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**Class Conflict and Cross-Class Alliances in
the Development of Welfare States and Varieties of
Capitalism: On the Micro-Foundations of Social Class**

by

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Abstract

In the study of developments in capitalist economies and welfare states, during the past century the role accorded to social class has waxed and waned in ways often only weakly related to empirical findings. This reflects that in the social sciences, class is an essentially contested concept, characterized by complex elements of values and normativity combined with a core meaning open to competing interpretations. The power resources approach pointing to the relevance of social class in distributive conflict within capitalist economies is challenged by scholars arguing for the key role of employers and of cross-class alliances in developments of welfare states and of “varieties of capitalism.” This paper re-analyses studies claimed to show the proactive role of employers in welfare state expansion, indicating problems in imputing interests to actors in different stages of policy making. Coordinated market economies have emerged either in the context of state corporatist institutional traditions and confessional parties in governments or in countries with strong unions and left parties in long-term cabinet participation.

In the study of developments in capitalist economies and welfare states, during the past century the role accorded to social class has waxed and waned in ways apparently indicating more “the spirit of the times” than empirical findings. This reflects that in the social sciences, class is an essentially contested concepts concept, characterized by complex elements of values and normativity combined with a core meaning open to competing interpretations.¹ The flavor of political conflict often associated with this term adds intensity and indeterminacy to debate on the role of class in societal development. In political science and sociology, despite their otherwise widely different perspectives, the works of classics such as Karl Marx, Max Weber and Émile Durkheim were long interpreted to indicate that social class is a key concept. During the three decades after the end of the Second World War, however, class and partisan politics receded to the background when interpretations based on “the logic of industrialism” became the prime template for understanding societal development.² According to this logic, the rise of welfare states was largely a reflection of technological changes associated with the shift from an agricultural to an industrial society, a shift creating societal demand for a specialized labor force adapted to the new and specific skill requirements of industrial technology. The emergence of welfare states was seen as a functional response generating and maintaining such a labor force; in this process class conflict and partisan politics were taken to be of only marginal relevance.

Criticizing this long dominant paradigm and focusing on welfare states, scholars within what has become known as the power resources approach argued that because of differences in types of assets controlled by individuals differently positioned within socio-economic structures, welfare state development is likely to reflect distributive conflict and partisan politics based in social class.³ In this approach central themes focus on class-related positive-sum conflicts reflecting basic splits in employment relations and labor markets, and welfare state development is hypothesized to improve with an increasing strength of political parties based in sectors of the electorate relying primarily on labor power rather than on economic resources in distributive conflicts. According to Pierson the power resources approach generated the “most prominent body of research on the welfare state in the 1980s.”⁴

In the 1990s the power resources interpretation of welfare state development came to be questioned from two partly related points of view. Relying on historical case studies in a few

¹ For a discussion of Walter B. Gallie, “Essentially Contested Concepts,” *Proceedings of the Aristotelian Society* (1955-56).

² Clark Kerr, John Dunlop, Frederick Harbison and Charles Myers, *Industrialism and Industrial Man* (Cambridge: Harvard University Press, 1960).

³ Gösta Esping-Andersen, *The Three Worlds of Welfare Capitalism* (Cambridge: Polity Press, 1990); Olli Kangas, *The Politics of Social Rights. Studies on the Dimensions of Sickness Insurance in OECD Countries* (Stockholm University, Stockholm, 1991); Walter Korpi, *The Working Class in Welfare Capitalism: Work, Unions and Politics in Sweden* (London, Routledge & Kegan Paul, 1978); Walter Korpi, *The Democratic Class Struggle* (London: Routledge and Kegan Paul, 1983); Walter Korpi, Power Resources Approach vs. Action and Conflict: On Causal and Intentional Explanation in the Study of Power, *Sociological Theory* 3 (2, 1985); John Myles, *Old Age in the Welfare State. The Political Economy of Public Pensions* (Boston: Little Brown, 1984); Joakim Palme, *Pension Rights in Welfare Capitalism. The development of Old-Age Pensions in 18 OECD Countries 1930 to 1985* (Stockholm University, Stockholm, 1990); John D. Stephens, *The Transition from Capitalism to Socialism*, (London: Macmillan, 1979).

⁴ Pierson, Paul, Three Worlds of Welfare State Research, *Comparative Political Studies* 33 (Aug-Sept, 2000, p.793).

countries, one line of criticism maintains that this approach has overlooked the central proactive role of employers and of cross-class alliances in welfare state development. According to this interpretation, instead of being outcomes of class-related conflicts, major parts of welfare state programs have been promoted by employers, typically in cross-class alliances with sectors among employees.⁵ A related questioning appears in the comparative study of production regimes, where the vigorous “varieties of capitalism” approach is focused on processes of coordination among different institutional sectors of the political economy, coordination seen as necessary for enhancing firm competitiveness.⁶ In such coordination, welfare states serve the key function of facilitating worker investment in occupational skills necessary for firm efficiency. Concentrating on employers, the need to promote employee investment in occupational skills is assumed to drive competing employers to support welfare state programs which are functional for increased competitiveness. Scholars within this perspective reject the hypothesis that welfare state development reflects any particular balance of power between labor and capital, instead viewing it as often stemming “more from the strength rather than the weakness of employers”.⁷

To advance the now more than century-long debate on social class, it is necessary to add precision to the basic assumptions from which hypotheses on the role of social class can be derived. This paper therefore starts by outlining microfoundations of class, assumptions on the level of individuals from which hypotheses on the relevance of class conflict in the development of welfare states and production regimes can be generated. While employers obviously are significant actors in social policy making, I reanalyze case studies interpreted to prove their major proactive role in this context, and point to problems in imputing interests to actors on the bases of their strategic choices in different stages of policy-making processes. While I find much in the varieties of capitalism very fruitful, I question the centrality that this approach accords employers’ interests in worker skill investment. The paper indicates that historical patterns of partisan politics have generated differing types of constraints and opportunities for the operation of markets, contexts hypothesized to have patterned outcomes of positive-sum conflicts in ways which are of relevance for the emergence of varieties of capitalism.

Microfoundations of Class

The microfoundations for the hypothesis on the relevance of class in the development of capitalist economies and welfare states rest on assumptions that employment relations

⁵ Isabela Mares, *The Politics of Social Risk. Business and Welfare State Development*. (Cambridge: Cambridge University Press, 2003); Peter A. Swenson, Bringing Capital Back In, or Social Democracy Reconsidered. Employer Power, Cross-Class Alliances, and Centralization of Industrial Relations in Denmark and Sweden,” *World Politics* 43 (July 1991); Peter A. Swenson, *Capitalists Against Markets. The Making of Labor Markets and Welfare States in the United States and Sweden*. New York: Oxford University Press, 2001.

⁶ Peter A. Hall and David Soskice, eds., *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*. (Oxford, Oxford University Press, 2001); Margarita Estevez-Abe, Torben Iversen and David Soskice, Social Protection and the Formation of Skills: A Reinterpretation of the Welfare State. In *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*, edited by P. A. Hall and D. Soskice. (Oxford; Oxford University Press, 2001).

⁷ Estevez-Abe et al., *Social Protection ...*, p. 181,

typically involve conflicts of interests between employers and employees, and that welfare states form important institutional contexts reflecting and affecting outcomes of these conflicts. Employers and employees cooperate in production, but there are no naturally given rules determining how the results of production are to be divided nor conditions under which this cooperation takes place; this situation generates a conflict of interests between them. Employment relations are characterized by different kinds of outcome-relevant compromises reflecting bargaining or strife, where positive-sum conflicts dominate.⁸ Within the context of societal institutions, the distribution and nature of assets or power resources among actors sets frames for opportunities that actors have and constraints that they face in distributive processes.⁹

Hypotheses on the role of socio-economic class in welfare state development are derived from differences in the nature of resources that actors control and their relevance for potential benefits of collective action in distributive conflicts. Employment relations engage two basic types of assets, among employers largely economic resources, among employees primarily labor power or human capital. One major difference between them turns on the fact that unlike human capital, economic resources can be divested from their owners and transferred to other actors. As a result, economic resources are typically concentrated to a much higher degree than is human capital. In employment relationships individual employees relying primarily on their human capital are therefore generally subordinated to employers, ultimately deriving their power from control over various forms of capital. Employers and other interest groups relying primarily on economic resources are likely to prefer to situate distributive processes in the context of markets, where economic assets constitute strategic resources and, because of their concentration, tend to outflank human capital. While the efficacy of economic resources as well as of labor power can be enhanced via collective action, reflecting the greater dispersion of human capital collective action is likely to be much more significant for employees than for employers. We can therefore expect employees, relying primarily on labor power, to be more likely than employers to attempt to create organizations for collective action to modify conditions for and outcomes of market distribution.

Of particular significance for distributive outcomes in employment relations are institutions defining the status of citizenship specifying areas where all citizens have equal rights and duties. In a classical statement, T. H. Marshall underlined the importance of social rights empowering citizens to claim at least a modicum of support from state authorities in periods of economic distress.¹⁰ Welfare states can be seen as institutionalizations of social citizenship rights and duties. Conditions for employee collective action are improved to the extent that societal institutions extend citizenship-based rights. Employees are therefore more likely than employers to press for institutional changes leading to expansion of social citizenship rights reflected in welfare states. In the power sensitive perspective,

⁸ For an early statement on the assumption of positive sum conflicts between employers and employees in the power resources approach cf for example Korpi, *The Working Class...* p. 83.

⁹ Power resources refer to capabilities of actors to reward or to punish other actors.

¹⁰ Thomas H. Marshall, *Citizenship and Social Class and other Essays* (Cambridge: Cambridge University Press, 1950). Marshall distinguished two additional components of citizenship rights: a civil component related to individual rights, and a political component reflecting possibilities to participation in public decisionmaking.

microfoundations for the hypothesis of differences in interest between employers and employees with respect to welfare states are thus found in the asymmetric effects of expanded social citizenship rights on the efficacy of capital and of labor power in distributive conflict. Conflicts generated in this context center on the extent to which democratic politics can be used to modify outcomes of and conditions for market processes. The ways in which these conflicts come to be manifested in different countries and over time will vary as a result of a multitude of factors, including history, institutions, and changes in power relations.

To describe and to categorize patterns of asset distribution among actors on labor markets, it is fruitful to use the concept of class, long central in efforts to understand and to explain patterns and outcomes of distributive conflict. The class concept is often conceived of in terms of membership groups with which individuals identify and the specific subcultures and norms of such groups. A more fruitful starting point is to define class in nominal terms as categories of individuals who share relatively similar positions, or situations, on labor markets and in employment relations.¹¹ In this perspective, at the most general level we can distinguish three internally rather heterogeneous socio-economic classes, that is, employers, employees, and the self-employed. These broad categories define similarities in actors' opportunities and constraints, similarities generating what can be called "the logic of the situation" characterizing socio-economically delineated classes.¹² Assuming bounded rationality, this logic of the situation, reflecting differences in the nature of actors' resources, is likely to affect individuals' courses of action.¹³ It is however an empirical question to what extent and in which forms such similarities in opportunities and constraints result in collective action and group identification. Because of internal differentiation of positions among employers, employees, and the self-employed, collective action will vary with respect to the degree of homogeneity among actors involved.

Among employees, positions on labor markets and in production units are differentiated in terms of the specificity of their human capital as well as with respect to possibilities for employer monitoring of work processes.¹⁴ These aspects are of relevance for an individual's bargaining power in relation to employers as well to other employees and are likely to influence the patterning of collective action among employees. Furthermore we find differently patterned associations between employee positions on labor markets and life-course risks relevant for social insurance and welfare state development. Some life-course risks, such as aging and to a large extent also illness, are universal across positions. Other risks, such as poverty, unemployment, and work accidents, are instead unequally distributed among individuals occupying different positions in socio-economic structures, a distribution typically negatively related to individual resources to cope with risks. The partially overlapping, partly

¹¹ Robert Erikson and John H. Goldthorpe, *The Constant Flux* (Oxford: Clarendon Press, 1992); John H. Goldthorpe, *On Sociology: Numbers, Narratives, and the Integration of Research and Theory* (Oxford: Oxford University Press, 2000).

¹² I owe the "logic of the situation" term to Goldthorpe (*ibid.*), who points to its origin in the works of Karl Popper.

¹³ Bounded rationality assumes that actors are satisfying rather than maximizing, have limited information and information processing capability and may consider also non-material values.

¹⁴ Goldthorpe's class schema is based on two dimensions: degree of asset specificity and degree of employer difficulty in monitoring employee performance (Goldthorpe *ibid.*: Chap. 10). Among employees, nine occupational subcategories are distinguished.

reversed, distributions of risks and resources among employees are of relevance for the choice of bases for collective action in relation to risks. Among employers we find significant differentiation reflecting factors such as firm size, nature of production, type of product markets, and structures of labor supply.

Imputing Interests to Actors

To a larger or smaller extent, different stages of policy making on welfare states have involved all major interest groups, and their strategies of conflict are likely to have been affected by factors such as changes in power relations, institutions, and anticipated reactions from other actors. When imputing interests to actors and ranking their priorities with respect to alternatives discussed in policy making on welfare states, it is therefore fruitful to have a counterfactual in relation to which imputation can be made. In this context, comparative analysis focusing on similar actors in different contexts provides one possibility. Another alternative is to observe the time order in which different actors enter into the policy making process. Here it is fruitful to distinguish between three categories of actors: 1) Protagonists initiating policies extending social citizenship rights, 2) Bargainers becoming involved in subsequent stages of policy bargaining, and 3) Antagonists persisting in opposition to reform.¹⁵ In the initial phase of a policy making process, we can discern protagonists who bring up demands for social citizenship rights into political debates and therefore can be assumed to have extension of such rights as their first-order preference. At later stages in the policy-making process, protagonists may find it necessary to work out compromises with other actors in exchange for their support. For strategic reasons, some actors initially opposed to a policy proposal may thus become bargainers attempting to modify policies according to their second-best or even lower levels of policy preferences. Since they are necessary although not sufficient for welfare state development, it is of particular relevance to identify actors that can be described as protagonists in the sense that they regard a proposed policy as the first-best among feasible alternatives and have initiated such policy change.¹⁶

The power resources approach leads to the hypothesis that, *ceteris paribus*, parties and interest organizations are likely to become involved as protagonists in welfare state policies to the extent that they have their base in sections of the labor force relatively disadvantaged in terms of economic resources and with low or medium levels of human capital. In positive-sum bargaining characterizing interest organizations based on employment relations, compromises are also likely to involve welfare state policies. Critics have rushed to the interpretation that the power resources approach is “premised on a zero-sum conflict between capital and labor” (Mares), an interpretation making changes occur “to the overall benefit of one at the expense of the other” (Swenson).¹⁷ Such misunderstandings are surprising in view

¹⁵ For similar observations cf. Jacob S. Hacker and Paul Pierson. “Business Power and Social Policy: Employers and the Formation of the American Welfare State,” *Politics & Society* 30 (2, 2002); Jacob S. Hacker and Paul Pierson, “Varieties of Capitalist interests and Capitalist Power: A Response to Swenson,” *Studies in American Political Development* 18 (Fall, 2004); Theda Skocpol and Edwin Amenta, “States and Social Policies,” *Annual Review of Sociology* 12 (1986).

¹⁶ In policy making, actors are of course likely to consider anticipated reactions from others parties in formulating their proposals.

¹⁷ (Mares, *op.cit.*, p. 5); Swenson, *Bringing Capital Back in ...* p. 526).

of clear statements that, as noted above, this approach assumes positive-sum conflicts to characterize employment relationships. Thus for example, describing the working of Sweden's "historical compromise" between capital and labor in the postwar years, Korpi writes:

"Wage-earners as well as business interests derived significant benefits from this compromise. For wage-earners the single most important aspect was probably the full employment policy; for business interests it was the favorable opportunities for investment and expansion of the most effective and profitable enterprises."¹⁸

The power sensitive hypothesis, derived from the microfoundations stated above, thus predicts that employers and business interests are unlikely to emerge as protagonists in the extension of social citizenship rights; it does however not imply that employers will remain antagonists to reforms extending social citizenship rights. Constituting arguably the most powerful category of actors in Western countries, we can instead expect that while some employers remain in opposition, others act as bargainers striving to modify social policy proposals according to their second best or lower level preferences. In areas less relevant for distributive conflict, such as the expansion of public occupational training, they may also initiate reform.

But employers' organizations and trade unions have not been directly involved in making social policy legislation. Instead their interests have been more or less closely represented by different types of political parties, the main ones being left, confessional, and secular center-right parties. As is well known, in the Western countries major political parties can be roughly arranged along a left-right dimension, with left parties tending to recruit a larger part of their voters from economically relatively disadvantaged socio-economic categories than do secular center-right parties, the European confessional parties here forming a middling category. It is however important to remember that not only employees but also employers are likely to have their interests more or less closely represented by political parties.

Employers and Social Policy Legislation

Critics of the power resources approach as well as analysts of varieties of capitalism often refer to case studies of selected countries purported to demonstrate the major proactive role of employers in welfare state development. Let us therefore reanalyze two recent studies that often are cited in this context, one by Mares and the other by Swenson.¹⁹ A common problem in these works is that as noted above, both authors base their criticism on the erroneous interpretation that the power sensitive approach assumes a zero-sum conflict between employers and employees, making a demonstration of employers' consent to bargained versions of reform proposals sufficient for its refutation. However, the crucial issue here is instead to what extent employers have been protagonists rather than bargainers.

¹⁸ Korpi, *The Democratic Class Struggle*, p. 50.

¹⁹ Mares *op.cit.*; Swenson, *Capitalists Against Markets*.

France and Germany. In her case study on the historical development of unemployment insurance, work accident insurance, old age pensions, and early-retirement programs in France and Germany, Mares makes a fruitful contribution through her analysis of factors affecting employers' interest in social policy legislation. As in the varieties of capitalism approach, her central theoretical assumption is that employers promote social policy legislation which helps them to "overcome market failures in skill formation".²⁰ In discussing patterns of cross-class alliances among sectors of capital and labor, she makes a key distinction between prestrategic and strategic alliances: "The former are formed if unions and employers support their preferred outcomes, the latter if either unions or employers support a social policy that is their second-best alternative".²¹ In terms of this categorization, only employers' prestrategic alliances indicate that they have been protagonists of a reform program; strategic alliances limit their participation to bargainers for their second best or lower-level preferences.

In both countries Mares documents rather intensive employer involvement in strategic bargaining on social policy legislation. On the basis of her distinction between prestrategic and strategic alliances, she does however conclude: "Employers were not 'agenda setters.' They were not responsible for introducing a social policy proposal on the broad agenda of reform ..."²². These key results of her case study are thus in line with the power resources hypothesis that employers are unlikely to be protagonists in reforms extending social citizenship rights. Furthermore, Mares documents widespread employer antagonism to legislated social insurance programs. Belated in relation to most other European countries, France introduced its first major set of social insurance legislation in 1928, the *Régime Générale* including sickness and work accident insurance as well as old age pension. Mares finds that in this context employers consistently opposed compulsory insurance, preferring voluntary or employer provided forms: "Small and large employers ... were united against the proposal of French legislators to introduce compulsory insurance".²³ She quotes contemporary sources to the effect that in the period of legislative deliberations "all the partisans of the law recognized that an immense majority among employers have been hostile to the project", and that numerous press campaigns attacking this project had been financed by some employers.²⁴ Mares does however not note that this major set of social insurance legislation had to wait until a change in power relations generated by the first brief period of center-left cabinets in France in the second half of the 1920s.²⁵

In her study, Mares includes early-retirement programs introduced on a large scale in connection with the return of mass unemployment in the 1980s. The fact that both unions and

²⁰ Mares *op.cit.*; p. 251.

²¹ Mares, *op.cit.*; p. 3.

²² *Ibid.*, p. 259. Mares actually identifies only one exception to this conclusion, that is employers' support for disability insurance in Germany in the 1880s. As discussed below work accident insurance was the branch of insurance most easily accepted by employers.

²³ *Ibid.*, pp. 121-138.

²⁴ *Ibid.*, pp. 128-129.

²⁵ Walter Korpi, "Un État-Providence Contesté et Fragmenté", *Revue Française de Science Politique* 45 (4,1995); This fact has also been independently noted by Michael Shalev in "The Politics of Elective Affinity", in Bernhard Ebbinghaus and Philip Manow (Editors), *Varieties of Welfare Capitalism* (London: Routledge, 1991).

employers often supported these programs need however not imply that such solutions were first preferences of either party; instead they are likely to have been expedient emergency solutions for governments to mitigate and soften negative reactions to mass unemployment in the electorate.²⁶

In Mares' theoretical perspective, unemployment insurance is one of the programs which employers are expected to support in order to "induce workers to overcome their reluctance to invest in skills".²⁷ As she notes, her assumption that this insurance is expected to receive employer support contradicts the power resources approach predicting employers to resist unemployment insurance because of its effects on workers' reservation wages.²⁸ Her finding that because of employer resistance, unemployment insurance was not included in the *Régime Générale*, and that also German employers militantly opposed any form of compulsory unemployment insurance is however in line with the power resources approach.²⁹ Furthermore, this approach expects a measure of cross-class interest in work accident insurance, which relieves employers from costly court procedures and bad will among employees and abolishes a problematic area for firm competition. Congruent with its predictions, historical data indicate that in the Western countries work accident insurance generally came first while unemployment insurance typically was the last one among the major social insurance program to be legislated.³⁰

Sweden and the United States. Swenson deserves credit for initiating a series of historical case studies on employers' policies and political roles and for analyses of the ways in which employers' regulatory interests influence their labor market strategies. He has long criticized the power resources approach for its attention to power relations between classes, however on the erroneous premise that this approach assumes zero-sum conflict between employers and employees. When it comes to his conclusions on employers' proactive roles in social policy development, it is therefore necessary to reconsider his interpretations.

Swenson's central argument is that "union strength and employer interest in equalization may partly coincide. To the extent that they coincide, no conclusion about the use of union power to achieve equalization can confidently be drawn. ... If further investigation were to reveal that employer interests regarding social policy were strikingly more positive where labor is 'strong' according to typical measures, the conceptual trends in the causal analysis would lose all traction." He maintains that "the political power of labor, measured conventionally, is indeed spurious if conceived exclusively as 'power against capital and its interests'", concluding that "as economic actors in labor market formation, or political actors

²⁶ In this context Mares includes firm-based programs initiated by employers, as indicators of their positive interest in social reform. However such programs are parts of firms wage and personnel management policies and do not constitute social citizenship rights.

²⁷ *Ibid.*, pp. 24, 251.

²⁸ *Ibid.*, pp. 249-50.

²⁹ In France employers instead stuck with the voluntary Ghent program, which up to the Second World War had only a minuscule coverage (2-3 percent) among employees. In Germany unemployment aid was meanstested.

³⁰ Ilkka Väisänen, "Conflict and Consensus in Social Policy Development: A Comparative Study of Social Insurance in 18 OECD Countries, 1930-1985," *European Journal of Political Research* 22 (3, 1992).

in welfare state development, Swedish employers were nothing like American employers”.³¹ But Swenson gives no independent empirical evidence for differences between Sweden and the United States in employers’ preference regarding welfare states. Instead he apparently imputes employers’ interests from the bargaining compromises which employers in these two countries have entered into, and thereafter takes differences between so imputed employer interests to explain differences between countries in bargaining outcomes, a mode of causal analysis known to have less traction than attraction.

Differences among countries in terms of what employers accept in positive-sum bargaining need not reflect differences in employers’ first-order preferences; an alternative interpretation is that what employers agree to is likely to reflect their relative bargaining positions. Within the power resources approach, a number of comparative studies have shown that the left-right composition of cabinets is associated with country differences in social citizenship rights as well as in social expenditures.³² Swenson pushes them aside by the argument that they have not controlled for measured variations in employer interests. Yet in one crucial respect Swenson finds clear similarities between Swedish and American employers. Parallel to Mares’ distinction between prestrategic and strategic policy stances, Swenson distinguishes between actors “responsible for taking the political initiative” and other actors, coming to the conclusion that in Sweden as well as in the United States, “employers were rarely the initiating or driving force,” while instead “reformers with considerable distance from the capitalist world (mostly liberal Democrats in the United States and Social Democrats in Sweden) were usually responsible for taking the political initiative.”³³ When it comes to the crunch, also Swenson’s data thus indicate that employers were not protagonists in social policy reform.³⁴

Sweden the Paragon of Cross-Class Alliances?

To support his view of disappearing class conflict in welfare state development, Swenson has portrayed Sweden as the paragon of cross-class alliances, where few traces of class conflict have been visible. He thus maintains that “the Swedish Left secured power in tacit alliance with dominant groups of employers” and that “the political domination of social democrats ... was stabilized by the absence of intense political opposition by capital to policies and programs aggressively opposed by business elsewhere in the world”.³⁵ In this context, Swenson states that the power resources approach has “systematically misconceived

³¹ Swenson, *Capitalists Against Markets*, pp. 10,12).

³² Esping-Andersen, *The Three Worlds...*; Alexander Hicks, *Social Democracy & Welfare Capitalism: A Century of Income Security Politics* (Ithaca, N.Y.: Cornell University Press, 1999); Evelyn Huber and John D. Stephens, *Development and Crises of the Welfare State. Parties and Policies in Global Markets* (Chicago: University of Chicago Press, 2001), Kangas, *op.cit.*, Walter Korpi, “Power, Politics, and State Autonomy in the Development of Social Citizenship: Social Rights during Sickness in Eighteen OECD Countries Since 1930”, *American Sociological Review* 54 (3,1989); Palme, *op. cit.*

³³ Swenson, *Capitalists Against Markets*, pp. 11-13, 321.

³⁴ Hacker and Pierson have taken Swenson to task for his interpretations of the role of business interests in American welfare state development. See Jacob S. Hacker and Paul Pierson, “Business Power and Social Policy: Employers and the Formation of the American Welfare State,” *Politics & Society* 30 (2,2002); Hacker, Jacob S. and Paul Pierson, “Varieties of Capitalist interests and Capitalist Power: A Response to Swenson,” *Studies in American Political Development* 18 (Fall, 2004).

³⁵ Swenson, *Bringing Capitalism Back ...*, pp. 513-514..

capital as passive or weak” and should abandon “the common notion that capital was weak or passive relative to labor”.³⁶ Again Swenson’s critique reflects surprising misinterpretations; he has not observed that the power resources approach makes the opposite assumption. As stated by Korpi:

“In contrast to the pluralist view, my guiding hypothesis is that in a capitalist society the working class is a subordinated class in relation to capital. However, in contrast to the Leninist interpretation of Marx, my hypothesis is that through its political and union organizations, the working class can decrease its disadvantage in relation to capital. Therefore among capitalist democracies the degree of disadvantage of the power resources of wage-earners can vary significantly over time as well as between countries”.³⁷

Such shifts in the relative disadvantage of labor – responding to factors affecting positions of capital as well as of labor – are likely to be reflected in movements on the left-right continuum of the feasible set of alternatives around which political conflict is centered at a particular time.³⁸ In contrast to Downsian spatial theories of voting assuming voters’ preferences to be exogenously given, the power resources approach thus predicts that parties and actors can significantly modify the aggregate distribution of voters’ preferences, something which has also been argued in the directional theories of voting.³⁹ Swenson does not appear to accept that changes in the relative power disadvantage of labor in Sweden are likely to have influenced the manifestations of positive-sum conflicts in labor markets as well as in politics. As exemplified by an examination of four areas, Swenson’s interpretations of the history of class conflict in Sweden are therefore highly problematic.

Changes in industrial conflict. One of Swenson’s arguments for his cross-class alliance interpretation concerns the long-term development of industrial conflict in Sweden. Facts show that in Sweden the 20th century started with a long period of intensive industrial conflict. Relative to the size of its labor force, up to the early 1930s Sweden thus held the international record with respect to working days used for industrial conflict, lockouts as well as strikes.⁴⁰ A critical juncture came with the formation of the Social Democratic cabinet in 1932 based on a Left majority in the Lower Chamber of the *Riksdag* and gaining support from the Agrarian Party. This shift came to generate what has been described as a “historical compromise” between capital and labor.⁴¹ The basis for this compromise was the stabilization of the Social

³⁶ *Ibid.*, 515, 543)

³⁷ Korpi, *The Democratic Class Struggle*, p. 14.

³⁸ *Ibid.*, pp. 43-45.

³⁹ Anthony Downs, *An Economic Theory of Democracy* (New York: Harper and Row, 1957); G. Rabinowitz and S.E. Macdonald, “A Directional Theory of Issue Voting”, *American Political Science Review* 89 (1989). The debate on spatial theories on voting and its directional alternative has primarily concerned their capacity to predict votes. Of major relevance in this context is however that directional theories can provide endogenous explanations of differences in the aggregate distribution of preferences among countries and over time.

⁴⁰ Korpi, *The Democratic Class Struggle*, chap. 8; Walter Korpi and Michael Shalev, “Strikes, Power and Politics in the Western Nations, 1900-1976”, *Political Power and Social Theory* 1 (1980).

⁴¹ Korpi, *The Working Class ...*, pp. 80-85; *The Democratic Class Struggle*, pp. 46-50.

Democratic government into what became widely seen as a long-term cabinet tenure, a situation which markedly decreased the power disadvantage of labor.⁴² The feasible set of policy alternatives shifted leftwards and from labor markets into politics, a shift making Sweden known for its industrial peace in the postwar period.

In Swenson's view, the transition in industrial conflict during this period "was the product of a cross-class coalition against high-pay workers in the sheltered industries", where "the Social Democratic party and the government joined [employers in] the alliance against construction workers".⁴³ However inter-sector wage differentials and accompanying tensions among unions have been common also in other Western countries. The evidence indicates that major transformations of high pre-war conflict levels to low post-war ones are found only in Sweden, Norway, and Austria, the only three countries where social democrats were able to establish a long-term cabinet presence in the decades after the end of the war.⁴⁴ This pattern thus supports the power resources interpretation.

Employers inter-war involvement in politics. In Swenson's view the 1930s was a period of cross-class realignment, when "employers mostly withdrew from partisan politics and, with episodic exceptions, otherwise toned down their public propaganda against the Left" and no longer "worked with and through the rightist parties to win political influence."⁴⁵ In the changed political climate after 1932, open employer support to the Conservative and Liberal parties was likely to be a public embarrassment for these parties. However, instead of withdrawing from politics, it appears that employers began to organize informal and secret channels for influencing and supporting these two parties. Thus in the period 1933-1953 an informal association consisting of the leaders of Sweden's five largest multinational corporations, "The Director's Club", attempted to organize industry and the political opposition into militant action intended to oust the Social Democratic government, especially before the 1936 elections.⁴⁶ This network cooperated closely with representatives from the Liberal party. The key role of the major export-oriented firms in this association contradicts Swenson's assumption that during the 1930s employers in the traded goods sector were "allying with Social Democrats."⁴⁷ Swenson argues that Sigfrid Edström, director of engineering industry's employer organization, "actively promoted the cross-class consensus building of the 1930s."⁴⁸ In view of the fact that during this period Edström was director also of "The Director's Club", Swenson's interpretation is surprising.

⁴² For the relevance of long-term left presence in cabinet see Korpi, *The Working Class...*, pp. 80-86, *The Democratic Class Struggle*, pp. 46-50, 168-83, Power, Politics, and State Autonomy, p. 316, and Huber and Stephens, *Development and Crises...*

⁴³ Peter Swenson, *Fair Shares. Unions, Pay and Politics in Sweden and West Germany* (London: Admantine Press, p. 50); Swenson, *Bringing Capital Back In*, p. 525. Swenson takes their reaction to wage developments in the building sector and the building workers strike 1933-34 as his prime evidence for such cross-class coalitions.

⁴⁴ Korpi, *The Democratic Class Struggle*, chap. 8; Korpi and Shalev, op.cit.

⁴⁵ Swenson, *Bringing Capital Back In*, 536.

⁴⁶ Sven Anders Söderpalm, *Direktörsklubben*. Stockholm: Rabén & Sjögren (1976).

⁴⁷ *Bringing Capital Back In*, p.539.

⁴⁸ *Capitalists Against Markets*, p. 295.

Based on archival research, a study by Stenlås shows that in 1942 a score of the leaders of Sweden's most important enterprises and banks formed what came to be the nucleus of an "inner circle" of the country's business community, an inner circle undertaking the task to generate economic and organizational support to the Conservative and Liberal parties in their attempts to oust Social Democrats from government positions.⁴⁹ In addition to economic contributions from individual firms, via their control over key positions in Swedish employers' confederation (Svenska Arbetsgivareföreningen, the SAF), this inner circle was able to adjust the organization's internal procedures so as to enable them to secretly channel major resources from the conflict funds of the SAF to these parties and their newspapers, and for financing the parliamentary staff of the Conservative party. Estimates indicate that throughout the 1950s, the major part of economic resources of the Conservative party and a sizable proportion also of the Liberal party came from business sources.⁵⁰

Employers' post-war political involvement. In the protracted conflict around the supplementary pension reform (ATP) during the second half of the 1950s, employers again very actively sided with the Conservative and Liberal parties against the Social Democratic government and Landsorganisationen (LO), the manual union confederation, but suffered a narrow defeat. With series of wildcat strikes in the background, in the early 1970s the LO convinced the Social Democratic government to question the tradition of full managerial prerogatives at the workplace; the government introduced legislation improving employee job security and workplace position. The conflict between organizations and parties on the left and the right was greatly intensified when in 1976, the LO proposed the legislation of "wage earner funds" under union control to acquire shares and thereby influence in private companies.⁵¹ During the first postwar period with a center-conservative government, in 1980 the SAF released its ultimate weapon, the General Lockout, lasting for one week and, relative to the size of the labor force, one of the largest single industrial conflict in international labor history; yet it failed as a result of government pressures. When the returning Social Democratic government presented a greatly modified proposal for wage earner funds, employer organizations mobilized giant street demonstration to the parliament 1983-85. With major business elites well represented in street demonstration, these were rare events in history of Western countries.

Employer strategies under changing power relations. Swenson takes the pension reform in 1946 as an indication that employers were "in some cases, even more generous reformers than the Social Democrats themselves" and that they "rejected a cheap 'means-tested' version of legislation (targeted to poorer applicants who could demonstrate need) initially favored by leading Social Democrats".⁵² Here he unfortunately misrepresents the main alternatives. In Sweden old age pensions have never been targeted to the poor via means-testing requiring

⁴⁹ Niklas Stenlås, *Den inre kretsen*. Lund: Arkiv (1998).

⁵⁰ *Op. cit.*, chaps. 5-6).

⁵¹ Korpi, *The Democratic Class Struggle*.

⁵² Swenson, *Capitalists Against Markets*, p. 10-11.

demonstration of need; instead they included a universal flat-rate benefit with a supplement tested in relation to other income.⁵³

Swenson does not consider that with changing balances of power, employer strategies are likely to change.⁵⁴ The political background of the 1946 pension reform was that after 1932, Social Democrats scored a series of major election victories; local elections in 1938 and 1942 as well as in parliamentary elections 1940 gave them over 50 percent of the vote. After the 1944 elections they held clearly more parliamentary seats than the three center-right parties combined. In view of the widespread electoral support for the Social Democratic reform plans, after its long-term decline and the severe defeat in the 1944 elections, the Conservative party reoriented its traditional resistance to costly social reforms. All parties now agreed that pension benefits would be considerably increased; the debate concerned whether one part of benefits should be income-tested, excluding those with the very highest incomes. It was probably relatively easy for the Conservatives and the SAF to oppose income-testing from the top which would have excluded large segments of their supporters. Opposition to income testing from the top came also from the LO and the Social Democratic parliamentary group. Because of budgetary constraints, opinions within the cabinet were divided but it eventually declined this form of income testing.⁵⁵ According to Swenson, "One cannot account for the fact that Social Democrats held control so securely for so many years without recognizing the contentment of employers and their consequent disinterest in mobilizing voter and party sentiment against the Social Democrats".⁵⁶ As the above review indicates, Swenson's account of socio-political developments in Sweden is deeply flawed.

Varieties of Capitalism

The "varieties of capitalism" approach provides an interesting frame for studies of relations between, on the one hand, welfare state institutions and production regimes, and, on the other hand, patterns of interactions among firms, governments, and unions.⁵⁷ In reaction against what its proponents view as an excessive concentration on unions and states in earlier political economy research, here firms are placed in the center of analysis and worker investment in skills is assumed to be of paramount importance for employers. Rational workers will however not invest in skills unless their investments are insured against risks associated with income reduction due to unemployment, job loss, and relative

⁵³ Already in 1939, about 93% of persons above pension age received some public pension benefits (Olson 1989).

⁵⁴ This problem is evident also in Peter Baldwin, *The Politics of Social Solidarity: Class Bases of the European Welfare State, 1875-1975* (Cambridge: Cambridge University Press, 1990); for a critique of Baldwin, cf Sven E. Olsson, "Working-Class Power and the 1946 Pension Reform in Sweden," *International Review of Social History* 34 (1989).

⁵⁵ Two other costly reforms legislated at this time was universal child allowances and universal sickness insurance.

⁵⁶ Swenson, *Bringing Capital Back In*, p. 537.

⁵⁷ Hall and Soskice, *op.cit.*; Peter A. Hall, and Daniel W. Gingerich, "Varieties of Capitalism and Institutional Complementarities in the Macroeconomy: An Empirical Analysis," Paper for the Annual Meeting of the American Political Science Association, San Francisco, California, 2001; David Soskice, "Reinterpreting Corporatism and Explaining Unemployment: Co-ordinated and Non-co-ordinated Market Economies," in *Labour Relations and Economic Performance*, edited by R. Brunetta and C. Dell'Aringa (London: Macmillan., 1990); Estevez-Abe, Iversen, and Soskice, *op. cit.* 2001).

wage decrease. Where production regimes require general skills, employees invest in transferable skills to protect the market value of their investment via possibilities to move between jobs in many different firms. In contrast, where production regimes require skills specific for firms or industries, since firms themselves are unable to provide insurance for asset specific skills, workers and employer are in a Prisoner's Dilemma. This dilemma can however be solved by public provisions of insurance against possible future income losses from those investments. The central hypothesis of this approach is that in the context of production regimes requiring asset specific skills, employers will have a positive, proactive interest in programs such as unemployment insurance and job protection rules. As noted above, its adherents dispute the hypothesis that welfare state development in any major way reflects contentions between labor and capital.

In the varieties of capitalism approach, the pattern in which the majority of firms in a country have come to solve coordination problems is assumed to reflect their capacities for coordination along two dimensions: corporate governance and labor markets. A key proposition is that firms' success in solving coordination problems is reflected in their international competitiveness as well as in national economic performance. Firms' attempts at coordination are expected to make them gravitate towards one of two polar types, liberal market economies (LMEs) or coordinated market economies (CMEs). Up to the 1990s among the 18 countries studied here, LMEs include the United States and the United Kingdom as prototypic cases but also Australia, Canada, Ireland, and New Zealand. CMEs are found in Austria, Belgium, Denmark, Finland, Germany, Japan, The Netherlands, Norway, Sweden, and Switzerland. Between these two clusters, France and Italy appear to form mixed cases. This typology of countries is here taken to define production regimes and is used as a starting point for an analysis of the emergence of production regimes.

Partisan Politics and the Origins of Production Regimes

The varieties of capitalism approach has paid limited attention to origins of production regimes. Its stress on the key functions of institutional coordination for economic efficiency has made some commentators point to a potential functionalistic explanation within this approach for the emergence of different varieties of capitalism.⁵⁸ Hall and Soskice reject such implications, arguing that functional considerations in terms of economic efficiency are relevant only for sustaining institutions, and indicate that different types of coordinating institutions "develop over long periods of time and for multifarious reasons"⁵⁹. Hall and Soskice state that their writing should be seen as "work in progress".⁶⁰ In this spirit, since long-term patterns of class-related partisan politics have been of importance for patterns of

⁵⁸ Mark Blyth, "Same as it Never Was: Temporality and Typology in Varieties of Capitalism." *Comparative European Politics* 1 (2003); Matthew Watson, "Ricardian Political Economy and the 'Varieties of Capitalism' Approach," *Comparative European Politics* 1 (2003).

⁵⁹ Peter A. Hall and David Soskice, "Varieties of Capitalism and Institutional Change: A Response to Three Critics." *Comparative European Politics* 1 (2003).

⁶⁰ Hall and Soskice, *Varieties of Capitalism*, p. 2.

welfare state institutional development,⁶¹ I will examine their potential role for the origins of production regimes.

In attempts to counteract what was seen as a threat to the established order from the expanding industrial working class, since the late 19th century the Catholic Church and its associated confessional parties played key roles in the development of the state corporatist institutional model in social insurance programs, institutions administered in cooperation between employers and employees. This strand of thinking has also generated several other forms of corporatist bodies for functional representation and cooperation between employers and employees. Among countries with Catholic confessional cabinet presence, this long tradition of institution-building in combination with the Church's guarded criticism of excesses of the capitalist market can be expected to have provided important institutional and ideological contexts supporting the emergence of CME-type coordination. This long tradition of institution building has had no parallels in countries without Catholic confessional parties in cabinets.⁶² Among these countries we can instead expect institutional development to reflect the relative balance of political power between left parties and secular center-right parties.

Separating countries into categories with and without cabinet presence of Catholic confessional parties after the First World War and focusing on the relative cabinet strength of confessional and left partisan tendencies 1945-90, we find clear associations between cabinet composition and production regimes (Table 1). Austria, Belgium, Germany, The Netherlands, and Switzerland, countries with confessionals in coalition cabinets and the presence of relatively strong left parties, are all CMEs. Italy appears as a special case with a deeply split Left, where during the Cold War the strong Communist party was excluded from governments. In Italy Christian Democratic Party dominated all cabinets until the early 1990s; it has a mixed production regime. For separate reasons also France and Ireland appear as special cases. France had a preponderance of secular center-right cabinets during most of the first three decades of the postwar period when the confessional party was gradually dissolved, and after an early brief period the fragmented left had only a marginal presence in cabinets; it has a mixed type of production regime. Ireland, where the two major parties were formed in the protracted struggle for independence from Britain, never developed a tradition of state-corporatist institutions; its left party has been weak and it has a LME.

(Table 1 about here)

Among countries without Catholic confessional parties, during the postwar period trade unions were relatively strong and left parties had dominance or balance in relation to secular center-right parties in Denmark, Finland, Norway, Sweden. These countries are all CMEs. In another cluster of countries, left parties have been either absent from cabinets (Canada and the United States) or without long-term cabinet presence (Australia, Britain, and New

⁶¹ Walter Korpi, "Contentious Institutions: An Augmented Rational-Actor Analysis of the Origins and Path Dependency of Welfare State Institutions in the Western Countries," *Rationality and Society* 13 (2), 2001.

⁶² In this context the relatively small protestant confessional parties in the Nordic countries have been of little relevance.

Zealand). These countries are all LMEs. In this category Japan constitutes a special case with its own form of CME.⁶³

The above patterns generate hypotheses on the key relevance of confessional and left parties for the emergence of CMEs. In countries without confessional party presence, a relatively strong and long-term left party presence in cabinet and strong trade unions would appear to be sufficient for the emergence of a CME. Only under the special circumstances found in Japan has a CME appeared in a country with only little left cabinet presence. Where confessional parties have been in cabinets with a significant and long-term left party presence, we also find CMEs. The Italian case may indicate that confessional dominance without left party competition need not generate a CME. The mixed French regime and the Irish LME may reflect weakness of the left and confessional party traditions.

Class Conflicts in Welfare State Development

The two approaches discussed above generate diverging hypothesis on driving forces behind social protection. Thus Esteves-Abe, Iversen, and Soskice have suggested that employer strength tends to favor social protection.⁶⁴ This hypothesis can be preliminarily tested by a comparison of average net replacement rates 1950-1990 in four social insurance programs (unemployment insurance, sickness insurance, work accident insurance, and old age pensions) between the coordinated and liberal market economies. As shown in Table 2, CMEs have higher average replacement rates than the LMEs in all four branches of social insurance, something which can hardly be interpreted in terms employers' interest in worker skill investment. Instead these patterns are congruent with the power resources approach predicting that key interests of employees are primarily mediated by left and confessional parties.

(Table 2 about here)

Hall and Soskice's statement by that "unemployment benefits with high replacement rates ... can improve the ability of firms to attract and retain pools of labor with high or specific skills" leads us to expect that unemployment insurance will be especially favored by employers.⁶⁵ In the CMEs, unemployment insurance should therefore have higher replacement rates than other programs for short-term absences from work, that is work accident and sickness insurance with only marginal relevance for skill investment. In contrast, the power resources approach predicts that reflecting conflicting interests between employers and employees, unemployment insurance will have the lowest replacement rates; instead because of cross-class interest in work accident insurance, this program is likely to have the highest replacement rates. Looking at patterns of average net replacement rates 1950-90, we find CME figures contradicting the varieties of capitalism hypothesis; in unemployment insurance benefit rates are clearly lower than in the two other short-term insurance programs (Table 2). Instead, as predicted by the power sensitive approach the

⁶³ T.J. Pempel, *Regime Shift: Comparative Dynamics of the Japanese Political Economy* (Ithaca, Cornell University Press, 1998).

⁶⁴ *Op. cit.* p. 181.

⁶⁵ Hall and Soskice, *Varieties of Capitalism*, p. 50.

highest replacement rates are found in work accident insurance, with sickness insurance in second place.⁶⁶

Discussion

The now increasing interest in employers' roles for welfare state development is welcome. Here it is however fruitful to discuss the relevance of class, a term that often evokes images such as angry workers on the streets but in their absence tends to recede into the scholarly shades. In the context of welfare states, micro-foundations for the relevance of class are derived from differences in the nature of assets that employers and employees can engage in distributive processes and the asymmetric effects that extensions of social citizenship rights have on their bargaining positions in distributive conflict. The extent to which these conflicts of interest become manifest varies over time; yet the micro-foundations of class as defined above remain. To draw a parallel: while countries such as Saudi Arabia are not known for their vigorous feminist movements, it would appear premature to conclude that a concept of gender is irrelevant in analyses of differences in life courses and opportunities between men and women in these countries.

In a series of works focusing on important issues, Peter Swenson has argued that the power resources approach is mistaken in underlining the relevance of class in welfare state development. Unfortunately, however, Swenson attacks something which amounts to a homegrown straw version of this approach and misinterprets basic aspects of class conflict in Sweden, his paradigmatic case for the dominance of cross-class alliances. In analyses of employers' participation in welfare state development, Swenson fails to distinguish between prestrategic preferences (*ex ante*) and strategic preferences emerging in the bargaining stages of social policy making. This failure leads Swenson to see cross-class alliances behind most reforms that employers have accepted *ex post*. This problem is also apparent in the works of Mares. As exemplified by work accident insurance, the power sensitive approach recognizes the possibility of cross-class alliances. Important for outcomes of policy bargaining and employer choices is however that when the degree of disadvantage of the "underdog" changes, *ceteris paribus*, the feasible set of policy alternatives can be expected to move on the left-right dimension. Reflecting shifts in this degree of employee disadvantage, policy outcomes can be expected to differ among countries and over time.⁶⁷

The varieties of capitalism approach scores a point by indicating that earlier research has given relatively little attention to employers' roles in welfare state development. It makes an important contribution by showing that CMEs – in neo-classical economic theory held to be bumble-bees that cannot fly – appear to have competed successfully with LMEs. Its key role for employers' interests in worker skill investment is however of little help when it comes to explain the origins of different production regimes. By according an overarching status to employers' interest in skill investment, the varieties of capitalism approach deemphasizes

⁶⁶ As a possible reflection of some degree of common interests in work accident insurance, this branch has highest replacement rates also in the LMEs.

⁶⁷ The left-right cabinet representation has shown to be of relevance also in cutbacks of social citizenship rights after 1975 (Walter Korpi and Joakim Palme, "New Politics and Class Politics in the Context of Austerity and Globalization: Welfare State Regress in 18 Countries, 1975 – 1995", *American Political Science Review* 97 (August 2003).

other means available for employers to safeguard profitability and workplace discipline. When underplaying potential conflicts of interest in employment relations, it faces serious problems in accounting for patterns of development of social insurance programs constituting central parts of welfare states. As shown here, patterns in the introduction of insurance programs as well as differences in their postwar benefit rates support the power-based hypotheses.

Data shown above indicate that the emergence of production regimes have clear associations with the long-term cabinet strength of confessional and left political tendencies. Hall and Soskice note that in the CMEs, “repeated historical experiences have built up common expectations that allow actors to coordinate effectively with others” so as to develop informal understandings and rules.⁶⁸ This idea suggests the hypothesis that the emergence of coordinated market economies in Europe can be understood as outcomes of positive-sum conflicts between employers, unions, and governments in two partly overlapping contexts placing constraints on free markets while at the same time providing opportunities for CME-type coordination. One of these contexts is found in Continental Europe, where confessional parties have had long-term presence in governments. Typically in intensive competition with left parties, confessional parties have to some extent restricted the space for markets while providing alternatives for cooperation along state-corporatist lines. The other context is found in the Nordic countries, where market restrictions have been placed by left parties in long-term government positions associated with relatively strong union confederations. Also this context has provided institutional complementarities enabling positive-sum solutions resulting in CMEs. In countries dominated by secular center-right parties, production regimes have evolved under relatively unrestrained market competition, typically generating LMEs.

While Hall and Soskice have fruitfully defined different types of production regimes, their approach faces difficulties in explaining regime origins in terms of competitive pressures through employers’ search for institutional coordination. In the power sensitive view, origins are found in long-term outcomes of positive sum conflicts generated in employment relationships, where multiple factors have combined to decrease the relative power disadvantage of labor so as to open up new alternatives in exchange between labor and capital. The CMEs were not engineered by employers to overcome market failures. Instead they could be unintended outcomes of a search for positive-sum solutions in two different contexts with decreasing power inequality, conditioned by the necessity – here the varieties of capitalism view is right – to maintain economic efficiency. If previous political economy research has over-emphasized the role of employee organizations, it is not clear that the remedy is to change the focus to employers. The discussion above points to a fruitful compromise – an analysis focusing on interactions between them and on changes in their relative power positions, that is, on class relations. As the Swedish case demonstrates, in the CMEs conflicts of interests did not disappear; instead they formed the context of positive-sum bargaining. In analyses of stability and change of CMEs, it is fruitful to keep an eye on class, conflicts of interest, and changes in the balance of power. For the stability of CMEs, satisfactory economic outcomes are necessary but not sufficient. Being an essentially contested concept, variations in researchers’ use of class appear to largely reflect “the spirit of the times” rather

⁶⁸ Hall and Soskice, *Varieties of Capitalism*, p. 13.

than well-based empirical evidence. Yet to contest the fruitfulness of this concept, it is necessary to bring it out from the scholarly shades and to face its micro-foundations.

TABLE 1.
 TYPES OF PRODUCTION REGIMES BY PATTERNS OF LONG-TERM CABINET
 PRESENCE OF CONFESSIONAL AND LEFT PARTIES.

<i>Catholic Confessional Parties in Cabinets After the First World War</i>	<i>Cabinet Composition 1945-1990</i>	<i>Country</i>	<i>Production Regime</i>	
Yes	Confessionals in coalitions with left or center-right parties	Austria	CME	
		Belgium	CME	
		Germany	CME	
		Netherlands	CME	
Yes	Confessional dominance, weak left	Switzerland	CME	
		Italy	Mixed	
		Ireland	LME	
Yes	Center-right dominance with weak confessional and left parties	France	Mixed	
		Denmark	CME	
No	Left Dominance or left-right balance	Finland	CME	
		Norway	CME	
		Sweden	CME	
		USA	LME	
	No	Left absent of Left without long-term cabinet presence	Australia	LME
			Britain	LME
			Canada	LME
No	Left absent of Left without long-term cabinet presence	Japan	CME	
		New Zealand	LME	

TABLE 2.
 AVERAGE NET REPLACEMENT RATES (%) IN FOUR SOCIAL INSURANCE
 PROGRAMS IN COORDINATED AND IN LIBERAL MARKET ECONOMIES 1950-90.*

Social Insurance Programs

	<i>Unemployment</i>	<i>Work Accident</i>	<i>Sickness</i>	<i>Old Age Pensions</i>
Coordinated Market Economies**	61	82	71	54
Liberal Market Economies***	45	71	44	45

* In unemployment, work accident, and sickness insurance, averages refer to a single person and a couple with two minor children during the first week and a 26 week periods. In old age pensions, averages refer to a single person and a couple with only one economically active spouse. Replacement rates are calculated at the average wage of production workers in the year in question and are given net of taxes and social security contributions.

**Austria, Belgium, Denmark, Finland, Germany, Japan, Netherlands, Norway, Sweden, and Switzerland.

*** Australia, Canada, Ireland, New Zealand, United Kingdom, and the United States.