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WZB Discussion Paper, No. FS I 96-314

Provided in Cooperation with:
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Suggested Citation: Mares, Isabela (1996) : Is unemployment insurable? Employers and the institutionalization of the risk of unemployment, WZB Discussion Paper, No. FS I 96-314, Wissenschaftszentrum Berlin für Sozialforschung (WZB), Berlin

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discussion paper

WISSENSCHAFTSZENTRUM BERLIN
FÜR SOZIALFORSCHUNG

SOCIAL SCIENCE RESEARCH
CENTER BERLIN

FS I 96 - 314

Is Unemployment Insurable?

Employers and the Institutionalization of the Risk of Unemployment

Isabela Mares

August 1996
ISSN Nr. 1011-9523

Research Area:
Labour Market and Employment

Forschungsschwerpunkt:
Arbeitsmarkt und Beschäftigung

Research Unit:
Economic Change and Employment

Abteilung:
Wirtschaftswandel und Beschäftigung

ZITIERWEISE / CITATION

Isabela Mares

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Discussion Paper FS I 96 - 314
Wissenschaftszentrum Berlin für Sozialforschung 1996

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For comments, advice and encouragement I would like to thank Stephen Casper, Peter Hall, Bob Hancke, Torben Iversen, Paul Pierson, David Soskice and Stewart Wood. I would like to thank the Wissenschaftszentrum Berlin für Sozialforschung for institutional support. An earlier version of this paper was presented at the Annual Meeting of the American Political Science Association, San Francisco, August 29- September 1, 1996.

Abstract

In order to shed light on the recent debates that are reinterpreting the role played by organized employers in the development of modern social policy, this paper examines the origin of the system of contributory unemployment insurance during the Weimar period. Contrary to the claims of the ‘laborist’ accounts of the origin of the modern welfare state that view the working class as the most important protagonist behind the transition from 'assistance' to 'insurance' policies, this paper argues that employers’ dissatisfaction with the means-tested system of unemployment assistance and employers’ endorsement of an insurance solution to the risk of unemployment was the decisive factor leading to the introduction of the insurance system during the Weimar period.

Drawing on original archival material, this paper reconstructs the political preferences of employers towards various institutional solutions to the risk of unemployment and focuses on a sectoral conflict between employers of large and small firms over the organization of the ‘risk pool’ within the system of unemployment insurance. While the existing literature concerned with the political role played by employers in the development of the modern welfare state fails to provide the analytical elements for an understanding of employers’ preference towards social policies, this paper attempts to address this limitation of the existing literature by providing the microfoundations for an understanding of sectoral differences in the degree of employers support for alternative social policies.

Zusammenfassung

In diesem Diskussionspapier wird die politische Entwicklung während der Weimarer Periode von dem System der Arbeitslosenfürsorge zur Arbeitslosen-versicherung analysiert, um die Diskussion zur Rolle der organisierten Arbeit-geber bei der Entwicklung der modernen Sozialpolitik neuerlich zu beleuchten. Das Ergebnis der Analyse widerspricht der „power-resource“- Theorie. Im Gegensatz zu den „laborists“, die die Arbeiterklasse als wichtigsten Protago-nisten für das Entstehen des modernen Wohlfahrtsstaates sehen, wird hier die Meinung vertreten, daß die Unzufriedenheit der Arbeitgeber mit einem System der Arbeitslosenfürsorge und ihre Bevorzugung eines Systems der Arbeits-losenversicherung der letztlich entscheidende politische Faktor war, der die Einführung einer Arbeitslosenversicherung ermöglichte.

Auf der Basis der historischen Quellen wird in diesem Beitrag die politische Haltung der Arbeitgeber für unterschiedliche institutionelle Lösungen des Risikos „Arbeitslosigkeit“ analysiert. Dabei geht es besonders um den Konflikt zwischen Groß- und Kleinunternehmen über die Gestaltung des „Risiko-Pools“ innerhalb der Arbeitslosenversicherung. In den vorliegenden Publikationen zur politischen Rolle der Unternehmer bei der Entwicklung des Wohlfahrtsstaates werden keine

Argumente für eine Analyse vorgelegt, die zu einem Verstehen der Präferenz der Arbeitgeber für sozialpolitische Regelungen beitragen. In dem vorliegenden Papier wird versucht, diese Selbstbeschränkung in der vorhandenen Literatur in den Blick zu nehmen und die Ansätze einer Theorie der politischen Präferenzen der Unternehmen für verschiedene Sozialpolitiken zu entwickeln und so einen Beitrag zur theoretischen Literatur über die Rolle der Unternehmer bei der Entwicklung der Sozialpolitik zu leisten.

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1. INTRODUCTION

While Bismarckian Germany pioneered compulsory insurance policies in the form of old age, sickness and accident insurance, Weimar Germany ranked as one of the last European countries to introduce compulsory unemployment insurance which was legislated only in 1927.[1] A period of intense experimentation and of bureaucratic and legislative deliberations about alternative institutional solutions addressing unemployment as a labor market risk began, however, only in the aftermath of world war I. While the relative timing of the introduction of compulsory unemployment insurance is itself puzzling[2], the neglect of the available 'policy legacies'[3] in the field of contributory social insurance when addressing the risk of unemployment raises a number of additional questions pertaining to the mode of institutionalization of different social risks within the welfare state: How is the mix between the principle of relief and insurance in social policy achieved? How does the process of social definition and understanding of a social risk (a process of collective representation) influence the process of institutional and policy design? What is the relative role of unions, employers and the state in the development of social policy?

The political process as a result of which a solution to the risk of unemployment was institutionalized within the German welfare state sets unemployment apart from the other major social risks (such as old age, sickness or accidents), both with regard to the ideational process of social

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[1] This is a fact noted by a number of accounts of German social policy. Among many others, Gerhard Ritter noted the absence of unemployment policies in Imperial Germany. "The Great gap in Germany´s system of social security before 1914 was its lack of any adequate provisions against the effects of unemployment." Ritter, Gerhard, *Social Welfare in Germany and Britain: Origins and Developments*, Leamington Spa, p. 94, See also Steinmetz, George, 1990, *Regulating the Social*, Princeton: Princeton University Press, p. 163.

[2] In comparative perspective, the relative order of the introduction of institutional solutions to the various labor market risks is less of a ´puzzle´: as Jens Alber has observed in two thirds of Western European countries unemployment insurance was the last of the four major insurance forms to be introduced and in no country it was the first. Alber, Jens, 1982, *Vom Armenhaus zum Wohlfahrtsstaat. Analyse zur Entstehung der Sozialversicherung in Westeuropa*, Frankfurt: Campus, p. 49. The puzzle is the lateness vis-à-vis the other European countries.

[3] On the concept of policy legacies see among others, Margaret Weir and Theda Skocpol, 1985, State Structures and the Possibilities for Keynesian responses to the Great Depression in Sweden, Britain and the United States, in Evans, Peter, Rueschemeyer, Dietrich and Skocpol, Theda, eds., *Bringing the State Back In*, Cambridge: Cambridge University Press; Pierson, Paul, 1993, When Effect Becomes Cause. Policy Feedback and Political Change, *World Politics* 45 (July 1993), pp. 595- 628.

definition of unemployment as a labor market risk[4] and with regard to the policy process of institutional design. For almost half a century unemployment was considered as an *uninsurable* risk, resulting from individual unwillingness to work, rather than from broader economic and labor market circumstances and, as a result, traditional insurance techniques were viewed as inappropriate remedies for the risk of unemployment.[5] Employers, in particular, denounced any legislative proposals to insure against unemployment as a labor market risk as a "state recognition of a cancer which carries the signs of a crippled condition and of inferiority"[6] or as "a premium for laziness,"[7] but even unions were, for a long period, undecided about the commensurability between the risk of unemployment and the other labor market risks.

The most significant difference between the institutionalization of the risk of unemployment and the other labor market risks lies, however, in the process of institutional and policy design. The organization of institutional solutions to the risk of unemployment started as a system of poor relief with means-tested benefits, distributed through the communes: a paradoxical outcome given the policy legacies in the field of contributory social insurance and given a prior limited introduction of the Ghent system.[8] An experimental and improvised

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[4] On the importance of the process of collective representation of unemployment as a risk, its independence of unemployment and its independent causal effect, see Piore Michael J., 1987, Historical Perspectives and the Interpretation of Unemployment, *Journal of Economic Literature*, December 1987, 25: 4, pp. 1934- 1950; Salais, Robert, Bavarez, Nicolas and Reynaud, Bénédicte, eds., 1986, *L'invention du chomage*, Paris: PUF.

[5] On this see also Stephan Leibfried, Die Institutionalisierung der Arbeitslosenversicherung in Deutschland, in *Kritische Justiz*, 10. Jg, 1977, pp. 189- 301. Leibfried´s considerations about the difficulties involved in finding an insurance solution are, however, insufficient as an explanation of the particular pattern of institutionalization of unemployment within the German welfare state, the political struggles among key actors are absent.

[6] Entschliessung der deutschen Handelskammer Hannover, April 1922, quoted in Führer, Karl Christian, 1990, *Arbeitslosigkeit und die Entstehung der Arbeitslosenversicherung in Deutschland*, Berlin: Colloquium, pp. 212- 213. The entire quote is: "Ein Volk von gesunder Willenskraft und vorwärtsstrebender Energie gibt sich doch nicht selbst ein Gesetz über die Versicherung der Arbeitslosigkeit, d. h. der staatlichen Anerkennung eines Krebsschadens, den Stempel der Minderwertigkeit und Krüppelhaftigkeit".

[7] See "Zur Frage der Arbeitslosigkeit", in *Der Arbeitgeber*, Nr. 2, 15. 01. 1914, p. 18. On employers view of unemployment as a self-caused phenomenon, see among others, "Zur Arbeitslosenfürsorge", in *Der Arbeitgeber*, 1. August 1910, p. 178; "Von der Arbeitslosenversicherung", *Der Arbeitgeber*, 1. November 1913; "Die Stellung der Arbeitgeber zur Arbeitslosenversicherung", *Der Arbeitgeber*, 15. November 1913, p. 274.

[8] Prior to the Erwerbslosenfürsorge, the Ghent system was introduced by 14 German communes. (Strasbourg in 1907; Erlangen and Mühlhausen in 1909; Freiburg in 1910; Berlin Schöneberg and Mannheim in 1911; Schwäbisch Gmünd and Stuttgart in 1912; Kaiserslautern, Offenbach, Esslingen and Feuerbach (Stuttgart) in 1913; Heidelberg in 1914; Ludwigshafen in 1917.) Usually communes paid 50% and unions 50% of the benefits. See P. Nagel, Das Genter System, *Deutsche Arbeitgeberzeitung*, 20. November 1921, (20), Nr. 47. On employers opposition to the introduction of the Ghent system and on employers' influence in local parliaments (Kommunalparlamente), see Hans-Joachim Henning, 1974, Arbeitslosenversicherung vor 1914: Das Genter System und seine Übernahme in

system of unemployment compensation (the *Erwerbslosenfürsorge*[9]) emerged in the aftermath of world war I, replacing the policies of unemployment compensation that had been in place during the war (the *Kriegserwerbslosenfürsorge*[10]) as a last minute attempt of fearful elites to counteract the social and political revolution of 1918. This ad-hoc and improvised policy of unemployment compensation was intended as a provisory solution that should not be in place for more than one year. Yet the technical and organizational issues that were posed by the choice of an assistance or insurance system, the appropriate arena (national, regional or local) where unemployment policies should be organized, the financing of the system (general or contributory finance) prolonged its life to nine years. Although the first draft of an unemployment insurance law was published by the Reichsarbeitsamt in 1920[11], it took seven years of further delays, caused by deliberations and negotiations among the social actors until a system of contributory unemployment insurance was finally put in place.

What accounts for the mode of institutionalization of the risk of unemployment within the German welfare state -- the surprising absence of the Ghent system (despite the presence of strong and well organized unions) and the rejection of a tax-financed system of unemployment assistance in favor of a system of contributory insurance? The explanation lies neither in the role of pre-existing institutional legacies, nor in the enlightenment of state bureaucracies or in the power and strength of the organized working class. Rather, I will argue, the key political role played by crucial sectors of organized employers can explain both the timing and the particular institutional choice that was reached in the final unemployment insurance bill. Throughout this period, employers have opposed a Ghent system as a form of subsidization of unions strike funds.[12] For a long period of time, employers rejected an insurance solution to

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Deutschland, in Kellenbenz, Hermann, ed., *Wirtschaftspolitik und Arbeitsmarkt*, München: Oldenberg, pp. 271- 288.

[9] See Verordnung über die Erwerbslosenfürsorge vom 13. 11. 1918, *Reichsgesetzblatt 1919*, pp. 1305- 1309; on the day-to-day contradictions within the policy see Lewek, op. cit.

[10] On the Kriegserwerbslosenfürsorge, see Wermel, Michael and Urban, Roswitha, 1949, Arbeitslosenfürsorge und Arbeitslosenversicherung, in *Neue Soziale Praxis*, Heft 6, Nr. 1-3, München.

[11] See first draft of unemployment insurance law together with a justification (Begründung) in *Reichsarbeitsblatt* 18: 1920, Berlin: Carl Heymanns, pp. 391 ff. It is significant, for my critique of an explanation based on policy legacies, that this first draft considered the existing social policy legislation as the basis and as a blueprint for the unemployment insurance legislation, this was however rejected by the major social actors. On this, see also, Wermel and Urban, *op. cit.*, Heft 2, p. 30.

[12] On employers opposition to the Ghent system see, among others, Das Problem der Arbeitslosenversicherung, in Der Arbeitgeber, 1. Januar 1910; Zur Arbeitslosenfürsorge, in Der Arbeitgeber, 1. August 1910; Der deutsche Städtetag und die Arbeitslosenversicherung, and Henning, op. cit.

the risk of unemployment,[13] effectively blocking policy deliberations about the transformation of the provisory *Erwerbslosenfürsorge* into a permanent system of unemployment insurance and prolonging the state of policy improvisation. However, employers preferences about the institutional solution to the risk of unemployment changed. Their dissatisfaction with the means-tested system of unemployment compensation resulted from their absence of control over the process of monitoring of the willingness to work of the unemployed, over the relationship of the unemployment compensation to the minimal regional wage and over the definition of acceptable jobs (*zumutbare Arbeit*) that the unemployed had to accept (policy decisions which under the system of unemployment assistance were in the hands of the communes) and as a result of the downward pressures on the wages of skilled workers, exerted by flat-rate unemployment benefits. Their dissatisfaction with the system of unemployment assistance led to employers' endorsement of the insurance solution to the risk of unemployment, despite the potentially higher costs they would carry under a contributory system of unemployment insurance.[14] Unlike employers in the United States, whose "true preference was for no insurance plan at all"[15] German employers viewed the insurance solution to the risk of unemployment as the preferred institutional outcome.[16]

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[13] This rejection goes back to the Imperial Period. On the attitudes of German employers towards social policy in the period 1890- 1914, see, among others, Anselm Faust, 1986, *Arbeitsmarktpolitik im deutschen Kaiserreich: Arbeitsvermittlung, Arbeitsbeschaffung und Arbeitslosenunterstützung 1890- 1918*, Stuttgart: Franz Steiner.

[14] In fact, given the lack of statistical knowledge about the extent of unemployment and the relative costs of one system versus the other, there was wide uncertainty of employers whether one system would impose higher costs than the other. The Mitteilungen of the VDA of 1923 estimated that an insurance system would impose higher costs on employers than the Erwerbslosenfürsorge (primarily because of the elimination of the means-test). See also, F. Tänzler, Die Soziale Belastung der deutschen Wirtschaft, Reichsarbeitsblatt: Nichtamtlicher Teil, Nr. 28, pp. 608- 612; Die soziale Belastung der deutschen Wirtschaft, *Reichsarbeitsblatt*, 1924, Nr. 24 (November 8, 1924); On arguments that an insurance system would actually impose lower costs on employers, see Böhm, Gustav, 1924, Bedeutet die Ersetzung der Erwerbslosenfürsorge durch die Arbeitslosenversicherung eine Mehrbelastung der Wirtschaft?, in *Reichsarbeitsblatt*, Nr. 27, pp. 591- 593.

[15] An argument made by Paul Pierson, 1995, *The Scope and Nature of Business Power: Employers and the American Welfare State, 1900- 1935*, page 36, footnote 79. By making the distinction between 'strategic' and 'true' preferences, the essay raises the question which is pertinent to the German context, as well, whether employers support for the insurance solution was not just a strategic calculation resulting from employers' anticipation of the fact that their 'true' political preference (no insurance plan at all) might be defeated. To avoid this political setback, employers cooperated to the unemployment insurance solution. But, in the German context, employers cooperation came in a period of employers' strength, not weakness (1918) and after considerable *success* in blocking policy alternatives which were not acceptable to them, such as the Ghent system. The historical and archival record shows countless statements of support by employers of the insurance solution (see below) even in writings addressed to the relevant ministries of the bureaucracy and which were not just for the public record.

[16] On employers' support for the insurance solution, see for example *Geschäftsbericht der Vereinigung der Deutschen Arbeitgeberverbände 1925/1926*, Berlin, 1927, p. 153. " Aus diesen Gründen ist die Vereinigung der Deutschen Arbeitgeberverbände auch grundsätzlich

Once employers 'principled' opposition against the insurability of the risk of unemployment and against a contributory system of unemployment insurance was overcome, employers actively participated in the policy decisions surrounding the organization of unemployment insurance. This change in the preference of employers and their final collaboration in the introduction of unemployment insurance is the crucial factor which facilitated the passing of the unemployment insurance bill in 1927. Employers' participation in the policy deliberations influenced significant policy decisions within the system of unemployment insurance bill, such as the organization of the unemployment insurance risk pool (the position of occupations with either high seasonal or low unemployment and the degree of contributions they had to pay as well as the organization of risk pools at the regional level to make possible an increase in the decision-making power of the labor exchanges over the level of unemployment contributions that had to be raised), the relationship between the level of contributions and the wage structure (*Lohnklassen*) and over the instruments and institutions of 'control'[17] of the ability and willingness to work of the unemployed.

The goal of this paper is to account for the mode of institutionalization of the risk of unemployment within the German welfare state, by focusing on the political role played by organized employers. Given the importance of the change in the preference of employers about the appropriate institutional solution to the risk of unemployment, the emphasis of the theoretical argument will be on understanding the determinants of employers preferences towards social policy and of an intersectoral conflict among employers over alternative

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kein Gegner der Schaffung eines Arbeitslosenversicherungsgesetzes und hat auch positiv an dem Arbeitslosenversicherungsgesetz mitgearbeitet." On the support of employers in large firms of unemployment insurance, see among others, G. Erdmann, Das Gesetz über Arbeitsvermittlung und Arbeitlosenversicherung, *Der Arbeitgeber*, Nr. 15, 1. August 1927, p. 362. "Die grundsätzliche Frage, ob eine Änderung dieses Systems (der Erwerbslosenfürsorge, n.a.) dieses nur kurz angedeutete Verwaltungsdurcheinander in ein geordnetes, einheitliches Versicherungssystem zweckmässig und notwendig erscheint, ist auch von der deutschen Arbeitgeberschaft bejaht worden." In the discussion of the fourth draft of the unemployment insurance bill, even employers of small firms overcame their opposition to an insurance solution and signaled their willingness to cooperate. See Handwerk und Arbeitslosenversicherung, *Das deutsche Handwerksblatt*, 20: 21, 1. November 1926, p. 17. "In der Stellungnahme zu dem vorliegenden vierten Entwurf der Arbeitslosenversicherung hat daher auch die Geschäftsstelle ihre grundsätzliche Verhandlungsbereitschaft zum Ausdruck gebracht." The committee of Reichsverband des deutschen Handwerks has approved the plans of unemployment insurance in its meeting of October 8th, 1926. See J. Dethloff, Der Entwurf eines Gesetzes über die Arbeitslosenversicherung, *Das deutsche Handwerksblatt*, 21: 2, 15. Januar 1927, p. 37. "Das Handwerk hat grundsätzlich dem Gedanken der Arbeitslosenversicherung zugestimmt".

[17] Employers' view of social policy as instruments of social control that discipline the workforce. My argument is a reversal of the traditional arguments that view means-tested system as examples of social control. See Piven and Cloward, *Regulating the Poor*. From the perspective of employers, quite the opposite is the case, contributory systems increase their ability to exert control over the level of benefits.

policy and institutional solutions to the risk of unemployment. The question of employers preferences towards social policy is significant for the recent literature that attempt bring together models of the political economy and models of social policy.

This paper proceeds in several parts. In Part I, I will review significant debates and will situate the argument of this essay within the existing literature. The explanation of this paper will provide a number of variables for understanding employers preferences towards social policies. Specifying employers preference towards social policy constitutes a significant improvement over existing theories that either *assume* a generic opposition of employers towards social policy, that bracket out the question of employers preferences, by focusing, instead on the political influence of business within the process of social policy formation or that provide anecdotal references to employers support for particular social policies which are not grounded in the self-interested behavior of employers and lack theoretical microfoundations. The second part will further explore the question of employers' preferences, by focusing on the sectoral divisions among organized employers over the insurability of certain labor market risks, on the issue of financing social policies and on the need to use social policy as an instrument of social control. The next sections will focus on the political process of institutionalization of the risk of unemployment within the German welfare state, from the *Kriegserwerbslosenfürsorge* to the final unemployment insurance act in 1927, with a particular focus on the organization of the risk pool within the unemployment insurance bill and the relationship of unemployment benefits to wages.

2. THE QUESTION OF EMPLOYERS PREFERENCES TOWARDS SOCIAL POLICY

The role of employers in the development of the modern welfare state and the question of employers preferences towards social policy have been very little understood by political scientists. I will focus only on three reasons of this intellectual omission or misspecification.

The most significant explanation of the misunderstanding of the role played by employers in the development of the modern welfare state is the intellectual dominance by a tradition of research that has emphasized the role played by the working class as the most important protagonist demanding social policy

expansion[18] within the field of comparative social policy. In part, these explanations have been facilitated by what appeared to be an 'unambiguous' and 'natural' preference of workers for social policy as a compensatory mechanism for their disadvantaged position in the labor market (and by a difficulty encountered by attempts to appropriately characterize the preference of other social actors towards social policy). These perspectives, postulating a strong link between strong and well organized labor and redistributive universalistic and solidaristic social policies have come, recently under strong attack. Peter Baldwin´s research[19] had forcefully undermined the laborist interpretation of the origin of modern social policy based on the empirical cases where the laborist claim was strongest -- the Scandinavian countries -- through a research that highlights the crucial role played by 'middle classes' in welfare state development. Simultaneously, political economists -- such as Peter Swenson[20] -- have started to pay increasing attention to the importance of employers for the development of a number of institutional arrangements, that had been viewed by an earlier generation of scholars as resulting form the institutional power of the working class: most significant being the reinterpretation of the role played by organized employers in the origin of centralized wage-bargaining institutions.

The second analytical difficulty faced by an explanation trying to explore the role played by organized employers in the development of the welfare state is linked to the specification of social policy in the current literature. The difficulty arises from the fact that the dominant theoretical models of social policy explain cross-national variation in social policy in terms of two latent variables -- 'decommodification' and 'restratification'.[21] This is a very important

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[18] This is a vast tradition of research. Among many other influential works see Walter Korpi, 1978, *The Working Class in Welfare Capitalism: Work, Unions and Politics in Sweden*; John D. Stephens, 1979, *The Transition from Capitalism to Socialism*, London, Gosta Esping-Andersen, 1985, *Politics Against Markets: The Social Democratic Road to Power*, Princeton: Princeton University Press; Robert Erikson, et. al., eds., 1987, *The Scandinavian Welfare State: Welfare States and Welfare Research*, Armonk, in particular the chapter by Gosta Esping Andersen and Walter Korpi, From Poor Relief to Institutional Welfare States: The Development of Scandinavian Social Policy.

[19] Peter Baldwin, 1990, *The Social Bases of the Welfare State*, Cambridge: Cambridge University Press.

[20] Swenson, Peter, 1991, Bringing Capital Back In or Social Democracy Reconsidered, *World Politics*, 43: 4, July 1991.

[21] On this specification of social policy, see Gosta Esping Andersen, *op. cit.*, 1990, pp. 21- 26. Decommodification refers to institutional guarantees and rights given to the employees outside and independent of the labor market contracts. Restratification refers to the ability of the welfare state to *undo* the class and status segmentation created by the market, on the one hand, and to add new stratification principles that result from the institutional logic of the welfare state itself. However, Gosta Esping Andersen offers no conclusive empirical evidence that 'restratification' and 'decommodification', as underlying dimensions of welfare regimes represent the *only* two possible axes along which we may measure the institutionalization of the welfare states as well as their interference in the labor market. Based on theoretical justifications alone, additional latent variables could be identified.

step away from earlier models that focus solely on differences in aggregate expenditures on social policy as measures and indicators of cross national differences among welfare states. The problem arises from the fact that both variables result from working class demands towards social policy and they reflect *interpretations* by the working class of the functions and role played by the welfare state[22]. But 'decommodification' and 'restratification' offer very little guidance in understanding cross-sectoral and cross-national preferences of employers towards the welfare state, in order to answer the question: what does social policy represent to employers? To address this question, additional 'instrumental' variables that characterize cross-national differences in social policy and that can be, in a systematic manner, related to employers preferences towards social policy need to be found. The question of employers preferences towards social policies is linked to a theoretical redefinition of the functions and role of social policy itself.

Recent theoretical contributions[23] have attempted to respecify the redistributive mechanisms of social policy as instruments of *risk* redistribution and not income redistribution[24] or system of decommodification, as the functions of the welfare state have been conceptualized by the power resources perspective, as part of a theoretical program that has attempted to expand the analysis of societal bases of the welfare state, of groups that have an interest in welfare state expansion away from the working class. "As economic producers or as members of different classes, individuals were still treated unlike by the market and by existing hierarchies. But as creatures subject to risk they could stand equal, mortals buffeted by misfortune and unsettled by insecurity."[25] But while Peter Baldwin uses the concept of risk to analyze the emergence of universalistic social policies, his analysis deliberately leaves out policies in which employers played a significant role in defining the institutions of risk redistribution, such as unemployment or accident compensation (and where solidarism has been unsuccessful or has failed) as 'clientelistic' and, ultimately, 'uninteresting for social policy'. "Many aspects of the welfare state are clientelistic, in the sense that their constituencies have

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Second, Gosta Esping Andersen suggests no disaggregation of the two latent dimensions along which welfare regimes cluster. For example, we have no a-priori reason to believe that 'decommodification' is a one-dimensional linear variable and that welfare regimes vary from high-decomodifying to low decommodifiying.

[22] As Esping Andersen notes, de-commodification has "been a priority for labor." *Op. cit.*, 1990, p. 22.

[23] The most significant author in this respect remains Francois, Ewald, 1986, L'état Providence, Paris: PUF, See also Ewald, Francois, *Insurance and Risk* , in Burchell, Graham, 1991, ed., The Foucault Effect: Studies in Governmentality, London: Harvester, pp. 197- 211; Ewald, Francois, Old Age as Risk, in Anne-Marie Guillemard, ed., *Old Age and the Welfare State*, London: Sage, pp. 115-127.

[24] "The welfare state decisively advanced society's ability to treat each of its members equally. It did so, however, less by redistributing wealth than by reapportioning the costs of risk and mischance." Peter Baldwin, *op. cit.,* p. 1.

[25] Peter Baldwin, 1990, *op. cit.*, p. 2.

largely been set by definition. The issue they raise have therefore rarely passed beyond the calculations of how generous a treatment a particular group can wrest from society as a whole. That unemployment insurance has, until recently been the concern mainly of wage earners or that measures against work accidents are a matter of most pressing interest to the industrial proletariat will come as no surprise. There has been little to distinguish the politics of implementing or resisting these initiatives from the battles surrounding other, equally clientelistic measures aimed at different social groups: tariffs, for example, or the subsidies, price supports, protection against foreclosure and other generous measures responsible for channeling substantial public resources in the direction of agrarian classes. Disputes of this sort (...) *were in no sense specific to social policy*."[26]

Accident and unemployment insurance represent, however, crucial cases for a comparative theory of social policy that problematizes the notion of risk, asking how different social risks become institutionalized within the welfare state, what the boundaries between public and private institutions are and what the appropriate mix between insurance and assistance is -- and cannot be avoided or *a priori* dismissed as irrelevant or unspecified to social policy. These policies undermine Peter Baldwin´s claim about the equality in the position from which all members of society face risks: risk means a different thing to employers (and the particular meaning is linked to the structural position of that group within the political economy). Employers participation in the process of social policy development results from their desire to shape the institutions that define the criteria of compensation for the various social risks, so as to minimize the costs they bear, which at the same time retaining and 'rewarding' the skilled segment of their workforce. The political struggle between employers and employees over the choice of institutional mechanisms that redistribute risks (a theme which is absent from Peter Baldwin´s analysis) is, simultaneously, linked to related economic and labor market decisions, such as the levels of the appropriate skills in the economy and the compensation of the employees for the investment in their skills or the degree of political intervention in the labor market or the functions and role of labor market contracts.

The existing literature attempting to characterize the degree of employers influence within the political system in general has either mischaracterized the political preference of employers towards social policy or has been silent about the issue altogether. Arguments about the structural power of business have 'bracketed out' the issue of employers preference towards social policy, by starting from an (empirically untenable) *assumption* of employers opposition towards social policy[27] -- an assumption that fails to account for the tremendous

[26] Peter Baldwin, *op. cit.*, p. 50.

[27] Charles E. Lindblom, 1976, *Politics and Markets: The World´s Political Economic System*, New York: Basic Books. See, for instance, Lindblom's statement that businessmen must be induced to perform a public role commensurate to their degree of power, In *op. cit.*, p.

(cross-national, cross-sectoral and across different policies) *variation* in the degree of business support or opposition towards different social policies. The recent literature that has focused on the degree of business *influence* in the policy-making process (and how this influence should be conceptualized[28]) and that attempts to bring together the arguments about the structural power of business of the 1970´s and the more recent institutionalist writings is, in effect, equally *indeterminate* about the question of preferences of employers towards social policy: one needs a prior specification of the preferences of employers to specify the anticipated reaction of the policy-makers to the veto of employers' structural power. If, as Paul Pierson notes, "not all social policies activate the signaling device", a correct specification of employers preferences would address the question that is unanswered by this approach: which social policies (and which institutional solutions to them) are acceptable and even desired by employers?

Existing attempts to address the issue of employers preference towards social policy that have been developed mostly to account for the *support* of employers towards some social policies -- a surprising finding for the structural power of business explanation -- are not grounded in the self-interested behavior of employers and lack convincing micro-foundations.[29] The welfare capitalist approach[30], or, in the German tradition, authors concerned with

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XXXVII. On the structural power of business argument see, among many, Lawrence B. Joseph, 1981, Democratic Revisionism Revisited, *American Journal of Political Science*, XXV: 1981, pp. 160- 187; John Manley, 1983, Neopluralism: A Case Analysis of Pluralism I and Pluralism II, *American Political Science Review*, 77: 1983, pp. 368- 383; David Marsh, Interest Group Activity and Structural Power: Lindblom's Politics and Markets, *West European Politics*, 6: 1983, pp. 3- 13; Larry Preston, Freedom, Market and Voluntary Exchange, *American Political Science Review*, 78: 1984, pp. 959- 969; Adam Przeworski, and Michael Wallerstein, 1988, The Structural Dependence of the State on Capital, *American Political Science Review*, 82: 1, March 1988, pp. 11- 29. For a critique of the structural power of business argument, see David Vogel, Political Science and the Study of Corporate Power: A Dissent from the New Conventional Approach, *British Journal of Political Science*, 17: 1987, pp. 385- 409.

[28] See, for example, Paul Pierson, 1995, *The Scope and Nature of Business Power: Employers and the American Welfare State*, Paper Presented at the 1995 Meeting of the American Political Science Association.

[29] By this requirement that the theory of employers preferences should have a microfoundation, I refer to the need to ground these explanations in a particular theory of the firm. While the most significant recent effort in political economy has built micro-logic into earlier corporatist explanations, a similar theoretical effort needs to be made by those who understand employers role in the development of social policy. On this, see David Soskice, 1994, *National Patterns in Company Innovation Strategies: A Comparative Institutional Approach*, Wissenschaftszentrum für Sozialforschung Berlin.

[30] The most important empirical reference of welfare capitalist scholars is the social security act of 1935. See Jill Quadagno, 1988, *The transformation of Old Age Security: Class and Politics in the American Welfare State*, Chicago: University of Chicago Press, Jill Quadagno, 1985, Welfare Capitalism and the Social Security Act of 1935, *American Sociological Review*, 49 (1984), pp. 632- 647; Edward Berkowitz and Kim McQuaid, 1988, *Creating the Welfare State*; New York: Praeger.

enterprise based social policies[31] have approximated employers preferences towards social policy by starting with employers concern towards *enterprise*-based social policies. The practices of enterprise paternalism of firms such as Krupp or Siemens were viewed by authors such as Jürgen Kocka as an indication of social policy understanding of German employers as a unique and skillful blending of paternal care and social control and as an anticipation of employers' social policy demands from the state: social policy, it is argued, was viewed by these employers as an expansion of their managerial practices at the national level. However, evidence of enterprise-level social policies (sometimes a resultant of employers generosity at other times resulting from the desire to retain skilled workers in periods of labor shortages) can be viewed only as the *starting point* of the exploration of employers preferences towards 'national level' social policies, since the organizational and institutional questions posed by the choice of particular social policies pose different dilemmas and trade-off to employers.

2. 1. Risk and social policy

Rather than being concerned with the 'decommodifying' aspects of social policy, employers understanding of the welfare state centers around the various labor market risks[32] that the employees of their enterprises face, labor market risks which cannot be addressed with the use of labor market contracts[33]. Employers' preoccupation with social policies in neither grounded in paternal benevolence and care, nor in a desire to achieve unregulated labor markets,

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[31] For the German context, see Kocka, Jürgen, *Unternehmensverwaltung und Angestelltenschaft am Beispiel Siemens 1847- 1914*, Stuttgart: Ernst Klett; Kocka, Jürgen, 1980, The Modern Industrial Enterprise in Germany, in Alfred D. Chandler and Herman Daems, eds., *Managerial Hierarchies: Comparative Perspectives on the Rise of the Modern Enterprise*, Cambridge: Harvard University Press; Pohl, Hans and Treue, Wilhelm, eds., Betriebliche Sozialpolitik deutscher Unternehmen seit dem 19. Jahrhundert, *Zeitschrift für Unternehmensgeschichte*, Wiesbaden: Franz Steiner; Gorges, Karl Heinz, 1989, Der Christlich geführte Industriebetreib und das Modell Villeroy and Boch, *Zeitschrift für Unternehmensgeschichte*, Wiesbaden: Franz Steiner, Puppke, Ludwig, 1966, *Sozialpolitik und Soziale Anschauungen früh- industrieller Unternehmen in Rheinland- Westfalen*, Kiln: Rheinisch- Westfälisches Wirtschaftsarchiv.

[32] The labor market risks that result form the employment relationship are, due to their immediate impact on the day to day work organization the most important social policy issues employers are concerned about. Social policies that have a more remote and indirect link with the employment relationship (such as housing policy) are hypothesized to be less of a concern for employers.

[33] In fact, there have been attempts to address the labor market risks (in particular the risk of workplace accidents with the use of contracts). Both German employers and the Kathedersocialists considered the possibility of higher wages which should act as a risk premium. On this, see Isabela Mares, *From Contracts and Liability Laws to Modern Social Insurance: The Institutionalization of the Risk of Workplace Accidents*, chapter 3 of Ph.D. Dissertation, Harvard University, work in progress.

but rather, in their attempts to *redefine the labor market risks* -- such as unemployment, accident, sickness -- *in order to redirect and redistribute their incidence*. At certain moments, *private* institutional arrangements addressing particular labor market risks will be preferred by employers -- employers will then oppose welfare *state* expansion -- at other moments employers will be in the forefront of demands for political intervention that takes the risks out of the sphere of negotiation among private individuals or societal groups, and by, incorporating them within the sphere of public law, creates the possibility of a wider redistribution of the risks across several occupational categories[34].

The underlying 'distribution' and 'structure' of the risk is a variable that influences employers preference towards social policy. Two things seem to matter here. The first is that labor market risk have different underlying distributions -- highly concentrated, such as the risk of workplace accidents, or diffuse risks, such as the risk of old age, 'normally' distributed across the labor market population. Concentrated labor market risks facilitate coordinated action among employers in the search of institutional solutions to these risks[35]. The distribution of the risk is, in turn, shaped by past policies and pre-existing institutional arrangements. Consider the following example. Most of the XIX-th century tort law and legal practices did not consider employers liable for the risks of workplace accidents[36] and, as a result, the burden of the risk was totally shifted towards employees. It was only as a result of a series of court developments and legal changes such as Employer Liability Laws (that held employers liable for the accidents that occurred within particular firms or that resulted form the errors of supervising personnel) that the burden of the risk was, in part, shifted back to employers. Under both legal regimes, the underlying distribution of the risk is the same (one can more or less assume that the number of accidents is constant) yet the implications for employers are very different in both cases.

A few hypotheses can be derived from these considerations. All things equal, one expects employers in sectors affected by concentrated risks to be collectively engaged in searches for social policy development as opposed to employers in sectors who are not affected by these risks. One expects to find a higher degree of concern of employers towards concentrated risks (workplace accidents) than diffuse risks (unemployment). One expects employers affected by concentrated risks to attempt to use social policy as an institutional

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[34] This was the case of the development of policies of compensation for workplace accidents in Imperial Germany where employers rejected the private law reliance on courts and a demanded public law solution.

[35] I would like to thank Torben Iversen for helping me clarify this point.

[36] See, for example, Epstein, Richard A., 1982, The Historical Origin and Economic Structure of Workers' Compensation Law, *Georgia Law Review*, 16: 4, 1982, pp. 775- 819 (discusses both US and UK legal cases), for Germany, see Gitter, Wolfgang, 1969, *Die Soziale Unfallversicherung als Teil des allgemeinen Rechts*, Tübingen: Mohr.

mechanism that redistributes the risk across wider sectors (and employers unaffected by the risk to resist inclusion in a wide risk pool).

2. 2. The institutional preferences of employers: costs and locus of control

While risk as a variable can give a rough indication of the nature of employers' interests and preoccupation with different social policies and can approximate the variation in the degree of employers support across different policy areas, how do employers choose among alternative institutional solutions to a particular labor market risk? What variables determine their institutional preference? I will suggest that two variables are relevant here: (1) the costs alternative institutional arrangements impose on employers as well as the ability of different industries to carry the costs of one scheme versus another and (2) the locus of control over the significant policy decisions within each institutional solution.

Firms capacity to carry the costs of social policies varies. Employers in large firms in sheltered domestic markets have a higher capability to carry the costs of contributory social insurance than firms competing in export markets; so are 'large' firms as compared with 'small' firms. As a result, one expects to find strong sectoral conflict among employers with regard to the preferred institutional outcome. As Peter Baldwin has argued, the predominant position enjoyed by small firms in Sweden and Denmark at the turn of the century has led to a choice of a universalistic, tax-financed social policies -- Bismarckian Germany, dominated by producers of iron and steel in sheltered domestic markets is the opposite case[37]. The choice of contributory social insurance (and, as in the case of accident insurance, the explicit rejection by employers of state contributions to the accident insurance fund) is a consequence of the lower cost constraint that is characteristic to these firms.

A number of variables affect the cost profile of a particular social policy: the degree of contributions, the level of benefits, the degree of state subsidies or supplement to a contributory insurance, the number of the industries across which the particular risk is distributed (and their risk profile). But *costs* are not

[37] On the importance of German big business and their role in the development of social policies during the Imperial period, see Hans-Peter Ullmann, 1979, Industrielle Interessen und die Entstehung der deutschen Sozialversicherung 1880- 1889, *Historische Zeitschrift*, 229:3, December 1979, Ullmann, Hans-Peter, 1981, German Industry and Bismarck's Social security System, in Wolfgang J. Mommsen, ed., 1981, *The Emergence of the Welfare State in Britain and Germany 1850- 1950*, London, 1981, Breger, Monika, 1982, *Die Haltung der industriellen Unternehmer zur staatlichen Sozialpolitik in den Jahren 1878- 1891*, Frankfurt: Haag and Herchen; Puppke, Ludwig, 1966, *Sozialpolitik und soziale Anschauungen frühindustrieller Unternehmer*.

the only determinant of employers choice among alternative social policy arrangements. The second relevant variable is the degree of *control* employers can exert over policy decisions such as the level of contributions, the relationship between contributions and wages, the possibility of using social policy benefits as disciplinary devices that 'reward' the loyal and high skilled and discipline or punish those considered 'unwilling' to work.[38] The dissatisfaction with their ability to exercise control over these decisions (which can be in the hand of bureaucrats or politicians or, as in the case of compensations for workplace accidents, in the hands of the courts) can influence employers' willingness to exchange higher costs (in the form of higher contributions or a reorganization of the risk pool) for a higher degree of control. All things equal, one expects that the higher degree of reliance of firms on high-skilled workforce to increase their desire to use social policy as an instrument of social control. Viewed against this background, the change in the preference of German employers and the acceptance of contributory unemployment insurance is less surprising. As employers' of large firms resented their lack of control over policy decisions such as the monitoring of the willingness of work of the unemployed and level of unemployment benefits, they were willing to pay higher costs in the form of contributions in exchange for higher control; smaller firms, unable or unwilling to pay these contributions and less concerned with the issue of control altogether preferred a tax-financed solution to unemployment insurance.

[38] On Bismarckian social policies as 'rewards' for Germany's labor aristocracy see Gerhard Ritter, *op. cit.*, pp. 44- 45; Walter Vogel, 1951, *Bismarck's Arbeiterversicherung. Ihre Entstehung im Kräftespiel der Zeit*, Peter Baldwin, *op. cit.*, p. 51. On German employers understanding of socialpolicy as an instrument of social control and selection (*Auslese*) of a high skilled labor force, see references in Steinmetz, George, *op. cit.*, Chapter 7.

Table 1
Sectoral Preferences of Employers towards the organization of unemployment insurance

	'Autarkic' Firms[39]	Export	Small Firms
Risks	Want occupational risk pools,	Want large risk pool that distributes the risk across all occupations.	Want cross-occupational risk pool, but financed out of general taxation
Sensitivity to costs	Insensitive	Sensitive	Sensitive
Control[40]	High	Very High	Low

3. UNEMPLOYMENT AS RISK: FROM THE MEANS-TESTED TO THE INSURANCE SOLUTION

3. 1. Employers and the system of Unemployment Assistance

The fear of the social unrest and unpredictable political consequences of the demobilization of six million soldiers after world war I led to employers' participation the effort of other political elites and their acceptance of a temporary system of unemployment assistance. Their qualified support of the system of unemployment assistance (*Erwerbslosenfürsorge)* represented a major departure from employers opposition to any policy that should compensate against the effects of unemployment, a position employers defended throughout the Imperial Period[41]. Originally, employers had no reason

[39] The term belongs to Gary Herrigel. See Herrigel, Gary, 1995, *Industrial Constructions: The Sources of German Industrial Power*, Cambridge: Cambridge University Press.

[40] I refer here to the need and desire of employers to exert control over the system of unemployment compensation.

[41] On employers opposition to any policy that should compensate against the effect of unemployment during the Imperial Period, see Wermel and Urban, op. cit., Heft 1, pp. 15- 59;

of dissatisfaction with the system of unemployment assistance: it was designed as a provisory measure and it imposed no costs on employers, since system of unemployment assistance was financed by the state, Länder and communes[42].

Reasons of dissatisfaction appeared immediately. A major complaint of employers, which became a constant theme in their statements about the *Erwerbslosenfürsorge* was that the level of benefits which were set by the communes were too high, undermining the minimal local wage.[43] But it was not the actual level of the benefits that, in the long run, was the major reason of employers' dissatisfaction with the system of unemployment assistance, but their flat rate character. Flat rate benefits that were not tied to the prior wages or qualifications of employees represented a higher loss of income for the high-skilled and increased the pressure on them to accept a job, even if lower paid. A flat rate system of unemployment benefits undermined the skill qualifications of the high skilled segment of the workforce. During the periods of increase in unemployment, when firms had to lay off even high skilled workers (1925 and 1926), the downward pressure on the wages of the high skilled workers became a major concern for employers. Instead of a flat-rate system of unemployment benefits, employers in large firms relying on skilled workers favored a system in which levels of unemployment benefits were tied to prior wages, a *Lohnklassensystem*.

The second reason of employers dissatisfaction with the system of unemployment assistance resulted from their absence of control over the institutions that monitored the willingness of the unemployed to accept a job and over the political decisions that define the conditions of reemployment (such as the definition of jobs that the unemployed have to accepts or over the limit of a period in during which unemployed can refuse a job that does not correspond to their qualifications). Within the system of unemployment assistance, these political decisions were in the hand of the communes and open to multiple political pressures, especially in regions with concentrated unemployment. example employers complaint about leniency of the communes

The system of unemployment assistance that was established during the war (*Kriegswohlfahrtspflege*) made unemployment benefits conditional upon the acceptance by the unemployed of 'appropriate work' (*zumutbare Arbeit*).[44] However, the definition of 'appropriate work' was indeterminate and vague and left to the discretionary power of the communes; so was the implementation of

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Faust, Anselm, 1986, *Arbeitsmarktpolitik im deutschen Kaiserreich. Arbeitsbeschaffung und Arbeitslosenunterstützung 1890- 1918*, Stuttgart: 1986.

[42] On the financing of the Erwerbslosenfürsorge, see Lewek, 1992, *op. cit.*

[43] See, for example, M. Wagner, Zu dem neuen Gesetz der Arbeitslosenversicherung, *Der Arbeitgeber*, September 1, 1922, p. 285.

[44] On the organization of the Kriegswohlfahrtspflege, see Wermel and Urban, op. cit., p. Lewek, Führer, *op. cit.*, p. 365.

punitive and disciplinary measure (withdrawal of unemployment benefits) in case of refusal of the unemployed to accept jobs that were offered to them.

As a response to the critics of the definition of the conditions of reemployment (in particular employers) in the system of unemployment assistance, the Reichsarbeitsamt took some steps in the clarification of the notion of 'appropriate jobs'. Unemployed were required to accept any job that was offered to them, even if the job did not correspond to their profession and even if it was not in the same place as the of residence of the unemployed, provided that the appropriate wage was offered[45], but the unemployed could refuse a job that did not correspond to his qualifications. But, according to employers, despite this legal definition clarification, the institutional framework that monitored the willingness of the unemployed to perform a job and that could fulfill a disciplining role, by withdrawing unemployment benefits was incomplete and inefficient. Micro-level studies of the unemployment compensation in the Weimar period have shown that communes lacked the organizational capabilities to properly perform a test of willingness of work:[46] the withdrawal of unemployment benefits in regions of high unemployment was a social impossibility, given the tremendous political pressure extorted on the local offices that distributed unemployment benefits.

According to employers, communes lacked the organizational and institutional resources to perform a test of the 'need' of the unemployed, as well, leading to the persistence of 'simulated' and 'self-caused' unemployment. Complaints such as "hundreds of thousands are lazy, while significant professions vital for the health of the economy such as mining or agriculture cry for labor forces", were constantly made by employers of large firms,[47] despite no real evidence of labor market shortages in agriculture. The inability of the communes to monitor whether the recipient of unemployment benefits was, in fact, needy resulted again from a poor specification of the definition of a needy situation within the system of unemployment assistance, making widespread variation in the mode in which communes interpreted this provision possible.

The gradual change in the preferences of employers in large firms and their endorsement of a system of unemployment insurance results from this dissatisfaction of employers with the system of unemployment assistance. The desire to exert *control* over the institutions that determine the conditions of reemployment made employers willing to accept higher costs that were

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[45] See Paragraph 8 of the Erwerbslosenfürsorge, *Reichsgesetzblatt* 1918 (68), p. 1306. Lewek views behind this decision the influence of employers. "In der Frage der zumutbaren Arbeit war der Einfluss des an industriellen Interessen orientierten RWA zu spüren." p. 58.

[46] See the examples in Führer, pp. 368. On the absence of individualisierte Vermittlungsarbeit of the communes.

[47] *Der Arbeitgeber*, 1918, p. 188.

imposed on them by a contributory system of insurance.[48] A change in the in the sectoral balance of power within the Central Association of German Employers that took place during this period and the increase in the institutional influence of employers of export industries (such as chemicals, electricals, machine tools) over domestic producers (iron and steel)[49] led to a change in the structure of risk affecting German employers of the VGDA. For employers dependent on world markets and exposed to wide fluctuations in the demand for their products, unemployment was a structural and more permanent threat than to producers in sheltered domestic markets, such as iron and steel. The institutionalization of a solution to the risk of unemployment required, for the employers of export firms, both the creation of a large occupational risk pool that redistributed the risk associated with unemployment as well as institutional guarantees for their skilled workforce that their investment in skills will not be undermined during periods of unemployment. Since the system of unemployment assistance did not offer these guarantees, the Federation of German employers turned to the system of unemployment insurance as the preferred institutional alternative.

Given their low reliance of small firms on skilled labor, small firms did not share the concerns of large export firms about proper guarantees to their workforce during periods of unemployment and the need to control the system of unemployment assistance. Due to their precarious economic situation and the high possibility of bankruptcy, their risk profile was similar to the risk faced by large firms, yet for them it was the issue and concern of 'costs' that prevailed over all the other considerations. Some individual Chambers of Commerce demanded the introduction of a tax-financed system of unemployment insurance[50], in which the general taxpayer (and not employers and employees)

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[48] This change in the preference of employers took place before the Decree (Verordnung) of 1923 which introduced a requirement of contributory payments to the system of unemployment assistance, transforming it into a mixed system. See, for example, the statements made by employers about the Referentenentwurf of 1922, in *Der Arbeitgeber*, Sept. 1., 1922, p. 285. Dieser Referentenentwurf hatte unter Berücksichtigung der vorausgegangenen Kritik eine Gestaltung bekommen, die sowohl auf seiten der Arbeitgeber als auch der Arbeitnehmerverbände nicht mehr in dem bisherigen Masse einer Ablehnung begegnete.

[49] On this change in the balance among German employers, see Hans Mommsen, Dietmar Petzina and Bernd Weisbrod, eds., 1974, Industrielles System und politische Entwicklung in der Weimarer Republik, Düsseldorf: Droste Verlag; Bernd Weisbrod, 1974, *Schwerindustrie in der Weimarer Republik. Interessenpolitik zwischen Stabilisierung und Krieg*, Wuppertal: Hammer Verlag; Feldman, Gerald D., Iron and Steel in the German Inflation 1916- 1923, Princeton: Princeton University Press; on the evolution of German exports during that period, see David Abraham, 1981, *The Collapse of the Weimar Republic*, Princeton: Princeton University Press, p. 149, table 20.

[50] On Individual Chambers of Commerce demanding a tax-financed system of unemployment assistance, see, for example, Zentrales Staatsarchiv Potsdam, Reichswirtschaftsministerium, 2071/150, Handwerkskammer zu Kassel, *Bericht über die Vollversammlung am 28. November 1921*. "Wir sprechen uns gegen die Belastung der Arbeitgeber mit den Beiträgen

should bear the costs associated with the risk of unemployment, yet this demand did not become the official statement of the Deutscher Industrie und Handelstag, nor of the Reichsverband des Deutschen Handwerks. Instead, the central association chose to adopt a position of rejection and veto, critiquing the idea of unemployment insurance.

3. 2. Employers and the organization of the insurance solution

As early as 1921, employers overcame their position of veto and opposition to the insurance solution to the risk of unemployment and actively began to deliberate the institutional and policy alternatives they were faced with, under a system of unemployment *insurance*. The major political choices were related to the organization of the risk pool to redistribute the differences in regional and occupational unemployment and the proper institutions of control of the willingness of work of the unemployed.

Questions about the appropriate organization of the risk pool within unemployment insurance dominated the debates about the future shape of the insurance solution. After 1922, both employers and unions viewed favorably the creation, via an insurance solution, of a large risk pool that incorporated many occupations affected, in various degrees by the risk of unemployment and uniformed the risks both across occupations and across regions; they disagreed profoundly, on the degree of administrative centralization of this risk pool. While unions supported the idea of a solidaristic risk pool that was to be achieved by creating a centralized office and entrusting it with decisions over unitary levels of benefits, employers preferred more administrative decentralization in the administration of funds.

According to the deliberations within the Social Policy Committee of the Employers Association (VDA)[51], the organization of a community of risks (*Gefahrengemeinschaft*) was to be guided by two underlying principles: to counteract the tendency towards spending out of large funds ("Wirtschaften aus grossen Fonds heraus"[52]) and to increase the responsibility of the lowest administrative units that distribute the unemployment benefits (employers preferred the labor exchanges, even if the first drafts of the bill made institutions of sickness insurance responsible for the distribution of unemployment benefits. By entrusting the labor exchanges with the prerogative to establish the level of

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zur Arbeitslosenversicherung aus und beantragen, dass diese Kosten von der Allgemeinheit des Volkes getragen werden".

[51] See *Geschäftsbericht der Vereinigung der deutschen Arbeitgeberverbände 1923/1924*, Berlin: 1924, pp. 104 ff. According to employers the system had to be chosen that "contained the highest guarantees for a sparsame und billige Durchführung der Erwerbslosenfürsorge".

[52] *Ibid.*, p. 105.

contributions, employers hoped to create the necessary incentives that would lower the administrative costs and keep the level of contributions at a minimum.[53] An organization of the risk pool which would assign to a centralized organization decision-making power over the level of unemployment contributions was, according to employers unacceptable, since it would was an instrument to keep the level of contributions at high levels „*ad infinitum*"[54]. According to employers, the ideal institutional solution would entrust labor exchanges with decisions over the level of contributions, which would have the effect of a redistribution of the risk only at the level of individual Länder and would *prevent* the creation of a single risk pool for the entire Reich. According to employers, individual Länder should be given the authority to increase the level of contributions, in the case of an increase in the level of regional unemployment, but the idea of a unitary risk pool was unacceptable[55].

Unions (both Christian and ADGB), on the other hand, opposed employers plans and demanded the elimination of the local autonomy of the labor exchanges over the level of contributions[56] and a 'total equalization of risks' (*vollständiger Gefahrenausgleich*) between regions with different levels of unemployment. Yet with regard to the regional organization of the risk pool, the demands of the unions were not met. The Verordnung of 13. October 1923, which introduced contributions from employers and employees to the system of unemployment assistance (transforming it into a hybrid system of unemployment assistance, financed in part through contributions), created, at the same time regional 'contribution communities' (*Beitragsgemeinschaften*) of employers and employees based on the geographical proximity to a labor exchange. While labor exchanges had the prerogative of establishing the level of contributions (introducing regional disparities in the level of unemployment contributions), the Reichsarbeitsministerium retained discretionary power over the maximum amount of contributions.

It is significant that employers were able to carry out their demands for maintaining regional disparities in the level of contributions in face of pressures coming from the bureaucracy, as well.[57]As Führer points out, „in the parliamentary debates about this point, employers were successful in imposing

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[53] *Ibid.*, p. 105.

[54] *Ibid.*, p. 104.

[55] *Mitteilungen der Vereinigung der Deutschen Arbeitgeberverbände*, 1924, p. 2. „Die Idee einer Reichsgefahrengemeinschaft ist nicht erträglich".

[56] A plan, similar to the employers plan had been introduced in Prussia, through the Verordnung of 18. August 1924. On unions opposition to "Provinzialausgleichskassen" and "Provinzialverwaltung" of these bills, see Die Preussische Gefahrengemeinschaft für die Erwerbslosenfürsorge, in *Die Gewerkschaftszeitung*, 34. Jg., Nr. 37, 13. September 1924, pp. 342- 343.

[57] Führer, *op. cit.*, on this last attempt of the Reichsarbeitsministerium to introduce a unitary level of contributions for the entire Reich, in order to prevent a deficit of the system of unemployment assistance in 1926.

their view entirely. No decision was made about a unitary level of contributions for the entire Reich."[58] The final unemployment insurance bill maintained regional disparities in the level of contributions, by institutionalizing a three-tiered system in which contributions were established. Labor exchanges maintained their right to determine the level of insurance premiums up to 2% of the basic wage and two other organizations were established, one at the level of province and one at the level of Land. These organizations could further increase the level of contributions, if high and persistent regional unemployment led to a deficit in the unemployment insurance fund.

Employers were able to influence the decisions of the organization of the risk pool with regard to the problems of occupational risk pools, as well. Given the broad variation in the way individual industries were affected by the risk of unemployment, the important institutional question that had to be solved was the redistribution of the occupational differences of the risk within the insurance solution. Should industries characterized by a higher risk of unemployment pay higher contributions or should all industries pay equal contributions to the unemployment insurance fund? Should the contributions be paid to a single fund (leading the creation of a unitary risk pool) or should several different occupational funds be set up?

The institutional solution to the occupational dimension of the risk of unemployment was the issue area in which a convergence of the institutional preferences of the unions and employers became possible. The question about the institutional solution to the occupational variation in the risk of unemployment was divisive for both unions and employers. Unions such as the Liberaler Gewerkschaftsblock DDP had opposed the creation of a unitary risk pool as a form of 'crypto Marxism'[59] and as an attempt on the part of the ADGB to strengthen their organizational monopoly over industrial unions. Occupational risk pools had the organizational advantage of strengthening industrial unions and make them escape the organizational hegemony of centralized unions: if a differentiated level of unemployment contributions was

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[58] See Führer, *op. cit.*, p. 314. For the relevant record of the parliamentary debate see Stenographische Berichte des Reichstages, Volume 417, Anlage Nr. 3622, p. 172. Bericht des 9. Ausschusses (Soziale Angelegenheiten) über den Entwurf eines Gesetzes über Arbeitslosenversicherung. SPD (deputy Aufhauser) supported the notion of broad solidarity of risk and demanded the centralization of unemployment insurance. "In keiner anderen Sozialversicherung sei der Gedanke der Solidarität so angebracht, wie in der Arbeitslosenversicherung (..) Deshalb verlangt die sozialdemokratische Fraktion die Festsetzung des Beitrags einheitlich für das ganze Reich durch den Vorstand der Reichsanstalt." in op. cit., p. 172. The proposal of the SPD in favor of unitary level of benefits was rejected. op. cit., p. 173 The introduction of the three tiered system was viewed by deputy Andre (Zentrum) as a concession to small firms. "Die Festsetzung des einheitlichen Beitrages rufe den schärfsten Widerstand des Klein- und Mittelbesitzes gegen das Gesetz." *op. cit.*, p. 173.

[59] See Anton Erkelenz, 1928, Fehler des Arbeitslosenversicherungsgesetzes, In *Die Arbeitslosenversicherung*, 4. Jahrgang, 1927/28.

put in place, the payment of unemployment *benefits* had to be, accordingly, differentiated and could be negotiated between the individual unions and the employer association.[60] Throughout the period, centralized socialist unions, such as the ADGB had consistently supported the idea of a unitary risk pool and of unitary contributions across all occupations, that should not be dependent of the level of unemployment of the respective industry as a broad form of solidarism of the working class[61].

The fact that the position of the ADGB ultimately prevailed and the solution of a unitary risk pool with no differentiation in the level of contributions based on the level of unemployment of the respective industry entered the final unemployment insurance bill[62] resulted more from a cross-class convergence of the institutional preferences between these unions and powerful sectors among employers, rather than the power and influence of the unions alone. Germany's export sectors (chemicals, electricals, machine tools) whose influence within the Central Federation of German Employers increased during this period (and who, due to their dependence on world markets were exposed to large and unpredictable fluctuations in the level of unemployment) preferred the institutional solution of a unitary risk pool which had the advantage of spreading the risk across a larger number of industries and of keeping the costs of contributions low. As early as 1920, the Federation of German Employers had argued in a writing addressed to the RAM that it would have been impossible for employers in industries with high and recurring levels of unemployment to pay differentiated contributions from the other industries, since this would put further strains on the competitivity of their industries.[63] This demand became part of the resolution of social policy committee of the Federation of German Employers during the following year, when employers demanded an exchange of the risks as big as possible ("möglichst grosser Austausch der Risiken."[64])

There was, of course, some dissent in the ranks of employers coming from those industries characterized by low levels of unemployment -- domestic industries such as iron and steel who had prosperously expanded during the

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[60] On arguments supporting the creation of occupational risk pools, see Hugo Lindemann, Gewerbedifferenzierte Arbeitslosenfürsorge, *Die Arbeit*, 1: 1924, Franz Spliedt, Einheitliche Gefahrengemeinschaft in der Arbeitslosenfürsorge, *Die Arbeit*, 1: 1924.

[61] On the position of the ADGB see *Correspondenzblatt der Generalkomission der Gewerkschaften Deutschlands*, 32: 1922, pp. 520; Zum Referentenentwurf des Gesetzes über Arbeitslosenversicherung, in Arbeit und Beruf, 1: 1921; Vorwärts, 24. 2. 1923.

[62] Reference paragraph of the bill about unitary occupational risk pool. According to Karl Christian Führer, one of the major reasons behind the solution of occupational differentiation of unemployment in favor of a single risk pool was the prior choice of regional differentiation in the treatment of unemployment. A further occupational differentiation, according to Führer would have rendered the system totally incomprehensible. Führer, *op. cit*.

[63] Zentrales Staatsarchiv Potsdam, Reichsarbeitsamt 4310, *Denkschrift der Vereinigung der Deutschen Arbeitgeberverbände*.

[64] *Geschäftsbericht der Vereinigung der deutschen Arbeitgeberverbände*, 1921, Berlin, p. 27.

inflationary years of the Weimar period[65] and who, given the stable nature of the demand for their products, were characterized by lower fluctuations in their levels of unemployment. For these employers, a unitary risk pool meant the subsidization of the industries with higher unemployment and they considered plans for equal contributions paid by all industries as 'unacceptable'[66]. But on this issue they were defeated within the Central Association of Employers and the proponents of a single occupational risk pool prevailed.

The arguments of employers in favor of a single occupational risk pool are reflected in the 'justification' which prefaced the unemployment insurance law. Industries that are characterized by higher levels of unemployment are precisely those industries that struggle hardest to stay competitive and by paying higher contributions to separate occupational risk pools, the unemployment insurance law would further weaken them[67]. A single occupational risk pool was established by the unemployment insurance law. The differential insurance costs caused by variations in the degree of seasonal unemployment were, in part, shifted to the employees, as the law created the possibility that the level of unemployment benefits of workers in the professions with high levels of unemployment can be shortened[68] or, to the general taxpayer, in 1928. Based on the 'Special Unemployment Assistance for profession-specific unemployment' (Sonderfürsorge for berufübliche Arbeitslosigkeit) unemployment insurance benefits to workers in industries with high seasonal unemployment were financed out of general taxation, instead of contributions of employers and employees.

In conclusion to the organization of the unemployment risk pool that redistributed the variations in regional and seasonal unemployment, employers of large firms were able to carry out their demands of an institutional solution both with regard to the redistribution of regional unemployment and with regard to the redistribution of unemployment across industries that were facing the risk of unemployment differently. With regard to the first problems, employers preferred to give large autonomy to the local labor exchanges in determining the level of unemployment contributions, in order to prevent the centralization of unemployment insurance fund and to keep administrative costs low. With regard to the problem of redistribution of the risk across occupations with

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[65] On the overexpansion of iron and steel during the inflationary period see Gerald Feldman, *Iron and Steel and the German inflation*, Princeton: Princeton University Press, pp.

[66] "Die Großindustrie des hiesigen niederrheinisch westfälischen Industriegebietes, bei der erfahrungsgmäß die Arbeitslosigkeit selten ist, ist an dieser Frage ungemein interessiert und hält eine Versicherung, die sie im gleichen Maße wie die Saisongewerbe belästigt, für unannehmbar." Handelskammer Bochum an den Reichsverband der deutschen Industrie und den Deutschen Industrie- und Handelstag, 19. Oktober 1920, Rheinisch Westfälisches Wirtschaftsarchiv Köln, Abt. 20, Nr. 583, quoted in Führer, op. cit.

[67] Begründung zum Gesetzentwurf zur Arbeitslosenversicherung (III/2), p. 94.

[68] AVAVG, § 99, section 2 and § 110, Section 3.

different levels of unemployment, employers preferred a wide risk pool that redistributed the risks across all industries and did not raise higher contributions from industries with higher levels of unemployment.

3. 3. The costs of a contributory system and the relationship between unemployment benefits and wages

The system of unemployment assistance that was established in 1914 introduced a flat-rate system of unemployment benefits that did not take into consideration the prior level of wages of the unemployed in calculating the level of unemployment benefits, but introduced some differentiation based on age or family circumstances. The same principles (flat-rate unemployment benefits) were maintained in the policies of unemployment assistance of 1918 (Erwerbslosenfürsorge)[69]in which communes were given the authority to establish the level of unemployment benefits.

Although the original intention of the *Reichsarbseitministerium* was to have unemployment benefits very close to the level of the minimal regional wage, the benefits could not keep up with the growth in prices (in particular during the period of hyperinflation[70]) leading to widespread poverty among the unemployed. The policy proposals about an indexation of unemployment benefits were defeated, due in large measure to the opposition of employers[71], but also to the concerns of the minister of labor Brauns[72] about the financial sustainability of such a policy.

Besides their constant complaint about the negative impact of high unemployment benefits that undermined the 'self-reliance' and 'willingness to work of the unemployed'[73] another reason of employers dissatisfaction with the system of unemployment assistance was the absence of a relationship between the unemployment benefits and the prior wages of the unemployed. While this had a beneficial relationship on the level of unemployment benefits of the low skilled, for the high skilled workers, on the other hand, the decrease in real terms of the unemployment benefits increased their pressure to accept lower paid jobs during periods of unemployment and undermined the investment in their skills.

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[69] Reichsgesetzblatt 1918, p. 1307.

[70] See Wermel and Urban, op. cit., Führer, op. cit., pp. 460.

[71] On employers opposition to the indexation of unemployment benefits, see Rundschreiben des VgDA, Nr. 211, 14. 9. 1923, Bundesarchiv Koblenz, R 11/1428; Führer, op. cit., p. 451.

[72] See Führer, op. cit., p. 457.

[73] See for example, *Deutsche Arbeitgeberzeitung*, Nr. 11, 15. 3. 1925.

This weakening of existing skill qualifications caused by the flat-rate system of unemployment assistance led to employers endorsement of policy proposals of the Reichsarbeitsministerium for a system of unemployment insurance that tied benefits to the prior wages of the unemployed, proposals that were part of the third draft of the unemployment insurance law of August 1925[74]. Based on this draft, the 'level of unemployment benefits had to be determined as a function of the wages (§ 58). 5 wage categories (*Lohnklassen*) were created and the level of unemployment compensation was calculated as a function of the average wage of the unemployed in the last three months prior to the condition of unemployment. Unemployment benefits were set at 40% of the basic wage for each wage category, but supplements for family conditions were allowed up to a maximum of 65%. During the deliberations of the social policy committee of the Vereinigung der Deutschen Arbeitgeberverbände, employers welcomed the introduction of this 'system of wage categories' (Lohnklassensystem) and the elimination of the income-equalizing effect of a flat rate system of unemployment assistance[75].

A system of unemployment benefits that was tied to prior levels of wages had, according to employers, two desirable properties. By lowering the level of contributions from the low and unskilled, it weakened the possibility that unemployment benefits undermined the local minimal wage. By raising the level of unemployment benefits for the high skilled workers, it weakened the labor market pressure exerted on these workers to accept lower paid work that did not correspond to their skill qualifications during periods of unemployment. For employers, it represented an indirect institutional guarantee that high skilled workers could retain their skills during periods of unemployment.

Unions, on the other hand, opposed the introduction of a system that tied unemployment benefits to the prior wages of the unemployed. Based on unions estimations[76] the majority of the unemployed were concentrated among

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[74] See Wermel and Urban, *op. cit.*

[75] See on this, *Geschäftsbericht der Vereinigung der Deutschen Arbeitgeberverbände*, 1925/1926, Berlin, 1926, pp. 164-165. "Die Vereinigung der deutschen Arbeitgeberverbände hat der Abänderung dieses Systems von vornherein grundsätzlich zugestimmt. Sprechen auf der einen Seite rein versicherungstechnische Momente dafür, dass auch die Leistung der Versicherung gestuft wird nach der Höhe des Beitrages, also damit nach der Höhe des Lohnes, so sind auf der anderen Seite eine Reihe sozialer und wirtschaftlicher Gründe für die Einführung dieses Systems maßgebend, die sich aus den Erfahrungen in der Praxis, die man mit dem bisherigen Einheitsunterstützungssatz gemacht hat, als zwingend herausgestellt haben".

[76] Given the lack of available data, the skill distribution of the unemployed was subject to widespread speculation and there was widespread disagreement between unions and employers with regard to the distribution across different occupational categories. While unions speculated that the unemployed are mostly concentrated among the low-skilled, according to employers, 60% of the unemployed were in the 2 upper wage categories. See Führer, *op. cit.*, p. 475 based on *Deutsche Arbeitgeberzeitung*, 25.4. 1926. Based on the

the low skilled and the net effect of this policy would lower the level of unemployment benefits which were already insufficient for the subsistence of the unemployed[77]. Unions feared the possibility of conflict among those gaining from this policy (high skilled) and those who lost (low skilled) and the effects of this conflict on broad working class solidarity.

Small firms shared unions critique of the wage categories, however based on different reason. Given that their reliance on skilled workers was lower that that of large firms, they were less concerned about the need to provide institutional guarantees to their workforce that the investment in the skills of their workers will not be undermined during periods of unemployment. But, if the estimates of large firms were indeed true[78], and if the concentration of the unemployed would be predominantly among the high skilled, then the introduction of the Lohnklassensystem would have as its consequence an increase in the level of unemployment benefits as well as in the level of contributions. Small firms protested against this increase in costs[79].

The complaints and opposition of unions and small firms had only the minor effect of delaying, but not eliminating the introduction of the system of wage categories within the unemployment insurance bill. A system that radically improved the position of the high skilled workers within unemployment insurance was introduced in the unemployment insurance bill of 1927.

3. 4. The organization of the policies of control of the unemployed

The poor monitoring capability of the communes in performing the means-test, the test of the willingness to work of the unemployed and of the disciplinary functions of a system of unemployment assistance -- the withdrawal of unemployment benefits -- and the 'generosity of the communes' distribution of unemployment benefits[80] was a crucial reason of the dissatisfaction of

survey conducted by the Reichsarbeitsamt in 1926, employers' estimates were more accurate. (See below).

[77] Vorwärts, 8. 5. 1926; *Gewerkschaftszeitung* 1925, p. 623. Protokoll der 4. Sitzung des Ausschusses der ADGB abgehalten am 9. und 10. Juli, 1926, Berlin 1927, p. 17.

[78] Führer (p. 477) quotes a very significant survey conducted by the authorities to find out the distribution of the unemployed. Based on the survey of 27.6.1926, conducted among 1.5 million unemployed, 75.2% of them were distributed among the high-skilled, among employees in the higher wage categories.

[79] DIHT an RAM, 16. 4. 1926, Zentrales Staatsarchiv Potsdam, RAM 1137.

[80] Communes had additional incentives towards generosity in the distribution of benefits, given the fact that poor relief was entirely financed by communes, whereas unemployment assistance was, after, 1923, in part financed by contributions. On employers complaints see Böhm, Gustav, Bedeutet die Ersetzung der Erwerbslosenfürsorge durch die Arbeitslosenversicherung eine Mehrbelastung der Wirtschaft?, in *Reichsarbeitsblatt*, 1924, p. 592 "die Gemeinden, die bei ihrem Einfluss auf den öffentlichen Arbeitsnachweis auch heute

employers with the system of unemployment assistance and fuelled employers complaints that the risk of unemployment is 'uninsurable' and 'self-caused'.

The question of *zumutbare Arbeit*, of appropriate jobs that the unemployed has to take was the first issue that required legal clarification. In their demands for the legal clarification of this notion, employers had to balance two competing tendencies. While the vagueness and indeterminacy of the existing definition of *zumutbare Arbeit* within the system of unemployment assistance was unacceptable to employers; a very narrow definition that neglected the skills of their workers (by tying the acceptable job to the *physical* ability of the unemployed to perform a job) could undermine the skill qualifications of their workforce.

The different skill requirements between large and small firms led to a disagreement over this issue. Small firms, with very low reliance on skilled workforce required the elimination of any considerations about the qualification of the employee in the definition of the job that unemployed had to accept. In the meeting of the central committee of the Deutscher Industrie- und Handelstag of 28 October 1920, small firms demanded that the physical ability of the unemployed to perform a job should be the sole criterion of the definition of a job that the unemployed had to accept [81] and that all considerations of skills should be eliminated[82].

Large firms, on the other hand supported a broader definition of the appropriate job that was not grounded in the physical ability of the unemployed

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noch tatsächlich als Vollzugsorgane der Erwerbslosenfürsorge angesprochen werden können, haben es in langjähriger Praxis teilweise vorzüglich gelernt, die Erwerbslosenfürsorge soweit als möglich zur Entlastung der Wohlfahrts-pflege, deren Kosten sie ganz zu tragen haben, heranzuziehen." On employers' request that the distribution of unemployment benefits should be taken away from the communes, see Heinrichsbauer, in *Arbeit und Beruf*, 1925, p. 656 "Die Arbeitslosenversicherung kann nicht in der gleichen Hand bleiben, die die gemeindliche Wohlfahrtspflege und die Gemeindearbeiten zu finanzieren hat. Hier muss eine scharfe und klare Scheidung stattfinden".

[81] "Passende Arbeit ist jede Beschäftigung, die der körperlichen Beschaffenheit des Arbeiters zugemutet werden kann." Zentrales Staatsarchiv Potsdam, RWM 2078*, Bericht der Sitzung Des Hauptausschusses des Deutschen Industrie und Handelstages vom 28. - 29. October 1920*. This session of the DIET is particularly important, since it signals the decision of the DIHT to cooperate in the insurance solution and the overcoming of their prior opposition to the insurance solution. "Trotzdem will der Hauptausschuss des Deutschen Industrie- und Handelstages an der Gestaltung des dem Reichsrat vorliegenden Gesetzes mitarbeiten", if appropriate control of the unemployed is maintained.

[82] See also *Handel und Gewerbe*, XXVIII: 6, 6. XI. 1920, p. 56. "Als passende Arbeit gilt jede Arbeit, die dem Versicherten nach seiner körperlichen Beschaffenheit zugemutet werden kann und zu der er fähig ist, auch wenn sie ausserhalb seines Berufes und seines Wohnortes liegt".

to perform a job[83], a broader understanding which was initially part of the 1920 draft of the unemployment insurance act[84]. This broader definition had to be counterbalanced, however, by the development of other policy instruments through which unemployed were forced to accept the job that, such as the a shortening of the time period during which unemployed could receive unemployment benefits or the lengthening of the time period before which the unemployed could claim unemployment insurance benefits. The issue was resolved within the draft of the unemployment insurance bill of 1925 which incorporated the demands of employers in large firms, requiring the unemployed to performs only 'jobs that are appropriate if one considers the education and the employment history of the unemployed[85].

Employers complaint with the ability of the communes perform the means test went hand in hand with their attempt to preserve the means test within the insurance solution. This demand brought a convergence in the preferences of large and small firms.

Keeping the means-tested system of unemployment benefits within a system of unemployment insurance contradicted the basic principles of an insurance system, since, in an insurance system, the legal claim to receive benefits is based on past contributions and not on evidence of the need of the unemployed. To find a solution around this legal conundrum, employers went at great length at suggesting that in the case of unemployment insurance not the *risk* of unemployment is the object of insurance, but the *social need* that is caused by unemployment (die durch Arbeitslosigkeit entstandene Notlage[86]) If one accepts that not the risk of unemployment is the object of insurance, then the consequence, according to the DIHT is that the 'need of the unemployed' still remains a precondition of receipt of unemployment benefits[87]. Keeping the means test within the insurance solution was viewed as a vital instrument by both large and small firms to keep the costs of the insurance system low.

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[83] Zentrales Staatsarchiv Potsdam, Reichsarbeitsamt 4310/ 470- 476, *Denkschrift der Vereinigung der deutschen Arbeitgeberverbände*, Berlin, 24. April 1920. "Die Interpretation des Ausdruckes passende Arbeit ist zu weitgehend".

[84] Reichsgesetzblatt, 31.5. 1920; Nr. 5; See also Lewek, *op. cit.*, p. 119.

[85] Regierungsentwurf zum Arbeitlosenversicherungsgesetz von 1925, § 45, Abs. 1., die unter billiger Berücksichtigung seiner Ausbildung und seiner bisherigen Tätigkeit zugemutet werden kann.

[86] *Verhandlungen des Deutschen Industrie- und Handelstages. Sitzung des Sozialpolitischen Ausschusses*, Berlin, Feburary 16, 1926, Heft 6, Berlin: 1926, p. 11. „Nicht die Arbeitslosigkeit, aber die durch Arbeitslosigkeit entstandene Notlage ist Gegenstand der Versicherung." There was some dissent to the official position of the Deutscher Industrie- und Handelstag that the means test should be maintained within the insurance system. See positions of Komerzienrat Weh and Soetheer, p. 10 and 11.

[87] *Ibid.*, See Official Statement of DIHT on p. 13. Die Bedürftigkeit der Anspruchserhebenden bleibt als Voraussetzung für den Anspruch aus der Versicherung.

This demand of employers met with opposition from both unions and legal experts within the bureaucracy that pointed to the legal incompatibility between the logic of an insurance system and means-testing the benefits. Unions in particular demanded the immediate abolition of the means-tested system which was used in a very discretionary way by the communes[88]. The solution that was ultimately reached in the unemployment insurance law was a legal compromise between the employers' demands, unions concerns and the state's worries about the financial viability of the system. The means-test was maintained only under those circumstances when the payment of unemployment benefits exceeded the levels of available reserves and when the state has to resort to a loan (Darlehen) to pay unemployment benefits, exactly during periods of high unemployment[89].

4. CONCLUSIONS

The transition from the policies of unemployment assistance to a system of unemployment insurance during the Weimar period represents a crucial analytical case for current debates that are bringing the analysis of employers back into political science literature[90] and for a more recent direction of research that attempts to bring together comparative models of social policy and comparative models of the political economy[91]. The broad range of policy alternatives that were considered during that period allows us to contrast the political redistribution of the risk of unemployment within a multitude of institutional arrangements and to identify the particular coalition of interests that supported each solution. Given the substantial change in the preference of employers about the 'ideal' institutional arrangement that addressed the risk of unemployment, from a position of veto and rejection of the insurance solution to a position of qualified support and collaboration in the process of institutional design, it is an ideal test case for political explanations of the determinants of employers preferences towards social policy.

This paper has started by critiquing a number of approaches that have focused on the role played by the organized working class in the transition from 'assistance' to 'insurance' in social policy (for their specification of social policy that lacks theoretical generality and for neglecting the role of employers) or on preexisting policy legacies (for neglecting the political conflict among key social

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[88] *Gewerkschaftszeitung*, 35. Jg., 1925, p. 636.

[89] § 52 in III/2.

[90] On this direction of research, see among others, David Soskice, 1994, *National Patterns in Company Innovation Strategies: A Comparative Institutional Advantage Approach*, manuscript.

[91] On this see, Paul Pierson, 1995, *op. cit.*; Gosta Esping Andersen, 1994, *op. cit.*

actors as an underlying mechanism through which policy legacies are *reproduced*) as well as of approaches concerned with the role played by employers in the development of the modern welfare state (for their failure to provide an explanation for the political preference of employers towards social policy that has theoretical microfoundations and is grounded in the self-interested behavior of employers as well as for the failure to provide a model that distinguished between the 'pre-strategic' and 'strategic' preferences of employers).

The crucial theoretical concern of this paper has been the question of employers *pre-strategic preference*s towards different social policies. The argument of the paper is that the change in the preference of employers from a rejection of any system of compensation against the effects of unemployment to a support of a system of contributory unemployment insurance is *not* simply a change in the strategic preferences of employers (that results from the interaction with other social actors) or of employers' anticipation of a policy outcome that has a high probability of being successful, but a change in the 'real' or 'pre-strategic' preference of employers, that is in turn caused by changes in the balance of power among German employers from 'traditional' industries (such as iron and steel) to more skill-intensive industries that rely more heavily on exports (chemicals, machine tools, electricals) and by differences in the structure of the risk of unemployment faced by these industries. The analysis of employers' evaluation of alternative social policies that address the risk of unemployment reveals that German employers of large firms in skill-intensive industries exposed to competition on world markets preferred a contributory insurance solution to the risk of unemployment in order to create a large pool of risk that spread the risk of unemployment across all occupations, that increased their degree of control over the conditions of re-employment and that gave institutional guarantees to their workforce that their skills will not be undermined during periods of unemployment.

I have argued that there are three dimensions along which one can analyze employers preferences towards various social policies. The first is the capacity of various social policies to redistribute risks (that vary in the way in which they affect particular industries) across several occupational categories. The second is the locus of control within the each policy, employers preferring those institutions that increase their ability to exercise control. The third is the costs imposed by alternative social policies, which in turn, is the result of a number of factors, such as the relationship between contributions and benefits, the level of state subsidies, the boundary of the risk pool, etc. Analyzed along these three dimensions, one finds an intersectoral divergence in the preferences towards social policies, both among employers of large and small firms and among employers in export and non-export sectors.

The analysis has not addressed the second part of the question of employers' preferences towards social policies which is the issue of the strategic aspect of employers preferences[92]. I have shown the surprising convergence in the institutional preferences of employers and unions over the organization of the risk pool that incorporated all occupations and in their opposition to differential contributions to the insurance system that had to be paid by occupations affected by the risk of unemployment differently. Yet this *convergence* of preferences is still very far from a cross-class *alliance*, as there is virtual no evidence on common deliberations between unions and employers over the organization the risk pool within the insurance solution. A major difference between the argument of this paper and a cross-class alliance argument is that in cross-class alliance arguments an agreement between unions and employers is reached on the second best preference of both actors; in this case, however, a contributory insurance was, for employers the preferred institutional outcome, while for unions it remained the second best outcome. This difference raises the question whether unions were a necessary partner in the alliance supporting the introduction of the Ghent system, once employers signal their preference for a contributory system of unemployment insurance. Given that on many other issues (such as the definition of the ability to work, policies to maintain the means-test within the insurance solution, organization of institutions that address the regional variation in the degree of unemployment) the position of unions was defeated and did not enter the unemployment insurance bill, the role of unions in the transition from a means-tested to a system of unemployment insurance loses the centrality it had in the laborist accounts of welfare state development.

[92] The empirical evidence, of course, confronts us with a mixture of pre-strategic and strategic motifs.

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