deals: Business, Labor, and Politics in America 1920–1935* (Cambridge: Cambridge University Press, 1994), esp. 240–79. See also Manza, *Policy Experts and Political Change During the New Deal*, 308–44.

the decentralized model. Likewise, employment would be higher. Interestingly, the same conclusions hold for models incorporating joint union influence in negotiations.⁴⁴ According to these models, the gain to employers from lower overall wage levels (inhibitions on individual firms' attempts to achieve an efficiency advantage with higher relative wages) outweigh the loss from reduced worker effort associated with lower unemployment.⁴⁵ Total profits, therefore, would exceed those achieved in the decentralized equilibrium.

The equilibrium in the centralized model is one where many firms offer wages *below* market-clearing levels, not above, as in the segmentalist case. In other words, the marginal revenue to a firm of hiring one additional worker exceeds the wage the firm has agreed to offer under the terms of the centralized arrangement. In that sense, centralization creates for many firms a *scarcity of labor*. That is to say, there will be a shortage of workers willing to take work at the low, market-defying rate. Many firms, in this case, would actually prefer to raise wages to reduce quits or shirking on the job, expand employment and production, or otherwise improve productivity and profits. This approach, however, would only work if others voluntarily abstain or can be prevented from following suit. Because "poaching," or cheating on the arrangement by raising wages would be profitable, centralized wage setting presupposes some mechanism for monitoring adherence and punishing violations.

In short, the centralized equilibrium sees "involuntary" underpricing of labor by the individual employer, and a scarcity of labor, rather than the segmentalist's voluntary overpricing and excess labor. Because segmentalist behavior is voluntary, no external agency is necessary to enforce it. But in solidarism, monitoring and policing the actions of individual firms must succeed to make it possible to speak of any kind of equilibrium. This is an artificial equilibrium, however, in an economic sense, for individual firms have a strong profit-motivated interest to behave in ways that would upset it. Workers will gladly rock the boat by offering their services at higher wages.⁴⁶

For reasons that cannot detain us here, analysis of

44. Not surprisingly, the models come from Norway, a country with a history of highly centralized pay setting much like Sweden's. See Michael Hoel, "Efficiency Wages and Local Versus Central Wage Bargaining," *Economics Letters* 30 (1989): 175–79, and "Union Wage Policy: The Importance of Labour Mobility and the Degree of Centralization," *Economica* 58 (1991): 139–53; Asbjørn Rødseth, "Efficiency Wages and Local Versus Central Bargaining," *Oxford Economic Papers* 45 (1993), 470–81.

45. Karl Ove Moene and Michael Wallerstein, "Bargaining Structure and Economic Performance," in *Trade Union Behavior, Pay-Bargaining, and Economic Performance*, ed. R. J. Flanagan, K.O. Moene, and M. Wallerstein (Oxford: Clarendon, 1993), esp. 90–93.

46. On the monitoring and compliance problem, see Hoel, "Efficiency Wages," 175, and Rødseth, "Efficiency Wages," 477.

solidarism indicates that in addition to setting wages across much of the labor market below equilibrium, employers will also collectively pursue a number of other policies designed to maintain solidarism's viability. The most striking of these is to facilitate compliance with wage restraint and reduce turnover by coordinating and enforcing pay policies in the direction of pay compression through *interfirm and intersectoral pay standardization*. In part, this is simply the most viable administrative rule for maintaining the legitimacy, supported by norms of fair competition over labor, of a rationing system (allocated wages rather than coupons or stamps) under conditions of scarcity. Wage compression in the form of ceilings becomes more important than the wage floors associated with negotiated cartelism; given the scarcity phenomenon, wage floors are largely superfluous.⁴⁷

Most important for the current analysis, employers, acting collectively, are likely to regulate the use of company-based social benefits. This tendency is part and parcel of the solidaristic policy of pay compression. For several reasons, a solidaristic employers' association is likely to choose suppression and even elimination of company welfare over centralized regulation. Heterogeneity in capital and labor force attributes, along with other market constraints, will make agreement difficult to reach on common standards due to funding and benefit costs that vary considerably across firms. Labor-intensive, dangerous, or unhealthy firms or sectors, for example, will have dramatically higher insurance costs than others who will be reluctant to cross-subsidize them to even out the costs. Given the difficulty of achieving agreement around standardized schemes, complicated by the presence of pre-existing company based benefits, suppression of benefit growth and expansion may be the employer association's most feasible option. Complete elimination also recommends itself, but, as Sweden suggests, political intervention with compulsory alternatives may be necessary.⁴⁸

Of course, unions have to be part of the overall picture. Solidarism, in theory, can be pursued unilaterally by employers. Given its emphasis on wage repression, this might be the only thing one would expect to see;

however, a cross-class alliance with organized labor at a highly centralized level is also a possibility, as indicated above, and can serve as the necessary cement of solidarism. It might, in fact, be only in the crucible of conflict with unions, and the evolution of centralized relations within and between employer and union camps, that the cohesive norms and disciplinary mechanisms of solidarism arise among employers.

Because organized labor's common concerns for pay equity harmonize well with organized employers' self-interest in pay standardization, solidaristic employers have something to offer unions in exchange for rigid wage discipline. Also, labor's ideological concerns about equity across the entire labor force, not just for those currently employed, give it reason to favor low levels of unemployment, and therefore restrain workers' demands. Finally, centralized governance of labor markets can win the approval and participation of organized labor because it promises to strengthen the insecure hierarchical control of union leaders over their fractious membership and sub-units. Union leaders can promote the solidaristic policies as their own, propagate egalitarian norms to justify them, and likewise participate in their design and implementation.⁴⁹

SOLIDARISTIC SOCIAL POLICY INTERESTS

Wage compression, benefit suppression, and collaborative relations with unions are all strikingly distinctive features of Swedish industrial relations through much of the twentieth century. The policy of wage compression, called *solidaristic wage policy*, included wage restraint. Usually, experts regard the restraint as the union's concession to employers in exchange for the compression that employers did not want. According to very strong evidence, this belief appears to be incorrect. Solidaristic policy was not founded on a log-roll (concession of a relatively inexpensive x in exchange for a highly valued y) or class compromise (concession of an expensive x in order to economize on future conflict). It was founded on a cross-class alignment of interests (both sides valued x).⁵⁰

To the extent that solidaristic governance of wages was effective, the strong incentive to attract and retain scarce labor created the temptation to cheat with noncash forms of remuneration. Among them, of course, were company-based welfare-type benefits that could not be easily monitored, measured, and regulated by the centralized institutions of the labor market. The temptation became especially acute in

47. Compression across firms and industries probably also pays off in efficiency because it prods employers into investment in labor-saving technology by inhibiting the expansion of output to meet demand by using wage increases to hire more workers using more of the old technology. By holding back wages at the high end it also subsidizes more productive newer vintage capital, thus accelerating a Schumpeterian process of creative destruction. See Karl-Ove Moene and Michael Wallerstein, "Pay Inequality," *Journal of Labor Economics* 15 (1997): 403–30; Wallerstein and Moene, "Solidaristic Wage Bargaining," *Nordic Journal of Political Economy* 22 (1995): 79–94.

48. Third, solidarists will seek to manage and ration the supply of labor by coordinating recruitment practices, including restrictions on open advertising and direct poaching, promoting the formation and use of labor exchanges or bureaus for deployment of idle workers and skills, and regulating or collectivizing vocational training. See Swenson, *Capitalists against Markets*, 33–34.

49. But there will be latent tensions if not open conflict within labor on control issues as a result. Egalitarian wage restraint means passing up opportunities to raise wages in highly profitable firms and sectors. For a discussion, see Swenson, *Fair Shares: Unions, Pay, and Politics in Sweden and West Germany* (Ithaca, NY: Cornell University Press, 1989), esp. chaps. 4–5.

50. Swenson, *Capitalists against Markets*, 121–33.

the context of strong, expansionary demand pressures in the postwar period. While supporting the solidaristic system in principle, many employers took opportunistic free-riding advantage of it. On occasion, whole sectoral associations moved opportunistically, and therefore unsolidaristically, ahead of others in order to standardize and thus regulate high-benefit competition within their industries. For these reasons private welfare benefits experienced rapid and, from the organization's standpoint, disturbing growth in the 1940s and early 1950s. It was at this time that Social Democrats in Sweden introduced their dramatic reforms. The employers' confederation clearly signaled its interest in legislation and, because of legislation, removal of social benefits from the wage bargain. Putting welfare on the legislative agenda, they hoped, would help them manage the labor market on a solidaristic basis – that is, by reducing pressure from below on individual employers all too eager to offer concessions. Moved by the buoyant macroeconomic conditions of the postwar period, then, Swedish employers took their foot off the brake on the welfare state, placidly allowing Social Democracy to pass American developments on the left.

THE ORIGINS AND DEVELOPMENT OF SWEDISH SOLIDARISM

The solidaristic tendencies of Swedish capitalists emerged early, at the beginning of the twentieth century. Undoubtedly, Sweden's small size and cultural homogeneity helped this development. With relative ease, all major employers could meet face to face, reach an overriding consensus on essential matters, and sanction most deviants. Although enabling or facilitative, these factors were not motivational, and therefore not sufficiently explanatory. The motivational factors are more interesting. First of all, there was a dynamic entrepreneurial elite, allied with bank finance, intent on industrial development for export markets, and eager to take advantage of a literate and skilled labor force, from manual operatives and craftsmen to schooled engineers. Their chief obstacles were twofold. In labor productivity, still at French and Italian levels, Swedish industry lagged woefully behind the United States, England, and Germany. Swedish industry, therefore, was not yet price competitive. To make matters worse, it was also not wage competitive. Swedes by the droves were leaving the country, most of them to America. Agriculture looked more promising there, and high labor productivity gave rise to enticingly high industrial working-class incomes. The mere chance of a high paying job with an American segmentalist made the Atlantic passage a tempting lottery ticket.⁵¹

51. Evidence for this and following paragraphs can be found in Swenson, *Capitalists against Markets*, 77–82.

Swedish industry could raise wages to retain its quality labor force, but only at the immediately intolerable expense of reduced price competitiveness on international markets. The alternative was, first, in the short run, to do whatever possible to neutralize international and domestic labor market forces driving wages up. Second, with utmost speed, industry needed to raise productivity to accommodate an orderly rise in incomes and thus relieve pressure to manage the labor market. Intriguingly, employer confederation leader Hjalmar von Sydow recommended diverting part of that income growth into national social insurance. Germany, the vanguard in national legislation, had demonstrated “that well designed social insurance is the best means to inhibit emigration.”⁵² Even early on, in 1915, Swedish employers saw a regulatory purpose for social insurance.

For managing domestic labor market competition, however, employer leaders favored keeping close control over individual employers' wage and benefit practices. They also recommended the use of sweeping, multiemployer lockouts to counter the whipsaw tactics of the unions, which, taking advantage of labor shortages, drove up wages enterprise by enterprise. The lockout administered quick bloodlettings from union's carefully husbanded strike funds, adequate only for the support of a small number of individual conflicts at any one time, not for blanket lockout support.

That left the equally urgent matter of raising productivity. Difficulty in expanding production by hiring more labor made it microeconomically imperative. Collective action proved essential. For their productivity mission, and thus for imposing *managerial absolutism*, employers also relied on the sweeping offensive and sympathy lockouts. With the lockout they achieved the complete right to manage with a degree of long-lasting success that American employers could only have marveled at. Thus, in imposing wage restraint and managerial control, the encompassing multi-industry lockout gave organized capital in Sweden the ability to whip unions into a shape that made them highly attractive as partners in centralized regulation of labor markets. Aggressive use of the lockout probably elevated workers' desire to join these well-disciplined unions: their dues doubled as lockout insurance premiums.

The story of solidarism begins, in many ways, in 1905. That year VF, the Swedish Engineering Employers' Association (*Verkstadsföreningen*), carried out a massive lockout to bring the Swedish Metalworkers' Union (Metall, or *Metallindustriarbetareförbundet*) to the centralized bargaining table. One result was a skill-graded and regionally differentiated system of minimum wages. More important for employers, the union agreed to a no-strike commitment for the du-

52. Von Sydow, *Om förslaget till lag angående försäkring för olycksfall i arbete*, (Stockholm: Viktor Pettersson, 1915), 4.

ration of the contract. Better yet, it formalized Metall's recognition of employers' complete right to hire, fire, and otherwise manage the shop floor. This meant open shop conditions, no restriction on management's introduction and manning of machinery. The contract even encouraged the use of piece work.

Industry-wide and multi-industry lockouts called by SAF, the multisectoral Swedish Employers' Confederation (*Svenska Arbetsgivareföreningen*), which until 1918 had yet to absorb VF, achieved the same ends in other sectors. Sector-level centralized bargaining emerged first, in 1908, for the rural steel, and sawmill sectors after threats of a multi-industry sympathy lockout from SAF. VF promised to help out steel with a sympathy lockout of metalworkers, with the intention of bankrupting Metall, which organized and therefore provided lockout support to engineering as well as steel workers. Textiles followed in 1914, forcing centralized bargaining on a union badly crippled by the disastrous results of the 1909 mass strike. Some textile employers objected that this would resuscitate a union "that in effect has ceased to exist."⁵³ The national leadership, however, saw revival of the union for negotiated labor market regulation as a good thing – for solidaristic reasons to be mentioned shortly.

The early 1920s saw a big wave of centralization, always accompanied by either threats of or actual multi-employer and often multi-industry lockouts. Employers in the woodworking, paper, and building industries all hammered at the unions with both SAF's and VF's backing, achieving the centralization they wanted on favorable terms. Pulp producers followed in 1921, and, with their success, the most important sectors of the Swedish economy had been corralled into the institutions of solidaristic regulation.

Wage Standardization

That sectoral multiemployer bargaining brought solidarism, not negotiated cartelism, is manifestly apparent in the substance of the centralized agreements forged.⁵⁴ The 1914 agreement in textiles, for example, installed a remarkable system, with no conventional English translation, of "normal wages" (*normallöner*) for unskilled operatives. This system imposed both minimum and maximum wages. Normal wages offered the hope of neutralizing the revival of decentralized labor market pressure for wage increases. Freely mobile labor seemed to be more a problem than localized strikes, for labor scarcities were pushing wages upward. Firms caved under great pressure to give up too much, because, simply, "workers will not stay put." These were not the concerns of American employers seeking the rewards of central-

ized negotiated cartelism, where the problem was "chiseling" – price competition based on low wages made possible by labor surplus. Partly because of the normal wage system, the textile association's leadership boasted that "no other employer organization has so completely pushed through its demands as we have done." Nevertheless, more needed to be done, according to the association's yearly report, for "full equalization of working and wage conditions in the textile industry." This was the one of the employers' association's foremost tasks, "independent of . . . the workers' organization's cooperation therewith."⁵⁵

The solidaristic normal wage system spread to other sectors. Paper, paper pulp, and construction opted for normal wage schemes in 1921. Engineering employers came under intense criticism from other sectors, textiles in particular, for failure its failure to cap wages. Labor scarcity in textiles was partly a consequence of the drift of manpower away from textile producing areas and across sectoral lines into engineering, with its higher and upwardly drifting wages. For technical reasons peculiar to the highly heterogeneous sector, engineering rejected normal wages; instead they tried to deal with the wage drift problem in 1923 with a complex surrogate. With normal wages or an alternative in place, firms that exceeded their ceilings were exposed to the censure and sanctions of their associations – just as workers taking wages below negotiated minima in American joint cartelism suffered the censure of their union comrades.

Solidaristic Suppression of Welfare Capitalism

Early on, eliminating company-based social benefits stood high on Swedish employers' collective agenda – unlike in the United States, where all major employer associations dominated by segmentalists energetically preached the virtues of "welfare work." Although it was not spelled out in writing, the 1905 VF-Metall agreement occasioned the wholesale dumping of physician, credit, and accident insurance benefits by one major shipbuilding firm. In 1939, looking back, a prominent shipbuilder and employer statesman recalled, with gratification, VF's success in 1905 as a clean break with paternalism. At one of Sweden's largest machine making works, social benefits as a proportion of total remuneration dropped after peaking in between 1905 and 1909, as the engineering agreement sunk its institutional roots. Centralized bargaining, according to the director of Sweden's largest building materials firm, allowed him to stop being a "benevolent patriarch." It was better, he thought, that workers "help themselves" with strong unions and the wages they negotiated.⁵⁶

53. "Utdrag ur protokoll [från] sammanträde med Styrelsen för Göteborgskretsen, den 18 Apr. 1913," Appendix 16 to Textilindustriförbundet, Minutes, Överstyrelsen, 26 Apr. 1913.

54. More detail on this and the following can be found in Swenson, *Capitalists against Markets*, 82–90.

55. "Utdrag ur protokoll [från] sammanträde med Styrelsen för Göteborgskretsen"; Nils Bergsten, *Sveriges Textilindustriförbundet 1907–1950* (Stockholm: Sveriges Textilindustriförbundet 1957), 229–30.

56. Thommy Svensson, *Från ackord till månadslön*, 118; "Ed-

The first sector to take strong action against corporate welfarism was steel.⁵⁷ In 1908, steel employers surprised and angered the union by announcing their intention, backed by a lockout, to purge all remuneration with in-kind goods and services. Members had agreed among themselves to eliminate everything from housing, physician, and hospital benefits to free firewood and “potato land.” The employers succeeded – at least on paper – in purging most paternalistic benefits. The victory, it turned out, was pyrrhic; however, the metalworkers’ union was not to blame. The problem was individual employers who unilaterally reinstated the benefits. In the same year, sawmill employers also sought and achieved, against many workers’ misgivings, a partial liquidation of in-kind company benefits. The union accepted the principle of cash-only for remuneration, although the freedom for individual companies to opt for social benefits remained untouched.

The textile agreement of 1914 required individual employers to eliminate in-kind remuneration, including worker housing. Medical services and accident benefits were retained for the time being, though standardized across the industry. In 1921, paper employers collectively bought off company welfare benefits with standardized wages. Elimination of social benefits had been a desideratum since the organization’s inception in 1907. In 1922, engineering employers took unilateral action, during a temporary hiatus in centralized bargaining, ordering member firms to eliminate all in-kind company benefits, such as free medicine, and free or subsidized housing and other “necessities.” In 1932, with backing from LO, the Swedish Labor Confederation (*Landsorganisationen*), pulp employers imposed an agreement that included “an old demand” – substantial elimination of such social benefits as rent subsidies and free company housing.⁵⁸

Postwar Conditions and Benefit Drift

From its inception, the immediate and inevitable consequence of wage restraint, especially for the most dynamic capitalist enterprises, was labor scarcity. For them, wage restraint delivered high profits and excess demand for labor. To avoid costly lockouts, and achieve a more stable and equitable wage structure – not to mention a secure, high-prestige role for union

officials – unions participated in setting these below market wages. Inevitably, labor poaching and wage and benefit drift followed.

For example, less than a year and a half after the 1905 engineering agreement, manufacturers in engineering complained bitterly about fellow employers, and little about Metall. We are witnessing, as one put it, “the most cutthroat and worst sort of competition that exists, when . . . people drive up wages by out-bidding each other.” Because the shops were “so piled up with work . . . there are too few skilled men.” The best remedy, he said, was to take in more apprentices, because “by competing with each other and driving up wages we cannot create more men.”⁵⁹

With Social Democrats in power in the 1930s, LO did more to hold back wage militancy, especially in the construction sector, than to fan its flames. Revival of economic growth in the late 1930s started to bring similar “wage drift.” Rising piece work earnings contributed because firms studiously neglected to reset piece rates with the advance of labor productivity. Also, employers held each others’ “disloyal recruitment” responsible. Frustration turned into alarm as these symptoms of labor scarcity grew during the war years and beyond. Again, the labor confederation continued to help restrain wages.

The years 1945 and 1946 were extreme, but the symptoms of labor market disequilibrium arising from wage restraint and intrasectoral leveling in the face of strong growth were not atypical of what happened in ensuing years.⁶⁰ Growth in the face of continuing centralized wage restraint brought such unquenchable demand for labor that, by June 1946, only about 104 men sought jobs through the government employment exchanges for every 100 non-agricultural blue collar jobs registered as vacant by employers. The situation was worse for employers seeking female workers: only 75 turned to the exchanges for every 100 jobs registered. Profitable textile employers continued to compete heavily with engineering, which wished to increase its female labor force by no less than 24 percent, achievable only at the expense of the textile industry and other traditionally female sectors. Textile employers could do little more than sharpen their own restrictions against advertising for labor and poaching from each

strömiana. Utdrag av tal vid direktör J.S. Edströms middag å Riche,” 7 Mar. 1939 (Kugelberg P6, Edström, J.S.); Lars Magnusson, *Arbetet vid en svensk verkstad: Munktelles 1900–1920* (Lund: Arkiv, 1987), 229; Peter Billing, Lars Olsson, and Mikael Stigendal, “Malmö – Our Town”: Local Politics in Social Democracy,” in *Creating Social Democracy: A Century of the Social Democratic Labor Party in Sweden*, ed. Klaus Misgeld, Karl Molin, and Klas Åmark (University Park, PA: Pennsylvania State University Press, 1992), 282.

57. More on this and the following can be found in Swenson, *Capitalists against Markets*, 82–90.

58. VF Circular No. 35–1921, 21 Dec. 1921; VF, Direktiv N:r 1–1922, 5 Jan. 1922; SAF, Minutes, Styrelse, 9 Sept. 1932.

59. Aubrey Clayton to Edström, 12 Feb. 1907, Edström E21 [A3a/överstyrelsen]. Neither Metall nor the 1905 agreement blocked the apprentice solution; wages for apprentices were not regulated.

60. Low-pay sectors were particularly disturbed. For example some textile employers wanted to raise wages for fear of losing workers to higher-pay sectors like engineering. Engineering employers, frequently stealing workers from each other, dealt with the matter collectively by sharpening their rules against poaching. In some regions they agreed among themselves not to hire workers within a month of their departure from a fellow engineering employer. See for example SAF, Minutes, Styrelse, 25 Jan., 22 Mar., 26 Apr., 31 May, and 6 Sept. 1945; SAF, Minutes, Ombudsmannakonferens, 26 Sept. 1945.

other, just as engineering employers did the year before.⁶¹

Unemployment among union members reached rock bottom at about 2 percent in 1946. SAF calculated that Swedish industry could easily have absorbed another 100,000 to 120,000 workers at repressed wage levels; labor mobility and turnover was “abnormally high.” Roughly 5 percent of all workers changed jobs on a monthly basis, a disturbing number of “job hoppers” (*hoppjcker*). The Social Democratic government tried with prolonged wartime building controls to check upward wage pressures from the high-wage building sector. Top employers had called for these state measures, while also resolving among themselves not to “let wage competition run free.”⁶²

In the late 1940s, mutual recriminations about disloyal wage practices, sometimes called “black market wages” (*svartabolöner*), rose in volume.⁶³ Social benefits, not just wages, also came under increasing censure. Some sectors blamed their alarming loss of manpower on big employers who provided “all manner of generous perquisites, vacation cottages, and benefit funds for workers.” SAF expelled two breweries for granting extra high pay raises without permission; the companies blamed the social benefits in other sectors for their actions. SAF began issuing circulars to individual members that harshly criticized the “unhealthy phenomenon” of year-end bonuses, whose purpose was largely to “gain advantage in competition over labor.” Collective agreements, SAF pointed out, carry with them not just a commitment to workers but also – with respect to fellow employers – “an obligation not to exceed contractual wages.”⁶⁴ Herein lay a chief virtue of negotiated solidarism.

THE SOLIDARISTIC WELFARE STATE: THREE MAJOR DEVELOPMENTS OF THE 1940S AND 1950S

Chronic problems of labor scarcity, poaching, and the upward drift of wages and benefits continued the rest of the decade and into the 1950s.⁶⁵ In the four

61. SAF, Minutes, Styrelse, 29 Aug. 1946; Minutes, Ombudsmannakonferens, 18 Nov. 1946.

62. SAF, *Styrelse- och revisionsberättelser för år 1946*, 35; SAF, Minutes, Styrelse, 29 Aug. and 24 Oct. 1946; SAF, Minutes, Styrelse, 16 Dec. 1946; “Anteckningar vid ett sammanträde i Göteborg ang. situationen på arbetsmarknaden,” 27 May 1946 (Edström 29/E3i/överstyrelsen).

63. SAF, Styrelse, 27 Nov. 1946; Ombudsmannakonferens, 18 Nov., 16 Dec. 1946.

64. SAF, Arbetsutskott, 25 June 1946, and appendixes (F. Andersson, Nässjö Bryggeri AB to Bryggeriarbetsgivareförbundet, 14 June 1946 and Felix Brandel, Tranås Bryggeri AB to Bryggeriarbetsgivareförbundet, 15 June 1946); SAF, “Cirkulär till Svenska Arbetsgivareföreningens delägare,” Appendix A to Minutes, Styrelse, 28 Mar. 1946.

65. On tight labor market conditions in 1947, see SAF, *Styrelse- och revisionsberättelser för år 1947*, 49–50. High level discussions into the 1950s regarding labor scarcity can be found, among other places, in SAF, Minutes, Styrelse, 27 Feb., 28 Aug., and 30 Oct. 1947;

years after 1948, SAF’s surveys showed that company housing, health, pension, and other social expenses rose from about 3 percent of total labor costs for manual workers to about 8 percent. For workers in mining, forest products, and chemicals, the averages were roughly 18 percent in 1948, where housing benefits accounted for something between 3 and 9 percent of blue-collar wages. (Americans experienced a similar rise in big company benefits resulting from the state-imposed, wage-suppressive, and therefore labor-scarce solidarism of World War II.)⁶⁶

The employers’ confederation leadership looked on rather haplessly, having failed to persuade key sectors to grant SAF authority to control the developments effectively. Help came from the labor movement, an unexpected source, with its own, distinct motives. The unions shared employers’ frustrations, because internal disagreement among employers, resulting from the dramatically different impact of collectively bargained standardization and improvement, left an intolerable mess: halting and uneven development of social benefits. Looking back at the Social Democratic government’s push for legislated reforms, LO chairman Arne Geijer said “when it comes to social reforms, [collective] bargaining has not been a successful means.” At the bargaining table, organized employers “have not wanted to concede social reforms.”⁶⁷

Organized labor’s frustration did not lead to much action, however. Membership interests were uncertain, divided along generational and sectoral lines. Many union members, especially younger ones, gladly saw today’s take-home pay as better than tomorrow’s benefits, and union leaders were happy to oblige them. Disinterest and division, therefore, were shared across class lines. This immobility displaced pressures for social policy to the political arena. By creating the institutional setting that obstructed change, Swedish employers produced an outcome, legislative action, that they did not exactly intend. Nevertheless, it was to be a welcome one. Major regulatory advantages outweighed minor imperfections in three of the most groundbreaking pieces of the

26 Aug., 21 Oct., and 11 Nov. 1948; 17 Feb. and 15 Sept. 1949; 23 May and 19 Oct. 1950; 15 Nov. 1951; 22–23 Apr., 16 Sept., 21–22 Oct., and 18 Nov. 1954; 15 Sept. 1955; 18 Oct. 1956; 17 Oct. and 25 Apr. 1957. See also SAF, Minutes, Ombudsmannakonferens (Förbundsdirktörskonferens), 13–14 Sept. 1954; 11–12 Nov. 1957; and 15 Sept. 1958; and SAF, Minutes, Arbetsutskott, 13 July 1955.

66. The 1952 survey, with a response rate of 86 percent, covered firms with at least 50 workers. Vacation pay was subtracted from the 1952 totals to make them roughly comparable with the 1948 survey. SAF, Utrednings- och Upplysningsbyrå, “Utredning rörande sociala åtgärder inom industrin,” Oct. 1948 [SAF A1/27ec]; SAF, “Företagens indirekta personalkostnader år 1952 – Preliminär redogörelse,” SAF, Minutes, Styrelse, Appendix 6, April 1954. On wartime solidarism in the United States, see Swenson, *Capitalists against Markets*, 168–75.

67. Geijer quoted in Frederic Fleisher, *The New Sweden: The Challenge of a Disciplined Democracy* (New York: David McKay, 1967), 88.

Swedish welfare state passed by Social Democratic governments. Employer interests of a solidaristic nature explain why.

People's Pensions

As tensions flared inside SAF over the leadership's desire to suppress segmentalist cheating with company benefits, the Social Democratic government passed its first major universalistic social insurance reform in 1946. This legislation brought a large increase in the uniform, flat-rate "people's pension" (*folkpension*) last revised in 1937. The fiscally conservative Social Democratic government had initially favored a cheaper, more means-tested system concentrating resources on the more needy. By contrast, ironically, the Conservative Party came out openly against means testing and favored the more expensive universalistic solution.⁶⁸

The Conservatives' position was probably influenced by SAF. From the very beginning SAF "totally rejected" a cheaper incomes-tested scheme. Means-testing would, SAF feared, reduce incentives for pension recipients "to improve their situation through work and savings." In other words, labor scarcity would be exacerbated if workers' earned incomes and assets disqualified them from receiving full government pensions at age 67. SAF executive director Fritjof Söderbäck insisted that aging workers with "the ability and will to offer their manpower to the disposition of the national economy, should not . . . suffer a substantial reduction in their people's pension."⁶⁹ These same concerns were echoed in the government's report.

The labor confederation agreed with the employers. On the great similarity in SAF's and LO's views about the size and structuring of pensions, an editorial in *Dagens Nyheter*, entitled "Between Brothers," speculated that some sort of secret agreement had been reached on the matter. This solid cross-class unity must have contributed to the government's change of mind. The reform, to take effect in 1948, passed with broad, multiparty support. Although not exactly a "triumph for the right," as the Conservatives' *Sydsvenska Dagbladet* put it, it was at least an occasion of "national unity," as the Liberals' *Dagens Nyheter* proclaimed.⁷⁰

SAF did not simply choose expensive universalism

68. For more on this and the following, see Swenson, *Capitalists against Markets*, 260–65.

69. Fritjof Söderbäck, "Till Konungen," 23 Jan. 1946. SAF A150 (18x). See also "Lag om folkpensionering/yttrande"; *Socialvårdskommitténs Betänkande XI – Utredning och förslag angående lag om folkpensionering*. SOU 1945:46 (Stockholm: Statens Offentliga Utredningar, 1945), 134–35. SAF accepted incomes-tested supplementary housing benefits for those in high-rent areas only because universalistic benefits would put too much strain on government finances. However, the 1934 deductibility rules for company pensions were preserved, as employers wanted.

70. *Dagens Nyheter*, 9 Feb. 1946; Åke Elmér, *Folkpensioneringen i Sverige* (Lund: CWK Gleerup, 1960), 85, 90, 140.

over cheaper means testing as the lesser of two inevitable legislative evils. SAF documents show unequivocal welcome for government action. Private provision of pensions only confounded SAF's efforts to govern the labor market on a solidaristic basis. Shortly before passage, turmoil over private benefits was intense and interest in state measures heightened. SAF's Motor Vehicle Transport Employers' Association warmly endorsed the universalistic scheme under consideration, hoping "that the government pensions would assume such dimensions and form that the worker pension issue [will be] completely settled and that requests for further pension benefits from employers can be rejected." The association had been grappling with internal conflict over the issue, because unorganized firms were raising benefits to compete over labor with the public sector as well as with more restrained SAF members.⁷¹

As tight labor market conditions intensified throughout 1947, SAF members praised the new legislation for the relief it provided from pressure on firms to use pensions as a "drawing card" to attract labor.⁷² However, tensions resumed between urban engineering firms and their rural steel and forest product counterparts; the rural industries' residual company pensions mostly exceeded the ceiling desired by engineering. The debate did not lead to solidaristic unity over ceilings on supplementary company pensions – and thus reductions in some firms. Nevertheless broad consensus prevailed on the need, at least, to freeze company pensions at current, albeit uneven, levels. Not a single voice expressed a desire to reverse the legislation or mourned the loss of employers' primary responsibility for pensions.

Comprehensive Health Insurance and Sick Pay

A similar story can be told about the passage of health legislation in 1953.⁷³ Organized capital had supported the introduction of government subsidies and regulation of voluntary funds in 1931, before the Social Democrats came to power. At the time, SAF hoped that the legislation would make generous protection widely available and could therefore "in employers' and workers' common interest" help unburden individual employers of their widely varying health care expenses.⁷⁴

Employers' hopes were fully dashed because of labor scarcity and the unregulated growth of company benefits, especially sick pay, in the 1940s. By the early 1950s, almost all workers employed by SAF members received some mix of free or subsidized medical

71. Biltrafikens Arbetsgivareförbund to SAF, 5 Jan. 1946. SAF:A150/18x/Lag om folkpensionering/yttranden från förbund; SAF, Styrelse, 30 May 1947 (discussion by Eric Brodén).

72. SAF, Minutes, Styrelse, 30 May 1947.

73. For more on this and the following, see Swenson, *Capitalists against Markets*, 269–74.

74. SAF, Minutes, Styrelse, 12 Nov. 1931.

services, hospital benefits, sick pay, or employer assumption of payments into the subsidized insurance fund system.⁷⁵ The 1953 legislation swept away this entire patchwork system, guaranteeing all citizens a uniform system of free hospitalization, generous health benefits, and up to two years' sick pay, all financed by a combination of payroll taxes and general revenue.⁷⁶ Implementation in 1955 allowed employers to rapidly retire all health benefits whether unilateral or negotiated. In a 1954 high-level strategy discussion, SAF's vice executive director urged members to seize the opportunity and "clear out health benefits."⁷⁷ Benefits were bought back with wage increases that only partially ate up the savings. More important than the savings was the end to the benefits race.

SAF's chief expert on social insurance sat on the commission that drafted the legislation. He also tried to persuade employers critical of various details of the complex legislation to overlook them in light of its broader advantages.⁷⁸ Overall, the response in SAF was positive, and again, as with pensions, not a single voice rose in defense of company benefits and the existing semiprivate, voluntary insurance system. Even rural-based industry, where welfare benefits were most widespread, favored the government solution. A history of the paper pulp industry association reported simply, and somewhat simplistically, that "an administratively burdensome task" had been handed over to the government.⁷⁹

For a mix of complex reasons, SAF employers strongly favored sick pay scaled according to a worker's wages, not a flat, and therefore cheaper Beveridge-style system, which Social Democratic Minister

of Social Affairs Gustav Möller fervently advocated. Möller expected privately provided or negotiated supplements to fill them out. However, SAF wanted employers out of the business altogether. Initially, LO was uncertain and divided on the issue. By 1953, however, the labor confederation reached consensus with a more resolute SAF on the sick pay question and away from Möller's position. This alliance no doubt helped swing the government toward the more comprehensive, compulsory system. Once again, as with the pension reform of 1946, a cross-class coalition of the employer and labor confederations prevailed over Social Democrats' initial plans for cheaper and less comprehensive reforms.⁸⁰

Active Labor Market Policy

No major Social Democratic reform initiative of the period is so closely identified with the innovativeness if not power of the left in Sweden than its famous "active labor market policy" (ALMP). ALMP's expenditures and innovative development took off after the mid-1950s, when Social Democratic governments began lavishing growing public resources on programs such as the retraining and geographic relocation of workers made redundant by rapid technological and market changes. Workers in depopulating areas even got help with selling their homes, many of which were acquired as a company benefit; ALMP thus helped SAF uproot some remnants of welfare capitalism. Other policies remained important, such as temporary job creation to keep people off passive measures like unemployment compensation, and in healthy, active contact with the labor market. However, active supply-side programs, including retraining and relocation, grew the fastest.⁸¹

The labor scarcity of the 1940s and 1950s, generated by solidarism in combination with robust demand and complementary macroeconomic policy, was the underlying cause of ALMP. (Restrained solidaristic wage policy made it possible to pursue relatively non-inflationary full employment policies; ALMP was designed to make it even easier to reconcile price stability and full employment.) Employer leaders complained of continuing "overfull employment" and a "disturbing degree of competition over labor among companies." Wage drift threatened "bankruptcy for the bargaining system." In shipbuilding, for example, major companies routinely evaded solidaristic controls by contracting out work to firms paying wages above what VF and SAF allowed in order to get profitable work done. Even the LO leadership

75. SAF, Utrednings- och Upplysningsbyrå, "P.M. rörande avlösning av sjukförmåner i avtalen" (by Sven Hydén), Sept. 1949.

76. Implementation of earlier legislation, passed in 1946 against SAF's strong opposition, had been repeatedly postponed, until it was actually scrapped in 1951. The evidence indicates that among the Social Democrats' second thoughts were SAF's first: labor and materials shortages for hospital construction and personnel made it "impossible to implement." SAF also strenuously objected to the first law's flat-rate sick pay benefit, which was well above many rural incomes. This would have made it difficult for Swedish industry to continue attracting labor away from agriculture. "Den nya sjukkasselagen," (no date), SAF/A 1350/22å-I/Diverse PM och diskussionsanteckningar; "Högerledaren: Ogenomförbar reform är propagandareform," *Svenska Dagbladet*, 17 Mar. 1946; Fritjof Söderbäck, Remissyttrande över en inom socialdepartementet upprättad promemoria angående . . . allmän sjukförsäkring, 27 June 1945. SAF/A 1350/22m/Ytrande 1945.

77. Erik Brodén, "Memorial, fört vid överläggning angående arbetarnas sjukförmåner," 2 June 1954. (Träindustriförbundet/Arbetarnas sjukförmåner, 1954).

78. Sven Hydén . . . "Anteckningar från diskussion av SAF:s förslag till yttrande över socialförsäkringsutredningens betänkande om sjukförsäkring och yrkesskadeförsäkring", 10 Jan. 1953 (SAF/A1350/22å-II); "PM angående sjukförsäkring" (by Sven Hydén), 17 Oct. 1952. SAF 1350/22å/Svar från styrelseledamöter; Träindustriförbundet, Yttrande över förslaget till yrkesskadeförsäkring. TIF/Yrkesskadeförsäkring 1950–51.

79. Tom Söderberg, "Pappersmasseförbundets första halvsekel," in *Pappersmasseförbundet 1907–1957*, 121.

80. Torsten Svensson, *Socialdemokratins dominans – En studie av den svenska socialdemokratins partistrategi* (Uppsala: Almqvist & Wiksell, 1994), 201, 205, 225–27, 236.

81. ALMP's administrative structures and even basic policies were actually introduced earlier, albeit on a limited scale, and with employer support in the 1930s and 1940s. See Swenson, *Capitalists against Markets*, 277–79.

joined in criticism of the practice. One shipbuilder complained of “a lack of balance between demand and supply in the labor market.” The situation was so untenable, he said, that there were only two logical choices available: let wages loose or *ration labor*.⁸²

In other words, administered pricing of labor inevitably spawned the idea of administrative rationing. ALMP partially served that purpose. As a labor allocation device, it serviced the labor supply needs of a system of employers’ own making. In a vivid first-hand account of efforts to promote active labor market policy from the late 1940s through the 1960s, LO economist Gösta Rehn never mentions employer opposition. According to his writings in the 1950s, the main objective was to set up “permanently increased efforts to stimulate the *adaptation of manpower to industry’s needs*.”⁸³

Rehn also modestly dismissed the idea that he and other LO economists’ invented the idea of mobility measures, for “such demands come from outside” the trade union movement. By this, he could only have meant from employers.⁸⁴ He and fellow economist Rudolf Meidner certainly got little support from the Social Democratic government. Their report on active labor market policy, which was adopted as official policy by LO’s 1951 congress, struck Social Democratic Finance Minister Per-Edvin Sköld, as “the dumbest thing I’ve read (*det dumaste jag läst*).”⁸⁵ At about the same time, the Social Democratic government actually proposed reducing the existing rather small AMS budget. SAF came to its defense.⁸⁶ Only later in the

82. Tommy Svensson, *Från ackord till månadslön – En studie av lönepolitiken, fackföreningarna och rationaliseringarna inom svensk varusindustri under 1900-talet* (Stockholm: Svenska Varv, 1983), 344–45; SAF, Minutes, Ombudsmannakonferens, 13 Dec. 1954; Bertil Kugelberg, “Minnesanteckningar från diskussion på Hotell Tunneln i Malmö,” 8 Nov. 1954 (Kugelberg collection, SAF); SAF, Minutes, Styrelse, 21–22 Oct. 1954, and 18 Nov. 1954.

83. Rehn, “Finansministrarna, LO-ekonomerna och arbetsmarknadspolitiken,” *Ekonomisk debatt och ekonomisk politik – National-ekonomiska Föreningen 100 år* (Stockholm: Norstedts, 1977). “Den nya arbetsmarknadspolitiken,” *Svensk sparbankstidskrift* 43 (1959): 221, emphasis added.

84. “Finansministrarna, LO-ekonomerna och arbetsmarknadspolitiken,” 246.

85. The conflict concerned what the LO economists regarded as the government’s excessive reliance on traditional and rather clumsy expansionary macroeconomic policies to counteract increases in unemployment, while expecting the unions to exercise voluntary restraint on wages – even with unemployment dipping below 1 percent. Predictably, as in 1948, 1951, and 1955, the result was an explosion of wages and prices triggered by wage drift. Firms systematically violated centrally negotiated wage increases. Paying more than unions had settled for was of course deeply embarrassing to them, so they who would then rush in with militant demands to reclaim leadership in representing workers’ interests. Rehn, “Finansministrarna, LO-ekonomerna och arbetsmarknadspolitiken,” 234–37.

86. SAF objected, for example, to eliminating AMS’s role in procuring nannies (*hemvårdarinnor*) for families with two working parents. “It is of greatest importance,” SAF wrote, “that the potential manpower reserve consisting of non-gainfully employed women, is supplied to production.” Ytrande, 8 Feb. 1951 [SAF

1950s did the party leadership come around; as with the previous reforms discussed, union and employer and union views seemed to converge earlier than union and party views. A labor movement consensus did not overwhelm capitalist opposition.

It is thus necessary to reexamine Esping-Andersen’s view that ALMP “was only possible due to the extraordinary labor market powers of the union movement.”⁸⁷ That view is difficult to square with the fact that ALMP was, by far, SAF’s favorite Social Democratic reform. Throughout the 1960s, SAF executive director Curt-Steffan Giesecke claimed that “There has long been a high degree of unity regarding labor market policy in our land.” The reason for agreement, he said, lay in the “great shortage of trained manpower.” Speaking on state-industry relations, he said, “few areas are more crucial for government efforts than this particular one.” In short, it was “extremely desirable from industry’s viewpoint” that more resources should flow into ALMP.⁸⁸

And flow they did, increasing to about 2 percent of GNP and 6 percent of total government budgets in the 1970s. Active supply-side programs like retraining and relocation grew the most rapidly, reaching nearly 40 percent of total spending by labor market authorities in 1982 from only a few percent before 1960.⁸⁹ It is no wonder, then, that the corporatist administration of the labor market department – by a labor market board consisting of three employer representatives sitting together with labor’s representatives – operated with so little friction from the 1960s into the 1980s. (The extensive public day care services of the 1960s onward, designed to bring women into the labor force, was also heartily endorsed by employers, who had begun calling for their expansion in the 1950s.⁹⁰)

In conclusion, the labor market program harmonized so well with employer objectives in solidaristic governance of labor markets that one SAF negotiator praised active labor market policy as “employers’ ally.” Another SAF official characterized bourgeois party attempts to discredit the Social Democrats’ labor market policy as “entirely against our interests.”⁹¹ This close alignment of capitalist and labor interests

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87. Esping-Andersen and Friedland, “Class Coalitions in the Making of West European Economies,” *Political Power and Social Theory* 3 (1982): 17, 19, 47.

88. Curt-Steffan Giesecke, *Stann-Anders och likheten: Inlägg i arbetsmarknadsfrågor* (Stockholm: Albert Bonnier, 1968), esp. 89–92; 100; 103.

89. Rudolf Meidner, “Limits of Active Labour Market Policy, especially with Respect to the Case of Sweden,” SAMF-Conference on “Public Policy to Combat Unemployment,” (Nürnberg, Germany, 20–21 June 1983), 3; Gösta Rehn, “Swedish Active Labor Market Policy: Retrospect and Prospect,” *Industrial Relations* 24 (1985): 73.

90. See Swenson, *Capitalists against Markets*, 306–7.

91. Lars Gunnar Albåge, “Arbetsmarknadspolitiken bör ses som arbetsgivarnas bundsförvant,” *Arbetsgivaren* 8 Mar. 1968, 5;

in Swedish welfare state developments of the 1940s and 1950s surely explodes all myths about how a shift in the “balance of class power” brought about the Swedish welfare state. It also, therefore, leads credibility to a cross-class alliance explanation of the American welfare state, to which we now return.

POWER OUTAGE OR INTEREST ALIGNMENT: CONTROVERSY OVER THE NEW DEAL

Explicitly challenging an earlier presentation of the cross-class alliance argument, Jacob Hacker and Paul Pierson continue in the tradition of institutionalist reasoning to deny the importance of capitalist interests in the New Deal. To recall: Hacker and Pierson maintain that business power in America, structurally enhanced by state-level domination of social policy making, was neutralized by the political consequences of the Great Depression. The shift of social politics to the federal level, because of huge Democratic Party electoral victories, delivered a severe blow to capitalist power and therefore gave reformers a window of opportunity to pass the Social Security Act.⁹²

Most emphatically, they insist, a “massive decline in business power,” not a change of interests, explains the development. In challenging the cross-class alliance argument, they also attempt to reexplain one of its important pieces of evidence: that the American business community, by and large, supported the Social Security Act shortly after its passage. According to Hacker and Pierson, the fact that businessmen actually came around to supporting the SSA had to do with consequences of the legislative design that were essentially nonregulatory in nature, dependent on subsequent corporate tax legislation, and, most importantly, *anticipated by neither reformers nor corporate America until after passage and implementation.*⁹³

The Hacker-Pierson version of the power blackout and reformist looting thesis merits attention in part because it suggests a tidy solution to the comparative-historical puzzle introduced at the beginning. They might argue that socialistically minded Swedes could not even pursue modest reform during the depression because of Sweden’s small size and international exposure. In other words, they were powerfully hemmed in by the punitive structural power of capital in international markets. Thus, they could do far less than the more moderate, business-financed New Dealers in a large country mostly sheltered from international competition.

So far, perhaps, so good. However, Sweden’s international exposure, certainly in the realm of trade,

only increased in the postwar period, and more rapidly than America’s, as its welfare state assumed its modern shape and proportions. Hacker and Pierson might counter, however, that trade is not the key issue; rather, it is capital mobility. Sweden, they could add, heavily controlled capital flows – as did many countries in the postwar Bretton Woods order – the better to pursue autonomous macroeconomic, investment steering (especially into housing), and welfare policies.⁹⁴ An exclusive focus on capital movement of this nature would, however, be misguided. For politicians, Swedish ones in particular, the movement of price-competitive traded goods is no doubt as immediate a punitive mechanism as capital flows, and maybe even more powerful. Hence, with competing comparative analyses focusing rather abstractly on the structural power of capital, we can only reach a stalemate at best.⁹⁵ We must turn, therefore, to components of the Hacker-Pierson argument dealing with temporal developments in the United States alone.

Strategic Talk and Real Interests

Hacker and Pierson try to clear the way for their argument about the shifting balance of power against capital with three important assertions. First, that the New Dealers could not have been sensitive to capitalist power and interests because almost all organizational, and therefore publically vocal manifestations of capitalist preferences were negative regarding the SSA, especially from multisectoral organizations such as the National Organization of Manufacturers and the U. S. Chamber of Commerce. Second, that those few prominent capitalists who expressed sympathy for reform did so only to be invited into deliberations about the legislation, and thus to be in a position to make it as benign as possible. Employers

94. Eric Helleiner, *States and the Reemergence of Global Finance: From Bretton Woods to the 1990s* (Ithaca, NY: Cornell University Press, 1994), 25–50; Lars Jonung, “Riksbankens politik 1945 – En krönika,” in *Från väntereglering till inflationsnorm – Det finansiella systemet och riksbankens politik 1945–1990*, ed. Lars Werin (Stockholm: SNS, 1993), 317–18, 329, 343–44, 361–64, and 370–71.

95. If we turn to capitalists’ “instrumental” power (exercised in electoral financing, lobbying, and opinion making) the puzzle remains: given that the Democratic Party depended heavily on capitalist funds, why would the New Dealers have so brazenly defied capital? A recent work by Mark Smith suggests a possible answer consistent with the power outage argument. The contributors may have invested campaign contributions mostly for particularistic benefits (subsidies, regulations, and tax breaks) that both parties trafficked in. Thus capitalist money for Democrats was for other things than correct social policy. Even had the New Dealers defied unified capital in the social policy realm, they could have continued delivering all manner of particularistic advantages. They could reform with impunity, yet the money would continue to flow. It should be clear by now, however, that it is wrong to starkly differentiate social welfare issues from particularistic ones. Social insurance reform was less a “unifying issue” (in Smith’s sense, uniting capitalists against reformers) than meets the eye. Mark Smith, *American Business and Political Power: Public Opinion, Elections, and Democracy* (Chicago: University of Chicago Press, 2000).

Magnus Jerneck, *SAFs Framtidssyn: Förutsägelse, målsättningar och dilemman* (Stockholm: SAF, 1986), 116.

92. Jacob S. Hacker and Paul Pierson, “Business Power and Social Policy: Employers and the Formation of the American Welfare State,” *Politics and Society* 30 (2002): 277–325.

93. *Ibid.*, 309.

were “driven by fear” – that is, of less attractive alternatives. Third, they argue that capitalists and their IRC experts brought into deliberations did not get their way on certain details of the legislation that occasioned controversy.⁹⁶

On the first point – regarding widespread capitalist opposition – Hacker and Pierson bring no new evidence to the debate that Theda Skocpol and her collaborators have not already offered. Nor do they present and confront the strong and detailed criticism that these old assertions about the unbroken wall of business opposition to the New Deal have already come under.⁹⁷ Of course, from the standpoint of the present argument, the actual distribution of manifest business preferences before legislation was passed is neither knowable nor entirely relevant. (Had there been absolutely no discernable interest-based support, though, that would be a problem.) Politicians took action in anticipation of broad support *after passage*, based on a sophisticated understanding of underlying interests, not a survey of current expressed preferences. As I will show, politicians had good reason to regard these public preferences, organizationally filtered and strategically uttered, with skepticism. The third point – the insiders’ failure to win on various details – can be ignored, regardless of its relative flaws or merits, because it constitutes a critique of a crude instrumentalist argument (direct and total behind-the-scenes control), not the one advanced here.

The most interesting and important of these three arguments is the second one. Hacker and Pierson forcefully argue that individual capitalists who spoke in favor of reform were strategically exaggerating their support for government action and, therefore, hiding their real preferences for exclusively private, voluntary action. Capitalists did so in the hopes that they would then be in a better position to weaken the legislation.

Confidence in this claim can be rather easily shaken. Threats of legislation were not on the horizon in 1927, when a Pennsylvania state commission found 38 industrialists “in favor of compulsory old age insurance,” even though, not surprisingly, they differed on how to construct it. As mentioned earlier, the New York Building Congress started calling for compulsory pensions in 1930.⁹⁸ Gerard Swope published his plan in 1931, which would have empowered sector-

specific trade associations of interstate businesses to turn to the federal government to extend enforcement of their own (better) standards on nonmembers if they were unable to do so on their own, well in advance of massive Democratic victories and serious legislative threats. In fact, he wrote it while Herbert Hoover was still president.

In 1932, with no legislation looming, Henry Harriman, president of the U.S. Chamber of Commerce, said that, if businesses were not able to control themselves, compulsion might be necessary to regulate competition. In that spirit, he wrote, “we must place upon business the responsibility for setting up reserves to tide over periods of unemployment and to assure men against economic want and suffering because of sickness, accident, or old age.” By “accident,” Harriman was referring to long-term disability, and there was no legislative activity brewing on that.⁹⁹ In 1933, still before any kind of radical legislation was a threat, Rockefeller’s attorney and close advisor (and FDR friend), submitted his glowing report, discussed earlier, to a presumably appreciative John D. Rockefeller, Jr., on IRC activities promoting and administering social insurance reforms.

With their emphasis on strategic talk, Hacker and Pierson claim to have improved the interpretation of evidence by taking into account the role of “anticipated reactions” in the power politics of social policy. Supposedly, corporate progressives like Swope anticipated a worse outcome from speaking the truth than wriggling like chameleons into policy making circles. Their only direct evidence for this, a “smoking gun” as it were, is a speculative statement by Robert Lund, Chairman of NAM, speaking on unemployment insurance. Lund, claiming to speak for other businessmen in FDR’s mostly progressive Business Advisory Council, chided them for signaling interest to FDR, although they did not, in fact, “believe in” unemployment insurance.¹⁰⁰

Lund’s protestations must, however, be taken with a large grain of salt. His recent takeover of the NAM leadership was paid for with contributions from people like the iron-fisted Tom Girdler of Republic Steel, responsible for Chicago’s “Memorial Day Massacre” of picketing and picnicking workers two years later.

99. Gerard Swope, *The Swope Plan: Details, Criticisms, Analysis* (New York: The Business Bourse, 1931), 25–27; Henry I. Harriman, “The Stabilization of Business and Employment,” *American Economic Review* 22 (1932), 63–74. Robert Himmelberg speculates, like Hacker and Pierson, that Swope and Harriman were strategically trying to preempt legislative action “that Congress might begin to move toward,” but also trying to sweeten the cartelist “planned production” pill (see discussion of the NRA below). He ignores, inappropriately, Swope’s explicit reasoning, which was entirely in line with, not extraneous to the cartel project. Of course, all three reasons, being noncontradictory, could be correct. Robert F. Himmelberg, *The Origins of the National Recovery Administration: Business, Government, and the Trade Association Issue, 1921–1933* (New York: Fordham University Press, 1993), 135.

100. Hacker and Pierson, “Business Power and Social Policy,” 300–301.

96. Hacker and Pierson, “Business Power and Social Policy,” 308.

97. That criticism needs no repetition here. See Domhoff, *The Power Elite and the State: How Policy is Made in America* (New York: Aldine de Gruyter, 1990), 54–57; Domhoff, *State Autonomy or Class Dominance: Case Studies of Policy Making in America* (New York: Aldine de Gruyter, 1996), 161–63; Swenson, “Arranged Alliance: Business Interests in the New Deal,” *Politics and Society* 25 (1997): 88–90; Swenson, *Capitalists against Markets*, 223–26.

98. P. Tecumseh Sherman, “Old Age Pensions and Compulsory Old Age Insurance of Wage Workers,” in Charles L. Edgar, William R. Willcox, and P. Tecumseh Sherman, *Old Age Pensions Conference* (New York: National Civic Federation, 1927), 7.

How candid and nonstrategic, we might ask, were other capitalists in giving their opinions to the leader of a radicalized organization like the NAM (whose members were actually only a small share of American manufacturers), that might give them, as corporate progressive Edward Filene put it, a “reputation for radicalism that hampers them for further influence in business circles”?¹⁰¹

Reasons for reticence and strategic disinformation between capitalists probably varied quite widely. Many would have feared what Filene learned first-hand, that the openly liberal businessman risks a lonely life and “brings down upon his head the criticism of important groups of his fellow business men.” Hard-line circles spoke of Swope, for one, as a “dangerous man for industry” for his political activity and declaring the NAM unnecessary. His wife, “a former pal of Jane Adams [*sic*] of the Hull House, is active with him in their parlor pink activities,” one top East Coast union buster complained.¹⁰² Not many businessmen relished standing up against such criticism as Swope and Filene did.

Compare Lund’s perceptions with those of J. Douglas Brown, justifiably respected in corporate circles as one of the country’s most sophisticated experts on company benefits. In a letter to Edwin Witte, Brown recounted that, during the February 1935 annual conference of the American Management Association, he had a chance to present the old age insurance plan as currently formulated “to a large number of industrial relations executives.” Their reaction, he said, was “very favorable.”¹⁰³ Whether there was strategic disinformation going on here must be doubted, be it between the executives and Brown, or Brown and Witte. Clearly, the executives were not angling to be invited into the deliberative process in order to make bad legislation less noxious. For reasons connected to the controversial Clark amendment to the SSA (see below), their favorable reaction was based on well-informed self-interest – informed, that is, by Brown.

Attention to strategic political talk in power analysis is all for the better. But Hacker and Pierson’s application of the insight is one-sided and, therefore, imputes great clarity and certainty where none exists. Not willing to be deceived by businessmen taking progressive stands, Hacker and Pierson are willing, on the other hand, to take at face value all outspoken op-

position from others. In doing so they neglect to explore the distinct possibility, posited by Sanford Jacoby, who argues that capitalists in the National Industrial Conference Board, for example, were pursuing a “calculated strategy” in exaggerating their opposition to the SSA, not their support. Jacoby argues they wanted to punish FDR for other things.¹⁰⁴

Because Hacker and Pierson neglect to apply strategic analysis to anyone but corporate liberals, they implicitly and unwittingly endorse the equivalency premise, which states that the welfare state threatens capitalists’ interests. Thus, if capitalists express support, we must investigate strategic motives, not direct interests; when they oppose it, we can comfortably take them at their word. Along with historical and comparative evidence against the premise, there is also an a priori reason, in fact, to think that exaggeration of opposition in some cases might have been the better strategy. In other words, all businessmen, even those who looked rather favorably upon legislation, would have been best to express opposition to make the New Dealers extra cautious in crafting it. (This would apply especially for businessmen who had no time or desire to be brought into the deliberative and legislative crafting process – that is, the organizational leaders cited by Skocpol, and now Hacker and Pierson, as sincere opponents.) It would be a perfectly rational strategem in any bargaining situation where moving in the direction of the other party is a favored outcome – whose plausibility the interest analysis confirms – but only up to and not beyond a certain point.

If there is any uncertainty about how far beyond that point the deciding party would go if real preferences were revealed, then vocal opposition might be rational. This would certainly be the case when the deciding party is moderate and shares very similar preferences with their putative opponents but also must listen to more radical constituents and advisors. The offering of feigned opposition can give moderates a welcome scapegoat and pretext for moderation.

Scholarly power analysis should, therefore, skeptically dissect strategic utterances of all sides from many angles. It should, by the same token, attribute to the real practitioners of power analysis – politicians, that is – the same and probably superior ability to interpret strategic talk. Evidence suggests that the New Dealers, in fact, perceived pervasive division, uncertainty, and even mutual fear among businessmen and their organizations, moved and dominated as they were by ideologies and ideologues. In the case of unemployment insurance, as prominent social insurance reformer Isaac Rubinow put it, “Individual employers are found to be much more ready to ex-

101. U.S. Senate, Committee on Education and Labor, *Violations of Free Speech and Rights of Labor: Labor Policies of Employers’ Associations, Part III* (Washington, DC: Government Printing Office, 1939), 211–12. Filene is quoted in David C.D. Jacobs, *Business Lobbies and the Power Structure in America* (Westport, CT: Quorum, 1999), 81–92.

102. U.S. Senate, Committee on Education and Labor, *Violations of Free Speech and Rights of Labor: Labor Policies of Employers’ Associations, Part I*, 50–51.

103. J. Douglas Brown to Edwin E. Witte, 13 Feb. 1935. J. Douglas Brown Papers, Seeley G. Mudd Manuscript Library, Princeton University.

104. Sanford Jacoby, “Employers and the Welfare State: The Role of Marion B. Folsom,” *Journal of American History* 80 (1993), 544. See also Domhoff, *The Power Elite and the State*, 56.

press their acceptance of [unemployment insurance] proposals in private.” When asked for open endorsements, however, “They prefer ‘to have their name kept out of this’.”¹⁰⁵

FDR thought, for good reason, that major American business organizations such as the U.S. Chamber of Commerce *misrepresented* business interests in opposing the SSA. He shared this belief with “Brains Truster” Raymond Moley, a good friend of big business and the man who coined the term “New Deal.” Moley argued that businessmen were as susceptible to demagoguery as anyone else. Kodak’s CES advisor Marion Folsom viewed the NAM, also a strong opponent of the SSA, as an organization with low quality leadership and inept staff.¹⁰⁶ Not surprisingly, then, Witte brought in higher quality experts from elsewhere in the business world – the Rockefeller-financed IRC, in particular – who had already proved their progressive worth in Wisconsin.

Domhoff brings to light suggestive evidence that Rockefeller himself would have been hesitant to attach his controversial name to New Deal legislation, preferring to delegate influence to other people, and thus avoid besmirching the enterprise in the eyes of reformers on the left. In a 1930 letter to Rockefeller, his son declared it would be “fatal” to have J. Douglas Brown, later a key CES advisor, known as a “Rockefeller man.” Brown’s Princeton salary was being paid directly by Rockefeller; therefore John D. Rockefeller III thought the family’s endowment to the university’s Industrial Relations Section should be increased so that the salary come out of university funds.¹⁰⁷ Here again, we should impute strategic talk, in the form of strategic silence, but for different reasons than Hacker and Pierson suppose.

In conclusion, while Hacker and Pierson only examine capitalists’ strategic behavior, and only one-sidedly, they neglect to analyze the strategic thinking of political reformers. In particular, they neglect to consider politicians’ strategic anticipation of capitalists’ reactions in the future, based on their knowledge from the past about business interests and behavior before and after reforms, including possibly, strategic exaggeration of opposition. Strategic behavior also

included personnel choices. Roosevelt and Frances Perkins chose many Wisconsinites to work for the CES – the same ones, for example, who had calculated that their state’s unemployment insurance plan, according to Nelson’s meticulous study, would “win the approval of the progressive employers.” Initially they failed to generate open approval, but in the end, the Wisconsin employers became enthusiastic promoters.¹⁰⁸ Witte, in turn, the “cautious reformer” from Wisconsin, brought in exceptionally qualified experts closely tied to leading segmentalists: IRC’s Bryce Stewart, for unemployment insurance; IRC’s Murray Latimer; “Rockefeller man” Brown from Princeton; and not least AT&T actuary Otto Richter, for OAI. Skimmed from the top of the barrel, these were wise choices from a strategic standpoint.¹⁰⁹

Anticipated Support after Passage

As alluded to above, there is good evidence from earlier reform episodes that politicians became familiar with a pattern of initial business opposition and later support after passage. Hacker and Pierson do not acknowledge and challenge this evidence for a thorough treatment of the strategic interaction issue.¹¹⁰ They do, of course, take note of major capitalists’ support for OAI after passage, which reformers, the current argument suggests, anticipated for regulatory reasons. According to their substitute explanation, employers only gradually discovered large advantages over time in “integrating” their company retirement plans with the compulsory system. What integration meant is that many firms with voluntary plans would eliminate or reduce their current payments for blue-collar workers. Why it proved desirable is no mystery, as indicated earlier: it saved them money, some of which, if they wanted, could be put into improving benefits for white-collar and supervisory employees. However, Hacker and Pierson claim, it is “doubtful” that these advantages were as “confidently foreseen” by the New Dealers as the cross-class alliance argument indicates.¹¹¹

Hacker and Pierson find evidence for their doubt in a book written by Edwin Witte the year after the

105. I.M. Rubinow, “The Movement Toward Unemployment Insurance in Ohio,” *Social Service Review* 7 (1933): 213. When Roosevelt optimistically invited William P. Wrigley of Chicago, who had installed a company unemployment insurance plan, on the advisory committee, the response was a curt and off-putting letter from his secretary. We do not know why, but nevertheless, Wrigley contributed to the Democratic party in 1936. Witte, *Development of the Social Security Act*, 50; Overacker, “Campaign Funds,” 473–98; Berkowitz and McQuaid, *Creating the Welfare State*, 118; Nelson, *Unemployment Insurance*, 63.

106. “Chamber Distorts Voice of Business,” *New York Times*, 4 May 1935; Raymond Moley, “Misrepresenting American Business,” *Today*, 11 May 1935, 12–13; Folsom, “Millions of Workers Still Lack Adequate Benefits,” in *Business and Social Progress: Views of Two Generations of Executives*, ed. Clarence C. Walton (New York: Praeger, 1970), 99.

107. Domhoff, *State Autonomy or Class Dominance*, 131–32.

108. See for example H. W. Story, “The Wisconsin Unemployment Reserves and Compensation System,” in *Pooled Versus Reserve funds for Unemployment Compensation* (New York: American Management Association, 1935), 10–13. Story was vice president for Allis-Chalmers, a major Wisconsin manufacturer. See also Daniel Nelson, *Unemployment Insurance: The American Experience 1915–1935* (Madison: University of Wisconsin Press, 1969), 120, 124, 128.

109. Hacker and Pierson diminish the importance of Domhoff’s revealing research on the IRC, relied on here, by mistakenly calling his claims “conspiratorial.” Unfortunately, they pay no attention to the strategic element in the personnel choices that no one else but Domhoff has so excellently illuminated. Hacker and Pierson, “Business Power and Social Policy,” 307–8.

110. See Swenson, *Capitalists against Markets*, 195–201.

111. Hacker and Pierson, “Business Power and Social Policy,” 312.

SSA's passage. Witte wrote that the CES paid "relatively little attention" to existing company pension plans in fashioning OAI. The implication they find here is that the administration was strategically indifferent. They neglect to mention, however, what Witte wrote next, in virtually the same breath. *Relatively* little effort was spent because J. Douglas Brown and Murray Latimer took the trouble involved to talk to "some of the men in charge of personnel relations in several large companies." In the process, the two experts confirmed that the employers "would not object" to the plan as currently conceived, even if it did not include "special provisions for employers with existing industrial pension plans."¹¹²

Recall Brown's letter to Witte, mentioned earlier, which hardly documents strategic indifference. First Brown found among a "large number" of executives at the February 1935 American Management Association conference a "very favorable attitude" to the OAI plan. This is not surprising, considering that it was going to cost them 33 to 100 percent less than a private plan for the same benefits to their employees – mostly because the benefits for their many workers about to retire ("unearned annuities") would far exceed what employers could afford in a private system. Brown also talked with "a number of key men" about letting companies maintain their own plans in order to skip paying social security taxes. What he discovered was that they "understood entirely the fact that contracting out is of decidedly doubtful advantage to their companies." One of the companies was AT&T, whose actuary, Richter, Witte chose to assist Brown and Latimer in the CES.¹¹³

No doubt Brown's and Richter's findings had been included in a February 1 "memorandum to clients" of the IRC, which stated that "the combined cost to companies of the revised company plan and the national plan would presumably be less than the cost of their present plans."¹¹⁴ In early August 1935, shortly before Congress passed the Social Security Act, Brown talked to "scores" of executives from large corporations and found "never even a wishful thought" for an amendment to the SSA to allow contracting out.¹¹⁵ If, as Witte wrote in 1936, members of the OAI staff "always made light of possible opposition" from companies with their own plans, it was not out of strategic carelessness or ideologically motivated in-

difference. It was based on excellently informed concern for employer interests.¹¹⁶

This brings us to the Clark opt-out amendment, whose inclusion in the social security bill held it up in Congress but finally disappeared at FDR's insistence – and possibly (Brown wondered) because corporate executives helped break the logjam.¹¹⁷ It was easily sent into permanent oblivion the following year when reintroduced. Pressure for the amendment, Brown and the IRC people knew, came mostly from a major broker in the insurance industry who doggedly mobilized support mostly from relatively small companies they sold group policies to.¹¹⁸ (Although a few large segmentalists supported the amendment, most large employers, most of whom had some kind of plan, were "self-insured.") Apparently, after numerous executives from bigger companies figured out the economic disadvantages of opting out, a well-informed observer noted, "I doubt if any campaign for a major amendment to a law ever collapsed as swiftly as that for the Clark amendment."¹¹⁹

Even Kodak's Folsom, whose initial advocacy of the Clark Amendment had only been "lukewarm" (as he put it later), came around quickly to the view that it was worse than unnecessary, it would also be *a regulatory mistake*. As he explained in a 1936 issue of the *Harvard Business Review*, in practice, only companies with a young workforce would have found the Clark exemption advantageous. Many of these would be new entrants or existing nonsegmentalist competitors. Their "selection against the Federal plan" would make it more expensive for large segmentalists with low turnover, and therefore with older unproductive workers now ready to retire, to fund the system adequately. Social Security taxes would then have to be higher. In other words, it would give back the regulatory advantage over competitors that the segmentalists had just gained. Thus, Folsom, one of the country's leading corporate progressives, opposed giving other capitalists a free market choice.¹²⁰ He

116. Witte, *Development of the Social Security Act*, 157.

117. In a letter to Latimer, Brown asks him how he broke the jam, and "did the attitude of the large corporations affect the decision[?]" (Brown to Latimer, 12 Aug. 1935).

118. Brown to Witte, 13 Feb. 1935. Within days after passage the IRC informed its segmentalist clients that "the long debate on this matter was due mainly to a misunderstanding of the issues on the part of some members of Congress and by a few industrial companies, as well as to the pressure from lobbying." Industrial Relations Counselors, "Memorandum to Clients," No. 14, Aug. 16, 1935 (document generously supplied by G. William Domhoff).

119. "Discussion by C. Arthur Kulp [of Rainard Robbins, "The Effect of Social Security Legislation on Private Pension Plans]" *Journal of the American Association of University Teachers of Insurance* 5 (1938): 56.

120. Folsom, "Company Annuity Plans and the Federal Old Age Benefit Plan," *Harvard Business Review* 14 (1936): 420. On "lukewarm," see Folsom quote in Robbins, *Preliminary Report*, 1936 (document generously supplied by G. William Domhoff from Rockefeller Archive Center). The adverse selection problem was already known, before passage of the SSA, by IRC/CES expert Latimer from the IRC. This may help explain Folsom's earlier

112. *Ibid.*; Witte, *Development of the Social Security Act*, 157.

113. The other companies included U.S. Steel, Socony-Vacuum, Du Pont, U.S. Rubber, Union Carbide, Western Electric, and "a number of others." Brown to Witte, 13 Feb. 1935 and 23 Feb. 1935. J. Douglas Brown Papers, Mudd Library, Princeton University. See also Domhoff, *State Autonomy or Class Dominance?*, esp. 167–69, for evidence of big employers' views on the Clark option.

114. Industrial Relations Counselors, Inc., "Company Pension Plans and the Economic Security Bill," 1 Feb. 1935 (document generously provided to author by G. William Domhoff).

115. J. Douglas Brown to Murray Latimer, 12 Aug. 1935. Murray Latimer Collection, George Washington University Library, Washington D.C.

was a capitalist against markets and for compulsory social insurance.

In conclusion, we have documentary proof that the CES knew of the overall benefits of OAI for big employers as early as February 1935, just after the administration bill had been submitted to Congress, and six months before SSA passage. We can not yet be sure if the facts were known during the drafting process between September 1934 and January 1935. Nothing suggests that they could not have been, for the CES experts, including Latimer, Brown, and Richter, had the facts they needed at their fingertips. More important, they also had a strong motive to see what the fallout would be for the kinds of employers that had paid them in the careers that got them where they were. We know they did go to great trouble to assemble the facts for external enlightenment once opponents shoved the Clark amendment in the way before passage and, then, made it clear that they would reintroduce it the following year. Then it became necessary to clarify for big corporate employers that the amendment was against their interests. That was the IRC's job, which it completed in August, at the time of passage, in a report showing that for, major employers, "the dollar for dollar benefits of the federal system cannot be matched by any private carrier."¹²¹

It is fascinating, but not surprising, that *less than three days after President Roosevelt signed the SSA*, the IRC announced to clients that it was "now engaged in the formulation of several types of private plans which will supplement the pension benefits provided under the federal scheme and more adequately cover employees in the higher salary brackets."¹²² The IRC, with its administration insiders on government salary, clearly had a head start on competing consultants in showing companies how they should restructure their finances. Companies like Kodak could now cut back on their private expenditures for blue-collar workers, top off benefits for the higher-paid, and break even. The more competitively threatened International Harvester would know it could now more cheaply retire its workers while its competitors without previous plans would be hit with entirely new tax costs.

lukewarmness. Murray Latimer, "Memorandum on Proposed Amendments Permitting Employers with Private Pension Plans to Contract out of the Government System," unpublished CES study, 1935 (www.ssa.gov/history/reports/ces/ces2latimer.1.html). See also economist Paul Douglas's view that "the competitive advantage of young employees would enable such a firm to undersell competitors with older employees, and thus force the elimination of older employees or their employment only on the condition that they join the federal plan." Rainard Robbins, *Preliminary Report*, 24.

121. J. Douglas Brown, "The Basic Philosophy of the Federal Old-Age Security Program," in *Practical Aspects of Unemployment Insurance and Old-Age Security* (New York: American Management Association, 1935), 41.

122. Industrial Relations Counselors, "Memorandum to Clients."

This is exactly the kind of "integration" that Hacker and Pierson portray as, at best, only a dimly perceived possibility until well after the SSA's passage.¹²³ In fact, key people in the Roosevelt administration paid a great deal of attention to the issue because they were fully knowledgeable and confident of its enormous economic significance for politically important employers. They were not acting as if they had *carte blanche* for radical reform because capitalists had suffered a massive loss of power. Instead they were acting as if they had very good reason for optimism about a supportive cross-class alliance after passage.

Institutional Determination of Interests

Another intriguing part of the Hacker-Pierson argument concerns the institutionally conditioned power shift associated with the Depression, and it deserves extended discussion. True, policy making did shift to the federal level, and this had enormous consequences. Hacker and Pierson believe so because capital mobility could no longer check majoritarian reformist pressures as it had once done at the state level. Unfortunately for Hacker and Pierson, their implicit *ceteris paribus* does not hold. For *capitalists' interests were different at the federal than state level*. Furthermore, *their interests in federal-level regulation were heightened by the Depression*. Hacker and Pierson do not examine these possibilities, despite the broad consensus among historical institutionalists that interests, not just power, are conditioned by institutions.

Before the Depression, as Hacker and Pierson point out, capitalists stood to lose from state-level regulations and taxation that might give out-of-state competitors an advantage. (In the case of the country's first important social insurance reforms, workmen's compensation, there was actually support for state legislation, but supporters thought it would bring savings and therefore competitive advantage, not extra costs.) However at the federal level, the story is profoundly different. Although there is plenty of dispute on the details, all important scholars of business in American politics find bustling business activity in the design of pre-1930s *federal* regulation. Often business interests sought national regulation of other

123. "Dimly" because at one point, Hacker and Pierson admit that the regulatory/cost-shifting effects of OAI were "partly anticipated." Unfortunately, they do not indicate what exactly was known, and how *partly*, in order to explain why the foreknowledge does not partly weaken their argument. They also explain business support for OAI arising because of later tax incentives for voluntary plans. For criticism of the anticipated cross-class alliance argument this is irrelevant; if anything it confirms the importance of cross-class alliances in American social policy. As the logic of negotiated segmentalism or "unionized welfare capitalism" would predict, employers and organized labor have both benefitted from and defended tax expenditures on employment-based private welfare. To put it another way, the advantages of the tax breaks would have been wholly, not partly anticipated when introduced. Cross-class alliance making was an ongoing process. Hacker and Pierson, "Business Power," 310–11.

sectors, as shippers, merchants, farmers, and other businessmen did for railroads. The movement, backed also by some railroads, culminated in the Hepburn Act of 1906, which strengthened the Interstate Commerce Commission's power to control railroad shipping rates. At times, the leadership of business organizations did not always accurately and unambiguously reflect membership opinion – a phenomenon that, we have seen, shows up again during the 1930s. For example, a survey of the NAM membership revealed that a majority rejected the NAM leadership's position, and supported strengthening the ICC. Broad-based business support within the NAM, even including some in the food industry unhappy with state level legislation, also overruled the association's leadership on the question of food and drug legislation. The NAM's Pure Food Committee, siding with the majority against the leadership, claimed a large share of credit for the 1906 food and drug legislation.¹²⁴

As railroad and food regulation indicates, capitalist interest in federal regulation extended even to the matter of controlling one's own sector, not just other sectors. Historian Robert Himmelberg shows that the decade of the 1920s witnessed a long tug-of-war between the sectoral trade association movement seeking exemption or revision of antitrust laws and opponents such as Herbert Hoover. As commerce secretary and president, Hoover strongly favored industry self-regulation to uplift standards, promote efficiency and innovation, and stabilize competition, but consistently rejected large numbers of national trade groups' argument that administrative or legislative relaxation of the Sherman Anti-Trust Act was needed to make self-regulation effective. But even Hoover agreed on occasion with businessmen about the need for some compulsory national-level regulation, especially in such hypercompetitive and struggling resource industries as bituminous coal and oil, where cut-throat competition and therefore chiseling on prices and wages was rampant. He even favored negotiated cartelism, and therefore a strong national labor union, as an institutional mechanism for regulating bruising competition in coal mining.¹²⁵

By catapulting regulatory issues from the state to federal level, the Depression focused unprecedented levels of business attention on their regulatory desires. It also intensified those desires. According to Ellis Hawley's authoritative account, the idea of self-government of industry "moved rapidly to the fore" as the economy crashed. Thus "businessmen

turned increasingly to the idea of government-supported cartels . . . [and] production quotas, price agreements, entry controls, and cost-accounting formulas." Businessmen believed, Hawley writes, that these would facilitate calculations of the "right price" whose federal imposition "would wholly and permanently eliminate unfair price cutting" and "promote an unequalled degree of stability in all phases of industrial and economic affairs."¹²⁶ According to Robert Himmelberg's equally important account,

this business crusade, or movement, began as World War I ended and extended through the [1920s], grew in intensity during the early Depression years of the Hoover presidency, and triumphed in 1933 by persuading the nation, and the new administration of Franklin Roosevelt, that a cartelized economy offered a way out of the Depression.¹²⁷

At the outset, passage of the National Industrial Recovery Act in 1933 handed over to capitalists an almost unhampered right to devise codes of fair competition, impose price floors, and restrict production. Thus the National Recovery Administration (NRA) proceeded more or less exactly as the trade association movement wanted. Businessmen and their association lawyers were heavily engaged in the drafting of the legislation and then served as "code authorities" (especially industry-level deputy administrators of the NRA). The NAM's model code fairly "bristled with provisions for controlling prices and output," as Hawley puts it, and a number of trade association spokesmen "made it plain that they hoped to imitate the practices of European cartels." Business support for the NRA start to wane somewhat only after farmers, consumers, labor groups, Senators (especially progressive Republicans Borah and Nye), and a variety of government agencies, including the FTC, the Department of Agriculture, and the PWA, began to countermobilize and force the NIRA to override business input.¹²⁸

So business interest in regulation at the federal level was an enduring and now, in the Depression, intensifying phenomenon. In 1919, both the NAM and the U.S. Chamber of Commerce had called for revision of antitrust policy to allow collective self-regulation through trade associations. Throughout the 1920s, the business press railed against the destructive forces of competition – but only the "excessive" portion of it, of course; at the beginning of the Depression, large numbers of businessmen trooped to Washington to support regulation. While the NIRA

124. Robert H. Wiebe, *Businessmen and Reform: A Study of the Progressive Movement* (Cambridge, MA: Harvard University Press, 1962), 48–50; 55–56; Morton Keller, *Regulating a New Economy: Public Policy and Economic Change in America 1900–1933* (Cambridge, MA: Harvard University Press, 1990), 46–48.

125. Robert F. Himmelberg, *The Origins of the National Recovery Administration: Business, Government, and the Trade Association Issue, 1921–1933* (New York: Fordham University Press, 1993).

126. Ellis W. Hawley, *The New Deal and the Problem of Monopoly: A Study in Economic Ambivalence* (New York: Fordham University Press, 1995), 39–40.

127. Himmelberg, *Origins of the National Recovery Administration*, xiii.

128. Hawley, *The New Deal and the Problem of Monopoly*, 27 (quote), 57–62, 67–68, 79–82, 89–90, 93–95, 101–1, 108–9, 120–21, 124; Himmelberg, *Origins of the National Recovery Administration*, ix, xv, 3, 48–49.

was in force, business cries of indignation ultimately blocked executive efforts to scotch the widespread use of open-pricing arrangements in industry codes, a technique that proved highly effective in fixing prices. When NIRA extension looked in doubt in May 1935, 1,500 businessmen rallied in Washington for its continuation. After the Supreme Court sent NRA bureaucrats packing, “there was still considerable support for publicly sanctioned cartelization,” according to Hawley.¹²⁹

Thus in passing OAI, as the NIRA indicates, the New Dealers, acting at the federal level, were responding to intensified national regulatory interests, not a new balance of power against capital. They were also acting out of optimism that a *cross-class alliance of interests* would make the legislation politically robust. The same optimism had animated Robert Wagner, who piloted the NIRA through Congress, and persuaded a reluctant Franklin Roosevelt to give the thing a try. Labor did not support the NIRA only for its paragraph 7(a), which affirmed workers’ right to organize. As Hawley notes, prominent labor leaders John L. Lewis and Sidney Hillman thought it illogical to expect “a chaotic and overly competitive industry, one that was almost chronically depressed, to pay decent wages.” American Federation of Labor Vice President Matthew Woll favored antitrust revision as a way to guarantee higher standards for workers, and arranged for AFL periodicals to spread the idea.

A cross-class alignment of interests is also evident in the fact that the National Civic Federation “brought leaders in both business and labor together and to agree upon some program of constructive legislation which will help to ameliorate the conditions that are bound to follow through enforcement of the Anti-Trust laws.” Speaking here was NCF antitrust committee member Wheeler P. Bloodgood, an influential corporate and trade association attorney. Even NAM general counsel James Emery touted cross-class interests in relaxing anticartel enforcement, in efforts to get passage of something similar to the NRA, saying that the “inability to make cooperative agreements with respect to hours of production” had resulted in “cutthroat competition, under-payment of wages, and demoralization of industry.” We therefore do not have to doubt the truth, though perhaps the compassion, in NAM president Robert Lund’s statement that industrial codes would offer “better protection of labor.” When the U.S. Chamber of Commerce trumpeted the NIRA as a “magna charta of industry and labor,” it was probably as much for shared regulatory motives as for the compromise inclusion of 7(a).¹³⁰

But the NRA was a train wreck from the standpoint

129. Hawley, *The New Deal and the Problem of Monopoly*, 42–43, 101, 126, 143.

130. Material in this and the preceding paragraph is from Hawley, *The New Deal and the Problem of Monopoly*, 26–28; Himmelberg, *Origins of the National Recovery Administration*, 81–83, 90–93, 111–14, 187, 202.

of economic policy and politics. (Lack of state or administrative capacity, identified by Skocpol and Finegold, was not the problem.¹³¹) In economic terms, it accomplished about what many economists expected with the formation of cartels: monopoly price increases, output restriction, and downward, not upward pressure on employment. The backlash of diverse forces, responding to both macro and microeconomic consequences, working through public opinion, Congress, interadministrative conflict within the NRA and between it and other agencies, and finally, the Supreme Court, brought it to an early end. Efforts to fix it in response to these raging pluralistic forces only made things worse by imposing “policy deadlock,” to quote Hawley, and deflating the business community’s initial enthusiasm. They weakened the NRA’s ability to enforce codes, which antagonized firms that were actually obeying them. They weakened the cartel-like performance of the codes, thus disappointing many initial business supporters. They lent growing political legitimacy to losers and therefore opponents in the business world who paid the monopoly rents instead of capturing them.¹³²

Finally, the gathering anti-NRA backlash forced the Roosevelt administration to assert more bureaucratic authority over and through code authorities, where businessmen and their lawyers initially had free reign. The wresting away of the NRA apparatus from businessmen meant a looming, potentially uncontrollable attack on capital’s carefully protected entrepreneurial sovereignty. This growing threat, of course, helped erode capitalist support for the NRA across the board. Ultimately, many of the politically important firms that stood to gain the most, often very large segmentalists that were part of the initial coalition for the NRA, began to suffer profound doubts. It had been those same doubts that made even Gerard Swope hesitate to support anything but arms-length government control over sectoral self-governance. Even big oil firms, some of the most vocal enthusiasts, began to lose interest, having discovered that evolving state-level regulation, coordinated across the small number of oil states, was proving perfectly adequate without the risks of bureaucratic intervention brought on by political and economic factors irrelevant to oil.¹³³

131. It neither weakened the political will to install the NRA; nor can it tidily sum up except in a tautological way what happened afterward. For the “state capacity” argument see Theda Skocpol and Kenneth Finegold, “State Capacity and Economic Intervention in the Early New Deal,” *Political Science Quarterly* 97 (1982): 255–78. For critiques, see Donald Brand, *Corporatism and the Rule of Law: A Study of the National Recovery Administration* (Ithaca, NY: Cornell University Press, 1988), 311, and Domhoff, *State Autonomy or Class Dominance?*, 56–72, 101–16.

132. Hawley, *The New Deal and the Problem of Monopoly*, 69–70, 79–80, 93, 115, 118, 122.

133. See especially Brand, *Corporatism and the Rule of Law*, 175–206; and Bernard Bellush, *The Failure of the NRA* (New York: Norton, 1975), 55–84.

By comparison, the SSA was far superior politically and economically to the NRA, even as it performed a similar regulatory function – hence its longevity. By using taxation instead of bureaucratic rule making for regulation, the SSA minimized threats to managerial and entrepreneurial sovereignty. (The remaining threat – fiscal indiscipline and rising taxes – was real, but less dangerous.) In the distributional and regulatory realm there was room for a robust cross-class alliance; across the control battlefield is where capital drew the line. Anxiety about capitalist prerogatives made otherwise NRA-friendly businessmen reluctant to resuscitate anything like the NRA after the Supreme Court put it out of everyone’s misery; it did not mean they abandoned hope for national-level regulation.¹³⁴

In sum, enforcing uniform social insurance costs across the board would, as people like Swope, Harri- man and many others acknowledged, including FDR advisor and NRA enthusiast Adolf Berle, had an anticipated effect similar to other regulatory controls. All three had contemplated including social insurance provisions in their early thinking about cartel legislation. But it would not come with the same political disadvantages. It would not arouse consumer, agrarian, and other counterconstituencies to the same extent, if at all. It would not stir up the same internecine conflict within the business community and across code authorities that tormented the NRA.

Arms-length, indirect regulation through social insurance was also superior *economically* as well as politically. As Wagner recognized, it would not eliminate competition, only displace it from the chiseling of wages and sweating of workers onto a search for innovative efficiencies in the use of well-treated labor.¹³⁵ At the federal level, absent strong international competition, American capitalists stood to gain from domestic regulation in a way that could not have been guaranteed by erratic and uneven action from state legislatures and governors. The New Dealers were acutely aware of a change in capitalist interests associated with changing macroeconomic conditions and were able to take advantage of a shift in the institutional locus of decision making to the federal level. They understood enough from both past experience and present business ambivalence to take vocal opposition from business organizations with a large grain of salt. They expected capitalist support after the fact. That they acted in anticipation of capitalist interest in regulation constitutes evidence of capitalist power, not weakness. All this probably explains the Social Security Act better than a sudden loss of capitalist power.

CONCLUSION: INTERESTS, INSTITUTIONS, AND POWER ANALYSIS

According to Peter Hall, socioeconomic institutions are “constructed out of political struggles”; therefore, both “reflect” and “condition” the power of classes. Shifting balances of power explain the evolution and differences in economic policy outcomes governing democratic capitalist countries.¹³⁶ There is some truth in this formulation. Institutions and policies probably do sometimes change when leaders of conflicting classes reassess the costs of conflict and accept pacifying compromises of lesser cost. The truth is limited, however, because institutions and policies often serve interests shared across class lines. They serve those interests by regulating competition, not just conflict. And, as we have seen, regulation of competition is not something capital and labor need to argue about; both can actually benefit. Thus, institutions and the policies they administer can be constructed out of cross-class alliances. Those that emerge after class struggle and compromise are less likely to endure.

Hall leans toward this position, and decidedly away from Esping-Andersen’s equivalency premise, in asserting that the structure of institutions like unions and employer organizations not only directly affect power balances. They can also influence “an actor’s definition of his own interests,” or “affect the interpretation [actors’] put on their own interests, and thus the direction of their influence.”¹³⁷ Therefore, in principle, capitalists’ interests in welfare policies, which indirectly govern the labor markets they try to control, might vary widely across nations. Logically, there might even be a virtual identity of interests between labor and capital generally, or more likely at different levels of aggregation and with different degrees of intraclass division.

By leaving open this possibility, Hall introduces a deep ambiguity with regard to his overarching balance of power proposition, which implies the systemic conflict Esping-Andersen explicitly assumes. The ambiguity in Hall’s analysis is justified by the complexity of history. Without a doubt, employer power exercised in class struggle in the United States and Sweden, be it through strikebreaking or lock-outs, brought about and reinforced segmentalism and solidarism. Union power, with strikes, did the same in bringing about and maintaining workable negotiated cartelism in some American sectors. However, the motivations for these developments and their longevity always included an alignment of regulatory interests across classes. John Kenneth Galbraith, for

134. Hawley, *The New Deal and the Problem of Monopoly*, 167.

135. Himmelberg, *Origins of the National Recovery Administration*, 208.

136. Peter Hall, *Governing the Economy: The Politics of State Intervention in Britain and France* (New York: Oxford University Press, 1986), 231–33, 283. See also 70, 91, 126–27, 158, 260, and 263 for other references to distributions and balances of power.

137. Hall, *Governing the Economy*, 19, 233, 277.

example, was compelled to set aside cartelism in coal mining and clothing as an exception to his theory of “countervailing power,” which supposedly better accounted for the rise of strong unions such as the United Auto Workers. By contrast, in coal and clothing, unions “assumed price- and market-regulating functions” that the industries relied upon, not being able to arrange it for themselves.¹³⁸

But cross-class alliances rather than exclusively conflictual power relations operated even in the case of the American auto industry’s segmentalism, which, in the post-New Deal period, assumed a negotiated form, preserving and reinforcing the decentralization and attendant wage and benefit inequalities within the working class that members of the United Auto Workers’ Union have benefitted from. (From the standpoint of relative wages and benefits, it is better to be an American auto worker, if unionized, than a Swedish one.¹³⁹) Negotiated segmentalism is also a profoundly important factor explaining the deep roots of the American system of employment-based welfare and the comparative weakness of political forces for national health insurance.

Likewise, Swedish history also shows it is no easy matter to untangle the complex historical interplay of power and interests in class relations, institutional development, and social politics. In Sweden, as probably elsewhere, labor’s power, however conceived and measured, evolved in part as a by-product of capital’s power and interests. Swedish unions strangely defied international trends by growing through the 1920s from 41 percent in 1920 to 63 percent in 1930 and thus became the world’s strongest labor movement.¹⁴⁰ But this growth was not independent of the fact that the employer confederation, *by its own assessment* in the late 1920s, was “one of the most powerful combinations of industrial employers the world over.” Even in 1934, shortly after the Social Democrats’ rise to power (and assistance to SAF in bringing militancy and high pay in the construction under control), employer officials boasted to each other that the lockout was still effective, wages and other things were well under control, if not even better than

before, and that “the Swedish employer is still lord of his manor (*herre i sitt eget hus*).”¹⁴¹

What made employers strong in a relational, indeed coercive, sense – the lockout – probably made unions strong too, but more in an organizational sense (measured by membership levels). Massive lockouts, used to construct the centralized institutions of solidarity from early in the century, hit workers regardless of union membership. Because union membership guaranteed lockout support, many workers probably joined unions and paid their fees as premiums for lockout insurance.¹⁴² Thus the power of labor in Sweden, *conceived as power against capital*, cannot be measured by organization levels.

Similar problems arise with the use of electoral and parliamentary strength as a measure of labor’s power against capital. If vigorous growth of the welfare state in the 1940s and beyond was not entirely unrelated to the electoral or parliamentary power of labor in Sweden, it is because the coercive and other powers of capital may have been an original cause of both. The welfare reforms of the 1940s and 1950s strengthened the Social Democrats electorally, and because organized capital saw no interest in mounting a counteroffensive, helped secure them in power for enviably long periods of time.¹⁴³ During the late take-off period of the Swedish welfare state, capitalists were more satisfied, it appears, than overpowered by social democracy.

Probably for reasons like these, the use of power analysis in the comparative political economy literature has produced virtually nothing in the way of analytically and empirically powerful explanations of variations across countries in labor market and social policy making. The “balance of power” between capital and labor appears to be fading from sight just as the “balance of humors” did from the etiology of medical conditions. It is not surprising, in part because usage of the concept never draws on the rather extensive and mostly abandoned efforts of political scientists and sociologists to define and measure power. It would certainly not withstand the relentless bat-

138. John Kenneth Galbraith, *American Capitalism: The Concept of Countervailing Power*, rev. ed. (Boston: Houghton Mifflin, 1956), 114–17.

139. In 1970, Swedish auto workers earned only 110 percent of the average for all manual workers in manufacturing, while their American counterparts earned 126 percent. Add fringe benefits, and the difference is greater. Ingvar Ohlsson, “Den solidariska lönepolitikens resultat,” in *Lönepolitik och solidaritet – Debattinlägg vid Meidnerseminariet 1980* (Stockholm: LO, 1980). On the post-New Deal period, see Howell John Harris, *The Right to Manage: Industrial Relations Policies of American Business in the 1940s* (Madison: University of Wisconsin Press, 1982), 170; Nelson Lichtenstein, *The Most Dangerous Man in Detroit: Walter Reuther and the Fate of American Labor* (New York: Basic, 1995), 297.

140. Anders Kjellgren, *Facklig organisationsutveckling i tolv länder* (Lund: Arkiv, 1983), 269–319; Swenson, *Capitalists against Markets*, 75–76.

141. Axel Brunius, “De svenska arbetsgivarnas organisationsformer,” draft of an article for *Chalmerska jubileumsskriften*, no date (probably 1929), Edström collection, vol. 34 (A14d); SAF, Minutes, Styrelse, 28 Feb. 1934; Ivar Larson to Axel Palmgren, 13 Feb. 1936, Axel Palmgren papers, Åbo Akademin, Åbo, Finland. On the construction conflict, see Swenson, *Capitalists against Markets*, 100–109.

142. VF, Minutes, Extra allmänt möte, 21 Feb. 1920; Hjalmar von Sydow to Axel Palmgren, 17 Dec. 1927, Palmgren collection, vol. 7, Åbo Akademin, Åbo, Finland; “P.M. rörande oorganiserade arbetares förhållande under arbetskonflikt,” Dec. 1934 [SAF-A555/20b]; Karl-Gustaf Hildebrand, Örjan Armfelt-Hansell and Arne Törnqvist, *Sågverksförbundet 1907–1957* (Stockholm: Almqvist & Wiksell, 1962), 240.

143. This conclusion applies to the major pension reform of 1959 as well. Employers, despite initial strong opposition, turned out to be happy with the final form the legislation took. See Swenson, *Labor Markets and Welfare States*, 281–92.

tering it has gotten from international relations scholars ganging up on the die-hard “neo-realists.” Together with David Soskice, even Peter Hall – in their penetrating and insightful comparative analysis of the “varieties of capitalism” – has almost completely dropped the metaphor, and focused with much greater effect on interests alone.¹⁴⁴

Our understanding of political development in

144. See Peter Hall and David Soskice, “An Introduction to Varieties of Capitalism,” in Hall and Soskice eds., *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage* (Oxford: Oxford University Press, 2001), 1–68, and an extension of the “varieties” analysis in Estevez-Abe, Iversen, and Soskice, “Social Protection and the Formation of Skills: A Reinterpretation of the Welfare State.”

America can be illuminated by comparative institutional analysis of this nature. It should keep alive an old but still fascinating controversy about capitalist power in the timing and shaping of this country’s peculiar welfare state. It also confirms, as Hacker and Pierson claim, that historical institutionalism, which dominates much of the American political development literature, can add to our knowledge about capitalists as power factors in capitalist societies. However, because power analysis requires *interest* analysis – informed by understanding of diverse markets and complex strategic interactions among interested agents – institutionalism’s analytical and empirical content needs improvement along the lines suggested here.