Capitalists against Markets

The Making of Labor Markets and Welfare States in the United States and Sweden

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

Karl Polanyi, *The Great Transformation* (1944)
In the politics of work and welfare in capitalist democracies, capitalists invariably play a conservative role according to most historical, sociological, and political analysis. Projecting onto them a cold disinterest in almost everything except market action for their exclusive material gain, this scholarly consensus, I believe, underestimates capitalists' contributions toward the passage of egalitarian and protective social reform. By attributing the many reforms that take place exclusively to other political forces, it also tends to underestimate the power of capitalists in capitalist society.

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

While I also hold strong progressive sentiments for reform, I have come to disagree with the idea of capitalists as invariant and unregenerate opponents. This book explains why. It looks in depth at capitalists' interests in the shaping of labor markets and social policy making over the course of a century in the United States and Sweden. Within the broad category of economically advanced capitalist democracies, these two countries differ radically in the character of their industrial relations systems and social policy regimes. Capitalists' interests there have also differed in the same measure. My analysis of these variations across the countries, and over time within them, shows that the political weakness of Swedish capital gives a less than persuasive explanation for the extraordinary successes of the social democratic labor movement relative
to what labor and liberals have accomplished in the United States. It also shows that the ebbing of capitalists' relative power cannot adequately account for when and why these societies imposed some measure of equity and security on the arbitrariness and uncertainty of markets.

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

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

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

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

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

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

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

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

A NOTE ON SOURCES

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

By contrast, the research on Sweden relies heavily on archival sources, although I also draw on practically all the secondary research available. Most valuable by far were minutes transcribed from meetings of the board of directors (styrelen) of SAF (Svenska Arbetsgivareförbundet), the Swedish Employers’ Confederation, and of its directors’ conferences (ombudsmannakonferenser; later förbundsdirektörskonferenser). The former consisted of full-time company executives and owners, usually prominent ones, elected by the confederation’s membership. The latter included the full-time executive leadership of SAF and of its sectoral affiliates. Other important collections consulted at SAF were those of former executive director Bertil Kugeberg, who granted me permission to consult his extensive notes from conversations (minnesanteckningar) and other documents. I also consulted minutes of meetings at VF (Verkstads-
foreningen), the Swedish Engineering Employers’ Association, and archives of other SAF sectoral affiliates housed at their respective headquarters. (SAF has since been reorganized into Svenskt Näringsliv, or the Confederation of Swedish Enterprise, and VF into Verkstadsindustrier, the Association of Swedish Engineering Industries.)

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

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

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# ABBREVIATIONS

United States

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<th>Abbreviation</th>
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<tbody>
<tr>
<td>ACWA</td>
<td>Amalgamated Clothing Workers of America</td>
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<td>AFL</td>
<td>American Federation of Labor</td>
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<td>AGC</td>
<td>Associated General Contractors of America</td>
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<td>AIC</td>
<td>Associated Industries of Cleveland</td>
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<tr>
<td>BAC</td>
<td>Business Advisory Council</td>
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<td>CCP</td>
<td>Central Competitive Field</td>
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<td>CES</td>
<td>Committee on Economic Security</td>
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<td>CIO</td>
<td>Congress of Industrial Organizations</td>
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<td>EAD</td>
<td>Employers' Association of Detroit</td>
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<td>FLSA</td>
<td>Fair Labor Standards Act</td>
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<td>IAM</td>
<td>International Association of Machinists</td>
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<td>ILGWU</td>
<td>International Ladies' Garment Workers' Union</td>
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<tr>
<td>IMU</td>
<td>International Molders' Union</td>
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<tr>
<td>IRC</td>
<td>Industrial Relations Counselors</td>
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<tr>
<td>NAM</td>
<td>National Association of Manufacturers</td>
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<tr>
<td>NCF</td>
<td>National Civic Federation</td>
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<td>NEA</td>
<td>National Erectors' Association</td>
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<tr>
<td>NFA</td>
<td>National Founders' Association</td>
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<td>NICB</td>
<td>National Industrial Conference Board</td>
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<tr>
<td>NIRRA</td>
<td>National Industrial Recovery Act</td>
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<td>NLRA</td>
<td>National Labor Relations Act</td>
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<td>NMTRA</td>
<td>National Metal Trades Association</td>
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<td>NRA</td>
<td>National Recovery Administration</td>
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Part I

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

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

That market-generated inequalities are high in the United States is well known. It is also beyond dispute that the American welfare state deserves to be characterized as laggard or limited in comparison to other affluent societies.
People continue to research and argue about why there are differences—many of them perhaps harboring the hope of discovering what is politically possible in the way of improvement, especially in the United States. Their research on labor markets identifies a number of causes of relative inequalities. The relative centralization of wage determination appears to be the strongest. Decentralized pay setting in the United States creates inequalities; centralization of collective bargaining in Sweden compresses them. Research on comparative levels and forms of social security frequently finds, not surprisingly, the ideological agendas of partisan governments to be most important. America, lacking strong Social Democratic or Christian Democratic parties, falls well behind Sweden, Germany, and the Netherlands, for example.2

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

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

The Welfare State: A Question of Timing

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

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

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

Confirming Childs’s observations on the Swedish welfare state, a recent study of the American case found that, in 1938, “American performance outpaced the efforts of Sweden, today’s world leader in social spending.”11 Peter Flora’s
and Jens Alber’s broad comparative analysis of welfare state development informs us that to the limited extent Sweden stood out before the 1970s, it had already done so by 1913 when the Social Democrats’ parliamentary power was still limited and its unions still enfeebled by the severe thrashing employers meted them in the gigantic conflict of 1909. Because of Sweden’s low level of industrial development relative to other European countries at the time, its backwardness relative to the United States in the 1930s can be of only limited value in explaining its lagging performance then.\(^{12}\)

Later, through the 1930s and 1940s, according to Flora and Alber, other European countries under varying kinds of political control narrowed the gap, even though Social Democrats, easily boasting the best-organized labor force in the world, dominated Swedish politics and government. Ultimately, other than some innovative family welfare policies, practically all of Sweden’s major improvements had to wait until the mid-1940s and beyond, despite the labor movement’s firm grip in national politics since 1932.\(^{13}\) The Social Democratic minister of social affairs was even able to invoke Sweden’s relative laggardness in 1953 to justify improvements in social insurance.\(^{14}\) As one prominent Scandinavian expert puts it, “by international standards Sweden was a rather average welfare state in 1960.” In sum, according to another author, “welfare expenditure in Sweden lagged far behind what one might have expected after thirty years of social-democratic hegemony.”\(^{15}\)

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

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

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

The Equivalency Premise

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

The second conventional assumption that makes a puzzle out of historical facts deals directly with these interests. It maintains that labor and capital in Sweden and the United States held consistently opposing interests regarding the welfare state in both countries over time. This assumption applies a broader premise about enduring class interests in all national settings. As Esping-
Andersen, a leading proponent of the labor power argument, puts it, “Employers have always opposed decommodification.” Likewise, in his view, labor’s interests across countries are roughly equivalent. For labor movements, decommodification “has always been a priority” and therefore, presumably because of capital’s perennial opposition, it is a “hugely contested issue” within countries. In short, there is a practical equivalence of interests among like classes in different countries, and equivalence of conflict across their respective class divides. By this equivalency premise, the stronger Swedish labor movement, with backing from a socialist party in government entirely independent of funding from business, should not have been outclassed by the New Deal. After all, that was the project of a Democratic Party relying on considerable financial support from business and backed by a divided labor movement that was struggling to get back on its feet.

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

Institutionalists are usually not this extreme, or at least this explicit. Recent institutionalist work on the welfare state, most notably that of Kathleen Thelen, even avoids the problems entirely. Indeed, she astutely shows how capitalist interests can coincide with those of labor regarding market intervention in the realm of skill formation. Thus the problem lies not in institutionalism as an approach, but only in applications of it that assume too much about capitalists’ interests against reform. But typical analyses of health care reform by comparative-historical institutionalists, for example, implicitly treat the variable, and therefore potentially pivotal, interests of capitalists as exclusively oppositional. Ellen Immergut comes very close to the equivalency position in explaining why Swedish employers “seemed ready to acquiesce to national health insurance.” a description that understates their profound amenability. In her view, it was only in their strategic, not immediate interests, for they wanted to preserve good will in their dealings with an extraordinarily well-organized and politically muscular labor movement in other policy realms. Thus, she attaches no particular causal importance to variable business interests; the conventional argument about the unusual power of Swedish labor suffices. Consequently, she leaves unexamined the possibility that if French or Swiss capitalists had been equally favorable, then constitutional factors delaying or limiting reform in those places may have proved less important.

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

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

Though measures of working-class power mobilization may well statistically vary with welfare state development in the late twentieth century, as Esping-Andersen and others show, the correlation does not prove causation was at work. This skepticism is bolstered by the historical puzzle of the early to
mid-twentieth century. Again, confidence about causality requires independent empirical substantiation of the initial equivalency premise. If further investigation were to reveal that employer interests regarding social policy are strikingly more positive where labor is “strong” according to the typical measures, then the conceptual treads in the causal analysis would lose all traction. The same would hold for employer interests regarding equalization of results in labor markets, another central subject of this book. For example, a recent attempt to demonstrate how labor’s power (measured by union organization levels) compresses wages in various countries fails to control for variable capitalist interests for or against wage equalization. It therefore implicitly adopts the equivalency premise as an operational assumption. To put it another way, it fails to consider the possibility that union strength and employer interests in equalization may partially coincide. To the extent they coincide, no conclusions about the use of union power to achieve equalization can confidently be drawn from the study’s results.

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

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

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

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

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

Intriguing historical details like these presented throughout this book indicate the need for an entirely different kind of comparative argument—one that rejects the equivalency premise common, though by no means logically necessary, in existing power and institutionalist analyses of the welfare state. In broad strokes, the analysis developed in this book builds on a contingency premise, backed by theoretical analysis of how employer interests in wage distribution and social policies derive from their variable strategies and institutions in labor markets. In other words, capitalists and workers sometimes
agree, and sometimes do not agree, about egalitarian policies. As economic actors in labor market formation, or political actors in welfare state development, Swedish employers were nothing like American employers.

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

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

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

Political survival instincts told the reformers that opportunistic initiatives founded solely on episodic and unstable mass electoral support could be undermined after passage due to the anticipated ability of capital to regroup and shift the sands of electoral and parliamentary support under their feet. New York’s Senator Robert Wagner, the legislative pilot of the New Deal, was well aware from Progressive-era experiences in his state that, according to his biographer, “passage of a measure [did not] mean that it was permanently secure.” Businessmen of all sorts had “maintained powerful lobbies at Albany and could always find lawmakers who were willing to sponsor bills that would repeal, or amend into insignificance, the Factory Commission laws.” And as leading New Dealer and “cautious reformer” Edwin Witte saw it, the Roosevelt administration could have shrugged off concerns about business or labor support for the Social Security bill “and still force a measure through Congress.” But a major objective was robust legislation, anchored in a cross-class alliance, capable of weathering future challenges. “The violent opposition of either group is likely to mean trouble hereafter,” Witte wrote as the debates raged.32

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

For those businessmen with progressive tendencies, therefore, it was probably better to lie low and wait for outside forces to push for change. The added advantage was that they could blame a force majeure for the reformist course of events they supported. Once reform was under way and justify their participation by saying that if they did not go along, worse things could happen. At that point, prominent business supporters of reform could help push things in regulatory directions they favored, sometimes surprisingly progressive in character. Sometimes they even put the brake on reactionary movement. The same logic probably applied to conservative parties strongly dependent on business support and paralyzed by the need to shun highly divisive positions on social policy questions. This syndrome of left-wing reform happiness and right-wing inhibition no doubt helps explain the usual statistical correlations found between leftist and Christian Democratic control of government and social legislation across economically advanced democracies in general. Thus the distribution of parliamentary or cabinet seats among various parties says relatively little about the zero-sum distribution of power between capital on the one side and various heterogeneous social forces on the other.33
As research on the United States and Sweden shows, though reformers from outside the capitalist camp took the initiative, their sensitivity to capitalist interests left its stamp on the reform. This probably helps explain the subsequent weakness or absence of reactionary pressures. Reformers tended to act in prudent anticipation of delayed reactions from capital, hoping to design reforms that maximized supportive reactions and minimized backlash. Analysis of the reformer initiative in pulling together cross-class alliances behind major legislation reform suggests that, by favoring a part of the capitalist class with regulatory assistance (necessarily at the expense of others), they guaranteed themselves post facto support for their initiatives. More important for them than overt prior support was anticipation of tacit support after passage. Electoral advantage may have been enough, as Witt argued, to win the day for a time—but probably not over the long haul.

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

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

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

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

The next four chapters then direct the analysis to employers' roles in the New Deal in the United States in the 1930s and Social Democratic legislation from the 1930s through the 1950s. Here the formative effect of labor market systems on the development of welfare states comes into focus. The argument and evidence incorporate the role of reformers as cross-class alliance makers in designing their initiatives to deal with employers' regulatory problems arising from their labor market practices. The evidence suggests that, all in all, reformers acted in response to a favorable alignment of employer interests with
those of the reformers themselves. They did not, it seems, take advantage of a shifting balance of power against capital.

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

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

2

SOLIDARITY, SEGMENTATION, AND MARKET CONTROL

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

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

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

Intrigued, Drucker asked Wilson when he planned to introduce the SUB scheme. Wilson responded, "I am never going to put it into effect. . . . I grudgingly yield to a union demand for it when I have to." The reason: the union
leaders "won't go along unless it's a 'demand' we resist and they 'win.'... No union can believe that what management offers can be anything but harmful to the union and its members as well. Sure, I'll plant the idea—I know enough UAW people. But we'll yield to them, after a great show of reluctance, only when it's worth something to them. The time will come."  

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

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

Employers, however, did not follow Reuther's script. Events showed that GM and other major employers making benefit "concessions" to unions were easily able to pay for their premium pension, health, and unemployment benefits with higher product prices in the well-insulated national market. More important, as Lichtenstein put it, "managers recognized that company-specific benefits built employee loyalty, and at some level they understood that a low social wage [a limited welfare state] was advantageous to their class interest, even if their own firm had to bear additional costs as a consequence. Ironically, it was the UAW's own commitment to an expansion of the welfare state that began to flag." And it is not hard to see why union pressure subsided. As Jill Quadagno argues, the expansion of the welfare state was impeded because "independent negotiations for private pensions reduced whatever incentive they might have had to support Social Security benefit increases." This was exactly the interpretation of Marion Folsom, former Kodak executive and "corporate liberal." Folsom noted on the eve of the limited Medicare and Medicaid reform of 1965 that "there's nothing like the pressure among the labor unions for compulsory health insurance for the laboring population that there used to be... They lost a lot of their enthusiasm when they began to get all those fringe benefit contracts." Medicare and Medicaid, of course, did not cover the "laboring population" Folsom spoke of. In other words, millions of working Americans were left uninsured, while employment-based benefits that others received were left as, Folsom wanted, intact.  

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

Perhaps illusions about the Swedish labor movement's power, and employers' interests, fed Reuther's optimism about employers' readiness to accept social democracy in America. Sweden's Social Democratic labor leaders may have been unable to disabuse him of those hopes, for they probably had no more than a dim understanding of the huge differences between Swedish and American employers. As different as they were, however, there is reason to think that business leaders on both sides of the Atlantic shared a similar understanding about the psychology of organized labor and how to work with it for their distinctive ends. For example, in 1955, when the Swedish Confederation of Labor (LO, or Landsorganisationen) had begun heavily promoting its famous egalitarian "solidaristic wage policy" (solidarisk lönepolitik), Hans Söderlund, a staff economist with the negotiation division of the Swedish Employers' Confederation (SAF), found nothing particularly objectionable. After all, the unions' ideas about wage compression were quite similar to organized employers' own for standardization of remuneration across firms and industries. However, in a remarkable internal memorandum, he echoed GM's Wilson, recommending that employers should hold their cards close to the chest.
If the employer confederation openly promotes wage policy goals whose general purpose is so closely related to solidaristic wage policy, we cannot exclude the possibility that the unions might strike off in a different direction. Unity among workers and confidence in their organizations' leadership depends on a large extent on members feeling that the organization has some impact on results in the area of wage policy that otherwise would not have been achieved [without the union]. The feeling that this is happening can be weakened if the distance narrows between employers and the unions with regard to their conceptions about the "correct" wage structure.13

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

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

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

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

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

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

Employers against Markets

Employer dispositions, both positive and negative, toward collective bargaining and social legislation originate to a great but not exclusive extent from strategies pursued to secure their interests in labor markets, and through labor market control, in their product markets. The strategies employers choose to pursue depend no doubt on established organizational practice and
hospitable or compelling economic, cultural, political, and legal conditions for adapting organization toward those strategic ends. By that token, current politics and institutional and ideological legacies of the past, and feedback from current strategies on later developments probably matter too and would have to be included in a broader and deeper analysis. So, too, would the vagaries of leadership decisions about different options, no matter how constrained the environment. The consequence of including all this, however, would be an even larger book than this one or, probably because of the amount of research necessary, no book at all.

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

**Cartelism**

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

In addition to other problems, intense competition among capitalists in their sales markets can set off bruising conflict between classes, as both employers and workers try to protect their incomes at the other’s expense when prices for their products and services sag. Low morale and effort, high turnover, absenteeism, theft, and other costly manifestations of worker discontent become endemic. For purely pragmatic and profit-seeking reasons, and probably often humanitarian ones, employers regret that market competition compels them to shift hardships onto their workers. As Samuel Gompers, head of the American Federation of Labor, wrote in 1897, “Is there . . . an employer who is at all inclined to be fair to his employees, who has not felt the awful and degenerating influence which some of his unscrupulous—commonly known as “cutthroat”—competitors have wrought . . . by contemptible methods of hiring the lowest priced labor and demanding the longest hours of labor?”

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

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

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

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

**Segmentalism**

Firms in less competitive product markets than the ones just described have dramatically different problems and options with regard to managing their affairs in labor markets. Often they prefer to deal with their workers without the intermediation of outsiders like union leaders. When they deal with unions, they are likely to prefer negotiating agreements about wages and other conditions of employment tailored only to the company, not to the industry as a whole. Nonregulated or decentralized arrangements with workers have a dramatic and distinctive effect on the structure of income in labor markets. To understand how and why they do so requires first an introduction to concepts from labor economics, especially from the literature on “efficiency wages.”

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

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

An important variant invokes “sociological” or normative motivations behind workers’ efforts. These motivations are inconsistent with most economists’ simplistic and monotonous assumptions about workers’ preferences (e.g., for indolence over exertion, or for daydreaming over problem solving). For example, employers may offer a gratuity or “gift” of high wages in excess of what would be necessary to attract enough workers or to make current workers indifferent to the job with respect to outside options. The superior wages may therefore generate good will and a normative obligation (i.e., an endogenously created preference for working over shirking) to reciprocate with more than minimum effort. Employers spend less on monitoring and discipline. In
this variant, efficiency wages elicit greater effort by cultivating norms, enforced by peer influence, of what constitutes a fair and respectable day’s work for their employers’ generosity.29 Norms of pay equity and the dynamics of group cooperation may transmit upward pressure on wages within firms from occupations where the wage-productivity nexus is present to occupations where it is not.30

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

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

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

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

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

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

For the remainder of this book, the payment of efficiency wages or benefits
in various forms will be called segmentalism, and employers paying them segmentalists. Unfortunately, the term may have the raw sound, as John Kenneth Galbraith once put it, of a newly coined word. But the limited meaning of "welfare capitalism" and the ungainsliness of any alternative incorporating the phrase "efficiency wages and benefits" recommend this choice. It is suggested, of course, by the efficiency wage literature dealing with labor market segmentation. Segmentalist strategies can be used, as in early twenty century America, to ward of unionization, not just promote efficiency. But unilateral segmentalism is not the only possibility. It can also be pursued in collaboration with unions. A firm's workers, whether unionized or not, favor extra wages and benefits. Unions will be hard put to reject the extras and will instead endeavor to take credit for them. Segmentalist employers may (as did GM's Charlie Wilson) not mind letting them take credit. One way or another, a kind of cross-class alliance operates between the segmentalist firm and its employees. Where employers and unions engage in joint regulation of segmentalist practices, we can call this negotiated segmentalism. (Occasionally, as in the case of negotiated cartelism, for the sake of variety, the interchangeable terms joint and bilateral are also used.)

As in joint cartelism, class conflict does not vanish in the presence of the cross-class segmentalist alliance. Some of it may be ritualized and manipulatively channeled—to use the Wilson example again. Some of it may be a manifestation of real conflict over the terms of segmentalism, and unions might use their situational power to push wages and benefits beyond the efficiency range. Being decentralized, collective bargaining may give unions better opportunity than in centralized multi-employer bargaining to wrest some control over managerial matters, not just wages and benefits. (For practical and strategic reasons, union negotiators largely confine themselves to industry-wide, not shop-floor issues, in centralized bargaining.) Conflict in the context of bilateral segmentalism takes place, in other words, over the terms and at the perimeters of segmentalism. Pragmatic union leaders may want and need to vent off militant pressures building up from below in their unions. But they know full well that they should not bite too hard and fast into the employer hand that feeds them.

Segmentalism, as a decentralized system of labor pricing, is closely approximated by both unilateral and negotiated practices in the United States, where efficiency wage theory has considerable appeal among economists. In other countries, the same kind of large employer—the kind not requiring the protection of joint cartelism—often finds itself in decentralized bargaining nevertheless. Efficiency wage theory poses the following question therefore: if the same employers who see a benefit in the segmentalist strategy were, for some reason, able to overcome obstacles to joining together in a collective strategy, might they do things differently? If they chose to do things differently, what would be the effects on unemployment and the wage structure, and how might they deal with the problems of labor supply, turnover, and effort? What circumstances would make it possible for employers to make and stand by the collective choice? Finally, what difference would a collective, as opposed to the segmentalist, strategy make for employer interests and behavior in the politics of industrial relations and welfare?

Solidarism

An interesting offspring of the efficiency wage literature deals with centralized pay setting and therefore helps answer some of these questions. The analysis originates in Norway, a country with a history of highly centralized pay setting and related political developments much like Sweden's. Its answers shed light on why Swedish employers, coordinated by a powerful confederation and affiliated sectoral associations, have behaved in a radically different way from their American counterparts in labor market governance and social politics.

Beginning with the usual efficiency wage assumption about a wage-productivity nexus in many firms, models of centralized pay setting by a highly disciplined association of employers, with or without union cooperation, indicate that wages would be set lower than in the typical decentralized efficiency wage model. This is also what the standard monopoly model would predict for a buyers' cartel of employers. But in stark contrast to the monopoly model, employment would be higher, which helps explain why unions might cooperate. Employers, according to the efficiency wage model, the gain 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. Total profits, therefore, would exceed those achieved in the decentralized equilibrium.

The unorthodox equilibrium in the centralized model is one where many firms offer wages below market-clearing levels, not above, as with segmentalism. In other words, the marginal revenue to a firm from hiring an 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: there will be a shortage of workers willing to take work at the going rate. To put it another way, there will be a "queue" of employers seeking to hire more workers at the given wage. Many firms, in this case, would actually prefer to raise wages to reduce resignations or shirking on the job, expand employment and production, or otherwise improve productivity and profits. But this would only work if others abstained or could be prevented from following suit.

Because cheating the arrangement by raising wages would be profitable for individual firms, centralized wage setting presupposes some mechanism for monitoring adherence and punishing violations by would-be segmentalists. Normative support for a policing arrangement is a natural possibility, a short logical step from the disapproval widely, if not always, accorded to employers who, in American parlance, "poach" workers from each other by offering higher wages. That is to say, norms of support for a policing agency follow logically from disapproval of the moral equivalent of trespassing and theft. In
Sweden, employers sometimes referred to this illicit behavior as "disloyal recruitment" (illegal närving) through the use of "black-market wages" (svarta-
börslöner). Full exercise of freedom in an unregulated labor market was not a capitalist virtue.

In this centralized equilibrium, there is, in a sense, "involuntary" underpricing of labor by the individual employer under centralization and a scarcity of labor. In segmentalism, the opposite prevails: voluntary overpricing and surplus labor. Another way to look at the contrast between segmentalism and the centralized alternative is this: in the decentralized equilibrium, with involuntary unemployment, workers who are not employed at a firm paying efficiency wages may offer to work for lower wages than those enjoyed by the currently employed. But the voluntary and rational actions of individual firms will mean they decline the apparently attractive offer. (Workers willing to take lower wages are powerless to force the employer to hire them, so no external agency is needed to prevent them from underbidding.) Segmentalism is therefore self-enforcing. In the centralized case, however, external enforcement of behavior by individual firms must be applied to make it possible to speak of any kind of equilibrium. This is an artificial equilibrium in a strict economic sense, for individual firms facing scarcity have an unambiguous interest in eliminating it. Workers will only too gladly help out by offering their work at higher wages.40

In short, while centralized or administered pricing of labor may seem collectively rational to employers, their individual behavior in labor markets is likely to undermine it. It follows then that an association of employers in the position to summon the relatively easy initial agreement to set low wages is likely to seek authority for the tricky task of coercive enforcement. Consequently, it will seek to legitimate its authority with appeals to norms of fair competition in the marketplace. As effective as these may be, there will be limits. Individual employers will not gladly suffer highly intrusive policing and restrictions on their entrepreneurial and managerial autonomy, even if imposed by other employers and not workers or the state. Thus, the association is also likely to promote policies that accomplish the same ends as efficiency wages with different means, and therefore reduce the individual employer’s incentive to raise wages.

This mix of supportive and coercive policies for centralized labor market governance will be called solidarity, a term borrowed from Swedish parlance (i.e., from solidarisk lönepolitik or solidarity wage policy).41 For reasons to be elaborated, solidarity governance of labor markets supplements the setting of wages at subequilibrium levels with collective measures to

Facilitate compliance with wage restraint and reduce turnover through interfirm and intersectoral standardization, backed by norms of fair competition over labor. In practice, this may mean discouraging the use of pay forms that are hard to monitor and measure, like social benefits.

Induce worker effort by promoting and regulating the use of individualized pay-for-performance schemes (“piece work”).

Manage and ration labor supply with coordinated recruitment and training practices, including restrictions on advertising and poaching, promoting the formation and use of labor exchanges for mobilization and deployment of idle workers and skills, and regulating or collectivizing vocational skill formation.

Work with organized labor to legitimate and co-administer solidaristic policies.

Later chapters will show how well these measures describe much of the ambitions and activity of the Swedish employers’ confederation.42 In the meantime, the following discussion elaborates in general why the measures logically follow from the centralized efficiency wage model.

Collective Turnover Control through Wage Standardization While the efficiency wage literature on centralization of wage setting predicts higher employment levels and labor scarcity by comparison to the decentralized model, it is so far silent on the question of the structure of wages. But recall that a major result of efficiency wage theory in the decentralized context was wage differentiation that could not be accounted for in traditional neo-classical models. Thus, ironically, one might expect to find that if firms employed a highly centralized system to administer the pricing of labor, the result would be a pay structure that more closely approximates the neo-classical model of unfettered decentralized markets with perfect information and mobility, that is, a standardization of wages across firms and industries.43

A good reason to expect this result lies in the fact that centralization requires a regime for monitoring compliance and sanctioning violations of collective efforts to hold wages below the market-clearing equilibrium. In this context, "sociological" factors regarding equity or fairness introduced in some efficiency wage models of decentralized firm behavior with respect to employees, and employees' relationships with each other, come into play. But in the centralized case they do so in the relationships among firms and between firms and employers’ associations. In principle, centralized wage regulation might mean no more than forcing unequal wages down across the board without altering their structure. But firms paying the lower wages are unlikely, on the grounds of fairness, to recognize and obey the employer authorities trying to enforce restraint.44 For they will now be experiencing enormous disadvantages (higher turnover, difficulty attracting good workers to expand production), with respect to higher paying firms in the tighter labor market.

Disobedience among low-pay employers is especially likely because their workers will at the same time push for increases on equity grounds (because of interfirm disparities) and take advantage of tight labor markets to strike for those ends. It would be wishful thinking to expect obedience of the association’s orders in rejecting worker demands that are identical to the firm’s own micro-economic interests. To complicate matters, standing up to a strike for such selfless ends would mean losing customers and profits, a cost that could be externalized only at great expense to the employers’ association in the form.
of strike support. The association, simply put, would be squeezed between the rock of membership discontent and the hard place of costly strike support, requiring high membership fees from other firms. This dilemma can be avoided to a large extent by combining interfirm standardization with repression of wages.

An added advantage of solidaristic wage standardization for the employer association is its ability to promote and defend the policy as a means to reduce turnover, which is likely to be high in a tight labor market created by centralized wage repression. This is rather ironic, for wage differentiation, the opposite, was the strategy of individual firms in the segmentalist system for reducing their costly turnover. In short, decentralization brings differentiation to reduce turnover, causing unemployment. Centralization brings low unemployment, which increases turnover. So now the problem of turnover control is externalized or displaced as a collective service that has to be fulfilled by the employers’ association.

By definition, a well-enforced system of wage standardization reduces individual firms’ ability to raise wages to attract workers from other firms when they are highly motivated to do so in tight labor markets with wages set at sub-equilibrium levels. Many firms are likely to regard solidaristic wage policy with special favor if it reduces one of their workers’ main reasons for changing jobs. In sum, solidaristic standardization helps serve one of the central purposes of segmentalism: control of turnover. It is therefore an important condition for making centralized wage restraint a viable institutional equilibrium that will not degenerate into the decentralized market equilibrium of segmentalism.

Productivity through Performance Pay The efficiency wage literature sees centralized wage restraint and the resulting tight labor markets as having a cost, albeit a compensated one, in terms of reduced effort or discipline that might result from low levels of unemployment. Solidaristic standardization of wages, as a way of making centralization institutionally viable, also tends to eliminate the wage differentiation between high-pay firms that can induce workers to repay their blessings with greater effort. It is therefore likely that an employers’ association trying to maintain centralization will seek to support and promote policies that reduce individual firms’ incentives to cheat and raise wages unilaterally to improve productivity. One way to do that would be to promote, where practicable, the shift from straight time wages (hourly wages for example) to incentive pay arrangements, such as piece work. These arrangements would take collectively imposed standard hourly wage rates as the base or standard from which to calculate individual workers’ output-linked premiums above the base.

In principle, therefore, incentive pay can maintain something like an average effort-earnings parity across firms, while promoting, for the sake of individual effort, individually differentiated earnings within firms. However, collaborative design and monitoring of incentive pay administration will also be required to prevent the illicit use of incentive pay to spirit efficiency wage differentials in again through the back door. That is to say, pay relative to that of other employers must be prevented from rising surreptitiously because of loose management of piece rates. For example an employer desiring to attract more labor may neglect to revise rates per piece downward when new machinery rather than intensified worker effort generates output increases. Therefore, external supervision of incentive practices will be called for. Collective efforts to design incentive pay systems transferable from firm to firm and monitoring piece work earnings trends in firms are likely to become part of the complicated solidaristic agenda. Violation of regulation begets new regulation.

To the inevitable extent that incentive earnings drift upward in firms evading fully effective solidaristic correction, such pay systems may have an added productivity and growth advantage under solidarism. The lag time in the correction process introduces a strong incentive for workers to accept the introduction of new technology that reduces labor time per unit of output, thus increasing their hourly earnings. Meanwhile, solidarism injects an unusually powerful incentive for employers to search for and introduce this new labor-saving technology. Lacking the easy ability to hire additional labor by raising wages to meet increased demand, solidarists may more actively seek new technology and retrain existing labor. Segmentalists, in stark contrast, can easily hire more labor to go with current technology. They may not even need to raise wages, but they are in any case freer to do so.

The labor economics literature on performance pay predicts variations in piece work usage associated with differences between industries, occupations, and the heterogeneity of workers within them. The efficiency wage literature rarely mentions piece work. But when it does, it speculates that efficiency wages and piece work may be substitutes whose usage varies across occupations and industries. Efficiency wages, for example, may be an effective alternative in occupations where piece rates are impractical because “monitoring is too costly or too inaccurate.” By contrast, the argument here indicates that large variations that cannot be accounted for by industry, occupational, or labor force characteristics should also be expected across countries because of their different systems of labor market governance.

Labor Supply In segmentalism, employers individually ration scarce jobs among a surplus of needy workers; in solidarism, they collectively ration scarce labor among a surplus of needy employers. By creating scarcity, solidarism in wage setting generates interests in regulatory machinery that finds, creates, and allocates labor. For example, solidaristic employers are likely to see labor exchanges (employment offices), combined with restrictions on job advertising, as an important means for nonmarket rationing of available workers, be they idled by layoffs or newly entering the labor market.

Labor exchanges combined with advertising restrictions assist solidarism in a number of ways. Employer organizations can point to the existence of exchanges in their efforts to discourage firms from using wage or benefit in-
creases to attract additional labor from other workplaces when growing demand calls for expanding production. An exchange gives firms a legitimate place to turn to find available workers ready to fill job openings at regulated levels without advertising. Restriction of advertising, be it general or targeted, protects the lower-paying employer against the higher-paying violators of solidarism, by making their deviations less effective. Advertising restrictions also protect employers who invest in training from the one who free rides by raiding them for their skilled labor.

Labor exchanges are especially important in administratively rationing available workers with expensive skills. Skilled labor tends to be in chronically short supply in all labor markets because of employers' underinvestment in training. Because employers have no property title to their investments in the "human capital" assets or brain power of mobile workers in free labor markets, workers can abscond with those assets and share the dividends between themselves and new employers. Thus, skills are suboptimally provided where labor is highly mobile because employers discount the anticipated payoff of investments in training by the probability of the workers leaving. In the solidaristic context, because of subequilibrium wages, competition among employers over skilled labor can be especially intense.

Solidaristic employers may therefore seek to regulate or collectivize training. They may impose obligations on each other to spend a certain amount on training, or keep some percentage of their workforce in apprenticeships. With legitimate machinery of quantitative regulation in place, regulators may take the next logical step to make regulation more invasive, forcing employers to provide training in general rather than narrow, company-specific skills (versatile, more knowledge-based rather than rote skills dedicated to the specific production and managerial technology of the firm). Then, if the company that provides the training must shed employees, other employers can quickly absorb and make good use of them. A potential alternative, or at least complement, is to set up collectively funded training facilities outside the firm. The feeding of trainees from these training institutions into labor exchanges set up to ration them on an equitable and rational basis will be the natural consequence.

**Cross-Class Solidarism** Solidarism, in principle, can be pursued unilaterally by employers acting on an organized basis. Because it prioritizes wage repression, one might be surprised to see anything else. On the other hand, capitalists do not gladly give away power over their managerial affairs to anyone, including other employers or their representatives. They are also powerfully tempted by the rewards of defecting from solidaristic wage restraint because of the resulting labor scarcity. Thus, the viability of unilateral solidarism is questionable.

A cross-class alliance with organized labor on a solidaristic basis remains a distinct possibility, the theory suggests, because of higher employment levels and more egalitarian pay. These may compensate for the costs paid by high-wage members whose abstention allows for "excess profits" in many firms.

The Swedish case of negotiated solidarism suggests, indeed, that it may be necessary. Only in the crucible of conflict with unions did the cohesive norms and organizational apparatus of broad-based employer solidarism evolve in Sweden. Where worker militants in the context of unilateral solidarism take advantage of labor scarcity to raise wages and impose limits on managerial rights, unionism can play into the hands of employer leaders trying to build the resources and solidaristic authority of the association. Other employers, now pressured by the militancy of their workers seeking similar victories, but less able and willing to concede them, may seek protection from a powerful association that can stiffen employer resolve across the board. The association can then use the unifying pretext of controlling labor militancy to strengthen its ability to establish control over employer as well as union behavior.

Strike and lockout insurance, financed by dues to the association, can then be applied to defeat local militancy and make unions' decentralized tactics too expensive. The mere existence of such insurance gives employer leaders the right to establish rules of behavior so individual employers do not engage in risky behavior leading to the waste of insurance funds. Prudential regulation of pay practices is required, according to insurance-speak, to mitigate this "moral hazard." Forced to the centralized bargaining table, unions can then become collaborators in solidaristic labor market governance because their concerns for pay equity harmonize well with organized employers' self-interest in pay standardization. The centralized agreements hammered out then become the law invoked by employer organizations in policing their members. In solidarism, collective agreements imply an obligation of employers to each other not to pay above contract ceilings, just as joint cartelism imposes a pact of solidarity among workers not to "scab" for wages under contract floors.

Centralized governance of labor markets may win the approval and participation of organized labor because it strengthens the insecure hierarchical control of union leaders over their membership and subunits. Union leaders can promote the solidaristic policies as their own and likewise participate in their design and implementation, while employers may actually let them take credit. Egalitarian wage results can be presented as a very good deal for the price of wage restraint. Union leaders may also enjoy credit for the higher employment that results. In the course of time, an institutional equilibrium may be reached in the mutually supportive relations between centralized labor market organizations. This institutional equilibrium may be necessary for maintaining the micro-economic disequilibrium of solidaristic wages. Equilibrium does not mean the absence of conflict, though, it should be emphasized. Unions are still likely to use their power in the relationship to challenge employers on the details and limits of solidarism. The pragmatic application of union power, and employers' response, may promote the evolution of stable solidarism. Likewise, the imprudent use of power can set in motion the employer response that destabilizes or destroys it.
The Incidence and Admixture of the Three Systems

Counterintuitive as it might seem, in practice, cartelism, segmentalism, and solidarism appear in mixed or hybrid forms. To understand why, one must keep in mind that employers, especially manufacturers, often compete in two distinct and only partially overlapping markets. They compete over customers in product markets of a large, even international scope. But they compete over workers in labor markets that tend to be much smaller geographically. Of course, the reason for the market differences lies in the easy transportability of merchandise and the strong ties between workers and their communities. Moreover, the advantages and disadvantages of cartelism, segmentalism, and solidarism will likely change depending on macro-economic conditions. Over time, complex institutional mixes evolve, varying by country.

Take negotiated cartelism, for example. By holding wages up at a level appropriate for stabilizing competition in far-flung product markets, a company operating in a more localized labor market may reap an efficiency or segmentalist’s advantage. The cartelist wage may be higher than normal for local employers producing other goods and services but drawing on the same local labor pool. Because of the high wage, the employer will have the pick of better workers and those workers may work harder than otherwise. Under such circumstances, joint cartelism can have a subsidiary or incidental segmentalist function. In times of rapid growth and high demand, when labor markets tighten, cartelism may also have a solidaristic side benefit. Restricting collective bargaining to the multi-employer level at infrequent intervals may reduce the upward pull of wages to levels beyond what is necessary to stabilize product market competition. Union leaders with an eye on the horizon may even participate in restraining workers from taking advantage of the situation, knowing full well that when the economy cycles down, the elevated wages may do injury to the industry’s profit and employment levels. Evidence from the garment industry in the United States illustrates this phenomenon.

Segmentalists may also enjoy side benefits of solidarism and cartelism if they can in some way coordinate their policies. If they compete with other segmentalists over the same local labor supply, coordination among them, especially in a business upturn, will reduce upward pressures on wages and benefits beyond the point necessary for an efficiency advantage relative to lower pay employers in the rest of the labor market. In Japan, for example, the traditional role of leading banks and interlocking ownership has probably facilitated this kind of coordination, preventing big employers from poaching labor from each other and engaging in other opportunistic practices. They could offer very low entry-level wages in order to pay for high seniority-based wage increases. Other big employers would not bid up those entry-level wages, for, because of coordination, they also structured their segmentalist pay on a similar seniority basis. Hence, a system of “integrated segmentation,” according to one astute analysis.

Unions can help coordinate segmentalists. In doing so, they can supply a cartelist side benefit. Through “pattern bargaining,” or imposing similar wage and benefit conditions across a product market dominated by segmentalists, unions can prevent certain employers from taking advantage of semi-insular labor markets, where wages are lower, to reduce product prices at competitors’ expense. The role of the UAW in the American auto industry comes to mind here, where pattern bargaining probably helped stabilize relations with the “Big Three” automakers. They did so by depriving the smaller “independents” of any advantage they could capture with lower wages and benefits.

In the United States and Sweden, at least, different patterns have clearly dominated others. Whether that is the case in other countries is a matter for future research and analysis. In the United States, cartelism gave way to segmentalism in some product sectors at the beginning of the century and continued to develop in others. A kind of institutional “dualism” emerged, with both coexisting side by side. Only in extraordinary periods of labor scarcity brought on by two world wars did solidarism emerge as a strong but uneven tendency and it only took hold with state intervention. It receded afterward. In Sweden, solidarism over time reigned supreme across the entire labor market, especially after the 1930s. Employers’ solidaristic agenda was aggressively anti-segmentalist. Also, by creating endemic scarcity, it rendered cartelism superfluous. Wages did not need to be propped up by unions to inhibit low-wage low-price competition, for labor scarcity did the job by itself.

Labor Market Governance and the Welfare State

Despite inevitable tensions and conflicts across and within classes, the three systems described can achieve a more or less stable state. Segmentalism is a self-enforcing micro-economic equilibrium. Cartelism and solidarism are socioeconomic equilibria with collective enforcement tools for neutralizing the forces of breakdown arising from the micro-economic disequilibria they create. However, they all suffer strains and vulnerabilities associated with cyclical swings and other exogenous pressures or shocks. How these forces affect employers depends on the institutions and practices they use to manage their labor markets.

Welfare policies can mediate the disruptive effect of economic disturbances, depending on the labor market regime. Hence, variable economic institutions and managerial practices strongly influence the nature of employer interests in the welfare state. Politicians and other reformers take those interests into account in planning their major reform initiatives. While responding to popular pressures and electoral opportunities, they also seek employer support, and therefore broad cross-class alliances as the foundation for durable reform.
Segmentalism and Cartelism: Market Security through Social Security

Segmentalists, one might think, would have no interests in public systems of welfare, being private providers of welfare in their own economic interests. Economic analysis of wage rigidities even in unregulated or highly decentralized labor markets suggests reasons to think otherwise. As the following analysis shows, segmentalists are highly reluctant to reduce wages and benefits in a recession or depression. If they are less able to do so than some product market competitors, they might welcome welfare state initiatives. They would so for the simple reason that the welfare state imposes new and costly rigidities on their competitors, thus staving off at least some injurious price competition.

Efficiency wage theory accounts for the empirically observed fact of downward wage rigidity even under conditions of labor surplus or unemployment. After all, some unemployment is caused by efficiency wages. Historical observation also indicates that wages are inertial in a recession, that is, even in the face of exogenously increased unemployment, a phenomenon central to Keynes’s theory and policy argument.2 Some theory in labor economics, assimilable with efficiency wage theory or at least consistent with some variants of it, also claims to explain why some employers would react sluggishly in response to cyclical changes in the economy.

Related phenomena are features of “Okun’s Law,” which says, among other things, that high-pay employers’ share of employment, production, and profits increases during cyclical upturns. Arthur Okun had argued that high-standard employers, in economic upturns, are in the enviable position of being able to increase output and profits in response to increased demand by hiring more labor even without immediately raising wages or benefits. As Okun put it, “Because of the typical queue of applicants at their hiring gates, [wage rates at high-paying firms] need not rise to permit increased employment.”3 More important for this discussion is Okun’s proposition that in the weak labor market of cyclical downturns, by contrast, “they cannot be cut—perhaps not even readily slowed down,” because of implicit promises not only of pay stability, but even regular “equitable” increases.23

The existence of long-term “implicit contracts” that Okun alludes to here can, according to George Akerlof and Janet Yellen, two leading proponents of efficiency wage theory, easily be incorporated in an efficiency wage model. In their model, implicit contracts, together with efficiency wage models, “jointly explain Okun’s Law and involuntary unemployment.”24 Though skeptical of implicit contract theory, like most economists today, Truman Bewley finds empirical reason to think that Okun’s version is at least partially consistent with reality, as are the efficiency wage arguments of Akerlof and Robert Solow. His exhaustive and penetrating survey of American employers during the early 1990s recession finds that employers’ desire to preserve worker morale and inhibit turnover explain wage inertia in recessions. The desire to attract good workers and reduce turnover explains why some employers pay high wages.

Keeping them there, at least at the existing nominal level, is motivated by their fear of declining productivity and rising labor costs.25 In short, during economic downturns, efficiency wage and kindred theories, along with empirical evidence, indicate that many segmentalist employers abstain from playing employees off against the unemployed, even if applicants are available and ready to underbid current employees. With their “invisible handshakes,” “gift exchanges,” “fair wage-effort” bargains, or “reciprocal fairness”—or simply their solicitousness of employee morale—segmentalist employers make strenuous efforts not to take advantage of downturns and reduce wages and benefits.26

The trouble comes, of course, when the bill arrives and segmentalists have to honor their part of the bargain as demand, prices, and profits start to decline. They may absorb some of the shock in profit cuts and pass some along in layoffs. In a severe recession or depression, these measures may be inadequate, especially in product markets where technology and therefore the labor process is heterogeneous. That is to say, segmentalist employers compete at the margin with viable competitors who extract productivity with the “drive system” instead of softer inducements. These competitors may more indifferently shed labor and rehire on the external “spot market,” in effect bidding down wages when demand is slack and joblessness is high. Finally, new entrants appear, hiring the eager unemployed at bargain wages.

To follow suit, welfare capitalists would be required, at considerable cost in terms of workplace morale and efficiency, to violate their company-based moral economy. In other words, being tied up in long-term trust transactions with their workers, they have expensive relationship-specific investments to protect.27 Because their micro-level social contracts account for much of their market and managerial advantages, segmentalists will be tempted to look for alternatives to wage, benefit, and job reductions. One alternative may be offered to them on a silver platter by outsiders: government taxation of their competitors, associated with compulsory social insurance. Segmentalists who lack or are able to see around conventional ideological blinders may appreciate in this a potential for regulating product market competition and therefore compensating them for segmentalism’s vulnerability under conditions of depression, deflation, and high unemployment.

For all their profound differences, joint cartelism may have the identical effect as segmentalism on employer attitudes toward the welfare state in hard times. The reason for this lies in the fact that employers in both systems can be undercut by low-wage, low-benefit competitors when low-price competition rolls their highly permeable product markets. Cartelists, tending to be smaller and more labor-intensive, are probably even more vulnerable than segmentalists to competition from new entrants to the sector who can hire unemployed workers at wages below those negotiated between unions and employer associations. These fly-by-night competitors are also likely to manage without providing any social benefits that might be included in multi-employer union contracts.

Thus, because of the powerful insufflation effect on worker morale, joint cartel-
ists have the same motivation to avoid wage and benefit reductions in recessions. Furthermore, union contracts with distant expiration dates prohibit wage cuts in prompt response to competitors’ prices. Strong and pragmatic union leaders may make negotiated cuts possible, though quite probably not adequate ones. Not all union leaders enjoy the ability to persuade a heterogeneous and fractious membership of the need for cuts, and efforts to do so may cause severe damage to the union and the viability of whatever regulatory protection, welcomed by employers, they still provide. Imposing cost increases on competitors therefore seems a less messy alternative to imposing cost reductions on workers.

Cartelists are likely to be especially enthusiastic about minimum wage legislation. Wage floors inhibit low-wage competition from employers who for one reason or another do not fall under union control. Cartelists may even perceive an advantage in legislation that strengthens organized labor’s ability to extend its reach. Employers in this camp who have overcome ideological and other blocks to entering a cross-class alliance with unions in centralized bargaining are especially likely to welcome, as an extension of the alliance, government help in regulating competition in these ways. Joining with liberal segmentalists, they may signal their interests to politicians and reformers, emboldening them to initiate major expansions and innovations in social and labor policy. The resulting cross-class alliance embraces both the interests of mass electoral constituencies in social security and capitalist interests in market security. Like segmentalists, cartelists are likely to be foul weather friends of the welfare state. When good times resume, support will subside.

**Solidarism and the Regulatory Welfare State**

Solidarism, by contrast, turns employers into fair weather friends of the welfare state. The economic conditions likely to open solidarists’ minds to the advantages of welfare legislation—growing demand, tightening labor markets, and inflation—are, not surprisingly, exactly the opposite of those that can turn segmentalist and cartelists into social liberals. Under solidarism, buoyant demand creates powerful incentives for individual employers to expand production, and therefore recruit additional labor. Collectively raising wages is unlikely, however, to appreciably increase the total labor supply. Individually raising wages at the expense of other employers is not allowed, though the impulse to cheat will be strong. Individual firms are therefore likely to seek any allowable substitute or undetectable outlet to fulfill their need for labor. Above all, they will be tempted to resort to social benefits as a device to attract and keep labor, and thereby come out from under centralized control of money wages.

The political receptivity of a solidaristic community of employers to compulsory social welfare legislation arises from this urgent profit-driven tendency to supplement wages with benefits. Creators of a solidaristic regime are likely, from the beginning, to have encouraged employers to stick largely, if not exclusively, to the use of hourly wages and piece rates to remunerate workers. From the standpoint of economies of scale, administration of social benefits is likely to be inefficient when practiced equally across the board, but only on a company-by-company basis. Once social benefits creep in, solidarism might logically entail efforts to standardize benefits. The disadvantage here is that measuring, monitoring, and enforcing standardization of benefits might even be more difficult than for wages. Also, forging agreement among a highly diverse collection of employers about the design of benefit systems will be fraught with problems because of their highly unequal impacts.

By contrast, compulsory social legislation in the form of pension and health insurance paid in whole or in part by employers may offer scale economies as well as assistance to the employers’ association in its efforts to manage the labor market on a solidaristic basis. For one thing, social legislation can reduce worker pressure from below on individual employers all too eager to offer social benefits in violation of the spirit if not letter of solidarism. Acceptance of the state’s legitimate role in this realm will also lend extra moral force to the association’s dictates against company benefits, and so disarm companies that might try to argue, in self-defense, the urge to offer humanitarian assistance to workers in need. Social legislation takes company benefits off the labor market agenda, to the employer association’s relief. Government efforts in the realm of “labor market policy” will also be welcome. Unable to increase the size of the suitably trained workforce with wage increases, employers will welcome systematic training efforts to better match the supply of skills to rapidly evolving employer needs. Geographic mobilization subsidized and administered through centralized labor exchanges can sensibly ration idle labor to strategically important sectors that labor and employer organizations can reach cross-class agreement on.

As in the case of segmentalism and cartelism, the task of initiating legislation will probably fall largely to reformers outside of the organized capitalist community. Anti-government ideology quite suited to normal business and political conditions obstructs employers from taking on the role themselves. Leaders of employer organizations lack the mandate to promote legislation, and the staff they hire are likely to lack the ideological predilection, if not the requisite expertise. They are also likely to be hobbled by traditional and personal loyalties to conservative parties and party officials who also lack the mandate and staff dedicated to government interventionism. This is not to say that astute and cautious reformers are not responding to clear signals from employers about their interests.

**Conclusion**

The peculiar strategic and policy thinking of GM’s Charles Wilson in the United States and the Söderlns of the Swedish Employer Confederation make perfect sense when seen in the light of analysis about variable systems of
labor market governance. Wilson sought to solidify union control over workers and channel union demands in the direction of welfare capitalist benefits particular to big firms in the auto industry. The arrangement, combined with a minimalist welfare state, would distance GM from most of the labor market through a system of negotiated sectoralism. The Söderslander likewise understood the advantage of employer actions that would solidify the leadership of a centralized union movement that it could nudge in directions that went with the grain of solidarism, the country’s radically different brand of labor market governance and class relations.

The remainder of this book will bring to light many other profound and sometimes astonishing differences in employer behavior in politics and markets in America and Sweden. The most intriguing difference is in the progressive social policy inclinations of a small if articulate minority of politically significant large employers during the 1930s in the United States, when New Deal legislation was passed, and the absence of the same in Sweden at the same time. The roles reversed in the 1940s and 1950s, however, when Swedish employers gave their stamp of approval to the core reforms of the social democratic welfare state. During this period, even the most progressive of American corporate executives resisted major expansion of social policy and instead promoted company-level social benefits, both with and without union input. Swedish employers, in contrast, participated gladly in the liquidation of company-based and even some collectively bargained social benefits and replacement of them with legislation.

To account for the dramatic differences between the two countries, and solve the historical puzzle of the previous chapter, the narrative integrates the theory from this chapter with considerable historical evidence. The comparative argument, in broad strokes, goes as follows. Beginning early in this century, leading manufacturing employers in Sweden and the United States pursued diametrically opposite strategies with regard to labor markets and labor unions. In the United States, after the failure of joint cartelism in steel, machine, and foundry production, leading manufacturers set off on a distinctive individualistic and decentralized course of action. Technological change, shortages of skilled labor, and, above all, employers’ inability to disabuse unions of skilled workers of their militant ambitions to control managerial decisions through collective bargaining were responsible. Employers’ collective action would now be dedicated primarily to crushing rather than negotiating with unions.

For many employers, the decentralized strategy involved offering higher wages than necessary to fill their workplaces (efficiency wages) and, as part of that strategy, relatively generous social benefits (welfare capitalism). Both were designed to achieve the mixed but consonant purposes of warding off unionization, reducing turnover costs, and securing flexibility and efficiencies in the labor process. Employers in other sectors, by contrast, continued to work with unions on a cartelist basis, most importantly in the coal, clothing, and construction industries, where technological and competitive conditions made it more attractive.

The segmentalist and cartelist strategies had a major disadvantage. They left employers vulnerable to the macro-economic shock of the Great Depression, a fact well understood by New Deal reformers. Slack demand and high unemployment exposed these firms to extremely injurious competition from low-wage and low-benefit product market competitors. Taxation for compulsory social insurance, and minimum wages, promised to “uplift” competitive conditions. The interests signaled by employers emboldened the New Dealers to initiate dramatic innovations in social policy and guided the design of their reforms to satisfy important capitalist interests simultaneously with those of their mass constituencies.

In Sweden, by contrast, employers organized effectively, starting early in the century, in pursuit of a radically different strategy of collectively repressing wages (as opposed to individually raising them) and compressing rather than differentiating pay across firms and industries. The employers’ associations and their confederation also tried to suppress and drive out the use of welfare capitalist company benefits instead of promote them, as did every major American business organization. Massive general and sympathy lockouts, a tool not available to their American counterparts, had effectively rooted out all union ambitions to impose the closed shop and to control managerial decisions, thus making them attractive partners in joint labor market governance of a solidaristic nature.

Employers’ strategy of negotiated solidarity, evolving from 1905 onward, achieved phenomenal success in the 1940s and 1950s. For big employers solidarity represented, as a politico-institutional equilibrium with a cross-class foundation, at least as favorable a solution as the market equilibrium of segmentalism. However, the vulnerability of the institutional arrangement was radically different. Conditions of robust demand from postwar international trade made widespread cheating against collectively administered pricing of labor by individual employers too tempting to be fully controlled. Cheating, even by firms that supported the system in principle, often took the form of company-based welfare benefits, which could not be easily monitored, measured, and regulated by the employers’ confederation. Thus, the private welfare benefits experienced explosive, and from the employer organizations’ standpoint, disturbing growth in the 1940s and early 1950s. At this time Social Democrats in Sweden introduced their dramatic reforms, support for which was openly signaled by the employers’ confederation. Putting welfare on the legislative agenda would help them manage the labor market on a solidaristic basis by reducing pressure from below on individual employers all too eager to offer concessions. Solidaristic interests left a distinctive and even a progressive stamp on the design of reforms.

With strong growth in the postwar period, then, Swedish employers took their feet off the brake on the welfare state and even occasionally stepped on the accelerator, allowing social democracy to pass American developments by a full generation. Under the same economic circumstances, by contrast, America gave way to a reasserted welfare capitalism. Now, because of the Wagner
Act, the revival of unions, and Supreme Court rulings, unilateral gave way to negotiated segmentalism, while expansion and innovation in compulsory, universal social insurance slowed considerably relative to Sweden. To understand the reasons for these dramatic differences, one must trace these events and circumstances from the beginning of the twentieth century, when employers in the two countries started developing their different systems of labor market governance.

Part II

Labor Markets