Europe and the International Order

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In Care of the State

Health Care, Education and Welfare in Europe and the USA in the Modern Era

Abram de Swaan

Polity Press

token they often tended to resist more encompassing, and especially compulsory, forms of insurance, which would abolish their relative advantage, burden them with the risks of the less advantaged workers and diminish their control over the arrangements that had covered them exclusively.

There was yet another reason why unions often neglected to press for social-security legislation: a generation gap. The workers' movement, and especially its militant wing, was future-directed: the young were in the vanguard and at the center of attention.[40] Insurance against disease, disability and old age or survivors' pensions were more of a concern to the elderly. They concerned a phase of life that many workers believed they might never reach. Higher wages, shorter working hours and better work conditions promised immediate relief. Thus, the issue of insurance required a degree of foresight which young workers were slow to develop.

For the workers' movement to proceed from promoting the collectivization of risk protection to advocating its nationalization required some confidence in the state and its administrative potential; but unions needed most of all to develop nationwide organizations and a national orientation. Trade unions, was well as employers' associations, had to develop an effective branch structure throughout the land with sufficient administrative unity and ideological consistency to make themselves heard in national politics. As long as they remained locally fragmented, they were in no position to grasp the ramifications of problems at the local level for the national economy and national politics. Much less could they be expected to develop nationwide institutional solutions, let alone support such proposals when they came from other parties. Organization thus preceded and determined programs.

Unions had to abandon the hopes either of self-help or of imminent revolution and to transcend the restricted identifications of locally and occupationally defined membership before they could be converted to national insurance. But this broader orientation could only come about in connection with a broadening of the organization. Different occupations had to join forces, sectarian divisions were to be bridged over, local branches were to federate at the provincial, regional and finally the national level. As so often in this process of integration, the driving force was conflict: a struggle with opponents who equally found themselves forced to form large entities in the process. Strikes and lockouts were of course a prime reason for both employers and workers to seek collaboration with their peers. If one company hired workers locked out by its competitor, the stratagem would be self-defeating. If some workers performed jobs refused by their colleagues on strike elsewhere, the

struggle would be lost at the outset.[41] The process of amalgamation and federation of employers' and workers' organizations reveals many traits in the dynamics of state formation: it is an example of a figuration in which opponents compel one another to evolve to higher levels of integration.

The intervention of the state apparatus in industrial relations also contributed to the expansion of the organizational scope of workers' and employers' associations. Workers, employers and succeeding regimes were together involved in a continuing learning experience. Factory laws affecting working hours, woman and child labor, product quality, noise, pollution and so forth prompted countless intrusions by government inspectors and officials in the ongoing relations between workers and management. These state bureaucrats introduced national rules and considerations of nationwide relevance into their dealings with unions and companies and demonstrated the potential of compulsory regulation by the central state.

Employers and workers organized one another and were organized by the state as it in turn was drawn into industrial affairs. Employers, administrators and union leaders grew accustomed to dealing with one another, whether they liked it or not. Government intervention forced employers or workers to combine and articulate their interests at the central level. With big towns and big industry came big government, no matter what the strength of protest or denial at the time.

4.4 *The regime*

By the middle of the nineteenth century a novel breed of bureaucrats and academic experts were developing a practical science of public administration and many were eager to experiment with the exciting and powerful new machinery of government: inspectorates, nationwide agency networks, registries and so forth. This evolving state apparatus provided unprecedented career opportunities to young men who had no inherited means of pedigree. The heroes of nineteenth-century government expansion often came from lowly, bourgeois ranks and fought their way up on the strength of their expertise, tenacity and commitment, against aristocrats who still believed it was all a matter of honorary sinecure.

But politicians could hardly afford to be adventurous: they had to balance their budgets and win the next vote. Where suffrage was extended or where its extension was the scope of agitation, working-class opinion began to matter more and more in politics. Activist administrators and reformist politicians contemplating the political potential of workers' support envisaged a regime that might mobilize the coercive, administrative and financial resources of the state in a new venture: the establishment of compulsory national insurance.[42] Without such an activist regime no legislation could be proposed, let alone implemented; government was the necessary partner in any coalition that would establish national insurance. But an activist regime *per se* was not sufficient: it would still need support in the legislature, and thus in the country at large: either from industrial employers or from organized workers or among both.

No doubt, this renewed reformist activism among political elites was motivated not only by the enfranchisement of the working class, but also by the experiences and the anticipation of war: findings on the defective health of recruits prompted a well-orchestrated campaign for the improvement of the living conditions of the working class.[43] The loyalty of soldiers in the new popular armies had to be secured by promises of social reform. But, above all, mass mobilizations necessitated a regimen of total provision and taught governments the administrative techniques of large-scale health care or, in the aftermath of war, of extensive veterans' pension systems: by the end of the nineteenth century such pensions were the major instrument of welfare in the US;[44] by 1926 they made up 13 per cent of total government expenditure in France.[45] The total character of modern warfare also affected civilian populations and thus compelled governments to take encompassing measures of rationing and protection, which facilitated subsequent government intervention in peacetime.[46] In this manner, the rivalry between states and the internal oppositions between classes have both contributed to state formation, and especially to the development of welfare states.[47]

Summing up, farmers, small entrepreneurs and professionals, roughly the petty bourgeoisie, were opposed to the nationalization of insurance throughout the period. Their opposition had to be overcome by a coalition that would be effective both in the legislature and in the country. Without a sympathetic and committed regime no national insurance could be brought about. Such a regime had to wait until the working class had gained enough political weight, until resistance from large-scale employers had subsided sufficiently or even turned into active support, and until administrative capabilities appeared adequate to carry through the project against opposition from the small bourgeoisie. The regime thus occupied a pivotal position in a balance of power between the small property owners and the industrial classes which tended to shift towards the latter with the momentum of industrialization.

The institutional character of the insurance system depended on prior forms of institutionalization, but also very much on the nature of the

coalition that brought about national insurance. The regime might join with large employers and create a system that would keep control away from workers as long as they were exempt from paying dues. It might also join a coalition with the unions, granting them a considerable amount of control and levying contributions either directly from the insured or from general tax funds so as to avoid having to rely on the employers' collaboration. Finally, the regime could build up a coalition with both employers and organized workers, resulting in a tripartite system of control and finance. The latter required all three parties to accept national insurance, whereas the other two strategies were feasible even if one of the industrial parties involved was not willing to support a compulsory nationwide scheme: opposition from employers might be overcome if they could be bypassed in the implementation and financing of the scheme through direct administration by state agencies and funding from general taxes or directly paid beneficiaries' contributions. The regime might also combine with employers, leaving the unions out: but for the scheme to be effective workers' preferences had to be anticipated.[48]

Out of this four-cornered struggle grew the state arrangements for the accumulation of transfer capital in the half-century between 1880 and 1930. The process was very much complicated by the presence of all sorts of insurance institutions at a lower level of aggregation; commercial, union, company or mutual societies who fought to maintain their acquired privileges and established positions and had to be bought off by the regime or incorporated into its national schemes. One occupational group, moreover, played a very special part in the development: the medical profession which was to provide treatment for the insured and non-partisan expertise in all cases of disability. But the basic dynamics in the establishment of social security resulted from the slowly shifting balance of power between the petty bourgeoisie and the industrial classes, with the regime in a pivotal position.

5 The adversities of working life

The risks that threatened to disrupt the wage-earner's life were fourfold: disability, old age, disease and unemployment. In many countries the financial burden of children was also considered to be a collective concern.

5.1 *Disability insurance*

The first adversity that was recognized to be unpredictable in each separate instance, yet predictable from the working conditions within an industry in its entirety, was disability as a result of accidents at work. Here the improvidence of the needy worker was not a matter of moral judgment, but the concern of formal legal investigation. Liability proceedings were to establish in each case whether the employer or the worker (or his colleagues) were at fault, and only if the first was shown to have been negligent was compensation awarded. Paradoxically, never was so much effort spent to demonstrate the claimant's irresponsible behavior and fraudulent simulation as in these lawsuits, which often dragged on and on until the victim's meager resources were exhausted in suing his employer. It was common practice for factory owners to discourage workers from claiming damages through intimidation, by making them waive the right when signing up for the company insurance plan, or by buying them off with a pittance (and suggesting that in accepting it they had forfeited their right to bring suit). By the last quarter of the nineteenth century these compensation procedures had fallen into disrepute everywhere.[49] Obviously, parties were too unequal for the legal machinery to function properly and the notion of individual liability began to appear increasingly irrelevant to the realities of the industrial division of labor where the chains of causality might involve so many people in any single accident. As a consequence, in many countries the doctrine of *risque professionel* was introduced, waiving proof of the employer's culpable negligence and replacing it with the legal presumption of his liability unless there was clear proof of the worker's fault or no connection with work conditions could be proven at all. As a result, the industrialists were forced to insure themselves against workers' claims. This, in turn, strongly stimulated employer interest in industrial safety.

Legal reform very much improved the chances for a worker to win damages, even if they were often pitifully low. What remained a vexing problem was the assessment of the residual capacity for gainful and appropriate employment. This became the specialty of medical men, and thus one of the first fields where medical expertise served to isolate and neutralize, with the complicity of the parties involved, what was essentially a conflict of interests between them, by redefining it as a technical problem to be resolved by 'non-committed' experts (see also chapter 7).

Once instituted, disability insurance quickly expanded beyond sheer accident coverage. For lack of old-age provision, workers continued working as long as they could and when they could not go on any more were indeed permanently disabled. Chronic occupational disease and the wear and tear of working life also came to account as disability, covered by the employers' liability and accepted as grounds for disbursement.

Thus, the working men's disability schemes functioned vicariously as old-age pensions plans. Once the parties concerned and the wider public could be persuaded that most industrial accidents and occupational diseases hit workers through no fault of their own and that such risks were indeed structural features of the new industries, these incidents came to be exempt from the moral discourse of the times as adversities of a special kind for which special measures were appropriate. It might still be hard for a farmer or a blacksmith to imagine that an accident could occur through nobody's fault in particular, but as long as legislators left agriculture and small shops unregulated, opposition from this side was more moderate than on other insurance matters. As legal precedent changed in favor of employees, employers more and more sided with employees to seek legal reform.[50] To the degree that liability was imputed to employers, the risks were theirs and so would be the costs of a national insurance scheme. In return, employers insisted on maintaining control over the new administrative agencies. Compulsory employment insurance would help them solve the problem of companies shirking coverage and thus saving on labor costs, while discouraging their rivals from improving their schemes. It would also facilitate the adoption of a contributory system which might tax the unsafest companies most heavily.

Unions, on the other hand, while insisting that the liability, and thus the cost, be borne by the employers, were loath to leave the adjudication of disability cases to employers or their appointees. They realized that some say over the management of the agencies would afford them a chance to appoint union activists and to establish new links with a working-class clientele. However, the employers could arrange disability insurance very well without them, if they could solve their problems of competitive advantage and the repartition of burdens among themselves. Thus unions often supported national schemes as a means of gaining at least some say in the control over the arrangements.

5.2 *Old-age insurance*

Retirement in old age is a relatively recent phenomenon and it had no part in traditional working-class culture.[51] If factory work became too exacting, workers would seek quieter jobs, return to the village they came from to work on the family plot or move in with their children to help out with household chores. The traditional specters of old age were disease, poverty and loneliness: to be helpless without someone who cared.[52] In and of itself advanced age seemed no reason to withdraw from active life, nor a ground to claim benefits. It was physical deterioration, often setting in at a relatively early age, that made some people more dependent as they grew older.

Yet the reality of late-nineteenth-century poverty was such that the aged made up the bulk of the most indigent. Rural communities complained about the burdens the returning elderly workers imposed upon the village chest. Investigators of the poor showed time and again that many old people after a lifelong working career suffered abject misery. This may have been due to the faster pace of industrial work and urban life as compared to rural conditions, to the weakening of the ties of kin and neighborly traditions of care and also to the fact that by the turn of the century many more workers survived into old age, many of them weakened without, however, qualifying for disability benefits on account of injury or disease. This survival caught most workers unprepared. Old age now became a social problem in its own right.

One problem, moreover, that was particularly hard to deal with: actuarial statistics could only measure the average life-span at a given moment, not predict it ten, twenty, forty years ahead. And probably because of improved sanitation and nutrition, people survived longer than statisticians and insurers had expected them to. Disabled workers continued to live longer with their impairment than had been calculated and their benefits weighed heavily upon the funds. The elderly who had no specific disablement found themselves without any livelihood but charity and the dole. Any arrangement for old age would have to guarantee its benefits fifty years or more ahead, if young workers were to put their trust in it. This uncertainty of remedy required institutions of exceptional robustness over time. The alternative was, of course, to make people who were then working pay for the pensions of the aged at that time. But this required either uncommon altruism, or the same uncertainty of remedy had to be dealt with by guaranteeing that the contributors would benefit later from the contributions of subsequent generations. The notion that one and the same compulsory pension scheme could ensure the future pensions of those presently working and pay out of current contributions the pensions of the presently retired seemed a frivolous, if not fraudulent, sleight of hand to the solid, saving public. But obviously, both a fully capitalized scheme in which contributions are accumulated and reserved for the generations that paid them, and a revolving fund, in which current benefits are paid out of current contributions, involve a guarantee lasting a lifetime. Not only the experience of the mutual associations, but also the record of commercial insurers and company pension plans showed that this was a very long time-span to bridge without failure. Only the state, which had long been

in the business of issuing bonds with the promise to pay them back in thirty or fifty years, seemed to be an institution with sufficient permanence to inspire such confidence.[53]

Employers had little reason to oppose pension schemes: such plans enabled them to ease out elderly workers and relieved the company of pressing obligations to its retired employees. It counted of course, that payroll contributions, levied one way or another, would add to wage costs, but this did not affect the terms of competition among equally labor-intensive companies within one industry and it even gave large companies with a lower labor-capital ratio an edge over small enterprises.[54] Their concern with the consequences of increasing labor costs for the international terms of trade at times united large employers against a pension bill, but it rarely seemed to outweigh the advantages of a secure and loyal workforce.

To large-scale employers and to ambitious, activist regimes the overriding attraction of a national pension scheme was the opportunity it offered to establish lifelong links with individual workers, tying them to the company and to the state by giving them a stake in the accumulating transfer capital. What stood in the way of the project was the sheer enormity of the numbers and sums involved, an unprecedented financial venture which began to inspire general confidence only when it was seen to work.

5.3 *Health insurance*

Disease, as an involuntary and transient state of incapacity to work, constituted a risk which was relatively easy to insure: it would be expected to strike at random, and thus quite evenly, among a population, its costs at the time were limited to some medicine, a little treatment if any, and – most important – cash benefits to replace earnings lost. Almost everyone had been sick at some time in his life and could expect to fall ill again, so that participants in a scheme could readily identify with the victims and claimants in their midst. Problems arose with contagious diseases which tended to afflict a sizable proportion of participants at the same time and thus exhaust the funds' resources in a single stroke. But in times of epidemic municipal and central governments might intervene with emergency relief. Greater difficulties were created by chronic conditions, such as the degenerative diseases of advancing age, especially since nineteenth-century factory workers were more prone to these afflictions than were the more comfortable strata. The main problem was that workers survived longer than expected when the calculated in mid-century, and that they often survived with a chronic affliction or a permanent disability which entitled them to benefits. Only where accident insurance was extended to cover permanent disability from any work-related cause could sick funds transfer these liabilities to other agencies, if and when the ills could indeed be shown to be connected to working conditions.

The insurance of chronic disease is thus very closely related to disability and old-age insurance: costs of treatment and income maintenance increased sharply with age and as people lived longer and more medical remedies became available, the increase became so much steeper.[55]

The poor, too, represented bad risks for health insurance. But once infectious epidemic diseases became prevalent, the correlation between poverty and ill health weakened, and inclusion of the lowest income groups became less of a threat to the funds' solvency, if means could be found to finance their dues, and the elderly, again, formed a growing part of the very poor.

The feasibility of health insurance on the one hand and its importance on the other very much depended on the risks covered; if chronic and degenerative diseases were insured under other schemes a relatively straightforward actuarial set up remained. Accordingly, most countries have insured the risks of lasting disability by other means, usually with considerable government participation.[56]

Free competition among relatively autonomous sick funds would still result in the exclusion of the most vulnerable, unless the state compelled the funds to admit them. But an obligation of this sort could only be made to work if the government compensated the additional costs of insuring the poor, which it usually did, sometimes through a national equalization fund.[57]

Health insurance has nevertheless remained controversial for two reasons mostly: participants may take a few days off with a minor complaint, which in the eyes of others may not warrant their absence from work. Countless measures have been devised against such unjustified absence: the custom of not paying for the first few days of illness, the *Carenzzeit*, for example. But this penalized genuine patients and was greatly resented. It was gradually abolished in most countries. What remained was the obligation to remain at home for a visit by a medical inspector.

This touches upon the second source of perennial conflict in health insurance: it depended from first to last on medical doctors and continues to do so to this day. Doctors had to decide whether illness did in fact justify absence from work, doctors had to prescribe the treatment

and medicine the funds were to pay for and doctors and pharmacists supplied it.

Medical insurance transformed the latent need for care into an effective and informed demand for medical services, and doctors organized into a profession which obtained a state-protected monopoly for their supply. The health insurers, on their part, also formed an oligopoly or a monopoly with state protection, but instead of limiting demand, they increased it enormously. Accordingly, the medical profession and the health insurance needed each another and resented their mutual dependence. A tenacious power struggle ensued: in some countries, for example France, Germany and the Netherlands, the medical profession succeeded in gaining considerable say over health insurance and in controlling the demands, as well as the supply side, of a medical economy financed by continual rate increases; in other countries, such as Britain or Italy, doctors became the employees of a national health system, although there too, they maintained a degree of control over their terms of employment and practice. In many less advanced economies and in the United States the medical profession secured a state-protected monopoly, but continued to resist a state-controlled health system, even if it meant that demand among lower-income groups lagged for lack of finance.

Much depended on timing: initially many individual doctors of a progressive bent supported health insurance. But intervention by the government or the societies provoked countervailing organization among doctors. Professional leadership was usually recruited among the most prestigious practitioners, who identified strongly with private practice in a competitive market and accordingly opposed the collectivization of medical care. If a strong and unified system of health insurance had developed in the meantime, it could overcome the opposition it had itself engendered. If the system was more fragmented, the medical profession succeeded in setting the terms (see also chapter 7).

5.4 *Unemployment*

Of all the hazards of modern industrial society, unemployment is the most difficult to insure. First of all, it is not an event that strikes one person independently of another; rather, like contagious disease, one case increases the odds that others will follow. Unemployment, like epidemics, comes and goes in waves, which may be cyclical, but remain unpredictable. This makes for a very uneven accumulation of risks with all the actuarial problems that come with it. Commercial companies have therefore avoided unemployment insurance and left it to unions and mutual associations which were especially ill suited for the task, as their members usually shared the same occupation.

Secondly, it is difficult to decide whether someone is in fact involuntarily unemployed and whether he does not secretly work on the side. These problems of adjudication and investigation have become the province of specialists, but not of an academic profession which by its authority might have shielded administrators and applicants from one another, in the way doctors function as arbiters in sickness and disability insurance. Moreover, an unemployment fund may be used for resistance pay for dismissed activists and to support workers during a lockout or a strike. Employers and authorities were accordingly suspicious of such funds and often did what they could to disband them. Finally, unemployment benefits put a floor in the labor market below which wages can not sink. Opponents have objected that such benefits only serve to increase unemployment since wages are kept artificially above the level where demand for labor would increase again and of itself absorb the unemployed. Others have argued to the contrary, that these benefits have a 'multiplier effect' by increasing effective consumer demand and thus stimulating business.

The very term 'unemployment' suggests that continuous, regular employment is the normal state of affairs: anybody who is not sick, disabled, very young or very old, or busy taking care of a family, is expected to hold a steady job. The bourgeoisie of early industrial society could not bring itself to believe that people might be out of work through no fault of their own.[58] Nor did the canons of classical economics do much to relieve its suspicions: in a free market an oversupply of labor would be absorbed once wages began to fall and demand picked up. If, nevertheless, sizable numbers of people remained without work, they had to be unwilling to seek it. During the 1880s such simplistic ideas were refuted by a series of investigations among the poor. Moreover, economists were discovering the trade cycle and showed that unemployment was a characteristic of the economy in its depression phase, and thus the outcome of a societal process rather than the result of an individual disposition.

Nevertheless, the unemployed were treated as the other poor, but with a penalty for being sturdy and healthy: their condition had to remain worse ('less eligible') than that of employed workers, the incentive to work was to be instilled through stringent relief conditions and under the threat of the workhouse. Incessant admonition, education and inspection were to stamp out all remaining sloth and vice.

By the turn of the century philanthropic attempts to raise the morality of the poor and idle began to seem increasingly irrelevant as the

economic causes of unemployment became more apparent. Reform of the labor market seemed to make more sense and labor exchanges were set up for the purpose. Some officials even played with the idea of public-work projects for the unemployed to keep them from the relief rolls and to prevent radicalization and disorder. At the beginning of the twentieth century municipalities on the continent began to subsidize trade-union unemployment insurances: the 'Ghent system'.[59] Such schemes were voluntary and covered only the better-off workers which made up most of the union membership. The unions, on their part, resisted extension of these plans as it might tempt the 'bad risks' to sign up, pay a few weeks' dues and next claim benefit. Disbursements tended to be very low, but even at those levels they quickly exceeded the unions', and even the municipal, means since unemployment tended to concentrate in specific occupations and localities.[60] For the great mass of the unemployed there was not even insurance, only charity and the dole.

Employers by inclination resisted arrangements that tended to keep wages above the market level. And in the single firm, of course, risks were accumulated, not spread. Independent company plans thus played scarcely any role in unemployment insurance: companies that were laying off workers could least afford to support them.

In the end, there remained no alternative to the state as the final carrier of unemployment insurance. But even ambitious administrators shrank away from the risks involved in a nationwide unemployment scheme. The early laws, in Germany and England, were passed in a mood of optimism during times of economic boom, and once the financial pressures of mass unemployment made themselves felt, they had to be supplemented with massive relief grants. Only in the United States was an unemployment insurance scheme enacted in the midst of the Depression; France and the Netherlands weathered the crisis of the 1930s with grants-in-aid to municipal and union schemes and with massive, but niggardly, poor relief: these countries adopted a national unemployment insurance only in the fifties, in a period of unprecedented economic growth and national consensus on social security. By then, Keynesian theory, the experiences of the Great Depression and the wartime economy had taught governments how to use public expenditure to maintain full employment. And here another fundamental difference from other forms of social insurance emerges: disease, disability and aging are quite independent of government policy, but unemployment can be manipulated by government intervention in the economy. Full-employment policies turned out to have their price: inflation. At present, the total volume of unemployment is no longer considered an external risk, but rather a dependent variable of total economic policy: the costs of unemployment benefits enter the calculations as one item among others in the determination of policy.

As a result, those who cannot find jobs increasingly consider themselves victims not of fate or of the market's hidden hand, but of government policy, especially since the government itself has become the largest employer by far, an insistent promoter of economic investments and a habitual subsidizer of companies in economic distress. Unemployment insurance, which never functioned very well when it was really needed, may now be better understood as a system of special taxes and refunds in and out of a general reserve for those who cannot be employed against a regular wage. But the very fact that the state accepts responsibility for the employment of its citizens (sometimes even as an article of constitution) and that it is held accountable for it, reveals how far the collectivization of care has proceeded: because unemployment has become a matter of concern for the central state, it has been transformed from an individual adversity into a calculated outcome of government policy for which indemnification is due. The problems of unemployment in its modern form can be solved only by a more even distribution of jobs among the population.

5.5 *Family wages*

It is hardly surprising that family allowances were introduced first and most widely in Catholic countries, where official opinion ruled out family planning. Under these conditions, procreation and pregnancy might be considered a hazard of adult life, not at all undesirable in itself, but causing a financial burden to be covered by some kind of insurance. A moral concern for the survival of the family as an institution inspired the movement for family allowances: the conditions of urban-industrial life were thought to undermine the traditional bonds of marriage and parenthood among the lower classes.

Factory owners preferred married men and fathers for being more staid and reliable workers, and were willing to supplement their wages. On the other hand, this policy might worsen the company's competitive position in relation to that of its rivals. Especially in France, Catholic employers set up amalgamated funds to equalize the costs of family allowances.

Unions and social-democratic parties opposed family wages as they afforded employers undue influence upon the way of life of their workers. They insisted, moreover that wages should be adequate to support a family, without extra allowances.

The state was drawn into these family-allowance schemes in order to

equalize burdens more evenly among employers. Its interest was very much activated by a concern with overall birthrates. These tend to decline in the course of industrialization. The aftermath and the renewed threat of war made this a pressing issue in France and also in Nazi Germany.

Entitlement to family allowances is one kind of transfer property, but even more than other transfers, these benefits tend to shade into negative taxes. In fact, in most modern countries, tax deductions are granted according to family size, whereas in many countries wage taxes are collected to finance family benefits under a national scheme. Under contemporary conditions, reproduction is hardly a chance event and only a few children are born per couple. Financial considerations seem to play a minor role in family planning. Family allowances are best considered as a means of distributing taxes more equitably.

6 The beginnings of social security in Western Europe and the United States

6.1 *Bismarck's beginning*

The first nationwide compulsory insurance scheme against income loss was established in Germany by an authoritarian and activist regime *par excellence*: Bismarck's all-German government. It was imposed against the resistance of the workers' movement[61] and against much opposition in parliament, mainly with the support of the leadership of the Central Association of Industry. Bismarck's personal share in the project has been minimized,[62] the efficacy of his legislation has been doubted – with sounder reasons[63] – but the priority belongs to his regime: the scheme became the model for other countries and in its broad outlines has survived two World Wars, National Socialism and foreign occupation as the foundation of the West German welfare state.[64]

National insurance came about in the Kaiser's Germany under most particular social and political conditions, but this uniqueness does not warrant the treatment of its emergence as an exceptional case without implications for developments elsewhere.[65]

Bismarck's project reveals many essential traits of the social laws which other countries were to adopt in the next half-century. His was an effort at state-building, quite self-consciously designed to strengthen the new German state apparatus[66] and to improve its ties with the industrial working class whose Marxist leaders at the time proclaimed it to be 'without a fatherland'. Bismarck envisaged a class of state pensioners loyal to the government and wary of any change that might threaten their small benefits, people without property and yet with a stake in the political order.[67] His short-term goal was to stem the rapidly swelling tide of the workers' movement by providing a social complement to the repressive *Socialistengesetz* (1878–90), the law against the Socialist Movement.[68] More carefully disguised was the intention to sidetrack the Reichstag, the parliament of the German state, by building a corporatist system of workers' and employers' administrative bodies which was to take over the Reichstag's functions in social and economic legislation.[69] None of these objectives materialized. The Socialist Party grew even more quickly after adoption of the insurance laws, parliamentary influence increased, the corporatist structure was never realized and the positions in the insurance system were manned mostly by labor activists who found shelter there in a society where strike leaders and left-wing agitators were routinely dismissed or even jailed.

National insurance did succeed in creating stronger bonds between the German workers and the new state. It may well have contributed to the Socialist Party's historical decision to collaborate in the war effort in 1914, since by then numerous union and party officials had been integrated into the state's fabric as executives of the national insurance system. And, most important of all, insurance provided the wage-earners with a new, institutional alternative to the private accumulation of property.

But even though Bismarck appeared to ignore the trade unions and bypassed the political parties in the Reichstag as much as he could, he did not simply create national insurance by decree. It was a feat of careful, albeit groping, coalition building and astute exploitation of the opposition's weaknesses.

Gaston Rimlinger[70] and, more recently, Peter Flora[71] and Hans Albers[72] have pointed out that before 1900 compulsory insurance schemes were adopted mainly by authoritarian regimes, and in countries where industrialization had not yet progressed very far, in Germany, Austria, Finland, Sweden and perhaps Italy.[73] Clearly, the authoritarian political elites in this manner attempted to circumvent the parties and to reach out directly to the working masses so as to secure their loyalty. However, Rimlinger's suggestion and Albers's supporting evidence accord with a different interpretation of events. In these authoritarian regimes, primarily in the Kaiser's Germany, not only were industrial workers effectively excluded from government power, as they were at the time in many parliamentary democracies too, but the petty bourgeoisie also had little influence, considerably less than in the democratic polities. The early social legislation of authoritarian regimes contradicts the

hypothesis that working-class strength prompted such initiatives, but it does correspond with the view that the weakness of the petty bourgeoisie facilitated them. Small property-owners carried little weight in the politics of Wilhelmine Germany; the rural nobility of the *Junker*, the industrialists and the bureaucrats all the more.[74] As long as rural interests were not threatened by the new legislation, a coalition of the regime and large-scale employers might overcome the opposition of the petty bourgeoisie, divided as it was within the Catholic *Zentrum* Party and the bourgeois liberal groups.[75] The regime could afford to do so, because the defenders of liberalism and small property had failed to gain access to state power after 1848 and remained outsiders thereafter. But this relative independence from middle-class pressures also implied a lack of support which made the regime all the more sensitive to the vindications of another stratum in society, the new industrial proletariat.

The coalition that carried national insurance through the vicissitudes of German politics was one of the three typical alliances that may bring about the scheme: in this case, a coalition between the administrative and political elites on the one hand and large-scale industrial employers on the other. A good deal of the preparatory legislative work was done by leading figures in the *Industrieverein*, and the leaders of this association personally pushed for adoption of the scheme, closely cooperating with Bismarck's civil servants.[76] As is well known, national insurance was adopted in Germany without the support, and even without formal consultation, of workers' organizations. But this did not mean that workers' preferences were not taken into consideration. On the contrary, Bismarck appealed to the workers over the heads of their leaders whom he himself had outlawed.[77] This was as clear-cut a case as ever occurred of Karl Friedrich's 'rule of anticipated preferences': the workers exercised their influence not by direct articulation of their wishes, but because the designers of the scheme anticipated what they might want.

By 1880 the German workers had developed a large, united and politically most articulate movement, and an extended network of sick funds and union insurances. They had by then begun to overcome local and occupational identifications and to develop a broad orientation toward national politics. But both for ideological reasons and because of its repressive policies, the Socialist workers deeply mistrusted the regime in power. Although they did not reject state intervention offhand – August Bebel even advocated it in parliament and after 1890 the Social Democrats were to operate loyally within the existing structures – at the time they could hardly ally themselves with their archenemy Bismarck, nor were they ready to surrender control over their own insurance funds. Thus, the most politicized part of the ...

neutralized through state repression and its own withdrawal into radical positions, while the more reform-oriented part was busy entrenching itself in unions and funds of the workers' own making. But once national insurance was adopted, the Social Democratic elite was quick to perceive and to exploit the opportunities provided by the representative committees that managed the sickness and pension funds and the potential these institutions might have for organizing the working class. On the whole, the Social Democratic leadership keenly gauged the insurance schemes in terms of the power chances they afforded in the class struggle.[78]

The preferences of large-scale industrialists played a much more immediate part in shaping the scheme. In Prussia especially they had been closely allied to the state bureaucracy, both by political alliances and by means of economic regulation. For a long time many companies had operated their own insurance funds under state supervision and large-scale entrepreneurs had little reason to oppose insurance as long as the government protected them against foreign competition with tariffs and maintained the relative advantages among domestic rivals by unitary regulation. Many of them were quite willing to accept part, or even all, of the costs of insurance if this would leave them master on the factory floor and in full control of the funds' management. This counted especially in accident insurance, where safety was an issue that might provoke intervention from outside agencies.[79] On the whole, and especially in the first stages, the *Centralverband* and the regime found themselves in close agreement.[80]

The regime sought ways to domesticate the labor movement and create closer links between workers and the state. It had, therefore, strong interests in controlling the system to be set up, strong enough to be ready to pay a price. It did not shrink back from the task of building an encompassing administrative network to manage the insurance systems; on the contrary, this is what the German state-builders wanted in the first place. It was willing to contribute to the costs, if that was the price of control, and it was even ready to underwrite the actuarial risks of the system. Greater gambles had been accepted by Bismarck's regime in founding the state and expanding its influence in competition with its neighboring nations. National insurance was very much seen as part of the nation-building effort that went with state formation. A strong and nationalist labor force seemed a necessity if Germany was to play its role in the rivalry between states. Inasmuch as this was also an economic rivalry, employers could not be expected to foot the bill entirely, since this would weaken the economic terms of competition with their rivals abroad. But in return for state support by means of legal coercion and

financial subsidies (paid in part from protective tariff revenues) employers had to go along with a system that was to be compulsory for them too.

There was, finally, another circumstance that compelled entrepreneurs and the central government to propose reforms: under the old Poor Laws indigent workers had to return to their place of birth for relief, but the rural communities were incapable of supporting them and sent them back to the towns where they had last worked and where they became a burden to the local authorities.[81]

A brief review[82] of the legislation may serve to trace how the preferences of the coalition partners were realized and those of the workers anticipated by the designers.

In the 1880s, three major compulsory insurance laws were passed: on accident insurance, disability and sickness. The first, the *Unfallversicherung*, was also the most controversial and had to be re-submitted twice before it was enacted in 1884. The Employers' Liability Act of 1871 had made employers liable for accidents at work unless the worker's negligence could be proven. Accordingly, insurance contributions were levied from employers, united in *Berufsgenossenschaften* (trade associations) for the management of the insurance and for the promotion of industrial safety under the supervision of an imperial insurance office. Accident victims would receive two-thirds of their wage, or less according to the degree of disablement.

The Sickness Insurance Law was passed in 1883. It was financed by employers' and workers' contributions, for one- and two-thirds respectively, and implemented by a variety of recognized sick funds already in existence or to be established for the purpose. The scheme was managed by committees manned for two-thirds by workers', and for the remaining third by employers', representatives. Benefits consisted of medical care and sickness pay equal to half the wage sum for thirteen weeks at most after a *Carenzzeit* (waiting period) of three days.

Disability insurance, finally, was enacted in 1889. It was financed under a full capitalization system[83] from employers' and workers' contributions in equal parts (in declining proportion to wages earned) and by the state with a fixed yearly addition to each pension disbursed. Administration was the task of semi-autonomous public insurance bodies under elected management in every *Land* of the union. The insurance provided for a pension of two-thirds of the most recently earned wages after at least five years of contribution in cases of complete disablement, workers over the age of seventy qualified for a pension if they had contributed for at least thirty years, surviving widows received 20 per cent of their late husband's former wage. No unemployment insurance was proposed, this remained the province of the trade unions until the law of 1927.

Accident insurance most fully embodied the interests of the regime and the large-scale employers, effectively excluding workers from any say in its workings, but at the same time exempting them from the costs. In the sickness and disability insurance the regime and the employers had to allow for the vested interests of the many funds already in existence. Moreover, they knew that the sums involved in the pensions were bound to expand to astronomic proportions and this too prompted them to opt for combined employers' and workers' contributions under a capitalization system together with state allowances. As a corollary, they accepted workers' representation in the managing bodies. In doing so, the regime laid the foundation for the subsequent tripartite coalition that was to maintain and expand social security in Germany for the next forty years and that was revived after the Second World War to realize the West German welfare state.

With hindsight, it is difficult to grasp the full scope of administrative innovation embodied in the insurance institutions of the Kaiser's Germany. Its principles have remained the guidelines of compulsory national insurance ever since and showed themselves quite compatible with the subsequent extension to new groups of the population and new fields of coverage in Germany and elsewhere.

6.2 *The British breakthrough*

The next wave of social innovation came almost twenty-five years later, in Britain, where the working class had a longer history and was more numerous and better organized than anywhere else. But here too, the initiative was mostly with an activist regime of politicians out to conquer the working-class vote and administrators eager to try the new techniques of government. In England, however, large-scale employers hardly played a part, while the essential support in passing the pension and insurance laws of 1908 and 1911 came from the workers' organizations.

Capitalist entrepreneurs had played an increasingly important role in English politics at least from the 1830s on. Free enterprise and private accumulation counted as the sole avenues to individual success and national prosperity, while more *étatiste* policies met with fierce opposition. Yet, throughout the nineteenth century the central state had increasingly intervened in education, sanitation and poor relief.[84] Under the Poor Law of 1834 a very differentiated system of local relief had developed, not always as miserly as it has been depicted[85] and with much more

central management than appeared.[86] Such state intervention was prompted time and again by the perennial imbalance between local resources for relief and the need for it as determined by broader economic developments. Under the 'New' Poor Law, the threat of the workhouse was intended to keep the poor from applying for relief. But wardens and guardians refusing aid risked indictment by the Poor Law Board for criminal negligence and even murder. Too generous a policy was punished by the local voters who had to pay the poor-rates.

Next to the very intricate relief system, an extensive network of private charitable organizations developed, more and more geared to reeducate the poor into abiding citizens and wage-earners. Mutual societies and union funds constituted a third circuit of maintenance, one that provided not for paupers, but for regularly employed workers, not from rates or donations, but out of their own pooled contributions: here voluntary collective action operated to establish a functional equivalent to the providential functions of private property. The mutual funds constituted voluntarily accumulated and cooperatively managed transfer capital, a transition to the compulsory accumulation under state control. This arrangement at the members' own expense appeared to be an alternative entirely compatible with the Victorian ideal of voluntary accumulation.

Thus, around 1880, a triad of very elaborate and quite viable institutional arrangements operated in Britain; this, together with the political pressure from small property-owners, explains in large part why compulsory insurance was not enacted for another thirty years. These very institutions stood in the way of legislative reform. The ideas and practices prevailing under the Poor Law continued to associate indigence with moral failure and relief with punishment. The encompassing Charity Organization Society insisted that all material aid was to be combined with measures of moral reform. And the mutual societies jealously guarded the autonomy that their members had so sourly conquered. The propertied citizenry which made up the bulk of the electorate did not see why it should sacrifice its earnings for taxes to support those who obviously had not cared to save for themselves.

It took a long series of reports on the conditions of the English working classes to alert the public, and especially the political elites, to the realities of industrial society: the involuntary nature of unemployment and the preponderence of the elderly among the indigent. Social scientists – as they would now be called – were more directly involved in this *prise de conscience* and were more closely associated with policy design than ever before.[87] And throughout the debate Bismarck's legislation served as a point of reference.[88]

More important, the

aging members who lived longer than mid-century statistics had predicted and claimed sick pay for the chronic afflictions that now disabled so many of them. In Britain, also, health and disablement benefits functioned as a disguised old-age pension. Only the specter of bankruptcy persuaded the societies in the end to accept a state-pension scheme and this completely altered the political balance on the issue. The unions, who were not themselves involved in pension insurance, had no reason to resist state interference in this field and supported the massive campaign of the National Pension Committee.

The catastrophic defeat of the Conservatives in the elections of 1906[89] brought a Liberal Government to power with a radical wing around Lloyd George in the Treasury and Churchill in the new Board of Trade. They formed the core of an activist regime which by means of a program of social legislation hoped to combine its short-term electoral goal of overcoming the labor vote with the long-term objective of integrating the working classes into the mainstream of British society.[90] Funds were to come from savings on Poor Law relief and from tariffs that favored trade with the overseas possessions and thus promoted integration at the level of the Empire, as social legislation was to foster it at the national level.

An activist regime was in power, while in the country a broad and well-organized base of working-class support for social legislation had emerged. The Pension Act of 1908 was the result of a coalition between regime and workers,[91] as clearly as the Accident Insurance Law of 1884 in Germany had been the product of a coalition of regime and employers. Under the British pension scheme employers were completely excluded from control: the pension was noncontributory, financed from general taxes and paid at the local post office to every citizen over seventy with an income of less than £26 a year.[92] This accorded quite closely with the unions' demands which had served them as a rallying cry for many years.

'It was a pension for the very poor, the very respectable and the very old', writes Pat Thane[93] with hindsight – but it was also an unprecedented breakthrough:[94]

> To the aged poor it seemed unbelievable that one could collect 5s. simply by coming to the post office on Friday. Particularly in the country villages, unsuspecting postmistresses found themselves showered with apples and flowers from pensioners' gardens in gratitude for the simple act of distributing money.

The employers had little to do with the enactment of state pensions. Although the Chambers of Commerce had criticized its costs and the Charity Organization Society had objected to the absence of any attempt to reform the recipients – an effort so central to charitable activities –

many employers had supported it as a contribution to industrial harmony and thus to productivity.[95]

In the next wave of legislation the risks of disease and unemployment were to be provided for. But in the meantime the noncontributory principle had lost adherents, first of all because of its costs, but also because to many it still smacked of the Poor Law dole.[96] More importantly, across the nation and for many years, unemployment and health insurance had been the province of the unions and Friendly Societies. In these fields they had not run up against the same actuarial troubles as in old-age insurance and they now insisted on keeping control of their affairs even if it had to be at a price to their members. They insisted that contributions were levied from workers, as from employers, with the government adding its share. On the other hand – for the health plan much more effectively so than for the unemployment scheme – compulsory state-subsidized insurance did solve the unions' and Friendly Societies' perennial dilemma of having to exclude the poorest workers or to accept increased risks.[97]

Part I of the Bill, dealing with health insurance, was originally intended to provide for survivors' pensions. But here the regime faced the opposition of the Friendly Societies, and, quite suddenly also the rather more formidable forces of commercial industrial insurance with its well-organized army of some 80,000 collectors. These men were in the very profitable business of burial insurance and feared that once widows could count on a pension they would no longer worry about burial costs. The Bill's tortuous history in and out of parliament was very much the result of political conflict on other, unrelated issues; organized employers and employees had little part in it, but the commercial insurance business staged one of the earliest mass campaigns of modern politics. Medical men were to follow their example soon after the bill was passed.

In the end the Act allowed 'approved societies' to manage the scheme: these included both the Friendlies and the commercial companies who had managed to get into the act without ever before having been involved in sickness insurance. Contributions were levied from workers at 4*d*. a week, from employers at 3*d*., and the government added 2*d*. to finance the extra costs of elderly subscribers.[98] This covered sickness pay at 10*s*. for twenty-six weeks at most and after that disability pay for an indeterminate period of time. It also paid for 'ambulatory' medical care and for medicine from doctors included in the 'panel'.[99] No hospital care was provided, except for tuberculosis, a contagious disease with obvious external effects. The Act was radical in one respect: it covered all workers, even domestic servants – a subject of great outcry: it even compelled ladies to lick stamps for their maids. Dependents remained outside the schemes, except for maternity benefits.

Although the regime around Lloyd George was essential in bringing about the health insurance, it hardly did so in coalition with organized employers or employees: the vested interests of the firmly and widely established Friendly Societies and the rising forces of commercial insurance and medical professional groups came to dominate in the power struggle. Workers and industrialists seem to have accepted the tripartite division of burdens quite passively, without protesting against the regime's concessions to the friendly and commercial insurers.

Workers' and employers' organizations were much more involved in unemployment insurance, and in this instance the regime broadened its base by seeking support from employers also.

Local authorities had shown themselves particularly powerless in relieving unemployment: 'isolated local attempts to give assistance or employment to the unemployed were a hindrance to labour mobility and positively attracted workmen into distressed areas. Moreover, the adequacy of local resources varied inversely with the needs of the local unemployed.'[100]

With the Depressions of 1879 and 1908 it had become increasingly clear to the public that individual cases of unemployment were particular instances of a general phenomenon, associated with the economy as a whole and quite independent of the virtues of the particular workmen affected.[101]

But these insights did not of themselves point to a remedy. As has been pointed out before, unemployment is a cumulative risk and at the time it was even considered 'an uninsurable risk'.[102] The one prior example of compulsory unemployment insurance, an experiment in the Swiss canton of Saint-Gall became a monitory example of failure. Ever since, authorities on the continent had preferred to subsidize voluntary union insurances according to the Ghent system.[103] Bismarck had avoided the matter of compulsory unemployment insurance and in Germany legislation did not come until 1927.

Nevertheless the regime proceeded with a national unemployment insurance, insisting on compulsory membership precisely because of the dilemmas inherent in any voluntary arrangement. Beveridge and Churchill advocated an employers' contribution, because in the long run insurance would improve the quality of the workforce to their advantage, and employers were the ones to hire and fire in the first place. Churchill wrote: 'Unemployment is primarily a question for employers . . . Their responsibility is undoubted, their co-operation indispensable.'[104] The employers, however, were divided on the issue, with leading opinion tending to favor insurance.[105]

The Friendly Societies were scarcely involved in unemployment insurance, commercial companies stayed far from it, but unions had become increasingly active in the field. Their concerns had to be accommodated first. In no case should the unemployed be made to accept work at a wage below standard or forced to cross picket lines. Nor should existing union insurances be taken over by the government.

Under the terms of the act of 1911, employers and workers were to contribute equally, 2½*d.*, the government somewhat less. Unemployed workers would receive 7*s.* a week against every five weeks of contribution paid for fifteen weeks a year at most. The scheme was limited to some 2.5 million workers in construction and heavy industry and was extended to other trades in later years.[106] A network of some 1,200 Labour Exchange agencies was set up under a new government department in order to bring together labor demand and supply more efficiently (and to test the recipient's readiness to accept employment).[107] Benefits were paid by the exchanges and by the unions to their own members. Disputed cases were to be adjudicated by panels composed of employers nominated by the Board of Trade and by elected workmen's representatives.[108]

Unemployment insurance was essentially a tripartite arrangement with the state in a position of dominance. The coalitional base that supported social legislation after 1908 was broadened to include the employers, although tripartite relations among the partners remained very tenuous. Unemployment insurance did not involve commercial interests as the 'health business' did. As it stood, it covered only the stronger industries, steering clear of economically more precarious branches.

British national insurance began as a government initiative with labor support, bypassing employers as much as possible. It soon grew into a tripartite enterprise, as large-scale employers were persuaded to support legislation. Unemployment insurance had been the most ambitious initiative, but in later years its financial base proved incapable of supporting the burdens of mass unemployment: it turned into a massive open-ended relief system. However, the groundwork for social security had been laid and its shortcomings did not turn opinion against it, but rather served as an added argument for the more extensive and centralized system which was to be established after 1945.

6.3 *France: the motor and the brake*

In extremely simple form, social insurance began in Germany with a coalition between industrialists and the regime workers' preferences and subsequently broadening to include the *Arbeiterkassen*. In England it began with a coalition between the regime and the workers' movement, extending to accomodate the employers on unemployment and the commercial and mutual insurers on health insurance. The late advent of social insurance in France, equally schematized, provides an example of a tripartite coalition of the regime with moderate sections of the workers' movement and large-scale industrialists, seeking to accommodate the *mouvement mutualiste*.

Compulsory insurance came later to France and this very delay made for more retardation. Mutualist and company funds had proliferated in the meantime, constituting so many vested interests against unitary state insurance. Opposing coalitions had ample time to organize political resistance and to set up alternative institutions which they themselves controlled and which, in turn, functioned in the political debate to deny much urgency to any intiative on the part of the state. Something of the kind had occurred in England where the Friendly Societies developed before the nationalization of the insurance system and retarded its advent. In France, employers and *mutualistes* were able to operate with relative autonomy for another twenty years, before, in 1930, a national system came into being.[109]

More clearly than in those other countries, in France a grand alliance of small property owners functioned as the 'brake' on legislation for compulsory state insurance. Its resistance has been described by Henri Hatzfeld, and his analysis of the establishment of social security in France is of wider validity than for that country alone.

The French Third Republic represented the reign of the bourgeoisie and it was as much a reaction against the threats of the Paris commune[110] as against the *étatiste* schemes of Napoleon III.[111] More than elsewhere, social insurance was recognized as an alternative and a threat to private property and it was resisted all the more for it. Small savers feared that enormous investment funds would use the accumulated moneys of national insurance to dominate the capital market. They also protested that compulsory contributions would rob the workers of the last pennies they might save for themselves and their children or invest in an enterprise of their own. Compulsory insurance would thus condemn the worker once and for all to wage-dependency. With hindsight this may look like standing the argument on its head, but to a nineteenth-century property-owner proletarian dependency could still look like a transitory phenomenon which would disappear as the economy grew and wealth increased. This view was not at all incompatible with an ideology of the *patronat* as a patriarchal stewardship which provided for those entrusted to it out of fatherly concern and Christian love. Legal compulsion and

state coercion could only be inimical to this bond of care and service, which far transcended the cash nexus.[112] Lay and Catholic teachings of solidarity imposed on all a similar obligation to shoulder one another's burden, not just through spontaneous charity, but in the context of permanent and organized, but always voluntary, institutions such as the *caisses mutuelles*.

Part of the workers' movement, its most intractable wing, shared many of these tenets, but with a difference: The anarcho-syndicalists equally insisted on self-help, but they defined it as a collective effort on the part of the workers themselves. Their ranks were recruited mostly from highly skilled workers in small enterprises which still operated under pre-industrial conditions. Accordingly, their radicalism had a somewhat nostalgic hue.

Against the petty bourgeoisie and the anarchists, the National Confederation of Labor, CGT, was unanimous in insisting on state intervention and noncontributory insurance. Its ranks were divided on the issue of reform versus revolution: should the existing French state, the Third Republic, be entrusted with social insurance, or should it first be overthrown to make way for the dictatorship of the proletariat? Jules Guesde spoke for the radical wing of the movement which opposed each and every measure as a contribution levied from the workers to keep capitalism alive. Jean Jaurès led the reformist tendency and cautiously supported the initiatives of the succeeding regimes, even the meager pension law of 1910.

A figuration of conflict, in which one side is made up of both a conciliatory mainstream and a radical fringe, is often prone to produce compromise. The moderate majority may exploit the presence of radicals by threatening that either the latter will take over the entire movement or they themselves will be incapable of resisting radicalization among the rank and file: better deal with the moderate wing right away than having to cope with the radicals later. Although the two wings may fight each other even more bitterly than the common enemy, their combined dynamics may further compromise, if the threat is successful. Not so in France.[113] The already niggardly Pension Law of 1910 was undone by a court verdict in which the obligation to contribute was declared void. 'The law had been enacted by those who least wanted it';[114] and thus it had been paralyzed from the beginning. As a result the number of pension insurances actually declined in subsequent years.[115]

The field of insurance remained the province of the *sociétés mutuelles* and the company funds. The mutual funds had been outlawed with all workers' organizations in 1791, and persecuted as conspiratory societies under the Restoration. Napoleon III recognized the 'approved' funds, but imposed close supervision by appointed chairmen.[116] Under the Third Republic, however, especially after the law of 1895, the *mouvement mutualiste* was left free to flourish as a network of voluntary associations with government subsidies. This *liberté subsidiée* mostly favored the middle classes who could afford to pay the premiums.[117] After the *échec* of the Pension Law, it remained the major form of insurance against the various risks of income loss with all the shortcomings attendant upon a voluntary system.

As state insurance took so long in coming, company schemes became more important than elsewhere. But, in France too, they developed mainly in the large industries, and especially in the mines, steelworks and railroads. By 1850 Napoleon III had established a compensation fund, the *Caisse Nationale de Retraites*, and many employers had continued to amalgamate their schemes per sector or to reinsure them with commercial companies. It was this plan that was to serve as an example to Bismarck. In 1898 employers were declared liable for industrial accidents, unless there was clear proof of the worker's fault,[118] and this induced them to insure against claims. An attempt to introduce compulsory disability insurance after the German model failed however, as small employers were presumed to be unable to bear the costs.

Company funds sprang up first where demand for labor exceeded supply, especially in those areas where new enterprise was set up:[119]

> The *patrons* are dependent on manual labor, scarce yet necessary, undisciplined, mobile and irregular. The workers know that they are needed and bring competition into play. A single imperative rules the company bosses so as to reverse in their favor this *relation of dependence*: stabilize manual labor, fix it, tie it to the company, 'infeudate' it. The means: make sure that the worker and his family become dependent on the company for their existence.

Ewald goes on to describe the corresponding patriarchial ideology of 'benevolence versus service' as it has been articulated by Fréderic Le Play and the company director Cheysson. Their schemes provided mostly benefits in kind, housing in the first place, because 'the more one pays the worker the less he works.'[120] Favors were carefully bestowed as rewards for 'fidelity'. However, precisely because the company funds tied the worker to his employer by the lifelong strings of promise of a pension which was forfeited upon dismissal or termination, they were greatly resented by union members.[121] The notorious scandals and bankruptcies of some of these company funds in the 1890s also made it increasingly clear that single firms, and even amalgamated funds, were inadequate to guarantee numerous and lifelong obligations.[122] On the other hand,

employers welcomed the opportunities for control over their workforce that these schemes afforded them and used the accumulated workers' contributions as venture capital, albeit mortgaged by pressing moral obligations. With time, however, the employers' share in the contributions and their outstanding commitments began to weigh more heavily, especially as disabled and retired workers tended to survive longer than the insurers had been led to expect on the basis of mid-century actuarial statistics, so that the increasing burden put the older companies at a disadvantage with respect to more recently established and less heavily committed competitors. As a result, large-scale and long-established industries were not so much adverse to state insurance and were ready to pay their share if only they were not forced to relinquish control over the schemes, and thus loosen their grip on their work force. French large-scale industry, however, hesitated to break with the small employers on the issue of insurance and this muted their support for a national plan.[123] In the end, even an attempt to introduce limited unemployment insurance, if only to prevent jobless *mutualistes*, unable to pay their contributions from losing their insurance, failed as late as 1925.

If social scientists have been instrumental in bringing about social insurance, they have also helped to defeat it. In France, Jacques Rueff presented impressive statistics on the correlation between unemployment and the level of real wages, contending that both were kept up artificially through union pressure and unemployment benefits.[124] It took another thirty-three years before the regime, in 1958, organized employers and workers could be made to agree upon an unemployment insurance scheme.

Yet barely five years after its failure in 1925, a national, compulsory system for health, disability and pension insurance was enacted, covering all workers in industry and commerce.[125] By then, a tripartite coalition of large-scale employers, moderate unions and the regime had succeeded in designing a scheme of shared control which did not alienate the partners and was acceptable to the mutual societies which dominated the insurance business. The medical profession proved hardest to appease, but for the moment gave its consent.[126] The Communist Party and union opposed the 'Fascist law' as the product of *chicanerie bourgeoisie*. They rallied to the support of social legislation only after 1945.[127]

The *assurance sociale* of 1930 allowed 744 'approved' funds to provide health, maternity and death coverage for their members on a repartition basis, while some eighty funds carried the disability and old-age schemes on the basis of full capitalization.[128] In every department a *caisse* was established to insure those who because they did not wish to adhere or were rejected.[129] The *caisses départementales* had also been intended to act as premium collectors, reinsurers, compensation-clearance centers and supervisory agencies for the voluntary funds, thus superimposing a strong state structure on the fragmented mutual system. However, in a second version of the law (1930) these administrative and supervisory functions were confided to separate institutions under a *Caisse générale de garantie*. This victory of the mutualist movement over the state's *supercaisses* was partly undone again by the unexpectedly large influx of subscribers to the departmental *caisses* which insured over 60 per cent by 1931.[130] This development was to add arguments for a unitary system in 1945.

In its final reading, the law of 1930 excluded agricultural workers and those covered by other schemes, mainly railroad and government personnel. But before long it insured 10 million wage-earners, with employers and workers each paying 4 per cent of wages and the state contributing from what it saved on the 1910 pensions and public assistance.[131]

The *caisses* were managed by employers' and workers' representatives, except for those founded by the workers themselves, which remained under their sole control – a concession to long-standing union demands.[132] But a centralized administrative superstructure was already in place to manage this manifold and fragmented base, imposing compulsory membership on the workers, exacting contributions from them and their employers, setting standards of coverage and management, compensating for deficits in one branch or region with surpluses taken from others, and auditing all benefits and services. Thus, the stage was set for the further nationalization of social insurance after 1945.

That compulsory insurance came late to France is best explained by the political strength of the small property-owners who formed the great obstacle to be overcome. But why, after so many abortive attempts, did they give in by 1930? There was of course the embarrassing precedent of Alsace-Lorraine, where the Germans had introduced their social legislation, a structure which could not be undone when the region became French again. The 1920s had been a period of relative prosperity, and progressive taxation now yielded considerable resources for the government. There was also an increasing readiness on the part of the social-democratic unions to deal with the regime in power. Large-scale employers had been more ostentatious than obdurate in their opposition: what mattered to them was control more than cost. And all along there had been the experts and the administrators, *les grands commis d l'État* who continued to devise new strategies and new compromises to get social legislation accepted.[133] But, unlike other countries, France

produced no statesman who stood for social security the way Bismarck, Churchill and Roosevelt did.

It was above all the gradual erosion of the political privileges that private property conferred, the irresistible increase of wage-earners and of the more privileged *salariés* among them, the growth of large enterprise and big government that finally shifted the balance and allowed a succession of center–right cabinets an opportunity to succeed where earlier governments had failed. Once the mutual movement accepted the principle of state subsidies and state coercion, the central administration began to take over. In this respect, the most inveterate champions of the *liberté mutualiste* were right, more than even they had expected: once the law was in place, it turned out to work quite smoothly and French citizens joined the departmental *caisses*, opted for extension of coverage and membership, without bothering too much about *mutualiste* autonomy, as long as the state made sure that benefits and services were being delivered.

Because the struggle had lasted so long, another alternative to national social security sprang up in the meantime – not an insurance system this time, but a system of allowances, paid to workers in proportion to the size of the family they had to support.[134] These *allocations familiales* were the product of Catholic social activism, a 'third way' between the *laissez-faire* of liberal thought and the state insurance systems preferred by the socialists and the radical workers' movement. Catholic employers started the practice on a voluntary basis, but they soon found that it made family fathers more expensive as employees. To equalize burdens among participating companies, they established amalgamated compensation funds. A law of 1932 (coming shortly after the papal encyclical *Quadragesimo anno*, recalling the fortieth anniversary of the social encyclical *De rerum novarum*), made these family wages compulsory, leaving the management of the *caisses familiales* to the employers until the state took over in 1945.

France was as slow as the United States in welfare legislation, and in the case of France the explanation must be sought in the relative strength of the small property owners, especially in their political strength. The timing of welfare legislation must be explained in connection with the erosion of their political power base. In France the unions certainly were not weak, as in Germany and the United States, but on the issue of social security they were badly divided. In France, as in Germany, large-scale employers were in a strong position, but they were allied less closely to the regime than their German colleagues had been in Bismarck's time and clung more to an alliance with the small entrepreneurs. France was a welfare laggard because of the strength of its petty bourgeoisie, the United States lagged behind on account of the weak organization of the central – i.e. federal – state and the weak position of the labor unions.

6.4 *The American big bang*

Social security was instituted in the United States as part of the 'New Deal' policies of Franklin D. Roosevelt, with sudden momentum, but not wholly without precedent. By the end of the nineteenth century the United States had been well on the way to becoming a welfare state of sorts: the aftermath of the Civil War had engendered a veterans' pensions system of remarkable generosity and extensiveness. As the years went by the causal connection between war injuries and disability was gradually severed and almost anyone who had fought for the Republic could claim payments for disability or old age, his surviving dependents qualifying for orphans' and widows' pensions. This largess did not flow from legislative design, but from many thousands of personal interventions by politicians on behalf of individual constituents.[135] By 1890 some two-thirds of northern white Americans over sixty-five were receiving federal pensions; blacks found themselves excluded, and so did the immigrants who had entered the country in increasing numbers after 1865.

The ethnic communities in the eastern cities developed their own care arrangements as part of the urban political machine system. Ward bosses organized the newcomers from their country of origin, making sure they voted for the right candidates. Once elected into office, these politicians returned the favor with jobs, contracts, grants and handouts to their ethnic constituency. The machine worked with political persuasion, interest brokerage, appeals to ethnic and religious loyalty, threat and extortion, but also by a finely meshed web of small favors and services to bewildered newcomers, the needy and the aged. In this respect it represented at once an alternative to philanthropic intervention, and like it, a predecessor of subsequent social work and community action.[136] Because of its intimate ties with local government, urban-machine politics represented an embryonic version of a state welfare system, strong on personalized delivery (also of a dismal kind). The machine system, however, may well have lacked legitimacy in the wider community, enmeshed as it was in favoritism and incapable, therefore, of regular and dependable provision.

Immigrants also established mutual societies after the European pattern, which covered the risks of sickness, accident and death.[137] But

these funds never knew the popular success they had in Europe. By 1929 750,000 employees were enrolled through their companies in 'mutual benefit associations'.[138] By that time also, about a million workers were covered by industrial group insurance plans against similar risks.[139] Trade unions hardly played a role in insuring their members and commercial insurance was only beginning to enter the field.

Poor relief all along had remained a local matter in the Elizabethan tradition of the almshouse and the poor rates, varying widely from one town to another but without much change throughout the period. Religious charity continued at the parish level, while the new, industrial poor increasingly became the concern of philanthropic societies which adopted the pedagogic principles developed by their British counterparts in the Charity Organization Society.[140]

As a consequence, what welfare existed by 1910 either consisted in archaic poor relief, or in more modern and indigenous arrangements, such as the veterans' scheme and the urban machines, which reached large proportions of the population, but became increasingly associated with electoral handouts and local graft. Public, mutual or commercial insurance, as yet, hardly played a part.

The Progressive Movement for 'good government' which mobilized its reformist energies in an all-out campaign to abolish corruption, favoritism and 'giveaway schemes', not only did away with much local machine politics, without replacing its grants and favors by regular public assistance, but also with the veterans' pension system which might easily have evolved into a permanent, universal retirement plan. 'Honest government' and a 'balanced budget' turned out to be ill-suited tenets for social policy.[141]

As a result, much was undone and little established for the next quarter of a century. By 1930, at most 10 per cent of the aged were drawing any kind of pension, and they mostly received veterans' benefits. Unemployment remained completely uncovered by law or private insurance,[142] and much the same applied to sickness and disability.[143]

Yet Progressive experts were active in promoting social policy reform.[144] They were successful in obtaining revision of industrial liability law, which in the United States, as elsewhere, followed the spread of the factory system. Between 1911 and 1920 forty-five states enacted workmen's compensation laws, albeit with very uneven, and usually minimal, benefits.[145] A majority of states also enacted 'mothers' pensions' for 'worthy widows' with dependent children, leaving both the setting of eligibility requirements and the funding to counties and municipalities.[146]

Apart from these minor reforms, hardly any legislation was enacted by the forty-eight states of the Union until the 1930s. Nor did mutual societies or company funds fill the void. What pressure for social reform there was mostly came from experts in the American Association for Labor Legislation. The major union, the American Federation of Labor under Gompers, although accepting pensions from 1909 on, consistently opposed social legislation until the early thirties. It represented mainly skilled, white workers in craft unions and put its faith in wage bargaining only. The AFL was traditionally hostile to government, out of a general 'American' dislike of public interference which it shared with business circles, and because of a long history of union repression which had inspired an almost socialist view of the state as the instrument of the ruling class. Any reform that might grant the workers benefits over which the union would have no control aroused in it a suspicion of state usurpation. Moreover, the union was afraid of losing the loyalty of its members if they could draw benefits without it.[147] Apparently, in the United States, unions never had much opportunity for learning how to deal routinely with state officials in the course of inspection or committee work, and their leadership appeared less tempted by the career and control possibilities that state regulation might bring. They stuck to 'voluntarism' – the belief that terms of employment should be set by collective bargaining, free from government interference and kept aloof from issues of social insurance.[148]

Employers, if not actually hostile, like the National Association of Manufacturers, were at the least reluctant to support social legislation. In the twenties some progressive companies began to develop stock-sharing schemes and 'human-relations' techniques to promote the loyalty of their workforce. In the same vein, they also introduced pension plans and health insurance. Although such 'fringe benefits' became a major complement to social security for employed workers after World War II, 'during the 1920s, welfare capitalism was pitifully inadequate.'[149]

The 1920s were an era of relative economic prosperity. Succeeding Republican presidencies of a conservative hue restricted their social policy to encouragement of voluntary initiatives at the company level. The 'associative state,' as Herbert Hoover called it, provided minimal protection only to those who were securely employed.

In retrospect, the exceptionally strong position of the propertied classes in America formed the most formidable obstacle to any attempt at enacting social legislation and creating institutions that could provide an alternative to private accumulation: 'industrialization made the nineteenth-century capitalist so powerful that judicial and legislative policies came to reflect, almost directly, the wishes and interests of a single privileged stratum.'[150] Factory workers, immigrants especially, long continued to

see their position as transitional: the next generation would move up in society. In America, much more than anywhere else, wage-workers constituted not so much the dispossessed classes as the not-yet-propertied classes. The idea that one should, or indeed could, earn an honest living by the work of one's hands and put something aside for hard times to come, was so paramount that it paralyzed initiatives for collective provision. When the Great Depression destroyed these expectations and temporarily broke the political domination of business interests, social security took only a few years to come.

The American figuration of separate states in a federal union provided this process with a dynamics of its own. Social legislation belonged to the sphere of competence of the states. But the states were in no position to shield their local economy from that of the United States as a whole. European national states could, if they so decided, erect tariff barriers to protect their industry from foreign competition. American states could do nothing to ward off a competition from their neighbors: in this respect their position more resembled local or regional authorities under a European nation-state than that of a central state itself. But in the twentieth century, local government in Europe had lost all competence in social and economic legislation to the center, while the American states remained the primary agents in these matters. 'Unless all states taxed employers in comparable amounts, the employers in lagging states would derive a comparative advantage over their more progressive neighbors . . . Only a federal program of concerted action by all the states could overcome the obstacle.'[151] Accordingly, when experts and industrial unions began to campaign for social reform, they had to approach groups of adjacent states at the same time and meanwhile seek access at the federal level. But once the federal government promised grants-in-aid to their programs, American states hastened to introduce social insurance. In other words, the dynamics of American society with a unitary economy and with separate states and federal legislative authorities explains much of the long delay and sudden breakthrough of social security in that country.[152] The dramatic financial collapse of 1929, and the extraordinary severity and persistence of the economic crisis in the United States contributed to this explosive 'big bang' pattern.[153] But once social security had been established, it gained a momentum of its own, an intrinsic bureaucratic expansionism, and except for health insurance, developed along much the same lines as in other countries.

The Great Depression of 1929 and the subsequent political realignment which brought Roosevelt and the Democratic Party to power in 1932, also created the conditions for the introduction of social security into the

United States. Within three years a nationwide, compulsory system of old-age pensions and unemployment insurance had been instituted.

This time, an activist regime was in power, overwhelmingly supported by organized workers. The AFL had come around to supporting social legislation and had abandoned its non-partisan policies for an alliance with the Democratic Party. And in the meantime, new unions were being organized in the CIO along lines of industry instead of craft, and these squarely favored social security and the Democratic Party.[154]

A tide of mass campaigns for pension insurance rolled over the country, unconnected with either unions or parties, but greatly adding to the pressure for reform. Small farmers, confronted with bankruptcies all around them, also rallied to the support of social security. And with unemployment levels at 25 per cent or higher, 'by 1932, local and state governments were begging the federal government to take over the burden of dealing with their distressed constituents.'[155] Finally, 'business prestige was at an all-time nadir.'[156] Thus, the property owners as the hereditary enemies of social security, were in political disarray, while the states, the archenemies of federal intervention, could no longer do without it. Within this constellation the Roosevelt regime cautiously advanced its proposals.

On the face of it, the Social Security Act of 1935 entailed a federal compulsion for almost every wage-earner to save part of his or her income to accumulate a pension, payable when they reached the age of sixty-five.[157] It seemed a rigorous, individualist capitalization scheme, ruling out any benefits, unless they had been paid for in the past. But behind this austere façade a more complicated and ambiguous, at times even generous, structure evolved. First of all, in the calculation of benefits, a minimum level was guaranteed even to those who had paid contributions only for a short period or over a low wage sum; additional contributions added less to the pension to be disbursed.[158] Second, in order to bridge the period before accumulated pensions became payable, state pension plans were supported by matching federal grants in aid, a *don royal*, which was intended as a temporary measure, but it has remained a major feature of the system ever since.[159] With the main program came other schemes for aid to the blind and to dependent children, all of them means tested and with no specified minimum standards. Southern states rejected any minimum, as it might interfere with their long-standing discriminatory practices toward indigent blacks.[160] Third, the Act of 1935 included an unemployment insurance which allowed employers to deduct from federal taxes their contributions to state unemployment programs satisfying federal standards: 'within two years every state had an unemployment insurance

law.'[161] And most states adopted the Wisconsin system of levying lower taxes from employers who refrained from laying off workers.[162]

In a national constellation of unprecedented political radicalization, this much remained of the original concepts of the Wisconsin experts, once Roosevelt had cautiously trimmed them and Congress had reinforced states' rights and employers' liberties. But once in place, the same program was defended and extended step by step with great skill and determination by the moguls of the Social Security Board.[163] Dependents and survivors were included under old-age insurance in 1939, disability benefits were enacted in 1956, health insurance for the elderly (Medicare) and for welfare clients (Medicaid) came in 1965. And although social-security expenditure as a percentage of GNP is still lowest among the capitalist democracies (except for Japan), its share has doubled between 1960 and 1977: a growth rate surpassed only by the Scandinavian countries and the Netherlands.[164]

A national health insurance has never been instituted in the United States. In 1973, three-quarters of the civilian labor force were covered by a patchwork of private insurance for medical expenses.[165] Temporary disability insurance had been adopted by six states, New York and California among them, by 1983, while almost half of the remaining workers in private industry were protected by company plans or labor–management contracts.[166]

Both Heidenheimer and Janowitz have argued that the United States lagged behind the European nations in developing a system of social security, but was ahead in building an educational system: 'Massive support for the expansion of public education, including higher education, in the United States must be seen as a central component of the American notion of welfare – the idea that through public education both personal betterment and national and social and economic development would take place.'[167] Competition between denominations stimulated interest in education, and the accumulation of knowledge at an early stage of life was seen as a sound investment for a future career. Local and state governments could more easily contribute to the collectivization of education than to the collectivization of risk protection, as the former would improve their competitive position in the long run, whereas the latter might worsen it in the short term.

A coalition of a reformist regime and organized workers supported social security in the United States and carried through its major extensions,[168] all the while anticipating and accommodating employers' interests and states' rights. Yet this base was never completely superseded by the tripartite coalition which emerged in other countries, to be institutionalized in the administrative

This allowed unions and employers to bargain outside the social-security system for separate company schemes, which then tended to reinforce the general tendency of American social arrangements to treat generously only the stably employed. The same rather narrow political base of social security has allowed special-interest groups such as insurance companies and the medical profession to acquire a virtual veto.

The figuration of states, each with limited political autonomy, competing with one another around a federal government within one national economy, added its particular dynamics. It delayed the advent of social legislation. But once economic depression and political upheaval had shifted the balance and social security had become a fact, the position of the federal government was strengthened at the expense of the individual states. In this manner, developments contributed, as they did elsewhere, to the process of state formation.

6.5 *The Netherlands: a long sizzle and a late bang*

The history of social security in the Netherlands is one of fragmentary and halting legislation. A Workmen's Compensation Act was passed in 1901, but it took another twelve years before an Invalidity and Old Age pension was introduced by Talma, which did not become operative until 1919. Implementation of a sickness insurance law, also enacted in 1913, was delayed until 1930. Legal regulation of sick funds was finally realized by the German occupation regime in 1941. Compulsory state unemployment insurance was introduced as late as 1952.[170]

And yet, by the late 1970s the share of social expenditure in the national income of the Netherlands had become the highest in the world. Both the relatively slow and niggardly beginnings and the late, but dramatic, expansion of social security in the Netherlands stand in need of explanation.

The early history of social policy in the Low Countries coincides with the beginnings of party organization and the emergence of unions and employers' associations. The social issue proved to be a major organizing focus, all the more so after the franchise was extended in 1897 to include also 'the workman established in his state'.[171] As a conflict about the organization of society, it formed a continuation of the school struggle which was finally resolved by the compromise of 'pacification' in 1917.

Industrialization came later to the Netherlands than to the surrounding countries, accelerating precisely in the period 1895–1914.[172] As a result, the level of organization among both workers and employers was still low by the end of the nineteenth century. Moreover, the issue of public versus denominational education had left its imprint on Dutch society.

As a result, parties, unions and other associations formed along confessional lines. Catholic and Protestant employers hesitated between membership in 'general' or in denominational associations, while activist and socially conscious leaders succeeded in organizing the religious workers in denominational unions. This was part of a more pervasive *verzuiling* or 'pillarization' of Dutch society into denominational 'pillars', supporting one national roof – the level where the elites of each denomination settled their differences. This alignment took shape in the second half of the nineteenth century and lasted well into the 1950s. As a result, social-economic conflict was always somewhat fragmented and dampened on account of the cross-cutting denominational cleavages of a 'pillarized' society.[173]

In this constellation, Protestant and Catholic parties – each with a constituency heterogeneous as to social economic background – came to occupy a pivotal position in parliament from 1901 on. Their coalition ruled almost without interruption to the present day, at times with Liberal–Conservative and, after 1939, also Social Democratic support.[174] In order to maintain this pivotal position and keep their heterogeneous electorate together, Christian politicians from the beginning sought a tripartite, consensual base for a cautious social policy. To them, social security was in the first place an instrument to build corporatist structures in which workers and employers would work together, guided by the tenets of denominational inspiration and organization.[175] In the second half of this century, when industrialization had proceeded much further and confessionalism was losing its hold on political life, the Christian parties were in danger of losing their pivotal position and had to face direct competition from the Social Democrats for the workers' allegiance on social-economic issues.[176] Once the basic structures of social security had been established on a non-partisan tripartite base, this competition accelerated the accumulation of transfer capital, financed with the proceeds from international trade and the yields of domestic natural gas deposits.

In the Netherlands the transition to a parliamentary monarchy was made quite peacefully in the years 1848–68, without the agitation which in other countries mobilized the petty bourgeoisie into political organizations. Moreover, the confessional-party system which grew out of the subsequent school struggle prevented small property owners and the independently employed from articulating their interests clearly and in unison. Before the hold of the rural aristocracy and the urban partriciate in the western provinces had been broken, and the property owners could find a voice of their own, they had already been realigned along denominational lines of cleavage. Their interests were mediated within the Christian and Liberal parties, rather than articulated unequivocally by political organizations of their own. Only the large-scale industrialists, relatively small in number, succeeded in organizing on the basis of social-economic interest and they did so in their opposition to the Workmen's Compensation Act.[177]

The Act of 1901 was passed by the last of the Liberal–Conservative governments and very much inspired by Bismarck's legislation. It was the product of an – in this respect – activist regime which almost succeeded in bypassing both workers and employers and establishing a compulsory, collective insurance on the basis of *risque professionnel*, at employers' cost, and entirely administered by a single government agency, the *Rijksverzekeringsbank*. Almost, but not quite: the bill provoked unprecedented resistance from employers, who insisted on the freedom to insure themselves or to combine for that purpose on a voluntary basis. They did not so much resist the monopoly of the *Rijksverzekeringsbank* to decide claims and pay benefits, nor did they reject its supervision over their voluntary insurance institutions. The employers had been mobilized by the fear that the Act was to be only the first of a series of social laws.[178] The campaign was effective in its limited purpose, the law was rewritten to allow voluntary 'reinsurance'. It was also successful in the long term since it led to the establishment of a Central Employers Insurance Bank,[179] and, even more important, to the founding of the *Nederlandse Vereniging van Werkgevers* in 1899: the Employers' Association which has remained the leading vehicle of employers' interests to this day. But the very effort of the employers evoked repercussions elsewhere.[180] The Protestant politician Kuyper formulated the Christian principles of social security in his 'great amendment' which, although defeated at the time, became the foundation for all later social legislation. The socialist and radical workers hesitatingly united in a national committee in support of the original bill and in doing so helped the government in getting the law passed with only minor modifications. Opposition from small entrepreneurs played scarcely any role, also because minor employers and less dangerous industries were exempted from the law until its scope was greatly extended in 1921.

Thus, the first social-security law enacted in the Netherlands was the product of an activist regime which had anticipated the preferences of recently enfranchised workers, and counted on employers' support. For lack of strong employers' organizations, it had relied on a state monopoly of administration. But in doing so it inadvertently mobilized the employers against the bill and provoked a political campaign which led to the establishment of a permanent employers' organization and strongly stimulated the workers to counteract with organizational effort.

The law had scarcely been enacted when the political constellation changed radically: the Christian coalition came to power and Kuyper began preparing a series of social laws which were to embody the corporatist tenets of the Catholic 'subsidiarity principle' and the Protestant principle of 'circles of sovereignty'. Workers and employers, organized according to their faith, were to collaborate in trade associations or labor councils together with 'crown appointees', so as to set working conditions and manage social insurance. This concern with the organization of industrial relations was only one aspect of a broader effort to dampen the class struggle by the tight organization of society along denominational lines: *verzuiling* ('pillarization'). In this context, petty-bourgeois mistrust of big government, big business and big unions was not expressed in all-out opposition to social and economic regulation, but rather it was accommodated into a scheme that would restrict these forces, fragment and fetter them in relatively small, relatively autonomous local or sectoral associations – a vision shared in widely varying elaborations with the Socialists, the Fascists, and even the Anarchists of those years. Small entrepreneurs could hope to remain outside of this corporatist order, or, if compelled to join it, bargain on equal terms and accept regulations as the price of protection.

After twelve years of Christian coalition government, Talma succeeded in enacting the foundations of Christian social policy: a labor council law, a sickness law and an old-age-cum-invalidity pension. None of these laws became operative, although – by mistake or by design[181] – an amendment to allow free pensions for persons then over seventy was accepted by the government for immediate implementation by the *Rijksverzekeringsbank*. It took the misery of mass unemployment in the years of neutrality during the First World War and the subsequent brief scare of revolution before the Pension Act was implemented in 1919,[182] but by then its terms had to compensate for the relatively favorable conditions of the provisional pension of 1913.[183] However, Talma's sickness law and the sick-funds law which was to be its complement, met with unexpected delay. Again, the major issue was control over implementation. The Social Democrats tended to favor the 'labor councils' of 1913, putting their faith in local semi-public bodies. The confessional parties preferred the 'trade associations' (which had originated in employers' initiatives, but by then admitted workers' representatives up to parity). In these bodies, workers' and employers' organizations were to collaborate by industry.

As trade unions were becoming more national in orientation, their preference for local bodies declined and by the 1920s they tended to accept the – nationwide and sectoral – trade associations as the executive pay the fees. In the end, both types of agencies were allowed under the law and premiums were shared evenly by employers and workers.[184] But by now, medical men were organizing themselves and their resistance resulted in adjournment *sine die* of the sick-funds law. It was finally promulgated by decree of the German occupation authorities in 1941. Premiums were levied from employers who could deduct half the sum from wages.[185] Compulsory unemployment insurance was realized only in 1952. In the preceding period the central government had supplemented voluntary union funds and subsidized municipal relief throughout the worst ten years of the Great Depression.

For lack of studies on the political history of social security in the Netherlands, the causes of retardation can only be guessed at. Parliamentary historians and legal students have proposed a host of reasons and coincidences, but none of these appears very compelling. Strong and persistent pressure for social legislation was lacking throughout most of the period. The political struggle seemed concerned not so much with social security *per se* as with the organization of industrial and wider social relations in the country, that is with the 'ordination of society'.[186] From their pivotal position in Dutch politics the Christian-coalition parties could set the agenda and formulate matters of social policy as issues of social ordination. But their narrow parliamentary majorities did not allow them to actually weave this pattern into the fabric of industrial society. In the course of thirty years they succeeded, however, in establishing a tripartite and quite uncontroversial system of social security which slowly superseded the earlier *étatiste*, Bismarckian structure of the Workmen's Compensation Act and went beyond the pension laws in bringing together the 'industrial partners' in structures which were to mediate between 'state and society'.

No intensive campaigns, no activist cliques or political upheavals operated to cause a legislative breakthrough. As a result, social-security legislation was highly incremental in nature, and after 1900 invariably tripartite in character. There was no broad support for, but no acute articulate opposition against, the laws. And yet a similar figuration of political forces as had made for such slow and piecemeal legislation before the Second World War generated a remarkable expansion of social security under the social and economic conditions that prevailed after that watershed.

First of all, the Netherlands went through a phase of rapid industrialization in the postwar years. The prewar effort at organizing industrial relations paid off in the 1950s in the form of an extremely efficient system of consultation between workers, employers and 'crown

members' who could hammer out compromises and process legislation without much opposition. This, in turn, contributed very much to a smoothly operating economy. The political strength of large-scale employers and national unions increased accordingly. Secondly, the independent small middle class, politically never very strong, continued to decrease in numbers after 1945, while the proportion of salaried employees kept on growing.[187] Thirdly, while the Christian parties maintained their pivotal position in parliament, their majority became increasingly precarious and disappeared once and for all after 1967; from 1945 they governed with either Liberal or Social Democratic support. Confessionalism was slowly losing its hold on Dutch politics and a fierce competition between the Catholics and the Socialists ensued, after the new Labor Party began to campaign, from 1946, for a 'breakthrough' into the Catholic workers' vote in the south. Finally, a quite consensual system of social security was already in place. During the war years, the German occupation regime, the Dutch government in exile and the underground political leadership had all been busy elaborating plans for it.

As a result, the activist postwar regime of Social Democrats and the Christian parties, inspired by the main ideas of the Beveridge plan and by a general mood of reconstruction, passed an emergency Pension Law[188] which was succeeded by the General Old Age Law of 1956. This was the first of the 'national insurances' (*volksverzekeringen*) to provide coverage to all citizens, without a means test. An unemployment insurance, implemented by the trade associations and with premiums shared between employers and employees, was enacted in 1949 and became operative in 1952.

In the 1960s two new laws were enacted which made for an explosive growth of income transfers in the Netherlands: the General Assistance Act of 1963 and the Disability Act of 1967.[189] The two had been intended as the concluding acts of the Netherlands social legislation, but their exceptionally generous terms unexpectedly modified the conditions of the labor market in the following period of recession, the first by providing a more or less viable and secure alternative to gainful employment, the other by providing a not entirely uncomfortable exit from it.[190]

The laws were passed without major conflict in parliament or in the country, enacted and extended by Christian–Liberal as well as Christian–Socialist coalition governments. The role of the trade associations diminished in comparison with earlier laws, and that of the central state gained in weight.

On the whole, these laws were the product of coalitions between employers' and workers' organizations with a succession of expansionist regimes in a period when the political resources of the self-employed middle class dwindled increasingly.[191] A sustained period of full employment, favorable trade balances and rich proceeds from domestic natural gas deposits set the mood and provided the financial space for the expansion of social legislation.[192] Finally, the ongoing competition between the Socialists on the one hand, and the denominational parties (the Catholics and the Protestant Anti-Revolutionary Party) for the working-class vote added impetus to social-security reform.[193]

In the Netherlands, as elsewhere, between 1948 and 1970 social legislation worked. The equanimity of the welfare state gradually wiped away the bitter memories of the Great Crisis and inspired a sense of confidence which may have been unparalleled in history. And, throughout this period of social legislation few foresaw that unemployment might once again become a major social problem, as it did from the early seventies on. The level of benefits, fixed in earlier, better days, was multiplied by the increasing number of the jobless to generate an autonomous growth of social-security expenditure and an almost uncontrollably increasing government deficit.

The net effect of this development in the Netherlands has been a marked decrease in the proportion of privately owned wealth in total wealth and a corresponding rise in the share of transfer capital. Not counting transfer property (which is not included in statistics), private wealth has been distributed a little more evenly, but much less so than income. Similar developments have occurred in other advanced capitalist democracies.[194] The increasingly egalitarian distribution of income is due in great part to transfers, and it has been argued that total transfer income varies inversely with total income from capital (rents and profits). The two forms of 'institutional income' together remain constant in proportion to labor income.[195] This finding suggests that transfer capital is in fact formed directly at the expense of private capital and that the worst fears of an earlier generation of property owners have come true, although many of its sons and daughters are among the first beneficiaries.

7 Conclusion

The initial introduction of nationwide social security constituted the most incisive spurt within the collectivizing process in the past century and a new phase in the process of state formation. For the first time, a considerable part of the population, which was to increase without

interruption from then on, was brought under a single compulsory and collective scheme to protect it from the adversities of working life.

By the turn of the century, only the state appeared to possess the administrative potential, the scope and the robustness over time to accomplish the task. It alone could overcome the dilemmas of voluntary action by its coercive powers to levy taxes and impose membership.

Compulsory accumulation of transfer capital meant direct interference with the cash nexus between employers and employees and with the spending patterns of individual wage-earners. The state bureaucracy would be present on every shopfloor and in every household. Small independent entrepreneurs resisted this prospect everywhere and all the way. And the stronger their political position, the longer was legislation delayed.

Workers tended to support social security as their organizations became more established and developed a nationwide base with a corresponding orientation to national politics and the central state. Large-scale employers resented the costs of the scheme and the interference from bureaucratic agencies. But they also realized that it would improve industrial relations and relieve them of the responsibility to care for disabled and aging employees and their families. To both large-scale employers and workers, social security increasingly became a matter of cost and control, and in the end, a negotiable issue.

The fourth party in this figuration, the regime in power, represented the one necessary actor. Nothing could be accomplished without it, but in order to overcome petty-bourgeois opposition and to ensure the actual implementation of the scheme, it could not proceed without support from the legislature and the country. The regime might go ahead without the unions, as the Bismarck government did, but only because it was assured of the collaboration of large-scale employers and the tacit acceptance of its plans by the workers. It could also, like the Lloyd George cabinet, enact national insurance while sidestepping the employers, but that required a coalition with the labor unions. In the United States, the Roosevelt regime instituted social security with support from the unions, and left it to state politics to work out specific compromises with unions and employers. In France and the Netherlands, social security was brought about after much delay by precarious tripartite coalitions. In all these countries, resistance to social security died from 'natural' economic causes as the numbers of small entrepreneurs dwindled, while support for it increased with the proportion of wage-earners in the workforce.

7

Conclusion: The Collectivizing Process and its Consequences

The contemporary welfare state has become a vast conglomerate of nationwide, compulsory and collective arrangements to remedy and control the external effects of adversity and deficiency. This collectivizing process occurred in the course of the modern era against the background of state formation and the rise of capitalism in the West. The main impetus for collectivization came from struggles between elites which sought to ward off the threats arising from the presence of the poor among them, and, to exploit the opportunities which the poor also represented. Yet, no matter how powerful or rich, those established in society could not handle these opportunities and dangers on their own: that required collective action. But the prospect that the inactive among the elites might also profit from such efforts was usually enough to discourage others from taking the initiative. The major episodes in the development of poor relief, health care and education may be interpreted as contests among the elites about the ways in which to deal with the indirect effects of destitution, disease and ignorance as it afflicted the poor and powerless strata in society directly. In seeking ways to manage these changing interdependencies, between the rich and the poor and among the elites themselves, collective charitable arrangements were formed, at the parish level first, later at the level of cities and, finally, at the national level. In the absence of a central, coordinating agency, the initial stalemate of mutual suspicion was often overcome through manipulation of mutual expectations or by shared illusions. But once collective action was initiated, it might contribute both to the creation of collective goods and to the formation of a relevant collectivity. In the course of this collectivizing process, new forms of mutual control and dependency developed which helped to enforce the collective enterprise.

In the modern era, as city governments and states succeeded in exerting more effective control, they also began to intervene in conflicts among local elites over the management of the poor. By means of such interventions, collective arrangements were being tied more closely to local and central governments and this in turn contributed to the expansion of the state apparatus.

1 Summing up: state formation and the collectivization of care

As state formation proceeded, production, storage, transport and trade became more secure from robbery and plunder. This generalization of protection went with a dissolution of specific, feudal protective relations, while relations of property and monetary exchange were extended and intensified – that is, secured by law, in the last analysis, by state coercion.

But as the economy expanded, it also became more vulnerable to minor, sudden and passing attacks: domestic pacification had not abolished crime and banditry. And the vagrant poor, excluded from all property, became even more of a threat to expanding crops, growing stocks and lengthening supply-lines. The established strata sought to abate this danger in a collective effort to pacify the dangerous poor – part of the process of residual pacification.

If the poor were not driven away, charity was the means to appease them. Medieval priests, in their role of 'charitable entrepreneurs', promulgated a uniform rule of distribution which could serve as a 'focal point' for coordinating almsgiving. They also manipulated reciprocal expectations among the established families and created a public setting for ostentatious giving and mutual inspection of each one's contributions. Collective charitable action in turn contributed to the emergence of the parish as a collectivity. In the context of this emerging parish community, 'public order' as a collective good acquired increasing social relevance. The parish community also facilitated mutual social control and developed sanctions against those who would not contribute.

Similar dilemmas of collective action repeated themselves in early modern Europe at a higher level of social aggregation. During this phase, relatively autonomous communities found themselves affected by vagrancy and banditry in the region, but were incapable of coordinated action in the absence of effective central authority. Again, they depended upon one another to achieve residual pacification at the level of the region, but could neither trust nor coerce others to cooperate. Every town was ready to pass on its burden of relief-seekers to the next and thus added to the general chaos. No town could afford to remain alone in opening its gates to the needy. This time the dilemmas of collective action were overcome by an illusion: the false expectation that a workhouse would allow the community to control the influx of relief-seekers and make them earn their own upkeep. When disillusion came, many cities had already established a workhouse. Central authorities used their still-limited resources to maintain the regional equilibrium of poor relief by persuading the municipalities to keep their workhouse going and to lock up their share of vagrants (chapter 2).

In a period of expanding markets and extending government bureaucracies, the poor also represented opportunity to entrepreneurs and state officials. The emerging capitalist and administrative elites sought to establish direct links with the population at large and tried to bypass the local nobility and clergy who held the monopoly of mediation between their relatively isolated clientele and the rest of society. Outside the metropolitan area, peasants, craftsmen, and paupers often spoke a distinct regional dialect and did not understand the 'standard language'; even fewer could read or write. This ignorance, hitherto mostly irrelevant to daily pursuits, began to turn into a deficiency as dealings with the central state and national markets became more important. The local elites, fluent in both the regional dialect and the standard language, and also able to read and write, stood to gain from the increased demand for the mediating services they monopolized. Popular ignorance of the national communication codes hindered the metropolitan elites from seeking direct access to the population at large.

A 'floral figuration of languages' prevailed, consisting of a number of relatively disjoint communication networks, mutually isolated by unintelligibility of speech or, where a common language prevailed, by the impossibility of written communication and the costs of travel. Local elites mediated between their local network and the rest of the nation in the standard language or in writing. They formed the intersections between these relatively disjoint peripheral networks and the metropolitan network where the standard language was spoken, read and written.

Metropolitan officials and entrepreneurs – in the heart of this floral figuration – strove to overcome the local mediation monopolies in a campaign for linguistic unification and mass literacy, a major aspect of the wider process of national mobilization. They supported the establishment of a nationwide system of compulsory elementary education in a standard curriculum of codes for national communication. Local elites resisted the attempt, but competition forced them to set up schools of their own. The same rivalry prompted them next to unite in nationwide educational organizations to resist a state monopoly, and

finally to seek state support while yet accepting central regulations. In the end, they found themselves absorbed into an alternative, nationwide educational system, almost equally uniform and coercive, leaving them with only nominal control in most countries (chapter 3).

Industrialization and urbanization brought masses of people closely together in a new state of aggregation: the nineteenth-century industrial city. Under these conditions of physical proximity, the concomitants of poverty – squalor, malnutrition and ill health – produced novel adversities: the epidemics, which hit the poor hardest, but also threatened the established citizens, while paralyzing the city's social and economic life.

The specter of cholera served as a paradigm of this new and threatening urban interdependence. The paradigmatic response was found in the concept of urban sanitation through a 'venous-arterial system' of fresh-water supply and sewerage which would shield city-dwellers from one another by encapsulating domestic life in private homes, while connecting everyone to the grand urban service networks.

In the meantime, citizens who could afford it left for 'better' neighborhoods. The aggregate result of these individual moves was spatial segregation into socially more homogeneous zones. In the new, wealthy areas, this process facilitated collective action among the urban elites to modify and control the external effects of poverty in the wider urban setting: crime, revolt, contagion and 'social contamination'. In this context, permanent police vigilance was instituted and a series of urban service networks established. Sewage disposal and water-supply channels, gas pipes and electricity cables, transport tracks and telephone lines spread over the city. In the late nineteenth century they were often installed first in the wealthier areas, branching out from there, until the city was almost saturated and only the poverty areas were left to be connected, by government coercion and at marginal costs only (chapter 4).

As industrial mass production expanded, people working in regular employment for a money wage became the vast majority of the labor force. Unlike property owners, these wage-workers lacked the resources to fall back on when they found themselves without work because of disability, disease, old age or for lack of jobs. Nor could they make provision for their surviving kin. Wage-workers rarely accumulated private savings, but some did take commercial insurance and many joined mutual funds. These small, relatively autonomous Friendly Societies at one point were the most common collective arrangement against adversity among the working classes. However, what made for and operated by the members themselves, they lacked expertise or procedures for inspection, routine adjudication and conflict resolution. Their membership was socially homogeneous to a high degree, which made for solidarity, but also exposed the funds to an accumulation of similar risks. As the mutual funds were autonomous, they were tempted to exclude the workers who were paid least and most at risk; they were even compelled to do so, if competing funds did the same. As so often, a system of small, autonomous arrangements left a lower stratum in society uncovered (chapter 5).

The mutual funds proved increasingly incapable of solving the problem of industrial poverty. And gradually it became accepted as a fact that under urban, industrial conditions, poverty was not so much a reflection of individual moral worth, but that it might hit anyone who found himself without steady employment. The large numbers of paupers were perceived as a menace by the established city dwellers. As workers started to organize, their unions, too, appeared to threaten labor peace and public order. In these circumstances, large-scale employers, moderate workers' leaders, activist administrators and politicians proposed to establish compulsory collective funds on a nationwide scale to provide benefits to workers in compensation for income lost through involuntary unemployment. This collective accumulation of transfer capital formed an alternative to the providential functions of privately accumulated property. Small entrepreneurs and the independently employed resisted these schemes, as large funds might compete with their small holdings on the capital market and compulsory measures interfere with their autonomy. The security it conferred on workers also threatened to undo their precarious social distance from the working class.

Only an activist regime could overcome this political opposition, with the support of either large-scale employers or organized workers or both. The moment and the momentum of social-security legislation was determined by the balance of forces between the petty bourgeoisie and the growing industrial classes of workers and employers, with the political regime in a pivotal position. The scope and nature of transfer-capital arrangements was determined mainly by the composition of the political coalition that brought it about.

Within fifty years after the first social-insurance laws in Germany, nationwide collective and state-controlled arrangements for the accumulation of transfer capital had emerged in all capitalist democracies. On the eve of World War II all the basic institutions for the collectivization of health care, education and income maintenance had been established in Western Europe and the United States. The groundwork had been laid for the high-rise construction of the postwar era: 'The second great revolution of this century in social care, beginning after Dunkirk and quickening into effect after 1945, continued the process.'[1]

Conclusion

2 Collectivization after 1945: the hyperbole of expansion

Since the Second World War, education, health care and income transfers in Europe and the United States have expanded exponentially, and in all dimensions: more people went to school for more years, in smaller, better-equipped classes. The control of the central state over education grew at a pace. More people sought treatment for a quickly extending range of complaints and found much more elaborate facilities and services, equally under increasing control of the central government. Also, the accumulation of transfer capital accelerated rapidly, its provisions extending to almost the entire population, its benefits covering a broadening range of adversities at a more generous level in an absolute and relative sense. State agencies were involved ever more closely in the management of enterprises and in the private lives of workers and claimants.

The expansion occurred in two spurts: from the late forties to the early fifties and from the mid-sixties to the early seventies. Since then, the expansion has levelled off, and in rare cases it was actually reversed.

By the late 1930s the administrative and fiscal innovations for the management of the welfare state had been introduced and tried by all Western governments. State bureaucracies had been proven capable of setting up and running vast educational, health-care, insurance and assistance systems. A broad base of political support for such nationwide, collective and compulsory arrangements had been shown to exist. In principle, the problems of financing seemed manageable. Students, patients, clients, contributors and claimants by the million appeared to be competent participants in these systems. In other words, the proof of viability had been supplied, not by inference from lofty axioms, but through sound induction from everyday experience. In Heclo's words, the 'era of experimentation' had ended and the 'era of consolidation' begun, to be followed by another phase of 'expansion' in the fifties.[2]

The expansibility of the new formulas for state administration had been demonstrated during World War II when governments, in close collaboration with large-scale industry and the unions, carried on a war economy with spectacular results, especially in England and the United States. After the war this 'wartime triangle' was not disbanded.[3]

As a result of mobilization for total warfare, the state apparatus had increased enormously in capacity. Government bureaucracies were now up to the administrative challenges of managing a much enlarged welfare system.[4] The experiences of wartime military administration, production battles, civil protection or evacuation schemes and propaganda campaigns had taught Western governments how to steer the economy, to orchestrate public opinion and to manage the lives of their citizens to a degree that seemed to dwarf the demands of running a welfare state, a task which not long since had still appeared so formidable. This pervasive governmental intervention had been carried out with the apparent support of the vast majority of the public. In England and the United States it had contributed to total military victory. Massive state regulation not only proved to be compatible with democracy, but now seemed a necessary condition for its survival both against external threats and domestic discontent. This domestic brand of compulsory collectivization persuaded even the Dutch, the French and the Germans after their experience with the totalitarian version: after 1945, democratic society everywhere seemed to imply a welfare state.

The lessons of the wartime triangle and the war economy combined with a pressure in the same direction: in the years before and during the war, political elites had been forced to seek the loyalties of the working class as recruits in the international conflict between states and as voters in domestic contests. If Communism, Fascism and National Socialism became a magnetizing influence upon workers and intellectuals, especially in continental Europe, the Soviet system had proven its viability by its military achievements, and domestic Communists had fought in the forefront of resistance against Nazism. The Communist program appeared to offer an alternative to both National Socialist state terrorism and the capitalist crises of the pre-war era. At a time when working people were no longer immediately needed as recruits, and when demobilized soldiers might be in a weak bargaining position on the labor market as peacetime employment was expected to pick up only slowly, it was this threat of a revolutionary working-class movement that loomed large for the politicians of the major democratic parties.[5] Moreover, the demobilized soldiers were voters too, and they had not forgotten the promises of 'a world free of want' made during the war. In the following years, the process of decolonization which involved Britain, France and the Netherlands in a series of limited, but distant, costly and unpopular wars and the American military effort in Korea also prompted governments to seek the support of working-class voters and soldiers through a more generous social and educational policy.

The war economy had reconciled big business with government intervention. The Great Depression and the war economy had disrupted the patterns of production and the political organization of the small

middle class of shopkeepers, craftsmen, traders and peasants. The vicissitudes of currency during the period between the wars and the wartime monetary measures seemed to ridicule the virtues of private saving. Small bourgeois right-wing politics was in disarray. The traditional opposition against state social policy was weakened even more when the self-confident proponents of social security began to promote schemes that were to cover the self-employed also. This, of course, tempted many small entrepreneurs who had lived through the years of inflation and austerity.

The American Democratic Party, and the large Christian and Social Democratic parties in Europe, often with the active cooperation of economically conservative 'liberal' parties, launched a program of social security, health services and educational expansion. What they lacked for the moment in financial resources they often made up in legislative zeal which laid the groundwork for later expansion once the means were available. The basis of these policies was highly consensual. A coalition of large unions, big business, and the regime in power agreed upon a program of social spending to be financed by general payroll taxes, in the silent hope of shifting higher wage costs to consumers in a sellers' market. Vulgarized Keynesian notions of increasing consumption by government expenditure stimulated these efforts. But it was the prolonged wave of unexpected and exceptional economic growth that carried the flow of social spending along.[6] As a result, 'welfare state politics could lie in repose while the engine of economic growth did its work.'[7]

This first phase of hyperbolic expansion profoundly affected postwar societies. The vast majority of citizens were enrolled in collective arrangements for health care and income protection. As a first consequence, many voters might well object to collective and public spending and to high taxation in general, but when it came to cutting specific benefits which profited them especially, they tended to oppose such measures much more strenuously than they supported retrenchments in general and in the abstract. In this manner, strongly motivated minorities combined to defend their interests successfully every time they were threatened by a – necessarily less determined and cohesive – opposition.[8]

The second consequence of this expansion was the emergence of a stratum of professional experts and administrators who depended on these collective arrangements for employment and advancement. These 'new' middle classes represented a formidable array of interest groups for the promotion of the expansion of collective arrangements. The state apparatus but also in establishing their 'regimes' over increasing sections of the population which accordingly became their clienteles. The establishment of an educational, a medical and, more recently, a relief regime has been a major aspect of the formation of welfare states in this century: the theme will be discussed more fully in section 7.3, with special attention to the medical profession.

The third consequence of the expansion of collective arrangements and of the corresponding emergence of expert regimes was a broad transformation of mentality among the citizenry of contemporary welfare states. This transformation operated at three levels: (1) An increase in the valuation of what these expert regimes and the welfare state have to offer – health, knowledge and the protection from income loss. In other words, people increasingly appreciated these values and accordingly defined the daily events in their lives in terms of the basic concepts of the professions they expected to be provided: a process of 'protoprofessionalization'. (2) A general shift in the direction of greater self-constraint and a stronger orientation toward the future. At this point, the collectivizing process and the civilizing process interacted. (3) An increasing awareness of the generalization of interdependency in modern society, a transition from the perception of events mainly in terms of religion, magic and conspiracy to a consciousness of the dependencies between groups – an awareness of the ways in which the adversities and deficiencies that afflict one group indirectly affect others also: a transition from charity to social consciousness. The transitions in mentality that went with the collectivization of welfare will be discussed at more length in section 7.4.

The consequences of the expansion of the welfare state have contributed to its further expansion. In many respects, the first postwar phase of growth brought about changes in society which then helped to induce subsequent phases of the collectivizing process. Increasingly, the welfare state acquired a momentum of its own. More and more, its collective arrangements began to constitute a strategic environment – a context providing the options for the everyday decisions and non-decisions of its citizens.

The second burst of expansion occurred during the sixties and early seventies.[9] It could only have occurred because of the continued wave of economic growth that set in again in the late fifties. But the surplus might have been used in other ways. The fact that a large part of it was spent on increasing collective benefits and services owed much to a combination of popular agitation for increasing welfare provisions and pressure for expansion from within the service bureaucracies themselves, which by then had grown into powerful and active interest groups. Developments

were most explosive where the two combined, where skilled helping professionals were sent out to help organize potential categories of clients and claimants.

However, a succession of spectacular events jolted governments into a readiness to initiate another round of social-policy reform. In the late sixties, race riots in the United States dramatized the problems of poverty, especially among recent black urban immigrants. At the same time student revolts everywhere suddenly highlighted the discontents of higher education, which by then had just become accessible to the children of the working class – the latest turn in the spiral of educational expansion.[10] In Europe, large workers' strikes coincided with student unrest. A new generation of intellectuals, most of them social scientists, provided a suitable political interpretation of the rebellions. The entire sequence of minor revolts, occurring now in one country, then in the next, evoked a sense of urgency and threat which had long been absent. Thus the rebellions of the sixties contributed one more necessary ingredient for welfare reform: concern among the elites.[11]

Governments had long since subsidized health educators to promote hygiene and prevention. In the process, schoolchildren and adults were sped on their way to the doctor's office. Parole officers and social workers had been serving as guides in the bizarre labyrinth of welfare legislation. Partly in reaction to the unrest of the sixties, governments also began to send community-action workers into 'problem areas'. They appointed lawyers to defend the interests of lodgers against landlords and claimants against welfare bureaucracies.[12] Many of these vanguard platoons of the welfare state were sent out with marching orders drafted by academic sociologists.[13] In short, the agencies of the state were sowing the seeds for their own proliferation.

In all these cases, the increasing supply of helping services did much to raise the demand. But this observation, correct in itself, has served to obfuscate the fact that the clients who now for the first time articulated a desire for professional help had suffered ills and complaints all along. 'Outside agitators' may well have been at work, but there also was – as always – internal discontent. The supply of professional experts may have created the manifest demand – it did not create the misery.

The second phase of hyperbolic expansion in the welfare state was made possible by sustained economic growth and shaped by a particular political constellation of strongly motivated minorities demanding spending increases on specific programs and confronting a much less cohesive or intense opposition to increased government spending in general.[14] Within this constellation, expert administrators and helping professionals promoted their particular services and found support within a population which increasingly accepted state intervention as a means to solve 'social problems' and which put a growing value upon professional expertise as a remedy to social and personal ills.

At a point where this collectivizing process appeared to have become self-perpetuating, it nevertheless began to slow down. The hyperbole of expansion was approaching its limit.

By the mid-seventies, the powerful forces toward expansion were checked – mainly by the budgetary deficits they caused. Once the necessary condition of economic growth was no longer fulfilled or the perspective of unlimited and undisturbed growth no longer taken for granted, the expansion of welfare arrangements began to decelerate. The turning-point came with the oil crisis of 1974. But underneath, larger and more enduring facts of international competition had been at work. Social security and health care were mainly financed from payroll taxes and thus increased labor costs in the countries concerned. By then, many non-Western countries had industrialized to a point where they could successfully compete in the market for manufactured goods, because of their much lower wage costs. As social spending continued to increase in the West, while governments, unions and employers were loath to raise payroll taxes, a deficit resulted which had to be compensated either by public borrowing or by inflationary spending: a 'fiscal crisis' ensued. Leftist governments, such as that of Mitterand in France, found themselves incapable of continuing expansionist policies.[15] But right-wing regimes, such as the Reagan presidency in the United States, also proved unable to rescind health, education or social-security expenditures.[16] In multiparty systems, coalition politics even reinforced spending patterns. Where bourgeois and social democratic parties alternated in government,[17] as in the Netherlands and Scandinavia, or in Italy, social expenditure nevertheless continued to increase.[18] What was imposed or achieved in most countries by the mid-eighties, was a policy of limiting growth, of levelling off hyperbolic expansion, until it approached an equilibrium asymptote.[19] Where, in some countries programs were actually cut back in absolute terms, they usually concerned assistance to the poor, especially families (i.e. mothers) with dependent children, or adolescents without employment history – whose numbers were sharply increasing everywhere – and the permanently disabled who had for long, or always, been without work. Those who were least organized and politically weakest were hit hardest by the retrenchments.[20] The aged, on the other hand, proved to be a formidable bastion.

When it came to saving on welfare services, the helping professions which had emerged most recently, were less established in terms of academic prestige and had less access to the political regime, also

suffered the heaviest cutbacks: community organizers, psychotherapists, physiotherapists, neighborhood nurses, family assistants, social workers and so forth.[21] The medical profession and the teaching body were able to put up much more effective resistance.

The coalition to maintain the basic arrangements of the welfare state still holds in most countries.[22] Even determined conservative regimes, such as Thatcher's or Reagan's, have not undone the basic tenets of collectivization and transfer-capital accumulation.[23] The 'welfare backlash' has been more of an ideological exercise in verbiage, than an effective or consistent policy.[24] The result, so far, has been not so much a reversal as a declaration of the process. For reasons of their own, the parties in the conflict have resorted to hyperbole of the rhetorical kind. On the left, every attempt at slowing down expansion is decried as the first step toward the demolition of the welfare state. On the right, the hyperbole of expansion serves as a rhetorical device to justify any budget cut as a means of limiting expenditure that has gone out of control.

In fact, the underlying consensus about the basis of the welfare state is still so encompassing that it remains largely unnoticed, a 'silent majority'. The discussion mostly centers upon relatively recent additions which, for their great symbolic value, hardly affect the total amount of expenditure. But of course they matter very much to whoever is directly affected by such measures. Consensus is, however, almost completely lacking when it comes to future elaborations in the collectivization of provisions. For this reason, also, the hyperbole seems to have reached its asymptote and, for the time being, equilibrium appears to have been achieved. Very few people really want to go backward, and even fewer have a clear vision of the direction future policies are to take.[25]

The limits of the welfare state are not necessarily in the financing and managing of the system. The restrictions seem to be in the potential for effective redistribution. The critique may be phrased in terms of redistributive justice and civic morality, or in terms of effective incentives and allocations. But there are also other objections. The contemporary welfare state has become a strategic environment in which people operate as calculating entrepreneurs. This applies to the experts who derive their income from services supplied within a highly collectivized context. It also goes for the claimants who obtain their benefits and services within that setting. Finally, taxpayers, especially wage-earners, contribute up to half their income and more to the financing of provisions from which they themselves may benefit only many years later, or maybe never. The welfare state as an anonymous and mostly 'value-free' system, spawning so many opportunities for gain, imposing so many restrictions and levies in a quite inscrutable way, asks to be exploited and deceived. The rich can afford to hire experts to find the crevices in tax legislation, they may employ lawyers, accountants and even 'subsidiologists'[26] to work full time at seeking legal loopholes. At the same time, bureaucrats are busy stretching the mazes of administrative regulation to fit the needs of their organization. For small, private taxpayers and individual claimants, maximizing their advantages and minimizing their costs remains a one-man enterprise. But everyday conversation helps them to find out the recipes for dealing with taxes and benefits in entrepreneurial fashion. There are not enough inspectors to check up on everyone, to make each pay his due and to ensure that every recipient is really entitled to her or his share. Moreover, attempts at policing constitute further intrusions on behalf of the state into such intimate matters as how one spends one's time (in gainful, but unreported, activities?) and with whom one shares table and bed (with a lover who might help with household costs?). Obviously, welfare arrangements must operate with a considerable amount of 'loss'. But compared to a combustion motor or a light bulb, which waste more than two-thirds of their energy in generating useless heat, social security and social assistance are marvels of efficiency, spending less than one-tenth of funds on administration and losing a comparable amount on evasion and fraud. Of course, machines are not held accountable for their wastefulness, while inefficient machines are driven out by more efficient models. Citizens, on the other hand, not only blame others for their deceptions, they also tend to imitate them out of competitive necessity or out of spite. Dishonest contributors and recipients 'always drive out' honest ones, according to Gresham's law as applied to the welfare state. Worst of all, a welfare state operating with perfect efficiency would be perfectly efficient only as a police state. This, more than anything else, is the coming dilemma of social policy.

The relations between the welfare state and its contributors or beneficiaries are mediated by more or less autonomous experts. These state-related experts have played a major role in shaping the arrangements of collective care. They have also contributed to transformations in the modes of interaction and experience among the citizens of welfare states.

3 The transformation of the middle class and the rise of the expert regimes

The twentieth-century collectivization of care is closely connected with the transformation of the middle strata of society, from mainly

independently employed small entrepreneurs into mostly wage-dependent, educated employees of large organizations.[27] Their resources shifted accordingly from private economic capital to cultural capital and a share in the collective transfer capital. Like other wage-earners, the middle cadres, and government employees especially, came to rely on collective transfer arrangements rather than on private savings, but their provisions tended to be far superior to those of manual workers. The more generous insurance schemes for government and company cadres served both to maintain a precarious social distance and to set a standard for social policy in general.[28] The overwhelming preference of these educated wage-dependent cadres for collective provision testifies to their proletarization in comparison to the self-employed. Individually accumulated knowledge distinguished them from manual wage-earners, whose *embourgeoisement* threatened to efface other class distinctions. Their expertise and their collectively accumulated transfer claims had to compensate for the occupational autonomy and the private accumulation that went with the self-employment of the old middle class.[29]

But this transformation of the middle classes was tied to the emerging welfare state in yet another manner: the collectivization of health care, education and income maintenance provided steady employment for untold numbers of trained experts in the management of the new arrangements. In one and the same grand development, the sons and daughters of the small independent bourgeoisie which was being threatened by big business or large-scale industry and the ambitious children of upwardly mobile industrial workers who had found new opportunities for advancement in large organizations were recruited into the expanding service bureaucracies where they were to take care of those who could not, or would not work or who did not yet or no longer had to.[30] The cushion of employment in the service apparatus thus absorbed a good part of bourgeois frustrations and working-class aspirations by admitting younger generations to the 'distribution elites' who managed the expanding 'social clienteles' of the welfare state. There, they allocated scarce resources through bureaucratic procedures in exchange for political loyalty.[31]

Even states are figurations of human beings, each linked to other social groups within their territory, all of them together constituting a 'family of states' in mutual and competitive interdependency. The most visible persons in such state figurations are those at the summit of the hierarchy: the administrators and politicians who are nominally in charge and sometimes in a position to change the actual course of policy. They constitute what has been called the political regime. But from top to bottom, states are made up of human beings. The expansion of the state seems – which does not reject the mixed economy and the welfare state: this is corporatism.

Unlike the neo-conservative and Marxist perspectives, corporatism is not a major theory of society-economy relationships. Essentially, it is a pragmatic approach to the integrative problems of the political economy of advanced capitalism – – at least, that is its relevance to the present discussion. Corporatism, like many other terms in the social sciences, has been used in a variety of ways to designate the linkages between organised economic interests and the structures and processes of decision-making in the modern state. But we are not concerned here with its variety of usages and meanings.[1] And, in any case, with one or two exceptions[2] writers concerned with the analysis of the welfare state have not paid a great deal of attention to corporatism as a mode of integration and its implications for social welfare. Under these circumstances, I shall proceed by offering an ideal type of corporatism, constructed from a variety of usage and analysis most appropriate to the purposes of this study. Table 4.1 presents an ideal type of the corporatist or integrated welfare state (IWS) and contrasts it with a similar construct of the pluralist or differentiated welfare state (DWS). The contrast highlights what is most distinctive about the corporatist approach to welfare.

Table 4.1

*Differentiated welfare state (DWS)** (Keynes-Beveridge)	*Integrated welfare state (IWS)** (Post-Keynesian)
Economy – Regulation of the economy from the demand side. Government measures of 'pump priming', deficit financing, fiscal and monetary policies to stimulate or inhibit demand.	Economy – Regulation of the economy from both demand and supplyside, e.g. profits, investment, wage levels, inflation, labour market conditions. Regulation and consensus-building (with or without statutory instruments) across wide ranging economic issues.
Social welfare – Relatively autonomous realm seen as distinct from the economy. State provision of a range of services seen as 'socially' oriented with little explicit linkage with reference to the economy.	Social welfare – Not seen as a realm autonomous of the economy and economic policy. Interdependence and interrelationship between the social and economic recognised and institutionalised. Functional relations and trade-offs between the economic and the social inform policy-making.
Polity – Characterised by interest-group pluralism. A free-for-all or market model of the polity and societal decision-making process. Free collective bargaining in the industrial area. Pursuit of sectional interests through organised groupings, parties and parliament. Exercise of economic power without social responsibility. Parliamentary forms of government. Full civil and political liberties.	Polity – Characterised by centralised pluralism. Bargain between peak associations / representatives of major economic interests over a broad range of economic and social policies. Interdependence of economic groups recognised and institutionalised in the form of class co-operation and social consensus. Major economic power groupings assume social responsibility. Parliamentary forms of government. Full civil and political liberties.

*The terms 'differentiation' and 'integration' are well established in social theory. As used here, the differentiated welfare state refers to the notion of a set of institutions and policies added on to the economy and polity, but seen as a relatively self-contained, delimited area set apart from them. The integrated welfare state suggests that social welfare programmes and policies are seen in relation to the economy and polity and an attempt made to integrate social welfare into the larger society.

Corporatism differs from the post-war welfare state in two respects. First and foremost it sees economic and social policy as closely interrelated and, therefore, in need of coordination. The Keynes-Beveridge approach was based on the idea of 'correcting' the tendencies of a market economy, through judicious state intervention and limited forms of social policy. The corporatist view is more synoptic: it recognises the need to harmonise the economic and the social within society as a whole. To put it another way, corporatism recognises the feedback of the social for the economic (and vice versa) and tries to come to terms with it. Thus, it sees distributive issues as inseparable from those concerning production. The upshot is that, unlike in the DWS, the economic implications of social policy are not shirked, whilst social policy objectives are introduced quite explicitly into economic policies. Second, in the corporatist approach *system* integration implicit in the institutions of the welfare state is seen as related to *social* integration.[3] In short, the functional integration between the economy and social welfare is seen as interdependent with the relations between major economic groups (i.e. capital and labour).

This implies that a productive market economy and a highly-developed system of social welfare (system integration) cannot be sustained in the long run without the co-operation and agreement of major social groupings. This 'systematic' or 'holistic' approach to problems of integration differs from the piecemeal social engineering or process approach implicit in the Keynes-Beveridge notion of the welfare state.) The owners of capital as well as producers in their organised capacity (i.e. employers' and workers' associations) are recognised as major partners in the national enterprise (*pace* Marxism, the nation is no less real an entity than class) of production and distribution, and are therefore expected to assume responsibility for making the system work. This means, for example, that, as in Austria and Sweden (see pp. 109-19) employers recognise full employment as a social objective while workers accept the need for wage moderation and higher productivity as a prerequisite for economic growth and social welfare. In contrast with the Hobbesian view of an unremitting conflict of interest in the economic as well as the political

market-place and the Marxist view of a class war, the corporate view is that of society as a web of interdependent functions and interests which requires co-operation. Looking at it from another viewpoint we might say that the IWS carries the logic of collective responsibility for the social economy beyond Keynesianism. In this respect just as the welfare state (DWS) was a step forward from a largely *laiser-faire* economy and residual welfare, the IWS may be described as another step forward on the road to collective responsibility. Thus not only management of demand but also supply of productive resources, motivation for investment, and the like are issues that have to be addressed collectively.

It should be noted that the nature of state welfare does not change under corporatism. As in the DWS, it remains by and large institutional. Rather, corporatism provides an institutional framework for sustaining full employment and comprehensive social services *in the context of a liberal market society*. At the risk of repetition, it may be worth reminding ourselves that this involves, first recognising both the importance of production for distribution and the trade-off between socioeconomic phenomena, such as inflation, economic wage, social welfare and unemployment. (In this sense the IWS acknowledges the interdependence of the Keynesian and Beveridgian aspects of welfare much more clearly than the DWS.) Secondly, it recognises that in order to harmonise economic and social objectives (i.e. to maintain system integration) institutionalised co-operation between major economic interests in society becomes essential. This is the essence, for example, of the Austrian 'social partnership' between labour and capital. Admittedly, such collaboration between major organised interests involves some curtailment of a free-for-all pluralism, whether in respect of wage bargaining or social welfare. Thus what we have here is a kind of centralised pluralism which acknowledges the reality of organised economic power and its relevance for achieving social goals. No doubt the tripartite structure of decision-making – involving employers, workers and the state – implicit in corporatist problem-solving also means that the formal political order (i.e. parliament and political parties) is to some extent by-passed and thus downgraded. But this is a price –

and a somewhat ambiguous one – that has to be paid for the corporatist approach to problem-solving.[4]

By now it should be clear that in integrating the economic and social rather than treating them as warring social principles (cf. Titmuss), and in allowing a form of 'national interest' to be institutionalised beyond the level of unbridled pluralism – thus building a measure of national consensus and fiscal responsibility – the IWS goes some way towards meeting the major criticisms levelled at the welfare state, especially from the Right. Thus unprincipled government growth, overload and failure are notions that do not sit very well on the IWS. For example, Austrian incomes policy, as we shall see, is worked out *voluntarily* by the major interest groups concerned with no government control. In Sweden, too, by and large national wage bargaining has been a voluntary affair between industry and labour. This is a far cry from the government overload associated with statutory income policies, like those in Britain which have been an obvious failure. The neo-conservative critique of the welfare state (and to some extent also that of Marxists, e.g. O'Connor, regarding government failure in capitalist democracies) has tended to generalise from the Anglo-American experience. In short, it is largely a critique of the DWS. Clearly the IWS cannot escape this radical critique (directed from both the Left and the Right) entirely. Far from it. All the same it would be a serious error to underestimate the difference between pluralism and corporatism in this regard.

So far we have discussed corporatism simply in terms of the ideal-typical features of the IWS. We next look at the nature of this corporatist society, especially its political complexion, more explicitly. From the various types of corporatism distinguished by political scientists and others we may single out the distinction between liberal (democratic) and authoritarian (dictatorial) forms of corporatism as the most relevant for our purposes.[5] The former represents a *voluntary* and gradual development of corporatism, namely, the relevant attitudes and institutions, from within a pluralist society. Its essential context is the liberal capitalist society with its parliament, political parties, civil and political rights, due processes of law, and so on. This liberalism is not incompatible with

certain restrictions or legal constraints, on wage agreements and strikes, for example. In fact such restrictions, especially on labour, are commonplace in the pluralist regimes of North America, and are not necessarily a feature of corporatism. The main point to be stressed is that in the IWS the liberal and voluntary framework remains firmly in place.

Authoritarian corporatism, by contrast, is involuntary. It is usually imposed, under threat of force, by a ruling elite. It involves restricting the civil and political rights of the citizen (in substance even if not always in form), curtailing or abolishing free elections, doing away with political competition between parties and parliamentary government, and above all depriving trade unions of their autonomy and integrating them forcibly into the state apparatus. Nazi Germany, Fascist Italy and Japan in the 1930s are extreme examples of this form of integration of the economic and the social sectors and of capital and labour under a (right-wing) dictatorship.[6]

From our viewpoint, *authoritarianism* really contradicts the essence of the corporatist welfare state (IWS), for the latter implies a 'social contract', i.e. *voluntary* collaboration among key socioeconomic interests who retain their freedom of action and the autonomy of their organisational base. Authoritarianism, on the other hand, presupposes the curtailment of trade union autonomy (e.g. arrest or removal of uncooperative leaders, abolition of union elections, *de facto* abolition of the right to strike, etc.) often accompanied by the restriction of civil and political rights more generally. That said, it must be recognised that liberalism and authoritarianism are matters of degree. It is useful therefore to think in terms of a continuum of liberal, authoritarian and totalitarian forms of capitalism. Clearly regimes like that of Nazi Germany come in the last category. The kind of *voluntary* co-operation among major economic groupings and the limited institutional coordination of policies *in the context of a free society* we have labelled as the IWS, belongs firmly to the liberal end of the continuum.[7]

We have outlined the DWS and the IWS as ideal types. And it is not surprising that the institutional patterns in some countries are closer to the ideal-type of the IWS than in others. Elements of a corporatist approach have been present in a number of European countries for quite some time. It would be useful, therefore, to look at their experience and to see what conclusions might be drawn from it.

Let me point out at the very outset that none of the English-speaking countries can be said to have moved far towards the IWS. They have remained essentially DWSs and in at least one – the USA – even the structure and ideology of the welfare state is not established very firmly. Britain has been flirting with corporatist forms since about the mid-1960s without ever achieving a viable national consensus in favour of such an approach. Recent British history is littered with national plans, incomes policies (voluntary as well as statutory), a social contract and so on; in short, fragments of corporatism introduced *ad hoc* and often as a temporary expedient.[8] As an OECD study points out, this is a far cry from the relatively enduring social consensus developed by countries like Austria and, to a lesser extent, Sweden which embrace a notion of social management much wider than an incomes policy.[9] Britain's perfunctory experiments with corporatism and their failure (*pace* the social contract of 1976-9 between the Labour government and the trade union movement which is the closest Britain seems to have come to a relatively coherent, comprehensive and successful – at least for a time – attempt in this direction) have a significance that goes well beyond the British Isles.

As the leading DWS in the English-speaking world, post-war Britain served as a model of the welfare state and its achievements. Since the mid-1960s, however, an ailing economy, relative decline in social expenditure compared with other countries and, not least, the failure to establish viable forms of corporatism have left a depressing legacy of lame-duck welfarism and half-baked interventionism. Increasingly, therefore Britain has come to represent a negative experience, both in respect of the DWS and the viability of an IWS, and as a result the English-speaking world has lacked a positive model of welfare capitalism. It is partly for this reason that monetarist and market solutions have acquired so much credibility in so short a time on both sides of the Atlantic. In English-speaking countries we have had very little acquaintance and virtually no experience of a corporatist welfare state.

It is primarily certain European countries, above all Austria,

but also Sweden, West Germany and the Netherlands among others, that offer us the experience – more or less successful, more or less stable – of corporatism.[10] The latter is a form of collectivism that is far from 'reluctant', and it is not surprising that it is in countries with a developed social democratic and labour movement that corporatism has been able to develop most fully. Conversely, countries in which the labour movement is weak and there is no social democratic politics, notably the USA, have been the furthest from the corporatist path. As Robert Salisbury writes: 'the political strength of business in America and the concomitant weakness of labour may well help us understand why it has only been in times of severe crisis that both sides have been willing to sit together.'[11] On the other hand, countries with a large Communist Party (e.g. Italy and France) have also failed to develop corporatist institutions. In the former, given the weakness of labour, reliance has been placed on the market forces to correct the economy, with social objectives taking a second place. In the latter, given the anti-capitalist thrust of communist-dominated labour movements, class collaboration has not been a viable proposition for either labour or capital. Perhaps Berlinguer's 'historic compromise' (collaboration between Christian Democrats and the Communists for the sake of stability and progress) might have brought Italy closer to an experiment in corporatism, but in the event it failed to materialise.[12] However, the conditions which favour the emergence of corporatism, though an important issue, would not be our concern here (see, however, p. 174 below). What I should like to outline now is the nature and experience of corporatism in Austria and briefly Sweden. This will serve to illustrate the arguments presented above in favour of corporatism.

Austria

Among western industrial countries post-war Austria comes closest to the model of an IWS. And it is no coincidence that Austria's record on economic growth, full employment, social welfare expenditure and industrial peace in the post-war years has been exceptionally good.[13] Its recent performance is particularly impressive. In the 1970s when one western country after another succumbed to economic stagnation, double-figure inflation, rising unemployment, industrial conflicts and cutbacks in social expenditure, Austria managed to maintain an enviably good record on virtually all of these.[14] And most commentators agree that a major, if not *the* major, reason for Austria's resilience in coping with the economic crisis of the 1970s is its institution of 'social partnership' – in short, corporatism.[15]

A number of historical and geopolitical factors seem to have contributed to the emergence of the peculiarly Austrian way of achieving consensus on economic and social policies, institutionalised in the form of the social partnership. The traumatic experience of the inter-war years involving acute social conflict, civil war and the collapse of democratic institutions; international status as an alliance-free *Kleinstaat* between East and West pursuing an independent course; the strength of labour and social democracy; the somewhat weak position of private capital as shown by the fact that public, co-operative and other forms of social enterprise account for one-third of the whole economy – these are some of the main factors that help us understand the emergence and success of Ausrian corporatist developments.[16]

The essence of the Austrian social partnership is the *voluntary* co-operation between the two major interests, capital and labour, over wide ranging economic issues. The post-war objective of achieving economic and social stability led to the setting-up of the Joint Commission for Wage and Price Questions in 1957. The Joint Commission is one of the most important institutions of the social partnership, but has no legal foundation as such. Four economic partner organisations are responsible for running it. Between them they cover agriculture, industry and labour. The Joint Commission has three sub-committees concerned with wages, prices and economic and social questions, respectively. Government representatives attend the Commission's meetings, but have no voting rights. In any case, the Commission is not so much a forum for the representation of interests as a corporate body which seeks to arrive at a consensus and makes unanimous decisions. This is certainly the case with the two major

decision-making bodies – the wages and the prices sub-committees. The principle of unanimity and consensus means that any one of the four constituent associations can bring the autonomous partnership to a halt.

The full Joint Commission meets monthly with the Federal Chancellor as Chairman. The full assembly of the Commission also meets quarterly as an 'economic policy forum' with the national Bank, Finance Ministry and specialists drawn from the constituent associations taking part. It is however the Chairmen's Discussion, which takes place before each full meeting of the Joint Commission, that is of key importance. Here the chairmen of the four associations work out and agree on compromise solutions. Decisions not already taken in the sub-committees are arrived at here. The final decision of the full Commission is then simply a formality.

It should be noted that the decisions of the Joint Commission have no legal status and must be granted statutory authority by the state. Wage policies and recommendations are however autonomous and have no legal standing. Wage and salary negotiations are conducted by the respective unions in each industry and wage moderation is less a function of centrally-established guidelines than that of a climate of opinion created by the social partnership and other consensus-making bodies. As regards statutory endorsement of social partners' decisions it is virtually 'unthinkable' that parliament could do otherwise. In fact, the practice of the so-called 'twofold parity' ensures an interlock between political parties, the social partners and the parliament. The top officials involved in social partnership are usually also Members of Parliament and functionaries of their own parties.[17]

The social partnership is based on the recognition that consensus among major economic groupings – chiefly employers and workers – is a prerequisite for the smooth functioning of a modern industrial market economy. In particular it is recognised that if social policy aims (e.g. full employment and social welfare) are to be achieved then economic policy issues must be addressed. More generally, the interdependence of the economic and the social is acknowledged and the relationship, including the trade-off between economic wage and social welfare, wage levels and inflation, inflation and unemployment forms the basis of the general policy approach. Thus ideological billing and rhetoric apart, Austrian political parties and economic groups agree on the objectives of economic growth, full employment and social protection as well as those of economic and political stability. The social partnership quite apart from its contribution to economic stability and growth, is also an important political stabiliser. For, irrespective of which of the two major parties are in power, both capital and labour (each closely affiliated to one or the other) have a permanent voice in an important area of national decision-making. Moreover, the principle of 'twofold parity' ensures that each side has equal representation.[18]

In brief, what we have here is a form of *permanent* incomes and prices policy, voluntarily arrived at by the major economic interests and closely related to a set of agreed national objectives, full employment and economic growth, to name the two most important ones. It is important to distinguish the Austrian system of corporate decision-making based on consensus, with prices and incomes policy forming part of a wider notion of collective responsibility, from the *ad hoc* and temporary forms of incomes policies instituted (e.g. in Britain) to deal with a crisis situation. Stop-gap incomes policies, as Britain's experience shows, give rise to what has been called the 're-entry problem' – the return to free collective bargaining, sometimes wreaking havoc on the economy in the process. It is the long-term and voluntary nature of Austrian social partnership, with its firm commitment to the idea of concord and to the principle of unanimous decision-making, that distinguishes the corporatist Austrian welfare state from say, the British welfare state.

Britain remains essentially a pluralist order in which limited forms of incomes policies represent a temporary suspension of the norm of free collective bargaining. Moreover, in the absence of a national consensus, government attempts at curbing wage militancy and freedom of action on the shop-floor through legislative restrictions appear as an imposition from above. It is scarcely surprising that they fail in the long run. True, Labour government's social contract with the trade unions, both in its comprehensiveness and its explicit recognition of the interdependence of economic and social

policies, was probably the closest approximation in Britain to a corporatist approach to welfare. But it did not have the support and general assent of either the employers or the opposition party. It was instituted to deal with a crisis – hyper-inflation, rising unemployment and a stagnant economy – and in this sense was regarded, at any rate by the workers, as a temporary measure. While it succeeded in restraining wages and bringing down inflation, the hoped-for economic recovery failed to arrive. After three years of restraint, the pent up demand for higher wages erupted in the winter of 1979 burying the social contract as well as its achievements in the process. British attempts at 'instrumental' forms of corporatism, not rooted in a national consensus and therefore doomed to be temporary expedients, are a far cry from the relatively enduring institutions and ideology of the Austrian welfare state.

It should be noted that one of the assumptions underlying national consensus and social partnership in Austria is that the relative shares of capital and labour in the national income are not to be disturbed. The ratio scale between wages and profits is apparently well established and what is emphasised is the need to make the 'pie' bigger rather than redistribute income.[19] In this sense it is clear that the IWS is not a socialist institution. Its structures are firmly embedded in a market economy which relies on profits and must remain competitive internationally. But *en revanche* the Austrian welfare state, as compared with a DWS such as Britain, seems less likely to foster the illusion of being redistributive and socialistic. It could be that the free-for-all of a DWS is in one sense to labour's advantage. Thanks to the security provided by full employment and social benefits labour can increase its share relative to capital through free collective bargaining. But it is also clear that such a tactic can only work in the short run. In the long run, decline in productivity and profits result in declining economic growth, which in turn leads to unemployment and cuts in social programmes. This is roughly what seems to have happened in Britain.

Put another way, the IWS takes a *dynamic* and *societal*, view of the relation between the market economy, full employment and state welfare programmes. It is as though the wider implications of Keynesianism are grasped from the beginning and the necessary institutions and attitudes developed to sustain welfare capitalism. The IWS thus emerges as the appropriate framework within which to accommodate the logic of a Keynesian mixed economy. This is evident in Austria's success in maintaining full employment, low rates of inflation, economic growth and an exceptionally low level of industrial conflict into the 1980s. For example, in 1980 the rate of unemployment in Austria was 1·9 per cent compared with 6·8 per cent in UK; the rate of price inflation for the 1970s averaged at 6·3 per cent, less than half of UK's 13·6 per cent; whilst the strike minutes per employee averaged a mere 5 compared with UK's 274.

After the first oil price explosion, Austria adopted counter-cyclical policies – financial, economic and related to employment – to combat the growing recession. Large deficits in the budget and in the balance of payments were accepted in order to maintain full employment. This policy was feasible largely because the social partnership – through wage and price moderation – could keep inflation in check. As an OECD report comments, 'the incomes policy encompassed by the social partnership has played a key role in maintaining good cost and price trends... with inflation under control, the authorities have been able to pursue a more expansionary fiscal policy than would otherwise have been the case.'[20] Naturally, Austria has not retrenched social expenditure but has decided to reduce the budget deficit recently. This is to be done in part through slightly reduced public expenditure and in part through higher social security taxes.

While Austria is no socialist haven – for example, income inequalities have remained stable over the years – it is also clear that through corporatist arrangements Austria has prevented the costs of capitalist market dislocations 'to lie where they fall'. Instead of resorting to a free-for-all, in which fractions of labour or capital win a skirmish temporarily but whose unintended consequences are high inflation, unemployment and the retrenchment of social programmes, Austria has maintained intact through the 1970s – on all accounts a difficult decade for capitalism as well as welfare – Keynesian welfare capitalism. The Austrian experience would thus seem to challenge the arguments advanced by neo-conservatives as well as

by Marxists about the incompatibility of welfare with capitalism. Rather it suggests that the dysfunctions of welfare seized upon by these critics have to do, primarily, with the DWSs of the English-speaking world.

It could, however, be argued as Marxists do, that given the international nature of the current crisis corporatism too can only stave off its effects temporarily. It is only a matter of time before corporatism comes apart in the face of the contradictions of capitalism. In a slightly different form the same point is made by many non-Marxist commentators, who argue that with continuing economic stagnation it will become increasingly difficult, if not impossible, to maintain the essentials of social partnership in Austria; that whilst the social partnership can weather short lived crises and recessions as it has in the past, it cannot survive a long period of stagnation which takes economic growth, an essential precondition for social consensus, out of the equation. It has also been claimed that the Austrian economy reaped the advantage of certain special conditions in the post-war decades. These are now disappearing making the economy much more open to international competition. In these circumstances major structural adjustments would be necessary resulting in unemployment and social tension. These are likely to strain the system to the utmost. Further, current policies of maintaining 'social' full employment would make the problems of raising productivity and adjusting to new conditions more difficult.[21] Undoubtedly there is some truth in these observations; their pertinence and plausibility can hardly be questioned. But no social system, including the IWS, can be immune from the 'creative gales of destruction' to which modern market economies must give rise. At least the IWSs like Austria can point to a good record, so far, of system maintenance which suggests that they can adapt to new conditions with greater equity and justice than any other form of capitalism.

Sweden

Sweden may be said to lie between Austria, with its well-developed and comprehensive form of corporatism, on the one hand and pluralist states, such as Britain, on the other. Furthermore, in many other ways Sweden's approach to social questions differs from Austria's, in the pursuit of equality, of worker's control of industry and the like. But these differences need not concern us here.

In Sweden the connection between economic and social policies was appreciated as early as the 1930s when the Social Democratic government put a form of Keynesian employment policy into effect. In this connection the Labour Market Board (LMB) was set up in order to keep the economic infrastructure in line with the broader social objectives of full employment, economic growth, egalitarian ('solidaristic') wage structure, and a high level of social welfare. In the post-war years the LMB has become established as a major pillar of the Swedish welfare state.[22] Among its major functions is counter-cyclical investment planning – through a series of incentives and controls firms are encouraged to set aside profits as reserve funds to be invested in times of recession. A second major function is labour market planning – through a series of measures (e.g. retraining and help with relocation,) labour is encouraged to be mobile occupationally, industrially and geographically. These measures, very extensive in nature, help maintain employment (e.g. through counter-cyclical investment) and promote economic growth (e.g. through higher labour mobility and greater efficiency resulting from retraining).

An important feature of wages policy in Sweden has been the unions' attempt to obtain equal pay for equal work ('wage solidarity') irrespective of the profits of particular firms or industries. This has meant accepting that declining industries and less profitable firms must be allowed to run down and the labour released as a result redeployed in growing and profitable sectors of the economy. Swedish trade unions have based their strategy on the recognition that the social objectives of full employment, generous welfare provision and wage solidarity are interdependent with economic growth and industrial modernisation.[23] Here the contrast with Britain is telling. British unions, unlike the Swedish, have clung to restrictive practices and over-manning, refusing, on the whole, any responsibility for modernisation and higher productivity. This has paved the way for Thatcherism – ostensibly a drastic

measure to 'save' the economy and the nation from bankruptcy – with its aggressive policy of disemployment, forced wage moderation and cuts in the social services.

The Swedish LMB, though formally a tripartite body, is in effect bipartite. Government is present but the major partners are the workers' and employers' organisations, and the institutionalised co-operation between employers' and workers' representatives has played an important part in helping secure consensus over broad economic and social objectives.[24] A more specific, but crucial, area of social co-operation has been the annual wage bargaining at the national level – a process of bargaining between employers and workers without any governmental participation. This wage bargaining is based on a carefully calculated estimate of the increase in the national product. A broad framework of agreement outlining the principle of wage settlement is arrived at by the SAF for the employers and the LO for the workers.[25] Individual industry agreements are then negotiated by the two sides within the framework laid down at the national level. Undoubtedly, this involves a good deal of centralisation in wage negotiations and agreements. For example, the industry agreements are treated as provisional until approved by the executive boards of the SAF and LO. The agreements then become mandatory and the law can be used to uphold agreements. In addition the LO, the central federation, keeps a firm control over its constituent unions. Despite this centralisation however the Swedish economy has had a good deal of 'wage drift'.[26]

Overall, the Swedish approach to wage negotiations shows an appreciation of two things: the importance of wage moderation in conditions of full employment and the interdependence of social and economic policies generally. As a result such questions as wages, wage solidarity and social welfare are considered in relation to broader economic issues, notably that of production. In this way Sweden seems to be upholding the major tenets of corporatism (see Table 4.1).

Until the mid-1970s Sweden's record on economic growth, inflation and social welfare was, on the whole, exceptionally good, so much so that it came to be seen as the 'model' welfare state of the post-war years. During the second half of the 1970s, however, Sweden has run into some difficulties.[27] International competitiveness has suffered, productivity has remained low and industrial production has stagnated. Full employment (or something close to it) has been maintained but, it appears, at the cost of heavy government subsidy to industry. This is likely to slow down, if not actually impede, structural adjustment to changing economic conditions. Public expenditure and budget deficits are at an all-time high while marginal rates of taxation are the highest among OECD nations.[28] The LMB operations, as well as annual wage bargaining, the two main props of Sweden's social consensus and prosperity, though well-adapted to the buoyant conditions of post-war western economy have not not been able to cope with the prolonged international recession of the 1970s. In retrospect it appears that the 'social' has been over-emphasised at the cost of the 'economic' – full employment, good wages and social welfare in preference to profitability and labour 'shake out'. The Swedish authorities are now being obliged to make some of the necessary adjustments. In part the difficulty stems from the reflationary and socially-oriented policies followed by the government to counter the recession following the first oil crisis. These policies were based on the expectation that the economic recession, like the others that had preceded it in the post-war decades, would be short lived and 'normal' conditions would return soon. These expectations, needless to add, have not been fulfilled.[29]

True, Sweden has not been as successful as the more thoroughly corporatist Austria, but it would be unwise to claim too much for corporatism as such. Clearly other factors are involved and in part account for the different situation in which the two countries find themselves. None the less, it should be noted that Sweden has managed to come through the recession with very little social strife and with the Keynesian welfare state, built up under the long reign of the Social Democratic government, largely intact. Moreover, recent changes in policy which include moderate wage settlement, some easing of social expenditure and lower marginal tax rates suggest that Swedish welfare capitalism has the flexibility to cope with economic problems of the 1980s. It is also not without significance that the Social Democratic Party, voted out of office in 1976 after forty-four years in government, was

returned to power in late 1982 on a platform committed, *inter alia*, to maintaining if not extending social expenditure and other elements of the welfare state.[30]

Concluding Remarks

In sum both Austria and Sweden, albeit in varying degrees and forms, have built into their political economy the basic elements of the IWS. The integration of the economic and social, the concern with supply side economics (e.g. with labour mobility and productivity) in addition to the management of demand, centralised 'social partnership' between capital and labour are some of these. Available evidence suggests that thanks to corporatist features these countries have thus far been able to accommodate the dynamics of Keynesian welfare capitalism relatively well.

Undoubtedly the current economic recession, which began in the 1970s and whose typical as well as novel features may be described as 'stagflation', has posed serious problems even for these corporatist democracies. Moreover, questions about the viability and limitations of corporatism have been raised on other grounds. In chapter 6 we shall consider some of these criticisms briefly. But there is at least one issue which should be addressed at this stage. Put simply, it is this. Corporatism is a form of *national* response to a range of problems presented by welfare capitalism. Yet on all accounts the current crisis is that of capitalism as an *international* phenomenon. The corporatist approach may therefore be of little help in resolving those international problems connected, for example, with trade, exchange rates, the multinationals and relations with the Third World. This is an important point and certainly draws attention to the limits of corporatism. The post-war prosperity of capitalism was made possible by a set of international agreements which provided a framework for monetary stability and free trade.[31] It appears as if the reconstruction of a new international framework may, once again, be a necessary condition for stability and growth in capitalist countries. No doubt this issue must be addressed at the supra-national level. Other issues, including alternative sources of energy, also seem to require a transnational approach.