Reckoning with Welfare Capitalism: A Response to the Critics

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I AM GRATEFUL TO THE COMMENTATORS for their analyses, ideas, and critiques. Rather than reply to every point raised, I will stick to cross-cutting issues and concerns. In so doing, I follow financier Bernard Baruch's advice to "never answer a critic unless he's right."

Historians are leery of fact-laden carts drawn by theoretical horses, whereas social scientists disdain facts that do not test a theoretical proposition. Howard Gospel is right: *Modern Manors* straddles the fence between history and social science, though I do think there is a good deal more on the theoretical side than he perceives. Paul Osterman recognizes the larger vision inspiring early welfare capitalism but is not persuaded that after the 1930s welfare capitalism amounted to more than reactive antiunionism. Peter Swenson, while noting the book's interpretive and comparative analyses, suggests some incisive theoretical amendments. So let's start here—on the conceptual terrain—and then move to more concrete and contemporary issues raised by Matthew Finkin and Vicki Smith.

The theoretical framework holding *Modern Manors* together operates at two levels: a "macro" (and modestly comparative) argument about the relationship between employer policy and larger sociopolitical developments and a "micro" analysis of the enterprise objectives of welfare capitalism. As regards the former, *Modern Manors* maintains that welfare capitalism originated in a turn-of-the-century effort by American employers to preempt the development of a mass labor movement and a regulatory social welfare state. For a while employers were successful in staving off what they saw, or imagined they saw, in Europe. American employers

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may not have been intrinsically more antiunion or antistatist than their European counterparts, but they certainly were larger, less export-oriented, and faced with fewer constraints: a smaller labor movement, a less powerful central state, and arguably, a less potent left opposition. Another exceptional case—but one that underscores welfare capitalism's association with large firms and weak labor—was Japan (Jacoby, 1993).

The Great Depression and New Deal undermined much of what welfare capitalism had achieved during previous decades, forcing U.S. employers to seek new ways of bolstering their status in a world of big labor and big government. There was nothing inevitable about the outcome of that search, however. The postwar consensus within the academic community, especially among industrial relations scholars, was that the progressive nonunion company had become a social dinosaur; the future ostensibly lay in the tripartite interaction of collective bargaining with statutory labor market regulation.

By chronicling how nonunion employers struggled to adapt welfare capitalism to a changed milieu, *Modern Manors* shows why the consensus view ultimately proved to be wrong. In the 1940s and 1950s, companies like Kodak, Sears, and Thompson developed new strategies to resist incursions from unions and the state and to sway public opinion in favor of business. In so doing, they helped clear the way for a fresh crop of nonunion companies that emerged in the 1960s and 1970s. Forty years after welfare capitalism's apparent collapse, business corporations were again America's dominant social actor. Much of their welfare function was still intact, while their prestige and autonomy were the envy of European employers.

Not only was there welfare capitalism in the United States, but it also could be found in Japan and in Europe (Jacoby, 1997, p. 14), even in social democratic countries like Sweden, as Swenson reminds us. But comparative analysis usually deals with relative, not absolute, differences; in this case, those differences were due to contrasting patterns of institutional timing and sequence. Welfare capitalism never enjoyed the level of success in Europe that it reached in the United States in part because it was preempted by the early development of the European welfare states; conversely, U.S. welfare capitalism preceded and in important ways constrained the New Deal welfare programs. For example, in 1939—when the foundations had been laid for the Swedish welfare state but Social Security had not yet taken hold in the United States—the percentage of the Swedish elderly population receiving a public pension already was 79 percent, as opposed to only 5 percent in the United States. (Esping-Andersen, 1990, p. 99) And while Swedish employers in the late

1940s shelled out somewhere between 4 and 14 percent of their labor costs on "fringe" benefits, the average U.S. figure in 1948 was 23 percent and rose to 45 percent at large welfare capitalist companies like Kodak. Moreover, these differences widened in subsequent years. Private pensions as a share of GDP rose 25 percent in Sweden from 1950 to 1980, but they increased tenfold in the United States during the same period. (Jacoby, 1997, p. 77; Esping-Andersen, 1990, p. 83) Thus Sweden—like other parts of western Europe—was on a different path than the United States before the 1940s, one that affected developments in later years.

Reinforcing its larger sociopolitical concerns was American welfare capitalism's enterprise or "micro" logic, which the book uses different terms to describe: private welfare corporatism, corporate culture of unity, and corporate *Gemeinschaft*. Although corporations are clearly situated in the *Gesellschaft* realm, the proponents of welfare capitalism hoped to overcome the instability, impersonality, and limited commitments of the market with a *Gemeinschaft* approach to work force management. The result, it was hoped, would be unstinting effort, cooperation, and identification with management. While bureaucracy also offered an alternative to the market—via long-term economic rewards, webs of rules, and hierarchical authority structures—and while the corporate *Gemeinschaften* in *Modern Manors* relied on these devices, what was distinctive about welfare capitalism was its supplementation of bureaucracy with a range of normative controls: intrinsic rewards, indulgent supervision, and symbolic systems for changing workers' preferences to match distinctive corporate cultures.

In recent years, economists have rediscovered corporate paternalism and analyzed it using efficiency-wage theory. The gist is that employers can get more from workers by giving them more. Higher pay more than pays for itself by reducing turnover, by inhibiting unobserved indiscipline, by creating a sense of obligation (the gift exchange), and by causing queues outside the plant that permit employers to monopsonistically skim off the best applicants. Peter Swenson likes this interpretation of welfare capitalism, and I do too. *Modern Manors* repeatedly refers to efficiency-wage effects like turnover reduction: "your profitsharing mounts up, and it's damn hard to break away" (p. 109); gift exchange: "in return for steady work and excellent benefits, the company asked employees to keep company secrets, accept technological change, trust their supervisors, and stay away from unions" (p. 81); and self-monitoring: "by being munificent, Kodak deterred disloyalty and indiscipline, an effect that was useful in situations where workers could not be monitored directly by management. One manager said that it all boiled down to having workers 'keep off lawns' without posting signs to tell them to do so" (p. 64).

Nevertheless, to subsume welfare capitalism under efficiency-wage theory is an excessively parochial approach. In its different versions, the theory either hides in a black box or entirely ignores crucial normative aspects of the employment relationship. For example, to get employees to accept gifts from management or to identify with its interests requires a set of cultural assumptions about why enterprise ties should trump those of occupation or class; even then, a sense of trust is required to ensure that management's gift is seen as fair. If eliciting "consummate performance" were only a matter of paying more or of sharing profits, a manager's task would be straightforward. But the truth of the matter is that work force management—like human beings—is more complicated than that. That's why the companies in *Modern Manors* tried so assiduously to mold employee attitudes and perceptions through policies based on gender, status, and ethnic identities; through strict limits on supervisors and dismissals (the indulgency approach); through afterwork social activities and other nonfinancial benefits; and through huge investments in communications and behavioral science programs. Understanding the logic of these programs requires attention to the symbolic and cultural—not only to the economic and utilitarian—elements of organizational life.[1]

An economic or technological determinist—whether Marxist, neoclassical, or otherwise—might see all this as so much superstructure piled on top of fundamental factors such as work systems or employment practices. I do think that these material factors matter—especially employment practices, a topic on which I learned a great deal from Osterman's (1988) work on salaried versus industrial employment systems (which is why the book is chock full of evidence on work organization and even more on union-nonunion differences in employment stability, compensation, benefits, disciplinary practices, and the relative flexibility of job definitions).

[1] In a clever twist on efficiency-wage theory, Swenson argues that welfare capitalists in Sweden and the United States favored higher social insurance spending during depressions, when their compensation premiums negatively affected competitivity, and opposed such insurance during more prosperous times. While this might be true of Sweden, it does not fit the historical facts for the United States, where ideological factors frequently distorted presumptive economic interests. Take the depression. Not until 1933, four years after the crash and with a mild recovery under way, did Marion Folsom relent in his opposition to government-funded unemployment insurance and old-age pensions, chiefly because he now saw these programs as inevitable. Folsom entered the political arena to ensure that the programs remained modest, and he spent most of the next 15 years fighting to keep coverage limited, benefits lean, and funding on a pay-as-you-go basis.

If supporting social insurance was in their interest, most welfare capitalists failed to see it. They were blinded by antipathy to the New Deal, which caused the breakup of the Business Advisory Council in 1934, leaving fewer than 50 members. Even Folsom's fellow Kodak managers were, at least in the 1930s, skeptical of his views, a point I am at pains to make (Jacoby, 1997, pp. 314, 319) because it disproves the crude reductionism that infers a company's economic interests from the public activities of its managers.

But it would be both a conceptual and a historical error to treat welfare capitalism's normative elements as merely subsidiary. Conceptually, if welfare capitalism were interpreted strictly as compensation premiums, there would be little to differentiate its practice in Japan from its Swedish, American, or even Communist Chinese variants. In fact, in each of these cases there are important differences in the cultural systems in which work is embedded and also in the architecture of the sociopolitical institutions that support the enterprise. To abstract from these differences, to say that they all boil down to the same thing, runs the risk of sacrificing realism for aesthetic values such as elegance or parsimony.[2]

Historically, an important aspect of welfare capitalism's modernization was its attempt to get beyond scientific management—with its pecuniary and bureaucratic controls—and develop "a theory of motivation that left out money altogether." A manager from Sears Roebuck, the company closest to the human relations movement, said that economic factors "are not enough; they are only the beginning. If the only basis management can conceive for employee loyalty and cooperation is the pay envelope and the short workweek, there can never be enough money or short enough hours to do job" (Jacoby, 1997, p. 116). Even the company's organization structure was radically decentralized to avoid what it saw as the deadening effect of excessive hierarchy. Sears, said its president, is "the despair of scientific management students who come constantly to look us over" (p. 126).

In the current era of flattened organizations and psychologized management, these ideas seem less novel than they did in the 1940s. Yet they were important precursors of the contemporary workplace, with its delayered decentralization, conscious fashioning of distinctive corporate cultures, and

Not until the mid-1940s, when the recovery was in full swing, was Folsom able to persuade major employers to support Social Security, this after a prolonged lobbying effort (pp. 214–219). The change was gradual. The NAM, for example, was internally divided on Social Security for most of the 1940s, with support coming from welfare capitalists like Fred Crawford of Thompson Products, who headed the NAM when it issued its "Better America" report in 1943, and strong opposition from insurance companies, small manufacturers, and the Du Pont interests. The NAM, said Marion Folsom (1970, p. 98) "did not reverse its attitude of opposition until 1950." (Also see Derthick, 1979, p. 134.) What helped sway the NAM and other groups was a combination of economic concerns, such as the rising expense of private pension plans, many of them union-negotiated, and ideological factors, including a growing acceptance of fiscal Keynesianism and continuing disdain for the dole. [In fact, Folsom refused to support higher taxes and broader coverage until he realized, in the late 1940s, that these were necessary to staunch the spread of welfare for the indigent elderly, a program he disparaged as "charity relief" (p. 218).] Thus began a steady increase in Social Security's scope and spending that continued for the next 20 years.

[2] Please note, however, that I am not advocating what might be called an "oversocialized" approach to analyzing the workplace. Economic factors and economic analysis may not be sufficient, but they *are* necessary.

attention to intrinsic rewards. Looking back, we can see that critics of human relations overstated their case, although they certainly had a point when they said that by deemphasizing pecuniary factors the human relationists were ignoring or suppressing conflict. For their part, the human relationists overemphasized the distributive function of unionism, although they were not irrational in their anxiety that unions might exacerbate conflict and undermine welfare capitalism's normative controls. In short, not only was there a vision behind welfare capitalism, it also was one of the main ingredients impelling its animus to unionism.

None of this is to deny that enterprise-based welfare benefits were (and are) compatible with a variety of institutions, from Chinese state-owned companies to American industrial unions. While several of the CIO's industrial unions initially rejected employer-provided benefits in favor of social insurance, they eventually became "fringe" enthusiasts, partly because of their inability to secure decent public benefits (thanks to Marion Folsom, among others) and partly because the administration of private benefits gave unions institutional power and prestige. In New York and other cities, administering these programs turned some union locals into miniature private welfare states whose services commanded fealty from the membership.

The fit between the AFL-CIO's adversarial approach and welfare capitalism's normative practices was more problematic, as became abundantly clear when unionized American companies began trying to adopt behavioral science, cooperative programs, and small group activities (Jacoby, 1997, pp. 246–254). But the lack of fit did not extend to all forms of employee representation. Proof of this was the company unions associated with welfare capitalism in the pre-Wagner era, about which liberal corporatists in the United States and elsewhere had such high hopes after the first World War. While most of these company unions disappeared in the United States after the Wagner Act, they were kept alive at a small number of welfare capitalist companies like DuPont and Thompson, as discussed in *Modern Manors.* In contrast to affiliated craft or industrial unions, Thompson's company unions were part of a "larger ensemble of welfare practices emphasizing horizontal cohesion" (p. 188).

Elsewhere in the United States in the 1950s and 1960s, one could find companies that had independent local unions but with few of the trappings of normative welfare capitalism. Typically, these firms employed skilled employees in high-wage labor markets; employers and workers were drawn to these company unions because "they feared that industrial unions would shrink wage differentials through policies of geographic standardization and skill compression" (p. 159). Here, I think, we get

closer to the Swedish story: In a bargaining system where encompassing unions favor the disadvantaged, privileged workers and their employers will share a common interest in subverting the outcomes of industrial or centralized wage bargaining.[3]

The interesting question is the extent to which Swedish corporate industrial relations are compatible with the normative values fostered by American welfare capitalism. On the one hand, Swedish unions are probably a better fit than their AFL-CIO counterparts. In Sweden, centralized bargaining partially displaces distributive conflicts beyond the firm, while high density levels make unions feel secure and less inclined to bolster their position with American-style job controls. Indeed, the resulting flexibility of unionized European internal labor markets makes them more similar to the U.S. nonunion model of welfare capitalism than to the U.S. union model; the latter is the international outlier. As I have argued elsewhere, ". . . what makes the United States unique at the micro-level and skews its outcomes at the macro-level is the industrial [union] model, which is a legacy of conservative craft unions, late-developing industrial unions, and powerful employers" (Jacoby, 1993, p. 241).

On the other hand, Swedish enterprises are embedded in a different social and political matrix than nonunion American firms. The size and reach of Swedish unions, their extensive service programs, and the encompassing nature of the welfare state all inhibit Swedish employers' ability to freely pursue managerialist goals. As a result, we get employer policies in Sweden and the United States that are superficially isomorphic but functionally divergent. Enterprise benefits are one example of this; another is work reform. In the 1960s and 1970s, American work reform was predominantly associated with nonunion welfare capitalism. It was decentralized, tailored to the needs of individual firms, and imbued with a managerialist ethos of "participation." In Sweden, however, the social partners and the government came up with a different approach—"industrial democracy"—that was more centralized and standardized and which pushed small-group activities in a markedly laborist direction (Cole, 1989).

[3] Elsewhere employers who bargained with industrial unions were aware that skilled employees often were unenthusiastic about their unions' median voter policies. Hence the employers targeted their skilled trades with divide-and-conquer tactics. For example, GM's Charlie Wilson undoubtedly knew that supplemental unemployment benefits were disliked by many of the UAW's skilled members, who had to contribute to the master fund even though they believed they stood little chance of being laid off. SUBs, in modern parlance, were a wedge issue.

So much for the history of welfare capitalism. What about its future? Matthew Finkin examines recent developments in the corporate world that would permit prehire agreements to arbitrate legal disputes arising out of employment. To some, this may seem an arcane issue, but Finkin rightly reminds us of its larger implication: It would arrogate to corporations the power to structure systems for handling the adjudication of disputes over rights. Finkin argues that putting these rights before an arbitrator whose premises have been set by the employer risks moving us back to the manor court of the fifteenth century. The parallel to the medieval manor is apt. The shedding of feudal overhangs in employment law was a signal accomplishment of labor's nineteenth-century struggles on behalf of a liberal order (Orren, 1992).

Naturally, employers say that they have nothing like this in mind; they claim wishing only to avoid the inefficiencies and "plain vanilla" justice associated with government regulation. Indeed, as Finkin observes, this is precisely the same logic that underlay the effort by welfare capitalists to exempt themselves from Social Security laws (and more recently, from the Clinton proposals for national health insurance). But a more openhanded interpretation of employer motives would recognize that alongside egregious examples of employer deceit and illiberalism, there also has been in this century a countermovement toward employer self-restraint, accompanied by the development, however imperfect, of systems of private law and due process. All this is related to the organizational revolution that gave rise to modern management, to welfare capitalism, and even to labor arbitration (Selznick, 1969). While the specifics of current prehire arbitration proposals may be undesirable, this does not mean that we should discourage attempts to develop private orderings as a complement to, albeit not a substitute for, public law.

Finally, Vicki Smith presents us with a penetrating analysis of current workplace trends. Unlike those commentators who write as if welfare capitalism were extinct, Smith argues that welfare capitalism remains alive but that its characteristics are changing in paradoxical ways. The implicit guarantee of secure employment is being jettisoned, she says, while other features of welfare capitalism are being strengthened. As careers increasingly turn lateral, workers are seeking relational and technical skills that can help them secure better jobs at other firms. Many of these skills are provided by the counseling, participative, and communications programs that remain part of welfare capitalism.

I agree with much of what Smith says. Like her, I think too many observers have been swept away by news of mass layoffs into thinking that welfare capitalism is dead. But I think Smith herself is too quick to

pronounce the demise of the traditional career model. The problem in analyzing trends is that it is always hard to separate out flows at the margin from the enormous stock of the inertial status quo. To be sure, the layoffs of recent years have hit blue-collar workers and middle managers hard, and there are many fewer firms today than 20 years ago that implicitly promise lifetime jobs. In industries like those on Wall Street and in Silicon Valley, there is intense competition for labor combined with a rapidly moving technological edge; this produces the job-hopping and general-skills orientation that Smith observes.

But not all industries resemble investment banking or high technology. Some employers continue to value firm-specific skills—especially skills based on long-term relations with customers and suppliers—and offer job security to foster and retain those skills. Currently, 66 percent of women and 75 percent of men are employed in regular, full-time jobs, and only 5 percent of those in full-time jobs say that they do not expect their jobs to last (Kalleberg, et al., 1997).[4] Workers in better-paying, full-time jobs continue to receive a panoply of benefits from employers, including new benefits designed to attract and retain working women. Many of these workers still find themselves enmeshed in a normative order that resembles the welfare capitalist model described in *Modern Manors.*

This is not to say that career workers are happy with the level of security, implicit or explicit, that employers presently offer them. In fact, workers in full-time jobs today are bearing more risk than in the past: not only the risk of layoff, but other kinds of risk as well. Their pension plans are defined-contribution, not defined-benefit; their health plans offer fewer choices; and their pay is more likely to be contingent on personal and corporate performance.

The major development, as I see it, is that the labor market is becoming more fragmented and differentiated, as reflected by the rise in inequality. Those employed in regular, full-time jobs include Smith's job-hoppers as well as more traditional careerists, while the nonregular ranks contain a myriad of contingent categories ranging from temps and part-timers to day laborers and independent contractors. The nonregulars are themselves divided into upper and lower tiers; for every high-wage freelancer or consultant, there are two more workers in nonstandard jobs receiving low pay. Unlike those working in modern manors, these low-wage

[4] Data on job duration are consistent with these findings. They show little change in stability in the 1980s and a modest decline in long-term stability in the first half of the 1990s, notably for older male workers (Neumark, Polsky, and Hansen, 1998). In another study, Farber (1997) finds that the share of men employed more than 10 years fell from 0.498 in 1979 to 0.400 in 1996. For women, however, this share *increased* slightly during the same period, from 0.291 to 0.303.

workers rarely receive employer-provided benefits. Here, then, is one of welfare capitalism's less laudable legacies: the fact that these low-wage workers have neither union representation nor decent social insurance to fall back on. (There are, of course, other reasons for these gaps.)

Meanwhile, job-hopping engineers and financial analysts, lucky as they may be, are an atypical elite. Most Americans still look to their employers as the first line of defense. As that line is slowly pushed back, workers are questioning the fairness of today's leaner, meaner arrangements. It remains to be seen whether those arrangements can exist in harmony with welfare capitalism's traditional normative assumptions and political vision. Some downsized companies—like AT&T—are finding it hard to square the normative circle (Rudolph, 1998). And while the probability of a union resurgence or of new government programs at present seems remote, the issue of employer responsibility is high on the political agenda, both for conservatives like Buchanan and for more traditional liberals. All of us—workers, employers, citizens—still have important choices to make, but none of us is free of the past.

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