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POWER RESOURCES AND EMPLOYER-CENTERED APPROACHES IN EXPLANATIONS OF WELFARE STATES AND VARIETIES OF CAPITALISM

Protagonists, Consenters, and Antagonists

By WALTER KORPI*

IN the study of capitalist economies and welfare states, during the past century the role accorded to socioeconomic class has fluctuated greatly, in retrospect following a puzzling track. Within political science and sociology, despite their otherwise widely different perspectives, the works of classics such as Émile Durkheim, Karl Marx, and Max Weber were long interpreted to indicate that in these contexts class is a key concept. During the three decades after the end of the Second World War, however, class and partisan politics receded to the background, as “the logic of industrialism” became the prime template for understanding societal development.¹ From that perspective, welfare states were viewed as functional complements to industrial production requiring a labor force differentiated in terms of occupations and skills.

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¹ Clark Kerr, John Dunlop, Frederick Harbison, and Charles Myers, *Industrialism and Industrial Man* (Cambridge: Harvard University Press, 1960).

Yet another approach takes on the long-dominant industrialism paradigm and concentrates on welfare states, as scholars within what has become known as the power-resources approach (hereafter PRA) argued that because of differences in the ways that socioeconomic class is related to types of power resources controlled by citizens as well as to patterns of life-course risks among individuals differently positioned within socioeconomic structures, welfare state development is likely to reflect class-related distributive conflict and partisan politics.² The central themes of this approach center on distributive conflicts reflecting basic splits in employment relations and labor markets. These splits tend to generate interactions between class, life-course risks, and resources, so that categories with higher life-course risks tend to have lower individual resources to cope with risks. Such features generate a potential for class-related collective action. Political parties based in socioeconomic categories relatively disadvantaged in terms of economic resources and relying largely on labor power are expected to be protagonists in welfare state development aimed at modifying conditions and outcomes related to market distributive processes. They can thereby generate what T. H. Marshall called social citizenship, according risk-averse citizens claim rights to support from the state should risks during the life course create situations of need.³ Changes in relations of power among actors are expected to affect actors' strategies of conflict and cooperation.

In the 1990s the PRA interpretation of welfare state development came under challenge from what can be broadly described as employer-centered approaches. With Peter A. Swenson as its prominent spokesman, one version of this critique has relied on historical case studies in a few countries, maintaining that the PRA has overlooked the central proactive role of employers in welfare state development. Instead of being outcomes of class-related conflicts, Swenson argues that major parts of

² PRA's theoretical background was outlined in Walter Korpi, "Conflict, Power and Relative Deprivation," *American Political Science Review* 68 (December 1974); and idem, "Power Resources Approach vs. Action and Conflict," *Sociological Theory* 3, no. 2 (1985). Macrolevel empirical applications are discussed in Walter Korpi, *The Working Class in Welfare Capitalism* (London: Routledge & Kegan Paul, 1978); John D. Stephens, *The Transition from Capitalism to Socialism* (London: Macmillan, 1979); Walter Korpi, *The Democratic Class Struggle* (London: Routledge and Kegan Paul, 1983); John Myles, *Old Age in the Welfare State* (Boston: Little Brown, 1984); Gøsta Esping-Andersen, *Politics against Markets* (Princeton: Princeton University Press, 1985); idem, *The Three Worlds of Welfare Capitalism* (Cambridge, U.K.: Polity Press, 1990); Joakim Palme, *Pension Rights in Welfare Capitalism* (Stockholm: Stockholm University, 1990); Olli Kangas, *The Politics of Social Rights* (Stockholm: Stockholm University, 1991).

³ Thomas H. Marshall, *Citizenship and Social Class and Other Essays* (Cambridge: Cambridge University Press, 1950).

welfare state programs have been promoted by employers, typically in cross-class alliances with employees within the same economic sector.⁴

Another employer-centered version has appeared in comparative studies of production regimes with the varieties of capitalism approach (hereafter VoC) initiated by Peter Hall and David Soskice.⁵ Reacting against what they view as an excessive concentration on unions and states in earlier political economy research, Hall and Soskice place firms in the center of analysis, regard “companies as the crucial actors in a capitalist economy,” and assume that worker investment in the types of skills relevant for firm production is of paramount importance for employers.⁶ The major distinction is made between general skills transferable between firms and branches of production and asset-specific skills relevant only for specific firms or branches of industry. Differences between types of production in terms of requirements for worker skills are assumed to be decisive for employers’ views on welfare state development. Where production requires general skills, VoC expects rational workers to invest in such skills, thereby finding satisfactory insurance for the market value of their investment in the possibility of moving between jobs in many different firms and branches. In the context of production requiring general skills, neither employers nor employees will therefore demand insurance via welfare states, which remain limited; and coordination among economic actors takes place largely via market signaling. Rational workers will not invest in asset-specific skills having limited transferability unless such investments are backed by other forms of insurance against risks associated with income reduction due to unemployment, job loss, and relative wage changes. Since firms themselves are unable to provide credible insurance for asset-specific skills, workers and employers are in a Prisoner’s Dilemma.

⁴ Peter Swenson, “Bringing Capital Back In, or Social Democracy Reconsidered: Employer Power, Cross-Class Alliances, and Centralization of Industrial Relations in Denmark and Sweden,” *World Politics* 43 (July 1991); idem, *Capitalists against Markets. The Making of Labor Markets and Welfare States in the United States and Sweden* (New York: Oxford University Press, 2002).

⁵ Peter A. Hall and David Soskice, eds., *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage* (Oxford: Oxford University Press, 2001); Margarita Estevez-Abe, Torben Iversen, and David Soskice, “Social Protection and the Formation of Skills: A Reinterpretation of the Welfare State,” in Hall and Soskice, *Varieties of Capitalism*; Peter A. Hall and Daniel W. Gingerich, “Varieties of Capitalism and Institutional Complementarities in the Macroeconomy: An Empirical Analysis” (Paper presented at the annual meeting of the American Political Science Association, San Francisco, 2001); David Soskice, “Reinterpreting Corporatism and Explaining Unemployment: Co-ordinated and Non-co-ordinated Market Economies,” in R. Brunetta and C. Dell’Arlinga, eds., *Labour Relations and Economic Performance* (London: Macmillan., 1990); Isabela Mares, *The Politics of Social Risk: Business and Welfare State Development* (Cambridge: Cambridge University Press, 2003); Torben Iversen, *Capitalism, Democracy, and Welfare* (Cambridge: Cambridge University Press, 2005).

⁶ Hall and Soskice (fn. 5), 6.

This dilemma can be solved by public provision of insurance against possible future income losses from skill investments. Specifically, this entails development of unemployment insurance and job protection, as well as the emergence of coordinated wage bargaining. VoC therefore assumes that as crucial actors, employers engaged in production requiring asset-specific skills will initiate welfare state development with social insurance programs that protect employee investment in asset-specific skills. Employers are also expected to generate nonmarket forms of coordination with respect to central aspects of corporate governance and labor markets.

Since market and nonmarket forms of coordination can be equally effective in increasing company competitiveness, firms are expected to gravitate toward one of two polar types of production systems: liberal market economies (LMES) with few social programs and coordinated market economies (CMES) complemented by well-developed welfare states. The central hypothesis implied by the VoC perspective is thus that where production requires asset-specific skills, employers have been key actors with first-order preferences for social programs providing insurance for investments in specific skills. Scholars within this perspective reject the hypothesis that welfare state development reflects any particular balance of power between labor and capital. Instead they view it as often stemming “from the strength rather than the weakness of employers,”⁷ contending that welfare states can be understood as complements to national production systems requiring asset-specific skills.⁸ A central assumption is that in employment relations, conflicts of interest among sectors of the economy clearly dominate class-related strife.

Hall and Soskice characterize their writings as “work in progress,”⁹ and Torben Iversen has attempted to resolve the debate between the PRA and the VoC perspectives.¹⁰ Continuing in this spirit, I here compare these two approaches, clarify similarities and differences in their basic assumptions, reanalyze key empirical works said to demonstrate employers’ major role in initiating welfare state expansion, and bring in new comparative data on fine-grained institutional aspects of social insurance development in areas where the two approaches generate competing hypotheses about factors driving welfare state expansion. To advance the more than century-long debate on socioeconomic class, it is necessary to add precision to basic assumptions from which hypotheses

⁷ Estevez-Abe, Iversen, and Soskice (fn. 5), 181.

⁸ *Ibid.*, 146.

⁹ Hall and Soskice (fn. 5), 2.

¹⁰ Iversen (fn. 5), chap. 1.

on the role of class can be derived. This article therefore starts by outlining microfoundations of class conflict—the assumptions on the level of individuals from which to generate hypotheses on the relevance of class and class-related partisan politics in the development of welfare states and production regimes. After underlining the importance of the historical roots of party strategies, I discuss the employer-centered critique and note some misinterpretations of the PRA.

A crucial difference between PRA and VoC approaches concerns interpretations of the causal processes that generate the major differences we can observe between LMES and CMES in welfare state development. As noted above, VoC assumes that in CMES, welfare states are actively promoted by employers to insure worker investments in asset-specific skills and come to be supported by employees as well. In LMES, however, the dominance of transferable general skills satisfies employers' need for skills as well as employee needs for insurance. By contrast, the PRA views this correlation between production regimes and welfare state development as largely spurious. Reflecting their similar positions in socioeconomic class structures, employees in LMES as well as in CMES are expected to strive for social citizenship rights to insure their life-course risks. Differences among production regimes in welfare state development are instead expected to reflect varying historical factors and institutional contexts that tend to counteract the strength of parties with first-order preferences for social citizenship rights in LMES but tend to be more favorably disposed toward their development in CMES.

A related difference between approaches appears in assumptions about the rank ordering of employers' preferences for social citizenship expansion. PRA expects employers to have relatively weak preferences or even preferences with negative values but to consent to reforms in the context of accommodations where strong welfare state protagonists have limited employers' options in market action while providing new alternative forms of positive-sum interaction. In contrast, VoC implies that in production requiring asset-specific skills employers have first-order preferences for expansion. I therefore identify major problems in imputing first-order policy preferences to employers on the basis of their choices in final stages of policy-making processes or on ex post statements. To address these issues, I introduce a distinction between protagonists, consenters, and antagonists in welfare state development and make the case that VoC scholars, in arguing that employers have a major "proactive" role in welfare state expansion, have mistaken employers' consent to expansion as evidence for their first-order preferences for such reform. While recognizing the very important contributions

by the VoC to the study of production regimes, I question the centrality that this approach accords employers' interests in worker skill investment and point instead to profitability as a *sine qua non* for employers. The article indicates that historical development of class-related partisan politics, partly reflecting differences between electoral models, has generated differing patterns of opportunities and constraints on employers' choices in the various contexts of market operations—contexts hypothesized to have affected outcomes of distributive conflicts in ways relevant both for welfare state expansion and for the emergence of varieties of capitalism.

MICROFOUNDATIONS OF CLASS-RELATED PARTISAN POLITICS

In Western societies inequality in the distribution of our worldly goods can be seen to a large extent as the outcome of distributive conflicts. Citizens cooperate in production, but when it comes to determining conditions under which this cooperation is to take place and how the results of production are to be distributed, there are no naturally given rules or procedures. What primarily matters is the nature of power resources that actors can control to advance their claims and to defend their interests. In the PRA employment relations are assumed to involve distributive conflict between employees and employers, conflict that most of the time is worked out in the positive-sum mode but that may also take zero-sum or negative-sum forms.¹¹ Employment relations and labor markets form the core of socioeconomic stratification. In labor markets and in employment relations, actors engage two basic types of power resources: economic assets and labor power, or human capital.¹² The major difference between these assets turns on the fact that unlike human capital, economic resources can be divested from their owners and transferred to other actors, with the result that economic resources are typically concentrated to a much higher degree than is human capital. In employment relationships, individual employees relying primarily on their human capital are therefore generally subordinated to employers, who ultimately derive their power from control over various forms of capital. The efficacy of economic resources as well as of labor power can be enhanced via collective action. In light of the greater

¹¹ For an early statement on the assumption of primarily positive-sum conflicts between employers and employees in the power resources approach, cf. for example Korpi (fn. 2, 1978), 83. Negative-sum conflict is exemplified by strikes and lockouts; zero-sum conflict may appear, for example, in the absence of productivity growth.

¹² Power resources refer to capabilities of actors to reward or to punish other actors.

dispersion of human capital, however, collective action is likely to be a much more significant tool for employees than for employers.

Socioeconomic class constitutes one of the multiple lines of potential cleavages (including such others as religion, ethnicity, occupation, and economic sectors) around which collective action in distributive conflicts can be mobilized. The extent to which cross-cutting cleavages are mobilized is affected by structural factors, but distributive strife is also focused on influencing the relative importance of these competing lines of cleavages. As noted above, a starting point for the PRA is the fact that socioeconomic class generates differences in risks to which citizens are exposed during the life course. While some life-course risks are generated by universal processes, most risks, such as those associated with aging, illness, work accidents, unemployment, poverty, and rearing of children, are instead unequally distributed among individuals occupying different positions in socioeconomic class structures. Furthermore, class is also related to citizens' resources for coping with these life-course risks, making for the generation of negative correlations between risks and resources. Thus, citizens more exposed to risks tend to have lesser individual resources for coping with them. Differences in types of power resources controlled by actors involved in employment relations and in labor markets are therefore expected to make class a major basis for distributive strife. To favor their own position and with low taxes as a major leitmotif, employers and other interest groups that control major economic resources are likely to prefer to situate distributive processes in the context of markets, where economic assets constitute strategic resources and, by virtue of their concentration, tend to outflank labor power.¹³ Employees, especially categories with limited economic resources, are therefore expected to organize for collective action in political parties and unions to modify conditions for and outcomes of market distribution.¹⁴ Social citizenship, which irrespective of citizens' market capacities grants them claim rights to support from the state for risks generated during the life course, can be seen as outcomes of such strivings. This situation does not, however, pose "politics against markets" in the sense that politics is to replace or destroy markets. At issue is instead what Torben Iversen aptly describes as "politics *of* markets," that is, the use of political means to modify the relative roles of eco-

¹³ Power relations between employers and employees are of course also affected by factors outside the employment relationship, factors such as business cycles, trade regulations, and economic policies.

¹⁴ In this context we must of course keep in mind the problems for collective action once outlined by Mancur Olson, *The Logic of Collective Action* (Cambridge: Harvard University Press, 1965).

conomic resources and citizenship rights in market distribution.¹⁵ Such politics of markets have been central in generating nonmarket forms of coordination in CMES.

The concept of class is a useful tool for describing and categorizing patterns of resource and risk distribution among actors in labor markets. This concept is often conceived of in terms of membership groups with which individuals identify and their specific subcultures and norms, and it is assumed to be relevant, if at all, primarily for industrial workers. A more productive starting point is to define class as categories of individuals who share relatively similar positions, or situations, in labor markets and in employment relations. This definition raises the empirical question of the extent to which and how such similarities in opportunities and constraints result in collective action and group identification. From this perspective, at the most general level we can distinguish three socioeconomic classes: employers, employees, and the self-employed.¹⁶ Although internally quite heterogeneous, these broad categories define similarities in actors' opportunities and constraints, resources and risks, similarities generating what can be called "the logic of the situation" that characterizes socioeconomically delineated classes.¹⁷ Assuming bounded rationality, this logic of the situation, reflecting differences in the nature of actors' resources and risks, is likely to affect the course of action taken by an individual.¹⁸

As noted above, the PRA expects conflicts of interests with respect to social citizenship between employers and economically well endowed categories, on the one hand, and employees relying primarily on labor power, on the other hand. One finds the microfoundations for such conflict in the fact that differences in the logics of the situation of these actors generate asymmetric effects of expanded social citizenship rights in distributive conflict—effects that tend to constrain the efficacy of economic resources while broadening the efficacy of labor power.¹⁹ Employers and economically well situated categories are therefore un-

¹⁵ Iversen (fn. 5), 8.

¹⁶ John H. Goldthorpe, *On Sociology: Numbers, Narratives, and the Integration of Research and Theory* (Oxford: Oxford University Press, 2000); Robert Erikson and John H. Goldthorpe, *The Constant Flux* (Oxford: Clarendon Press, 1992). It should be noted that a number of subcategories are distinguished within these three very broad categories.

¹⁷ I owe the "logic of the situation" term to Goldthorpe (fn. 16), who points to its origin in works of Karl Popper.

¹⁸ Bounded rationality assumes that actors are satisfying rather than maximizing, have limited information and information-processing capability, and may also consider nonmaterial values.

¹⁹ The terms employers and employees are here used as analytic rather than empirically descriptive categories. As noted below, such categories are internally relatively heterogeneous; the assumption here is that within-category variance is lower than variance between categories.

likely to *initiate* policies expanding social citizenship rights; rather, they prefer to benefit from their better positioning within distributive strife of the market-property nexus. In cases of positive-sum conflicts within the economy, however, they may *consent* to such policies as trade-offs in bargaining. The likelihood of employer consent is expected to be affected, *inter alia*, by the extent to which political forces have constrained their range of options in market action while opening up opportunities for new alternatives in positive-sum conflict in other areas.²⁰

HISTORICAL ROOTS OF PARTY STRATEGIES

Debates on the role of class interests and political parties in relation to welfare states and production regimes must be situated in a historical context. This is of particular importance for understanding the role of European confessional parties. In Europe legislation on the first social insurance laws in the decades toward the end of nineteenth century came as one of the responses by state elites to the “Worker Question,” a question raised by threats to the existing social order generated by the emerging industrial working class and by the formation of the first socialist parties.²¹ The Catholic Church, for one, responded warily to the excesses of this early industrial capitalism and supported what at that time was known as “corporatist” thinking. This thinking advocated counteracting the socialist threat by creating societal institutions that would generate cooperation between employers and employees and split the base for working-class collective mobilization by segmenting the dependent labor force into separate occupational communities, each relatively homogenous but differing from the others in terms of resources and risks.²² Broad-based class mobilization, threatening to generate a gulf between two classes, would thereby yield to competition

²⁰ Swenson (fn. 4, 2002) is thus wrong in ascribing the power-resources approach an “equivalence premise,” according to which playing out conflicts of interest between employers and employees will be similar in all countries and at all times (pp. 7–8).

²¹ For a discussion, see Walter Korpi, “Contentious Institutions: An Augmented Rational-Action Analysis of the Origins and Path Dependency of Welfare State Institutions in Western Countries,” *Rationality and Society* 13, no. 2 (2001).

²² On early corporatist thinking, cf. Émile Durkheim, *The Division of Labor in Society* (Glencoe, Ill.: Free Press, [1902] 1964); Ralph H. Bowen, *German Theories of the Corporative State* (New York: Whittelsey House, 1947); Johannes Messner, *Die Soziale Frage in Blickfeld der Irrwege von Gestern, die Sozialkämpfe von Heute, die Weltanschauungen von Morgen* (The social question in perspective of yesterday’s wrong tracks, today’s social struggles and tomorrow’s world views) (Innsbruck: Tyrolia, 1964); Kees van Kersbergen, *Social Capitalism: A Study of Christian Democracy and the Welfare State* (New York: Routledge, 1995). To avoid misunderstanding I here refer to this strand of thought as state corporatism.

among several occupation-based interest groups, and society would, so to say, be sewn together by its inner tensions.

The first social insurance programs introduced by Bismarck in Germany in the 1880s became prototypes of state-corporatist segmenting institutions, with separate programs for various occupational categories having different benefits, conditions, and modes of financing and—unlike types of social insurance institutions in other countries—having program governance based on cooperation between employers and employees. This state-corporatist strategy for stabilizing the existing social order also led to the formation of other types of institutions for the functional representation of significant interest categories, such as separate “chambers” of entrepreneurs and salaried employees. As analyzed by Kathleen Thelen, a special chamber for artisans (*Handwerkskammer*) was established in Germany in 1897 as part of a policy that “actively cultivated independent artisans as a counterforce to the surging labor movement.”²³ In Europe the creation of counterforces to class-based socialist mobilization also included the foundation of confessional political parties and confessional unions, stressing religion as a cleavage to compete with socialist parties for the allegiance of working-class voters.²⁴ These confessional parties have had an explicit cross-class basis, in some countries including workers, salaried employees, and employers as organizational subunits. While the primary purpose of state-corporatist institutions was to generate cooperation between employers and employees to stabilize the existing social order, to be credible the confessional strategy for attracting workers’ votes had to place some limits on employers’ choices, limitations tending to give confessional parties a middling position along the left-right continuum. In European countries the founding of early socialist parties typically preceded legislation of the first social insurance programs as well as the formation of confessional parties and confessional union confederations.²⁵ Such a pattern of timing is congruent with the hypothesis that early social insurance legislation and the formation of confessional parties and confessional union confederations can be seen in part as reactive responses to the Worker Question and early socialist party organization.

²³ Kathleen Thelen, *How Institutions Evolve: The Political Economy of Skills in Germany, Britain, the United States, and Japan* (Cambridge: Cambridge University Press, 2004), 43.

²⁴ In several countries the founding of confessional parties was also motivated by their role in conflicts between the Catholic Church and the state over control over education.

²⁵ Cf. Walter Korpi, “Changing Class Structures and the Origins of Welfare States: The Breakthrough of Social Insurance, 1860–1940” (Paper presented at the ESPAnet conference on European Social Policy, University of Oxford, 2004). In some European countries the creation of confessional parties was also motivated as a defense of churches in conflicts with the state for control over education.

THE EMPLOYER-CENTERED CRITIQUE

Although the PRA shares important starting points with the VoC, critics have sometimes seriously misinterpreted it. Thus Swenson and Mares hold that the PRA is based on the assumption of zero-sum conflicts between employers and employees.²⁶ This serious misinterpretation is surprising in view of clear statements that the PRA assumes that positive-sum conflicts most often characterize employment relationships. Thus, for example, describing the working of Sweden's "Historical Compromise" of the 1930s during the postwar decades involving positive-sum exchange between capital and labor during a social democratic government, Korpi writes: "Wage-earners as well as business interests derived significant benefits from this compromise. For wage-earners the single most important aspect was probably the full employment policy; for business interests it was the favorable opportunities for investment and expansion of the most effective and profitable enterprises."²⁷

Both the PRA and VoC approaches assign a key role to risk aversion in analyses of welfare state development, although they differ with respect to the types of risks considered and in their definitions of risk pools. As discussed above, VoC holds that relevant major risks to employment relations involve asset-specific occupational skills and that major risk categories are employers and employees in those sectors of the economy using such skills. The VoC view on the scope of risks and of risk pools is thus comparatively narrow. PRA considers a much broader range of risks associated with the vagaries and individual unpredictability of human lives, including potential misfortunes created in connection with aging, illness, accidents, unemployment, family formation, and poverty. Some of these outcomes, including unemployment, can also be the result of risks associated with specific skills. The employer-centered critique is correct that the PRA approach has paid little attention to factors accounting for variation among employers in their responses to social policies. This critique becomes problematic when it argues that class-related conflicts of interest are generally overtaken by conflicts among actors in different sectors of the economy, such that the common interests of employers and employees within each sector trump each group's common interests with its counterparts in other sectors. As noted above, both employees and employers are internally heterogeneous categories.

²⁶ Mares (fn. 5) writes that the PRA "is premised on a zero-sum conflict between capital and labor" (p. 5); and Swenson (fn. 4, 1991) writes that it assumes changes to occur "to the overall benefit of one at the expense of the other" (p. 526).

²⁷ Korpi (fn. 2, 1983), 50; also Korpi (fn. 2, 1978), 83.

The question here is therefore not whether they are monolithic actors; clearly organizations of employees as well as of employers must be seen as coalitions including partly differing interests. The important empirical task is to evaluate the importance of intersectional conflicts relative to the class-related ones.

In his attempt to reconcile PRA and VoC perspectives, Iversen is right in pointing to the Janus-faced aspect of the welfare state as being “simultaneously an arena for distributive struggles *and* a source of comparative advantage.”²⁸ Iversen follows VoC reasoning in viewing the emergence and development of social protection as primarily reflecting demands from employers and employees in sectors of the economy that are based on asset-specific skills. When such groups succeed in their efforts to increase social protection insuring this type of skills, opportunities for further investments in specific skills are expanded, thereby creating virtuous circles that may gradually generate a CME equilibrium.²⁹ In LMES, employee investments in general skills are protected by the portability of skills; in spite of greater inequality, employee demands for social protection are therefore largely absent, and an LME equilibrium is reached. In Iversen’s view such processes solve the puzzle “why welfare states are so broadly supported in some countries despite modest levels of inequality” and “why democracies with high inequality are not more distributive than democracies with low inequality.”³⁰ Limited welfare state development in the LMES thus becomes a residual category, largely explained in terms of lack of employer and employee demand for insurance once skill investments are insured via general and therefore portable skills.

Iversen interprets the PRA as focusing only on redistribution and, pointing to the close relations between redistribution and insurance, argues that in the PRA “the emphasis on class interest ignores the importance of insurance motives in peoples’ demand for social protection.”³¹ In fact, the relationship between insurance and redistribution is not lost in the PRA; on the contrary, it is in the center of analysis. The PRA and VoC approaches differ instead in their conceptions of risk and risk pools. Whereas VoC focuses on risks associated with investments in skills, the PRA, as discussed above, takes account of a much broader spectrum of life-course risks, some of which are associated with investments in skills. The class concept is used to call attention to in-

²⁸ Iversen (fn. 5), 13, italics in original.

²⁹ *Ibid.*, 24

³⁰ *Ibid.*, 18 and 13.

³¹ *Ibid.*, 12.

teractions in patterns of risk and resource distributions among socioeconomic categories of citizens. Considerable empirical work within this perspective—not cited in Iversen’s references—has focused on social insurance and redistribution.³² Central themes have concerned the ways in which social insurance institutions tend to structure citizens into pools of people who are more or less homogeneous with respect to risks and resources. Such processes of internal homogenization and external heterogeneity are expected to influence citizens’ preferences as well as the ways in which different types of social insurance institutions promote or retard redistribution.

As noted above, Iversen diverges from the PRA in assuming that the origins of production regimes and welfare states are closely linked to asset specificity in worker skills. The major theme of his book turns on the ways in which employer efforts to incite employees to invest in asset-specific skills drive employers and employees within sectors of the economy to promote social protection. Iversen concludes that cross-national variance in social protection is caused by differences in national skill profiles, differences responding to employers’ needs to ensure their availability of specific skills, and he suggests that this provides “a new explanation of the welfare state based on differences in national skill profiles.”³³ However, he also takes up an additional but somewhat subdued theme pointing to the relevance of income differences, union membership, and political preferences for social protection and redistribution.³⁴ This minor theme fits well with PRA hypotheses that socioeconomic class is a major determinant of income differences as well as of social protection preferences.

A key difference among approaches appears with Iversen’s contention that major actors here are “parties with close ties to private groups representing employees with specific skills.”³⁵ VoC faces a stiff challenge to empirically verify the existence and major role of political parties representing primarily workers with specific skills, a task that remains to be accomplished. We have seen that the PRA expects parties to largely represent interests based in socioeconomic class, that is, coalitions of citizens among which variance in risks and resources tends to be greater

³² For example, Walter Korpi and Joakim Palme, “The Paradox of Redistribution and Strategies of Equality: Welfare State Institutions, Inequality, and Poverty in the Western Countries,” *American Sociological Review* 63 (October 1998); idem, “New Politics and Class Politics in the Context of Austerity and Globalization: Welfare State Regress in 18 Countries, 1975–1995,” *American Political Science Review* 97 (August 2003).

³³ Iversen (fn. 5), 112.

³⁴ Ibid., chap. 3.

³⁵ Ibid., 163.

between categories than within them. The hypothesis of a relationship of parties to socioeconomic class is supported by the recognition that in Western countries major political parties can be roughly arranged along a left-right continuum, with left parties tending more than secular center-right parties to recruit their voters from economically relatively disadvantaged socioeconomic categories. With their explicit design as cross-class parties to compete for the votes of manual workers as well, European confessional parties tend to take middling positions on the left-right continuum. Yet while political parties are more or less closely associated with class structures, we do on rare occasion find parties primarily representing sectors of the economy, the clearest examples here being agrarian parties long significant in the Nordic countries. Socioeconomic structures tending to generate class voting contradict interpretations making sectoral differences a main base for party cleavages.³⁶ Socioeconomic class is also known to be a major determinant of social protection preferences.³⁷

As noted above, VoC takes low levels of social protection in LMES to reflect lack of demand from employees, on the grounds that their major risks are comfortably insured because their skills are portable. This assumption leads to Iversen's puzzle about the negative relationship between inequality and demand for redistribution in LMES and CMES. The PRA suggests a solution with its hypothesis that class-related differences in risks and resources are as relevant in LMES as in CMES, but that in LMES political power constellations have counteracted development of social citizenship rights and decrease of inequality. In LMES economically well upholstered and politically strong categories have tended to prevail in their efforts to insure their own risks within the market/property nexus while resisting the development of social citizenship rights for those less well endowed.

In this context, central questions concern the causal ordering of factors in the emergence of welfare states and of production regimes and the nature of employers' first-order preferences. As discussed above, VoC appears to assume that differences in welfare state development associated with different production regimes reflect a causal relation. In CMES employers' early investments in forms of production requiring

³⁶ Class voting is debated, for example, in Geoffrey Evans, *The End of Class Politics? Class Voting in a Comparative Context* (Oxford: Oxford University Press, 1999).

³⁷ For example, Stefan Svallfors, "Worlds of Welfare and Attitudes to Redistribution: A Comparison of Eight Western Nations," *European Sociological Review* 13 (1996); idem, "Welfare Regimes and Welfare Opinions: A Comparison of Six Western Countries," *Social Indicators Research* 64, no. 3 (2003).

asset-specific skills have made them initiate social programs that support investment in such skills. As these programs come to be supported by employees as well, they thereby generate virtuous circles and equilibrium processes toward CMES complemented by generous welfare states. PRA assumes that both in LMES and in CMES, class-related political forces representing the economically less endowed have pressed for extension of social citizenship rights. Only in countries where protagonists have been relatively strong have they however been able to expand social citizenship right to an extent constraining employers' market choices. This decrease in the power imbalance has tended to make actors converge around a strategy of increasing economic growth and productivity, a strategy constraining also labor's choices. Such a double bind, reflecting a combination of major pressures toward welfare state expansion and efforts to facilitate economic efficiency, may have opened up new alternatives in positive-sum conflicts, alternatives generating generous welfare states as well as CMES.

In discussions on the extent to which tensions among economic sectors have affected welfare state development, we must recall that neither employers' organizations nor trade unions have been directly involved in making social policy legislation. Instead their interests have been more or less closely represented by different types of political parties, the main types being left, confessional, and secular center-right parties.

REANALYZING EMPLOYER PARTICIPATION IN WELFARE STATE EXPANSION

As noted above, in contrast to the VoC view, PRA predicts that employers are unlikely to have social citizenship expansion as a first-order preference driving them to become agenda setters in welfare state expansion. Actors' rank orders of preferences can of course not be directly observed but have to be inferred from observation of their actions. Such observation becomes problematic since consecutive stages of policy-making on welfare states have often involved most major interest groups, and their strategies of conflict are likely to have been affected by changes in power relations, institutions, and anticipated reactions from other actors. When imputing interests to actors and ranking their priorities with respect to policy-making on welfare states, it is therefore necessary to have a counterfactual scenario in relation to which imputation can be made. One alternative is to observe the time order in which different actors enter into the policy-making process. To clarify this central issue

in the debate between VoC and PRA, it is fruitful to distinguish between three categories of actors:

1. protagonists, initiating policies extending social citizenship rights and becoming agenda setters in welfare state expansion,
2. consenters, becoming involved in subsequent stages of policy-making, and
3. antagonists, persisting in opposition to expansion.³⁸

In the beginning of a policy-making process, we can discern protagonists who voice demands and bring proposals for extension of social citizenship rights into political debates and therefore can be assumed to have extension of such rights as their first-order preference. For strategic reasons, some actors initially opposed to a policy proposal may consent to it for fear of voter reactions if the proposal is turned down. Others may attempt to modify policies to accord with their second-best or even lower levels of policy preferences and, if successful, can consent to a revised proposal. An actor's consent to proposals initiated by others can however not be taken to reflect first-order preferences for social citizenship expansion. Since they are necessary although not always sufficient for welfare state development, it is here crucial to identify protagonists.³⁹ The PRA leads to the hypothesis that, *ceteris paribus*, parties and interest organizations are likely to initiate policies extending social citizenship rights to the extent that their base includes sections of the labor force that are relatively disadvantaged economically and that have low or medium levels of human capital. Interest organizations of the economically well endowed are expected to favor policies insuring their risks via private or occupational programs within the market-property nexus, where they derive advantage from their lesser risks and greater resources. The extent to which such interest organizations become consenters rather than antagonists is of relevance as an indicator of the extent to which protagonists have become effective agenda setters in welfare state expansion but it is not critical to analyses of the origins of that expansion.

VoC scholars often refer to historical case studies purported to demonstrate what they have termed the major "proactive" role of employers in welfare state expansion and appear to use this label to refer to

³⁸ For similar observations, cf. Jacob S. Hacker and Paul Pierson. "Business Power and Social Policy: Employers and the Formation of the American Welfare State," *Politics & Society* 30, no. 2 (2002); idem, "Varieties of Capitalist Interests and Capitalist Power: A Response to Swenson," *Studies in American Political Development* 18 (Fall 2004); Theda Skocpol and Edwin Amenta, "States and Social Policies," *Annual Review of Sociology* 12 (1986).

³⁹ In formulating policy proposals, protagonists are also of course likely to consider anticipated reactions from others parties.

consenters as well as to protagonists. I will here reanalyze results from two comparative studies most often cited by VoC scholars in support of the proactive role of employers, one by Isabela Mares on France and Germany, the other by Peter A. Swenson on Sweden and the United States.⁴⁰ Their erroneous ascription of a zero-sum assumption to the PRA would make a demonstration of employers' consent to bargained versions of reform proposals sufficient for its refutation. But as noted above, the PRA hypothesis is that while employers and business interests are unlikely to emerge as protagonists in the extension of social citizenship rights, for various reasons they may consent to proposals reflecting their second or lower levels of preferences.

FRANCE AND GERMANY

Mares, in her case study on the historical development of unemployment insurance, work accident insurance, old-age pensions, and early-retirement programs in France and Germany, makes a fruitful contribution through her analysis of factors affecting employers' interest in social policy legislation. Following the VoC approach, her central assumption is that employers initiate social policy legislation that helps them to "overcome market failures in skill formation."⁴¹ In discussing patterns of cross-class alliances among sectors of capital and labor, Mares draws a key distinction between prestrategic and strategic alliances: "The former are formed if unions and employers support their preferred outcome, the latter if either unions or employers support a social policy that is their second-best choice."⁴² In terms of her categorization, only employers' prestrategic alliances indicate that they have been protagonists with first-order preferences for a reform program. In both countries Mares documents intensive employer involvement in bargaining on social policy legislation. On the basis of her distinction between prestrategic and strategic alliances, however, she concludes: "Employers were *not* 'agenda setters.' They were *not* responsible for introducing a social policy proposal on the broad agenda of reform."⁴³ Recognizing the fundamental distinction between consenters and protagonists, her key results thus support the PRA hypothesis that employers are unlikely to have first-order preferences for reforms extending social citizenship rights.

⁴⁰ Mares (fn. 5); Swenson (fn. 4, 2002).

⁴¹ Mares (fn. 5), 251.

⁴² *Ibid.*, 3.

⁴³ *Ibid.*, 259, italics added. Mares identifies one exception to this conclusion, that is, employers' support for disability insurance in Germany in the 1880s. As discussed below, work accident insurance was the branch of insurance most easily accepted by employers.

In line with PRA hypotheses, Mares furthermore documents widespread employer antagonism to legislated social insurance programs. Belated in relation to most other European countries, France introduced its first major set of social insurance legislation in 1928, the *Régime Générale*, including sickness and work accident insurance as well as old-age pension. Mares finds that in this context employers consistently opposed compulsory insurance, preferring voluntary or employer-provided forms; both small and large employers “were united against the proposal of French legislators to introduce compulsory insurance.”⁴⁴ She quotes contemporary sources to the effect that during the period of legislative deliberations “all the partisans of the law recognized that an immense majority among employers have been hostile to the project” and that numerous press campaigns attacking this project had been financed by some employers.⁴⁵ Mares does not note, however, that this major set of social insurance legislation had to wait until a change in political power relations generated by the first brief period of center-left cabinets in France in the second half of the 1920s.⁴⁶

Mares includes in her study early-retirement programs introduced on a large scale in connection with the return of mass unemployment in the 1980s. But the fact that both unions and employers often supported these programs need not imply that such solutions were first-order preferences of either party. Instead they are likely to have been expedient emergency solutions for employers to shed less attractive elderly employees, for unions as a better alternative than continued unemployment, and for governments to mitigate negative reactions to mass unemployment in the electorate.⁴⁷

According to Mares’s theoretical perspective, employers are expected to support unemployment insurance in order to “induce workers to overcome their reluctance to invest in skills.”⁴⁸ She observes that her assumption that this insurance will receive employer support contradicts the PRA, which expects employers to be wary of unemployment insurance because it raises workers’ reservation wages.⁴⁹ In keeping with

⁴⁴ *Ibid.*, 128.

⁴⁵ *Ibid.*, 128–29.

⁴⁶ Walter Korpi, “Un État-Providence Contesté et Fragmenté,” *Revue Française de Science Politique* 45, no. 4 (1995); this fact has also been independently noted by Michael Shalev, “The Politics of Elective Affinity,” in Bernhard Ebbinghaus and Philip Manow, eds., *Varieties of Welfare Capitalism* (London: Routledge, 1991).

⁴⁷ In this context Mares includes firm-based programs initiated by employers, as indicators of their positive interest in social reform. However such programs are parts of firms’ wage and personnel management policies and do not constitute social citizenship rights.

⁴⁸ Mares (fn. 5), 251.

⁴⁹ *Ibid.*, 249–50.

PRA hypotheses, however, are the following facts: because of employer resistance unemployment insurance was not included in the *Régime Générale*, and German employers also militantly opposed any form of compulsory unemployment insurance.⁵⁰

SWEDEN AND THE UNITED STATES

Swenson has served the scholarly community by stressing the need for analyses of employer's roles in welfare state development and of the ways in which employers' regulatory interests influence their labor-market strategies. Nevertheless, his interpretations about employers' proactive roles in social policy development call for reconsideration. Swenson's central argument is that "union strength and employer interest in equalization may partly coincide. To the extent that they coincide, no conclusion about the use of union power to achieve equalization can confidently be drawn. . . . If further investigation were to reveal that employer interests regarding social policy were strikingly more positive where labor is 'strong' according to typical measures, the conceptual trends in the causal analysis would lose all traction." He maintains that "the political power of labor, measured conventionally, is indeed spurious if conceived exclusively as 'power against capital and its interests,'"⁵¹ concluding that "as economic actors in labor market formation, or political actors in welfare state development, Swedish employers were nothing like American employers."⁵² But Swenson provides no independent empirical evidence on differences between Sweden and the United States in employers' first-order preferences regarding welfare state expansion. Instead he seems to infer differences in employers' preferences for expansion from differences in the extent to which employers in these two countries have consented to expansive legislation. And he thereafter takes differences between so imputed employers' preferences to explain differences between the countries' legislation expanding the welfare state, a mode of causal analysis long known as circular reasoning having less traction than attraction.

In the PRA perspective, differences among countries in terms of what employers accept in positive-sum conflicts are likely to reflect their relative bargaining positions; critical here is that such consent need not reflect employers' first-order preferences. A number of comparative

⁵⁰ In France employers instead stuck with the voluntary Ghent program, which up to the Second World War had only a minuscule coverage (2–3 percent) among employees. In Germany unemployment aid was means tested.

⁵¹ Swenson (fn. 4, 2002), 10.

⁵² *Ibid.*, 12.

studies have shown that the left-right composition of cabinets is associated with country differences in social citizenship rights as well as in social expenditures.⁵³ Swenson dismisses those arguments by asserting that they have not controlled for measured variations in employer interests. Yet in one crucial respect Swenson finds clear similarities between Swedish and American employers. Parallel to Mares's distinction between prestrategic and strategic policy stances, Swenson distinguishes between actors "responsible for taking the political initiative" and other actors. His conclusion is that in Sweden as well as in the United States, "*employers were rarely the initiating or driving force,*" while instead "reformers with considerable 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."⁵⁴ Again, recognizing the key distinction between protagonists and consenters, we see that Swenson's empirical findings support the PRA hypothesis that employers are unlikely to have first-order preferences for welfare state expansion.⁵⁵

BECOMING A COORDINATED MARKET ECONOMY: SWEDEN AS A TEST CASE

Sweden is often viewed as a well-developed welfare state and it also appears as a typical CME. In adjudicating between PRA and VoC in debates on forces driving the emergence of such a combination, Sweden therefore appears as an important test case. Did this combination originate in class conflict and left-right partisan politics? Or did it come about through equilibrating and largely conflict-free processes, in which employers were key actors in driving welfare state expansion? Based on Swenson's writings, the latter alternative would appear to have gained some credence. In adjudicating between these interpretations, his evidence provides a good frame for analyzing the case of Sweden. He has portrayed the development of the Swedish welfare state as a paragon of cross-class alliances, where few traces of class conflict have been visible.

⁵³ Esping-Andersen (fn. 2, 1990); Alexander Hicks, *Social Democracy and Welfare Capitalism: A Century of Income Security Politics* (Ithaca, N.Y.: Cornell University Press, 1999); Evelyn Huber and John D. Stephens, *Development and Crises of the Welfare State: Parties and Policies in Global Markets* (Chicago: University of Chicago Press, 2001); Kangas (fn. 2); Walter Korpi, "Power, Politics, and State Autonomy in the Development of Social Citizenship: Social Rights during Sickness in 18 OECD Countries since 1930," *American Sociological Review* 54 (June 1989); Palme (fn. 2).

⁵⁴ Swenson (fn. 4, 1991), 13, 12, italics added.

⁵⁵ Hacker and Pierson have taken Swenson to task for his interpretations of the proactive role of business interests in American welfare state development; Hacker and Pierson (fn. 38, 2002 and 2004).

He maintains that the “Swedish Left secured power in tacit alliance with dominant groups of employers” and that “the political domination of social democrats . . . was stabilized by the absence of intense political opposition by capital to policies and programs aggressively opposed by business elsewhere in the world.”⁵⁶ The bases for these conclusions are utterly problematic, however.

Swenson distorts the PRA when writing that it has “systematically misconceived capital as passive or weak” and should abandon “the common notion that capital was weak or passive relative to labor.”⁵⁷ Surprisingly enough, Swenson has not observed that the PRA makes the very opposite assumption. As stated by Korpi:

In contrast to the pluralist view, my guiding hypothesis is that in a capitalist society the working class is a subordinated class in relation to capital. However, in contrast to the Leninist interpretation of Marx, my hypothesis is that through its political and union organizations, the working class can decrease its disadvantage in relation to capital. Therefore among capitalist democracies the degree of disadvantage of the power resources of wage-earners can vary significantly over time as well as between countries.⁵⁸

Major shifts in the relative disadvantage of labor—responding to factors affecting positions of capital as well as of labor—are likely to be reflected in movements on the left-right continuum of the set of feasible alternatives around which political conflict is centered at a particular time.⁵⁹ In contrast to Downsian spatial theories assuming voters’ preferences to be exogenously given, the PRA predicts that under favorable conditions parties can significantly modify the aggregate distribution of voters’ preferences, something which has also been argued in directional theories of voting.⁶⁰ In the PRA perspective, major decreases in labor’s relative power disadvantage taking place in Sweden since the early 1930s were likely to have influenced manifestations of positive-sum conflicts in labor markets and politics. An examination of four areas shows that while Swenson’s interpretations of the history of class relations in Sweden goes counter to key facts, they provide interesting leads into processes making Sweden a representative combination of a welfare state and CME.

⁵⁶ Swenson (fn. 4, 1991), 513, 514.

⁵⁷ *Ibid.*, 515, 543.

⁵⁸ Korpi (fn. 2, 1983), 14.

⁵⁹ *Ibid.*, 43–45.

⁶⁰ Anthony Downs, *An Economic Theory of Democracy* (New York: Harper and Row, 1957); G. Rabinowitz and S. E. Macdonald, “A Directional Theory of Issue Voting,” *American Political Science Review* 89 (March 1989). The debate on spatial theories on voting and its directional

CHANGES IN INDUSTRIAL CONFLICT

One of Swenson's arguments for his cross-class alliance interpretation concerns the long-term development of intensive industrial conflict in Sweden over the first three decades of the twentieth century. Thus, relative to the size of its labor force, up to the early 1930s Sweden held the international record for working days used for industrial conflict and lockouts, as well as for strikes.⁶¹ A critical juncture came with the formation of the Social Democratic cabinet in 1932 based on a left majority in the Lower Chamber of the Riksdag and with additional support from the Agrarian Party. This shift generated the above-mentioned "Historical Compromise" between capital and labor.⁶² The basis for this compromise was the stabilization of the Social Democratic government into what became widely seen as a long-term cabinet tenure, a situation that markedly decreased the power disadvantage of labor.⁶³ The feasible set of policy alternatives shifted leftward, from labor-market conflict into political competition, a shift that won Sweden renown for its postwar industrial peace.⁶⁴

Swenson sees the transition in industrial conflict during this period as instead "the product of a cross-class coalition against high-pay workers in the sheltered industries," where "the Social Democratic party and the government joined [employers in] the alliance against construction workers."⁶⁵ Tensions among unions representing export industries versus domestic producers have been common in most Western countries, however. The evidence indicates that major transformations of high prewar conflict levels to low postwar ones are found only in Sweden, Norway, and Austria, the only three countries where social democrats were able to establish a long-term cabinet presence in the decades after the war.⁶⁶ This pattern thus supports the PRA interpretation.

alternative has primarily concerned their capacity to predict votes. Of major relevance in this context is that directional theories can provide endogenous explanations of differences in the aggregate distribution of preferences among countries and over time.

⁶¹ Walter Korpi and Michael Shalev, "Strikes, Power and Politics in the Western Nations, 1900-1976," *Political Power and Social Theory* 1 (1980); Korpi (fn. 2, 1983), chap. 8.

⁶² Korpi (fn. 2, 1978), 80-85; Korpi (fn. 2, 1983), 46-50.

⁶³ For the relevance of long-term left cabinet presence, see Korpi (fn. 2, 1978), 80-86; Korpi (fn. 2, 1983), 46-50, 168-83; Korpi (fn. 53), 316; and Huber and Stephens (fn. 53), chap. 1.

⁶⁴ Levels of industrial conflict show relatively much short-term variation, and in Sweden just before 1932, partly because of the onset of the Great Depression, they were relatively low. The discussion here, however, is based on the major differences in industrial conflicts before and after the Second World War.

⁶⁵ Peter Swenson, *Fair Shares: Unions, Pay and Politics in Sweden and West Germany* (London: Admantine Press, 1989), 50; Swenson (fn. 4, 1991), 525. Swenson takes their reaction to wage developments in the building sector and the building workers' strike of 1933-34 as his prime evidence for such cross-class coalitions.

⁶⁶ Korpi and Shalev (fn. 61, 1980); Korpi (fn. 2, 1983), chap. 8.

EMPLOYERS' INTERWAR INVOLVEMENT IN POLITICS

According to Swenson, the 1930s was a period of cross-class realignment, when “employers mostly withdrew from partisan politics and, with episodic exceptions, otherwise toned down their public propaganda against the Left” and no longer “worked with and through the rightist parties to win political influence.”⁶⁷ But in Sweden’s changed political climate after 1932, open employer support for Conservative and Liberal parties risked becoming a public embarrassment for these parties. However, historians have shown from the archival evidence of the period that, far from withdrawing from politics, employers organized informal and secret channels for supporting these two parties. Thus in the period 1933–53 an informal association consisting of the chief executives of Sweden’s five largest multinational corporations, the Director’s Club, attempted to organize industry and the political opposition to take militant action intended to oust the Social Democratic government; the club was especially active before the 1936 elections.⁶⁸ The key role of the major export-oriented firms in creating and running this association contradicts Swenson’s assumption that during the 1930s employers in the traded-goods sector were “allying with Social Democrats.”⁶⁹ Swenson argues that Sigfrid Edström, chairman of engineering industry’s employer organization and of the Swedish Employers’ Confederation (SAF), “actively promoted the cross-class consensus building of the 1930s.”⁷⁰ Given the fact that during this period Edström was not only director of the Director’s Club but was also a central member of the “inner circle” discussed below, Swenson’s interpretation is surprising.⁷¹

Niklas Stenlås’s important historical study, based on archival research, shows that in 1942 a score of leaders of Sweden’s most important enterprises and banks formed what became the nucleus of an inner circle of the country’s business community.⁷² This circle undertook the task of generating economic and organizational support for the Conservative

⁶⁷ Swenson (fn. 4, 1991), 536.

⁶⁸ S. A. Söderpalm, *Direktörsklubben* (The directors’ club) (Stockholm: Rabén och Sjögren, 1976).

⁶⁹ Swenson (fn. 4, 1991), 539.

⁷⁰ Swenson (fn. 4, 2002), 295.

⁷¹ Edström chaired the engineering employers association (1906–39) and the SAF (1931–43), and directed the multinational ASEA, one of the most important firms in the industrial and financial empire of the Wallenberg family. In approaching Edström for financial support, Arvid Lindman, Conservative prime minister in 1928–30, argued that his party had always supported lowering of taxation and opposed solutions inimical to industry “such as the eight-hour working [and] unemployment insurance” and that in his view there was not a single question “where we have not stood on the side of industry”; www.anders.lif.se/index.html-edstrombrev.html.

⁷² Niklas Stenlås, *Den inre kretsen* (The inner circle) (Lund: Arkiv, 1998). One of the key participants in this circle was Sigfrid Edström.

and Liberal parties in their attempts to oust Social Democrats from government positions. In addition to economic contributions from individual firms, via their control over key positions in SAF, the inner circle was able to adjust its internal procedures so as to enable major resources from SAF's conflict funds to be channeled secretly to these parties and their newspapers, inter alia, for financing the parliamentary staff of the Conservative Party. Estimates indicate that up to the 1950s, the major part of economic resources of the Conservative Party and a sizable proportion also of the Liberal Party came from business sources.⁷³ Swenson is right insofar as employers were involved in tacit alliances, but he is wrong about the nature of these alliances: dominant employers tacitly allied themselves not with but rather against the Swedish left.

EMPLOYER STRATEGIES UNDER CHANGING POWER RELATIONS

Swenson takes the pension reform in 1946 as an indication that employers were, "in some cases, even more generous reformers than the Social Democrats themselves" and that they "rejected a cheap 'means-tested' version of legislation (targeted to poorer applicants who could demonstrate need) initially favored by leading Social Democrats."⁷⁴ This misrepresents the main alternatives. In Sweden old-age pensions have never been targeted to the poor via means testing; instead, they included a universal funded system with flat-rate benefits and with a supplement tested in relation to other income.⁷⁵ Like historian Peter Baldwin, Swenson fails to consider the historical context for this reform and to recognize that employer strategies are likely to change as balances of power change.⁷⁶ The historical background of the 1946 pension reform was that after forming the cabinet of 1932, Social Democrats had scored a series of major election victories; local elections in 1938 and 1942 as well as parliamentary elections in 1940 gave them over 50 percent of the vote. After the 1944 elections they held more parliamentary seats than the three center-right parties combined. While at the end of the 1930s, Liberals turned from market liberalism to "social liberalism"

⁷³ Ibid., chaps. 5–6.

⁷⁴ Swenson (fn. 4, 1991), 10–11.

⁷⁵ Åke Elmér, *Folkepensioneringen i Sverige* (Old-age pensions in Sweden) (Lund: Gleerups, 1960), chap. 4. In 1947, just before changes legislated in 1946 came into force, 97 percent of persons above pension age received some public pension benefits.

⁷⁶ In his discussion of the 1946 pension reform in Sweden, Peter Baldwin, too, has overlooked problems in imputing first-order preferences to employers on the basis of their standpoint in the final stage of policy-making without considering processes leading up to this decision; Baldwin, *The Politics of Social Solidarity: Class Bases of the European Welfare State, 1875–1975* (Cambridge: Cambridge University Press, 1990). For a critique of Baldwin, see Sven E. Olsson, "Working-Class Power and the 1946 Pension Reform in Sweden," *International Review of Social History* 34 (1989).

and sometimes consented to reform, the Conservative Party remained antagonistic and suffered a series of election defeats, seeing its vote share almost halved between 1930 and 1944. Against the background of the now widespread electoral support for the Social Democratic reform plans and after its own long-term decline and severe defeat in the 1944 elections, the Conservative Party reoriented its traditional resistance to costly social reforms. In debates preceding the pension reform, all parties now agreed that benefits would be considerably increased; the main debate concerned retention of the income-tested supplement. Social Democrats as well as Liberals were divided on the issue of income testing, while Conservatives soon came to support abolishing an income test. At this late stage of policy-making, it was probably not too difficult for the Conservatives and the SAF to oppose such income testing, which would have excluded large segments of their supporters. Opposition came also from LO—the manual union confederation—and the Social Democratic parliamentary group. Mares is thus obviously wrong in asserting that “Swedish Social Democratic governments endorsed the universalistic policies *only after pressure* from Swedish conservatives.”⁷⁷ Because of budgetary constraints in the context of two other pending major reforms (universal child benefits and universal sickness benefits), opinions within the cabinet were divided, but it eventually declined to impose this form of income testing.

EMPLOYERS' POSTWAR POLITICAL INVOLVEMENT

In the protracted conflict around the supplementary pension reform (ATP) during the second half of the 1950s, employers again actively sided with the Conservative and Liberal parties against the Social Democratic government and the LO but suffered a narrow defeat when the reform was legislated with a one-vote majority in 1959.⁷⁸ In the campaign for the 1960 elections to the Riksdag, the Conservative Party, with its close relations to employers' organizations, demanded that this reform be dismantled and also proposed cutbacks in other major social programs but suffered a serious defeat. This defeat confirmed the role of Social Democrats as effective agenda setters in welfare state policies

⁷⁷ Mares (fn. 5), 52, italics in original.

⁷⁸ For information on SAF's involvement in the campaign against the ATP reform, cf. Björn Molin, *Tjänstepensionsfrågan: En studie i svensk partipolitik* (Superannuation: A study in Swedish party politics) (Göteborg; Scandinavian University Books, 1965); Stig Hadenius, Björn Molin, and Hans Wieslander, *Sverige efter 1900* (Sweden after 1900) (Stockholm: Aldus, 1993), 202–25. Swenson (fn. 4, 2002) considers the ATP reform as “the one exception” to the rule that employers favored legislation over no legislation (p. 11).

and was followed by two decades of party truce on social reform. The middle classes learned to appreciate the ATP reform, the introduction of which Conservatives and Liberals had bitterly opposed, and their support for the Social Democrats increased.⁷⁹

In the early 1970s, against the background of a series of wildcat strikes, LO convinced the Social Democratic government to question the full managerial prerogatives in the workplace, and the government introduced legislation improving employee job security and workplace position.⁸⁰ Conflicts between organizations and parties on the left and the right were greatly intensified when, in 1976, LO proposed the legislation of "wage earner funds" under union control that would acquire shares and thereby influence in private companies.⁸¹ In 1980, during the first postwar period with a center-conservative government, SAF released its ultimate weapon, the general lockout. Lasting for one week and, relative to the size of the labor force, one of the largest single industrial conflicts in international labor history, it nevertheless failed as a result of pressures from the center-right cabinet.⁸² When the returning Social Democratic government presented a greatly toned-down proposal for wage earner funds, employer organizations mobilized giant street demonstrations in 1983–85 to try to influence the parliament. With major business elites well represented in the demonstrations, these were rare events in the political history of Western countries.

BECOMING A CME

According to Swenson, "One cannot account for the fact that Social Democrats held control so securely for so many years without recognizing the contentment of employers and their consequent disinterest in mobilizing voter and party sentiment against the Social Democrats."⁸³ As the above review indicates, Swenson's account of sociopolitical developments in Sweden is deeply flawed.⁸⁴ Rather than being a product of equilibrating virtuous processes and cross-class alliances, the Swedish CME emerged as a result of periodically intense class-related conflicts when long-term social democratic governments and strong unions,

⁷⁹ Cf. Korpi (fn. 2, 1983), 92–93; and Torsten Svensson, *Socialdemokratins dominans* (Social democracy's dominance) (Uppsala: Acta Universitatis Uppsaliensis, 1994).

⁸⁰ Walter Korpi, "Unofficial Strikes in Sweden," *British Journal of Industrial Relations* 19 (March 1981).

⁸¹ Korpi (fn. 2, 1983)

⁸² Walter Korpi, "The Historical Compromise and Its Dissolution," in Bengt Rydén and Villy Bergström, eds., *Sweden: Choices for Economic and Social Policy in the 1980s* (London: Allen and Unwin, 1982).

⁸³ Swenson (fn. 4, 1991), 537.

⁸⁴ A similar conclusion is also reached by Huber and Stephens (fn. 53), chap. 5.

intending to expand social citizenship, and placed constraints on capital's market options, while themselves being constrained by their desire to maintain economic growth. Under this double bind, new alternatives in positive-sum conflict emerged and new arenas for exchange and coordination between the parties were opened up in processes which at that time were found to be rewarding by capital as well as by labor, with the result that Sweden became a combination of a well-developed welfare state and a CME.

ORIGINS OF PRODUCTION REGIMES

Up to the 1990s, according to VoC scholars, among the eighteen countries studied here, LMES included the United States and Britain as prototypical cases, as well as Australia, Canada, Ireland, and New Zealand. The CMES were Austria, Belgium, Denmark, Finland, Germany, Japan, The Netherlands, Norway, Sweden, and Switzerland. Between these two clusters, France and Italy appear as mixed cases. VoC scholars have paid only limited attention to regime emergence. However, their stress on functions of institutional coordination for economic efficiency has led some commentators to point to potential functionalistic explanations for CME emergence.⁸⁵ Hall and Soskice reject such implications, arguing that functional considerations are relevant only for sustaining institutions and that different coordinating institutions "develop over long periods of time and for multifarious reasons."⁸⁶ Yet, although limiting the claim to CMES, like the "logic of industrialism," VoC assumes that welfare states can be seen as complements to national economies. As noted above, Iversen suggests that via virtuous equilibrating circles, initial differences in employers' investments have been strengthened so as to reach asset-specific or general-skill equilibriums.

Since long-term patterns of class-related partisan politics have been of importance for patterns of welfare state institutional divergence,⁸⁷ I will also examine the potential role of partisan politics for the development of production regimes. My hypothesis is that among the

⁸⁵ Mark Blyth, "Same as It Never Was: Temporality and Typology in Varieties of Capitalism," *Comparative European Politics* 1 (July 2003); Matthew Watson, "Ricardian Political Economy and the 'Varieties of Capitalism' Approach," *Comparative European Politics* 1 (July 2003).

⁸⁶ Peter A. Hall and David Soskice, "Varieties of Capitalism and Institutional Change: A Response to Three Critics," *Comparative European Politics* 1 (July 2003).

⁸⁷ Walter Korpi, "Contentious Institutions: An Augmented Rational-Actor Analysis of the Origins and Path Dependency of Welfare State Institutions in the Western Countries," *Rationality and Society* 13, no. 2 (2001).

factors contributing to their divergence, significant ones are related to differences in electoral institutions, to the presence or absence of state-corporatist institutional traditions, and to the extent of cabinet participation by left and confessional parties. In this context the longevity of left cabinet participation is also likely to be of relevance, as longevity enables them to change established patterns of conflict resolution and to foster new forms of political exchange by overcoming time-inconsistency problems generated when current political choices produce rewards only in an uncertain future.⁸⁸

As has increasingly come to be recognized, electoral institutions are relevant for election outcomes, affecting the number of effective parties, the types of cabinets, and the relative strength of different types of parties.⁸⁹ In this context the main distinction is between proportional electoral models tending to generate multiparty competition and coalition cabinets, on the one hand, and majoritarian/plurality models tending to have two major parties alternating in cabinets and to counteract the emergence of third parties, on the other hand. Noteworthy here is that proportional elections tend to be an institutional condition favoring left-party strength⁹⁰ and that confessional parties are found only in the context of proportional representation.⁹¹ As discussed above, European confessional parties were organized as explicitly cross-class parties intended to undercut the class base of socialist parties and compete for workers' votes by strengthening the role of religious cleavages. In association with the Catholic Church, they supported the state-corporatist institutional model of welfare states.⁹² The state-corporatist strand of thinking also generated several other bodies for functional representation and cooperation between employers and employees, forms of institutions not found where Catholic confessional parties have been absent.⁹³ Among countries with a Catholic cabinet presence, this long tradition of institution building in combination with the Church's guarded criticism of excesses in capitalist markets can be expected to provide significant institutional and ideological support for some forms of welfare state expansion as well as for the emergence of CME-type

⁸⁸ For the relevance of long-term left presence in cabinet, cf. works cited in fn. 63. On the problem of time inconsistency, see, for example, Iversen (fn. 5), 124–28.

⁸⁹ See, for example, Gary W. Cox, *Making Votes Count: Strategic Coordination in the World's Electoral Systems* (Cambridge: Cambridge University Press, 1997); Iversen (fn. 5).

⁹⁰ See, for example, Peter A. Gourevitch, "The Politics of Corporate Governance Regulation," *Yale Law Journal* 112 (2003); Iversen (fn. 5).

⁹¹ This fact may indicate that in Europe confessional parties were influential in selecting the proportional electoral model.

⁹² Korpi (fn. 87); Korpi and Palme (fn. 32, 1998)

⁹³ Cf. Thelen (fn. 23).

coordination. In countries without Catholic corporatist traditions, we expect instead the development of welfare states and production regimes to reflect a significant strengthening of left political power in relation to secular center-right parties. Countries without long-term left or confessional party presence in cabinets are thus likely to be LMEs.

Table 1 provides information on factors associated with the differentiation of types of production regimes found in eighteen countries in the 1990s. The presence of Catholic confessional parties in cabinets after the First World War is taken to indicate state-corporatist institutional traditions. Additional factors refer to the 1945–90 period and include electoral models (dichotomized into proportional or majoritarian/plural models) as well as vote shares and cabinet strength of left, confessional, and secular center-right parties and longevity of left cabinet participation.⁹⁴ Countries are crudely categorized according to patterns of coalition cabinets and relative cabinet strength of confessional and left parties.⁹⁵

In Austria, Belgium, Germany, The Netherlands, and Switzerland—countries combining proportional elections, state-corporatist traditions, and confessional parties in coalitions with left and/or center-right parties—we find CMES, as expected. Here confessional and left parties have been in intense electoral competition; except in Austria, confessionals have been ahead of left parties in cabinet shares and longevity. Switzerland with the lowest left vote share has a tradition of coalition cabinets.⁹⁶ German Christian Democrats, in coalition governments with the small Liberal Party, were in keen competition with the Social Democratic Party up to the late 1960s, when Liberals turned to a coalition with Social Democrats.

Among countries with Catholic confessional parties, for different reasons, Italy, France, and Ireland constitute exceptions. Italy, with proportional elections and a strong confessional party, has a mixed production regime. This exception may reflect the absence of a credible left government alternative to Christian Democrats dominating governments throughout the postwar period, when the international situation

⁹⁴ Left parties here include traditional social democratic parties and parties to their left, confessional parties the major ones associated with Catholicism and minor ones with Protestantism, while secular center-right parties include conservative, liberal and agrarian parties, and green parties and minor parties not otherwise classified. The 1945–90 period is likely to cover the maturation of production regimes.

⁹⁵ Cabinet strength is indicated by the proportion of party representatives in each cabinet considering the duration of the cabinet. Longevity is measured as the longest period of continuous cabinet participation (with no more than two consecutive calendar years of cabinet absence) taken as a percentage of the years 1945–90.

⁹⁶ This tradition partly reflects the significance of the constitution providing veto point via frequent referendums. Cf. Ellen M. Immergut, *Health Politics: Interests and Institutions in Western Europe* (Cambridge: Cambridge University Press, 1992), chap. 4.

TABLE 1

TYPES OF PRODUCTION REGIMES BY ELECTORAL MODELS, PRESENCE OF CATHOLIC CONFSSIONAL PARTIES, AND PARTY DIFFERENCES IN CABINET SHARES, LONGEVITY OF CABINET PARTICIPATION, AND VOTE SHARES (1945-1990)

Catholic Confessional Cabinet Participation after 1918	Characteristics of Cabinet Composition	Country	Electoral Model ^a	Production Regime	Average Cabinet Shares (%)			Longevity of Cabinet Participation ^b			Average Votes (%)		
					Left	Conf.	SCR	Left	Conf.	SCR	Left	Conf.	SCR
Yes	Confessionals in coalition with left or secular center-right parties	Austria	PR	CME	61	38	2	48	57	11	47	43	10
		Belgium	PR	CME	28	52	20	50	70	39	36	37	27
		Germany	PR	CME	25	50	25	15	39	96	38	45	18
		Netherlands	PR	CME	20	61	18	30	100	65	35	42	23
		Switzerland	PR	CME	22	30	47	70	100	100	28	23	49
	Confessional dominance	Italy	PR	Mixed	20	70	10	28	100	63	44	39	17
	Center-right dominance	Ireland	PR	LME	11	22	67	17	17	61	14	29	57
		France ^c	M/P	Mixed	22	9	69	15	39	100	44	9	47
	Left dominance or Left-right balance	Denmark	PR	CME	49	1	50	63	15	39	47	1	52
No		Finland	PR	CME	41	0	59	54	0	100	45	2	54
		Norway	PR	CME	74	4	21	46	10	17	49	9	42
		Sweden	PR	CME	82	0	18	70	0	15	51	1	48
	High left votes without long-term left cabinet presence	Australia	M/P	LME	34	0	66	17	0	76	47	0	54
		Britain	M/P	LME	39	0	47	15	0	26	42	0	58
		Japan	M/P	CME	2	0	98	4	0	100	34	0	66
		New Zealand	M/P	LME	38	0	62	15	0	70	45	0	55
	Secular center-right dominance	Canada	M/P	LME	0	0	100	0	0	100	16	0	85
		USA	M/P	LME	0	0	100	0	0	100	0	0	100

^a PR = Proportional, M/P = Majoritarian/Plurality

^b Longest continuous period of cabinet participation as percentage of calendar years 1945-90. (Absences from cabinets during 1-2 calendar years are not included.)

^c Proportional elections 1945-57 and 1986

during the cold war made its large Communist Party unacceptable as a cabinet partner. A comparison with Germany, where Christian Democrats competed intensively with Social Democrats, indicates that state-corporatist institutional traditions and strong confessional parties may not be sufficient for the emergence of CMES; a credible left cabinet alternative would appear to be necessary. The French mixed-production regime could reflect the weakness of its left parties and the absence of a confessional party in the context of a majoritarian/plurality electoral model since 1958. Ireland, with an LME in spite of proportional elections, has a different background. With independence from Britain only since 1922, Ireland had not inherited the nineteenth-century state-corporatist institutions found in other Catholic countries in Europe. In this period neither left nor confessional parties could decisively influence the development of welfare states or production regimes.

Among countries with proportional elections but lacking Catholic confessional parties—in Denmark, Finland, Norway, and Sweden—trade unions were relatively strong and left parties had close to one-half or more of cabinet seats with relatively high longevity. In Norway and mostly also in Sweden, left longevity reflects one-party cabinets while Denmark and Finland have seen Social Democrats in different coalitions or in minority cabinets.⁹⁷ These four countries are all CMES.

In a cluster of countries without confessional parties but with left parties in the context of majoritarian/plurality electoral models—Australia, Britain, and New Zealand—we find LMES. Although their left parties have had vote shares about as high or higher than left parties in continental European countries, majoritarian/plurality electoral models have allowed secular center-right parties to dominate in cabinets. While the British Labour Party has totaled almost the same number of cabinet years as the Conservatives, left cabinet longevity is low, as it also is in Australia and New Zealand. In this cluster of countries, Japan constitutes an exceptional case with its own type of CME and special forms of state-corporatist institutions introduced in the late nineteenth century.⁹⁸ Against the background of the preceding discussion, it comes as no surprise that we find LMES in the United States and Canada, where left parties have been absent from cabinets. These developmen-

⁹⁷ In Finland the constitution required qualified majorities in the Eduskunta for long-term economic policy-making. Its sensitive relations to the Soviet Union during the cold war made government presence of the right party undesirable and offered a role for left participation in coalition cabinets.

⁹⁸ T. J. Pempel, *Regime Shift: Comparative Dynamics of the Japanese Political Economy* (Ithaca, N.Y.: Cornell University Press, 1998); Thelen (fn. 23), chap. 4; Michael Shalev, "Class Conflict, Corporatism and Comparison: A Japanese Enigma," in S. N. Eisenstadt and Eyal Ben-Ari, eds., *Japanese Models of Conflict Resolution* (London: Kegan Paul, 1990).

tal patterns are congruent with hypotheses on the key relevance of electoral models, state corporatist institutional structures, and the strength of confessional and left parties for the emergence of CMES.

RESERVATION WAGES AND UNEMPLOYMENT INSURANCE

Differences between PRA and VoC in assumptions concerning priorities of main actors driving welfare state expansion lead us to expect that such differences can be traced in the emergence and development of different social insurance programs. We have seen that VoC regards companies as the central actors in the emergence of welfare states and expects employers to give the highest priority to unemployment insurance, central for stimulating worker investments in asset-specific skills, while according lower priority to sickness and work accident programs less closely related to workers' investments in specific skills. In contrast, PRA expects employers to resist unemployment insurance because of its role in increasing workers' reservation wages, thereby retarding the emergence and development of this program. Furthermore, PRA expects that with a measure of cross-class support, work accident insurance is likely to have the most-favored development.⁹⁹

In broad terms, hypotheses about employers' willingness to accept different types of social insurance programs are indicated by ranking the sequence in which the three programs for short-term absences from work, that is, unemployment, work accident, and sickness insurance, were first legislated in our European countries. Ranking European countries in terms of earliness of years of first legislation, work accident insurance receives a rank of 1.2, sickness insurance 2.2, and unemployment insurance 2.8. Congruent with the PRA but in contrast to the VoC, historical data indicate that work accident insurance typically came first, while, to a significant extent because of employer resistance, unemployment insurance nowhere came first but was typically the last to be legislated.¹⁰⁰

Furthermore, VoC and PRA imply that priority differences between driving actors are reflected in differences between unemployment, sickness, and work accident insurance programs with respect to benefit lev-

⁹⁹ As noted above, work accident insurance relieves employers from problematic competition based on hazardous workplaces and from ill will generated by work accidents.

¹⁰⁰ Since Ireland inherited its social insurance programs from Britain, it is not included here. For years of first laws, cf. Social Security Administration, *Social Security Programs throughout the World* (Washington, D.C.: Department of Health and Welfare, 1997). For additional analyses, cf. Ilkka Väisänen, "Conflict and Consensus in Social Policy Development: A Comparative Study of Social Insurance in 18 OECD Countries, 1930–1985," *European Journal of Political Research* 22, no. 3 (1992).

els and the degree of earnings relatedness in benefit structures. Following traditional economic thinking, PRA assumes that in a capitalist economy profits are the highest priority for employers; it therefore expects them to view unemployment insurance generating high reservation wages as especially problematic for profits. As noted above, of the three programs, PRA expects unemployment insurance to have the least generous benefit structures, whereas work accident insurance is likely to be the most generous one.¹⁰¹ Jonas Pontusson has noted that “the VoC literature has a great deal to say about ‘varieties’ but surprisingly little about ‘capitalism.’”¹⁰² This imbalance comes to the fore when VoC assumes that with their crucial role in the emergence of CMES, employers have especially promoted unemployment insurance with earnings-related benefits. Arguments have been advanced that “skilled workers will need some guarantees that their compensation during employment losses will be *proportional to their wages*”¹⁰³ and that “[h]igh replacement rates, especially when the unemployment benefits are earnings-related, reward the worker for his or her specific skill investment even when the worker is out of work.”¹⁰⁴ High and earnings-related benefits in unemployment insurance are thus seen as conditions for rather than as threats to profits. Differences among the above three programs are therefore expected to be *most pronounced among CMES*, where, according to VoC, welfare states have developed in ways best satisfying employers’ needs and where workers with specific skills have been “well aligned with most employers” into a “formidable political coalition” that favors improving this key program. VoC thus expects that in CMES benefits are higher and more clearly earnings related in unemployment insurance than in sickness and work accident insurance. New, high-quality empirical data for testing these hypotheses come from the Social Citizenship Indicator Program.¹⁰⁵

Focusing on average benefit levels, one relevant indicator of actors’ priority ranking of the above three short-term programs is the net replacement rate at the wage levels of an average production worker for

¹⁰¹ Cross-class interest in work accident insurance reflects that for employers, work accidents may generate ill will among employees and in the community and that risky places of work constitute a problematic area for competition.

¹⁰² Jonas Pontusson, “Varieties and Commonalities of Capitalism,” in David Coates, ed., *Varieties of Capitalism, Varieties of Approaches* (New York: Palgrave, 2005), 164.

¹⁰³ Mares (fn. 5), 251, italics in the original, and 24.

¹⁰⁴ Estevez-Abe, Iversen, and Soskice (fn. 5), 151–53.

¹⁰⁵ Since old-age pensions pose special problems with respect to financing and benefit levels, we focus here on the three programs for short-term absences from work. Data are from the *Social Citizenship Indicator Program* under construction at the Swedish Institute for Social Research, Stockholm University. For details, see the Methodological Appendix, in Korpi and Palme (fn. 32, 2003).

twenty-six weeks of absence from work.¹⁰⁶ We find that priority ranks follow PRA predictions, work accident insurance having the highest benefits levels and unemployment insurance the lowest ones, with sickness insurance in the middle (see Table 2).

As an indicator of the degree of earnings relatedness, we focus on average percentage point differences in gross benefits based on maximum wages taken into account in a program and benefits at the wage level of an average production worker. Among CMES, unemployment insurance is found to have the lowest degree of earnings relatedness, a finding again contradicting VoC while supporting PRA.¹⁰⁷ In line with the PRA hypotheses, reflected in the greater role of left and confessional parties, CMES usually have more generous benefits than LMES; in both regimes work accident insurance provides the most generous benefits. Although still higher than in LMES, the relatively low average unemployment benefit in CMES is not enough to support VoC interpretations. To the extent that employers have been the crucial actors involved in “formidable electoral coalitions” with skilled workers in promoting unemployment benefits within CMES, we would have expected these benefits to rival those in work accident insurance.

As discussed above, VoC views earnings-related benefits in social insurance programs as a key aspect of employers’ efforts to insure high wage levels that will induce workers to invest in asset-specific skills. An examination of political history indicates, however, that the emergence of earnings relatedness in benefits has been tied to two major types of driving forces, one reflecting interests among state elites in early social insurance programs, the other beginning in the 1950s among left parties.¹⁰⁸ The occupationally segmented state-corporatist social insurance programs legislated in Europe in the decades around the end of the eighteenth century clearly had earnings-related benefits, a structure reflecting the state-corporatist strategy to appeal especially to better-off workers. In countries with universal programs, benefits were long flat rate and relatively low; better-off citizens were expected to provide for earnings-related benefits via private insurance or bargained programs. To avoid a situation in which such private options would create interest differentiation between manual workers and salaried

¹⁰⁶ Net replacement rates, at average wage levels of production workers, are calculated after taxes and transfers. To avoid benefit differences related to family supplements, we here focus on single persons. Maximum replacement rates are available only for gross wages and twenty-six weeks of duration.

¹⁰⁷ In several countries, work accident and sickness insurance have become coordinated, decreasing differences between them.

¹⁰⁸ Korpi and Palme (fn. 32, 1998); Korpi (fn. 87).

TABLE 2
 PRIORITY RANKS ACCORDING TO BENEFIT LEVELS AND BENEFIT STRATIFICATION
 IN THREE SHORT-TERM SOCIAL INSURANCE PROGRAMS IN COORDINATED
 MARKET ECONOMIES AND AVERAGES FOR LIBERAL MARKET ECONOMICS
 (1950–90)

<i>Net Replacement Rates (%)</i>	<i>CME</i> ^a	<i>LME</i> ^b
1. Work accident	71	56
2. Sickness	65	28
3. Unemployment	47	31
<i>Benefit Stratification^c</i>		
1. Work accident	56	32
2. Sickness	54	8
3. Unemployment	38	7

SOURCE: Social Citizenship Indicator Program (SCIP).

^aAustria, Belgium, Denmark, Finland, Germany, Japan, Netherlands, Norway, Sweden, and Switzerland.

^bAustralia, Canada, Ireland, New Zealand, United Kingdom, and the United States (not included in sickness insurance).

^cPercentage point differences between gross replacement rates at maximum wages and at average production worker wages.

employees with increasing affluence, especially in the Nordic countries and in Britain, social democratic parties made attempts in the 1950s to complement flat-rate universal programs with earnings-related programs for economically active persons. These attempts met strong resistance from secular center-conservative parties and employers. The Swedish pension reform in the late 1950s was such an effort; similar attempts largely succeeded also in Finland and Norway, but failed in Denmark and made only marginal advances in Britain. Among actors driving earnings relatedness in major social programs, employers have hardly been visible.

DISCUSSION

The now increasing interest in the role of employers in welfare state development is welcome. It is, however, essential that this role be discussed in the context of class, a term that tends to evoke images of angry workers out in the streets but in periods when streets are calm tends to recede into the scholarly shades. In the PRA, microfoundations for the relevance of socioeconomic class in welfare state development reflect patterns of interactions found between two tendencies. On the

one hand, class tends to structure citizens' life-course risks and economic resources in ways making individuals in socioeconomic categories with high risks likely to have less individual resources to cope with these risks. On the other hand, extensions of social citizenship rights tend to have asymmetric effects on the main types of power resources of different socioeconomic categories in distributive conflict, constraining the efficacy of economic resources while expanding that of labor power. These interactions tend to structure "the logic of the situation" of socioeconomic categories in ways relevant for determining the extent to which different interest groups and political parties are likely to be protagonists in efforts to expand social citizenship rights. Economically well endowed categories with relatively low risks are likely to prefer to situate distributive processes within a market-property nexus; those with higher risks and lesser economic resources are likely to support extension of social citizenship in order to counteract the effects of differences in resources and risks. Such class-related microfoundations are not, however, ironclad laws producing identical outcomes over time and among countries; instead they are likely to increase the probability of some outcomes while decreasing the probability of others. PRA therefore argues that class, as defined here, is likely to remain a fruitful concept. To draw a parallel: while countries such as Saudi Arabia are not known for their vigorous feminist movements, it would appear premature to conclude that a concept of gender is irrelevant in analyses of differences in life courses and opportunities between men and women in these countries.

In a series of works focusing on important issues, Swenson argues that PRA errs when underlining the relevance of class in welfare state development. Swenson does however attack a homegrown straw-man version of this approach and grossly misinterprets basic facts of class conflict in Sweden, his paradigmatic case for the dominance of cross-class alliances. Employer-centered scholars more generally have apparently misinterpreted employer consent to reform proposals from the left as evidence of their first-order preferences for welfare state expansion. Crucially, employer-centered research has not yet presented empirical evidence indicating that employers have been protagonists with first-order preferences for major reforms extending social citizenship rights. Instead, both Swenson and Mares explicitly state that they have not found employers to be initiators or agenda setters in welfare state expansion. While intersectoral differences in interests are of some relevance and, as exemplified by the case of work accident insurance, PRA recognizes the possibility of cross-class alliances, such differences would

however appear to be of much smaller significance than the class-related ones.¹⁰⁹

VoC has made key contributions by identifying clusters of production regimes and by exploring their institutional characteristics. The finding that CMES—widely held to be bumblebees that cannot fly—have competed successfully with LMES in economic terms should lead to reconsideration of some basic assumptions in neoclassical economics. In according an overarching status to employers' interests in skill investment, the VoC deemphasizes other means available for employers to safeguard profitability. By underplaying potential conflicts of interest in wage setting related to reservation wages, VoC faces problems in accounting for lateness in the emergence of unemployment insurance, a lateness associated with employer resistance to a program assumed to be central for insuring workers' investments in specific skills. Patterns of differences between unemployment insurance and other social insurance programs in relative benefit levels and in degrees of earnings relatedness within CMES contradict VoC expectations but are in line with PRA hypotheses on the relevance of workers' reservation wages in class-related distributive conflict. Earnings relatedness in social insurance benefits, a centerpiece in VoC stress on insurance of asset-specific skills, has primarily appeared as results of efforts by state elites to disarm the Worker Question in the late nineteenth century, and as attempts by left parties to avert splits in interests between manual workers and salaried employees in the postwar period. Among protagonists for earnings relatedness in social insurance, employers are conspicuous by their absence.¹¹⁰

Empirical attempts by VoC scholars to show that the extent of welfare state expansion reflects differences in national skill profiles are unconvincing.¹¹¹ Overlooking the well-known and substantial differences in levels of unemployment among socioeconomic categories and with doubtful empirical support, they instead suggest that the possibly

¹⁰⁹ For example, in Sweden during recent decades some conflicts among sectors have been visible in debates related to nuclear energy and Sweden's joining the European Union and the European Monetary Union, debates where unions in export-oriented industries have joined employers in publicly supporting nuclear energy and joining.

¹¹⁰ On the level of firms, however, the existence of efficiency wages indicates that employers can use wage differentiation as a managerial device.

¹¹¹ Iversen and Soskice show a marked positive bivariate correlation among twenty countries between the proportion of the population in vocational training and relative size of government transfers; Iversen and Soskice, "An Asset Theory of Social Policy Preferences," *American Political Science Review* 95 (December 2001). This correlation is, however, likely to be the result of efforts by left and confessional cabinets to expand welfare states as well as to provide occupational training for youth not continuing in tertiary education.

higher risks for unemployment among workers with asset-specific skills have been a major factor driving individual support welfare state expansion.¹¹² VoC also faces a stiff challenge to empirically identify major collective actors primarily representing workers with specific skills, actors assumed to be central in the emergence of CMES. Classical trade unions are here prototypes but have been largely overtaken by industrial and general unions. To an even higher degree, union confederations represent mixes of skills, occupations, and trades. The fact that major parties in the Western countries are related to the left-right continuum indicates that class has been more important than types of skills in forming contexts in which collective mobilization on the national level has come to take place. When success is determined by the number of votes, political parties have typically become coalitions with a mix of skills and with relatively broad-based interests. The major examples of cross-class parties are the confessional ones; in them it is religion, not types of skills, that has trumped class distinctions. And forces driving actors to make religion overtake class are rooted in the class nexus. By limiting interest to skill investments, VoC overlooks major parts of citizens' life-course risks considered in PRA. Collective action related to such a broader spectrum of risks is more likely to become structured in relation to class than in relation to occupational skills.

As is well known, in historical and comparative analyses it is often difficult to clinch an argument between competing hypotheses with empirical data. VoC assumes a causal ordering where employers' demand for asset-specific skills gradually leads to CMES, something that in turn generates well-developed welfare states. Problems with this interpretation include the absence of evidence showing that employers have been protagonists in extending social citizenship rights and earnings-related benefits, their significant hesitation in accepting unemployment insurance, and the fact that political parties responsible for legislation have represented primarily relatively broad-based class interests rather than skill-specific interest groups. Hall and Soskice do however strike a fruitful note when suggesting that in CMES "repeated historical expe-

¹¹² Major socioeconomic differences in unemployment rates are exemplified by the finding that in Sweden in 1990, the level of unemployment among unskilled workers was more than four times higher than among higher salaried employees and twice as high as among medium and lower salaried employees; Walter Korpi, *Arbetslöshet och arbetslöshetsförsäkring i Sverige* (Unemployment and unemployment insurance in Sweden) (Stockholm: Department of Labor, 1995). As one piece of evidence for skill specificity driving individual demand for social protection, Iversen and Soskice (fn. 111) use responses to the question "how difficult would it be for you to find an acceptable job," remarking that "all else equal," answers to this question are likely to reflect that skill specificity is associated with higher unemployment (p. 882). But in this context, for example, national and regional differences in levels of unemployment are also likely to affect responses.

riences have built up common expectations that allow actors to coordinate effectively with others” so as to develop informal understandings and rules.¹¹³ But why have such repeated historical experiences emerged in CMES but not in LMEs? The causal ordering hypothesized in PRA points to two types of contexts where endogenous actors are likely to have constrained employers’ market options in ways that open up exchange alternatives leading to CMES and generous welfare states. One of these contexts is found in the Nordic countries characterized by proportional elections and strong left parties in long-term cabinet positions, parties intending to extend social citizenship rights and working together with relatively strong union confederations. This context restricted employers’ market options, and CMES would appear to have emerged largely as unintended consequences of exchange and conflict, where series of compromises between left governments, employers, and unions were coordinated to achieve economic growth and rising living standards. The Swedish case indicates that a CME need not be an outcome of virtuous circles generating equilibrium outcomes; instead it may often involve rather intensive class conflicts mixed with exchange. Another context is found in continental European countries with proportional elections, state corporatist institutional traditions, and confessional parties in long-term government positions in the presence of intensive competition with left parties. With strong competition from the left, the cross-class structure of confessional parties has driven them to expand welfare states and to place some restrictions on employers’ market options while providing alternatives for cooperation between employers and employees along state-corporatist lines. For confessional parties, state-corporatist forms of cooperation between employers and employees were intended and long encouraged; welfare state expansion emerged primarily in competition with left parties. The mixed Italian case indicates that a strong confessional party with state-corporatist traditions is not sufficient; major competition from the left would appear necessary for CME coordination and welfare state expansion.¹¹⁴ VoC interpretations that modest welfare states in LMEs primarily reflect lack of demand from employees, the main risks of which are comfortably insured by transferable skills, is contradicted by the fact that for example in Britain, a prototype LME, major reform efforts by the left

¹¹³ Hall and Soskice (fn. 5), 13.

¹¹⁴ Thus, for example, in the basic program of unemployment insurance, during the period 1947–85 replacement rates in Italy decreased to single-digit levels; OECD, *The Jobs Study*, pt. 2 (Paris: OECD, 1994), chap. 8.

were made but largely failed.¹¹⁵ Variations in factors explaining welfare state expansion in CMES are likely to account also for its modest development in LMES.

If previous political economy research has overemphasized the role of states and unions, it is worth considering whether the remedy should be sought by focusing on employers instead. The discussion above points to a fruitful compromise—to utilize the very valuable insights of VoC scholars into understanding employer strategies in analyses centered on interactions between employers and employees and on changes in their relative power positions—that is, on class relations.¹¹⁶

¹¹⁵ In Britain, as noted above, the Labor Party failed in successive attempts to introduce earning relatedness in flat-rate programs.

¹¹⁶ In this context, see also Pontusson (fn. 102).