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German employers and the origins of unemployment insurance. Skills interest or strategic accommodation?

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MPIfG Discussion Paper 11/5

German Employers and the Origins of Unemployment Insurance
Skills Interest or Strategic Accommodation?

Thomas Paster



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German Employers and the Origins of Unemployment Insurance: Skills Interest or Strategic Accommodation?

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Abstract

This paper analyzes the attitudes of industrial employers during the German Empire and the Weimar Republic towards the adoption of public unemployment insurance. While employers initially opposed unemployment insurance, they eventually endorsed it. What explains this shift in attitude? The paper tests two alternative theses: the conventional power resource thesis and the newer skills interest thesis. While the power resource thesis explains social protection as the result of distributive conflicts between employers and labor, the skills interest thesis sees it as an outcome of joint interests in skills investment by capital and labor. The study concludes that the power resource thesis has the greater explanatory power. Employers' support of unemployment insurance was an attempt to defeat other policy options on the agenda rather than an effort to promote skills investment. An unfavorable policy legacy and a sustained change in political majorities are the main factors that explain the change in positions. Fear of rising labor costs and the erosion of work incentives shaped employers' preferences rather than an interest in protecting skills investments. On a more general level, the results show the significant impact of political constraints on the positions actors take and the importance of short-term considerations in processes of preference formation.

Zusammenfassung

Dieses Papier untersucht die Haltung industrieller Arbeitgeber zur Einführung einer staatlichen Arbeitslosenversicherung in Deutschland zur Zeit des Kaiserreichs und der Weimarer Republik. Arbeitgeber lehnten ursprünglich eine staatliche Arbeitslosenversicherung ab, stimmten ihr jedoch am Ende zu. Was erklärt diesen Positionswandel? Das Papier testet zwei alternative Erklärungsansätze: die konventionelle Machtressourcenthese (*power resource thesis*) und die neuere Qualifikationsinteressensthese (*skills interest thesis*). Die erste These erklärt den Umfang sozialer Sicherung durch Verteilungskonflikte zwischen Arbeitnehmern und Arbeitgebern, die zweite durch gemeinsame Interessen von Arbeitgebern und Arbeitnehmern an Ausbildungsinvestitionen. Die Studie kommt zu dem Schluss, dass die Machtressourcenthese den Haltungswandel besser erklärt als die Qualifikationsinteressensthese. Die empirische Analyse zeigt, dass Arbeitgeber die Einführung einer staatlichen Arbeitslosenversicherung unterstützten, um andere Optionen abzuwehren, nicht um höhere Qualifikationsniveaus zu fördern. Die Studie identifiziert die Überwindung eines als problematisch bewerteten Politikerbes sowie den Wandel politischer Mehrheitsverhältnisse als die wichtigsten Erklärungsfaktoren. Die wirtschaftlichen Auswirkungen einer Arbeitslosenversicherung sahen Arbeitgeber kritisch: Sie erwarteten primär höhere Lohnkosten und geringere Arbeitsanreize, nicht jedoch eine höhere Bereitschaft zu Ausbildungsinvestitionen. Die Studie verdeutlicht den Einfluss sich wandelnder politischer Zwänge auf die inhaltliche Positionierung politischer Akteure sowie ihre oft kurzfristige Orientierung bei der Präferenzbildung.

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German Employers and the Origins of Unemployment Insurance: Skills Interest or Strategic Accommodation?

The workers are not unemployed but unwilling to work. Above all else they want to avoid difficult labor because they now have much better unemployment insurance.

Privy Councilor Ewald Hilger (an Upper Silesian mine manager) on March 1, 1919 (Maier 1975: 60)

A people of strong will and progressive energy would not brand itself with the stigma of inferiority ... by passing a law on insuring against unemployment; that amounts to the acceptance of a [social] cancer by the state ... Let us call a halt to this greenhouse culture and acclimatize our people to rougher weather. ... Let us not forget that a healthy and just struggle for one's daily bread is a good thing.

Deutsche Arbeitgeber-Zeitung (1920: 1)

1 Introduction: Business and unemployment insurance

Recent research in political economy challenges the view that business interests invariably oppose social policy. According to a growing body of research that investigates employers' social policy interests, predominant types of employers have, in fact, historically supported major social reforms (Jenkins/Brents 1989; Gordon 1994; Swenson 2002; Mares 2003a). According to this view, employers supported the extension of the scope and generosity of social policy because they believed that social policy would help them to create the kind of labor force they needed. The theoretical and empirical arguments made by this strand of employer-centered research contrast with those of the power resource approach, the conventional explanation of welfare state development, which suggests that social policy is the outcome of class struggle (Korpi 1983; Esping-Andersen 1985). Responding to this new approach, scholars building on the power resource approach and on historical institutionalism have reasserted the importance of political conflict and class power and questioned the pro-welfarist nature of employer preferences (Emmenegger/Marx 2010; Huber/Stephens 2001: 33; Hacker/Pierson 2002; Kitschelt 2006: 415–418; Korpi 2006; Streeck 2011).

The purpose of this paper is to test these two alternative perspectives through an analysis of the role of employers in the adoption of unemployment insurance in Germany in the Weimar Republic. The main argument of the paper is that a narrowing of policy options motivated employers to abandon their opposition to unemployment insurance,

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rather than any intention to promote a highly-skilled workforce. While employer-centered explanations are correct in stating that employers cooperated in the adoption of unemployment insurance in the Weimar Republic, they neglect the political conditions that motivated their support. This paper highlights two conditions: first, changes in the political-institutional context, from a semi-authoritarian monarchy to a parliamentary democracy, which changed the political power structure in favor of unemployment insurance; and second, the role of a policy legacy that limited the options available to employers. Employers did not evaluate their policy options against the background of a “clean slate,” but rather against the background of pre-existing policies and policies brought onto the agenda by other actors. In short, the change in employer attitudes resulted from a tightening of political constraints rather than from changes in economic interests. I call this argument the political accommodation thesis.

I decided to focus on Germany as a crucial case. As Harry Eckstein argued, a crucial case is one that “*must closely fit* a theory if one is to have confidence in the theory’s validity” (Eckstein 1975: 118, emphasis in original). Germany is often seen as a paradigm case for a type of economy that benefits firms relying on a high-skill production strategy (for example, Thelen 2001; Hassel 2007; Hall 2007; Streeck 1992; Hall/Soskice 2001). These benefits make it most likely that employer-centered explanations will hold true in this case, as I will show in the following section. For the same reason, it is a difficult case for the political accommodation thesis. If political constraints motivated employers to back the adoption of unemployment insurance, this is even more likely to be the case in countries less focused on high-skill production.

Some may argue that single case studies are not suitable for testing hypotheses, since they allegedly do not involve variation in the dependent variable. I believe that this view is mistaken for two reasons: First, by careful selection of the case, we can maximize the theoretical leverage of the study. If a hypothesis holds true in a difficult case, it is also likely to hold true in other, less difficult cases. Second, as I will show, my case study utilizes internal, diachronic variation in employer positions. The positions of employers towards unemployment insurance changed over time, shifting from opposition to support. This variation allows us to look for conditions that may have caused this shift. In short, the single case study, and the usage of rich historical sources it allows, has distinct advantages for testing hypotheses about actor motivations. Theory-driven case selection and the analysis of diachronic, within-case variation allow us to go beyond mere description and test alternative hypotheses.¹

The structure of the paper is as follows: After elaborating the two competing explanations in further detail in Section 2, I provide a historical narrative of how the introduction of unemployment insurance came about. I analyze the attitudes of employers towards unemployment insurance in the context of two political regimes, the Wilhelm-

1 Gerring (2007: 115–122) and George and Bennett (2005: 251–261) provide theoretical justifications for the usage of the crucial case method.

ine Empire (Section 3) and the Weimar Republic (Section 4), respectively, and show how differences in political context between these two regimes and newly created policy legacies were instrumental in making employers change their minds (Section 5). Finally, I discuss the empirical validity of the two alternative explanations with regard to unemployment insurance in the light of the empirical evidence (Section 6).

2 Theory: Two competing explanations

This paper tests two competing explanations concerning employers' role in the introduction of unemployment insurance in the Weimar Republic: the *skills interest thesis* and the *political accommodation thesis*. The skills interest thesis builds on the Varieties of Capitalism approach, the political accommodation thesis on the power resource approach and the policy feedback approach. The skills interest thesis predicts that employers supported unemployment insurance as a tool for promoting a highly-skilled labor force; the political accommodation thesis predicts that changes in political majorities and the limitation of policy choices motivated employers to finally accept unemployment insurance. The skills interest thesis predicts that sectoral conflicts dominated policymaking; the political accommodation thesis predicts that class conflicts dominated. As mentioned earlier, the paper finds that the political accommodation thesis is better able to explain employers' support for unemployment insurance.

The skills interest thesis

The scholarly debate about the social policy preferences of employers is inspired by the "Varieties of Capitalism" (VoC) framework developed by Hall and Soskice (Hall/Soskice 2001). The VoC approach links social policy to investments in different types of skills. According to this approach, unemployment insurance encourages investments in skills that are not transferable across firms or industries (*specific skills*). Unemployment insurance benefits allow the worker to make a living during periods without employment and thus alleviate the pressure on him to change his vocation, which might make his specific skills redundant. Because of this skill-protective effect, the VoC approach expects unemployment insurance to have a positive effect on investments by firms and workers in specific skills (Estévez-Abe/Iversen/Soskice 2001: 180; cf. also Iversen/Soskice 2001; Iversen 2005).

Employer-centered explanations of welfare state development build on this insight to develop causal explanations of welfare state development that put employer interests at the center. Estévez-Abe, Iversen and Soskice (2001: 181), for instance, argue that "social protection often stems from the strength rather than the weakness of employers."

They expect that in economies that rely on specific skills, “a strong alliance between skilled workers and their employers in favor of social protection” will emerge (ibid.: 147). Iversen (2005: 13) predicts that workers and employers who depend on specific skills will demand social protection, while workers and employers who depend on general skills will oppose protection. In a similar way, Mares argues that “for large firms, considerations about the need to institutionalize guarantees to their workers that the investment in their skills would not be undermined during periods of unemployment were of paramount importance” (Mares 2003a: 147). In short, employer-centered explanations attach paramount importance to the issue of skill investments for the way industrialists perceive welfare state institutions. For this reason I refer to this thesis as the *skills interest thesis*.

Unemployment insurance is a pivotal test case for the skills interest thesis, since this is one of the policies that are seen as central to the promotion of skill investments. Estévez-Abe, Iversen and Soskice (2001: 152), for instance, select unemployment insurance as one of three policies protecting skill investments, in addition to employment protection and sectoral wage bargaining. Unemployment insurance is also at the center of the comprehensive work on employer preferences by Isabela Mares (1996a, 1996b, 1999, 2000, 2001, 2003a, 2003b, 2004). Regarding the introduction of unemployment insurance in Germany in 1927, Mares argues 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 employers from ‘traditional’ industries (such as iron and steel) to more skill-intense 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. (Mares 1996b: 30)

According to this view, the change in employer attitudes from opposition to support for unemployment insurance in the Weimar Republic resulted from a shift in power from low-skill to high-skill sectors.

Consistent with her interpretation of business endorsement of unemployment insurance as driven by a genuine preference, Mares also argues that employer support was crucial for the reform to succeed. Without the change in employer preferences, the introduction of unemployment insurance would have been likely to fail:

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. (Mares 1996b: 5, emphasis added)

In short, according to the skills interest thesis, employer preferences constitute an important cause of welfare state expansion.

A similar argument is made by constructivist studies, which emphasize changes in ideas as a source of changing policy positions. In an in-depth analysis of the origins of unemployment insurance in Germany and the US, Münnich (2010) argues that in both countries, interest perceptions and political views among employers changed in the interwar period, leading significant groups within them to see unemployment insurance as being in their interest. In the case of Germany, Münnich argues that capital and labor in the Weimar period shared an interest in using social policy to protect labor productivity and human resources (Münnich 2010: 188). While this argument rejects the notion of a hard-wired interest in social protection on the part of firms, and instead emphasizes processes of ideational change, it shares with the skills interest thesis an emphasis on the positive role of employers in social policy development. According to this view, employer support for social reforms reflected a sustained change in what they saw as being in their economic interest (Münnich 2010: 313).

The political accommodation thesis

Scholars using a power resource or historical-institutionalist perspective have challenged the skills interest thesis and developed an alternative theoretical perspective that highlights the importance of political constraints and policy legacies as sources of business consent to social reforms. They challenge employer-centered explanations on the grounds that they ignore the impact of political constraints on preference formation (Korpi 2006: 202; Hacker/Pierson 2002: 283; Huber/Stephens 2001: 189; Thelen 2002: 393–394). According to these scholars, changes in the overall power structure are what shaped employers' policy positions. This approach differs from the skills interest thesis in its specification of the reasons why employers accepted unemployment insurance. According to the political accommodation thesis, changes in political constraints motivated employers to back unemployment insurance, rather than changes in economic interests or production strategy. Hence, the changes in political constraints are the ultimate cause for employers' backing of the reform, rather than the kind of production strategy they pursued.

This thesis, the *political accommodation thesis*, rests on the assumption that employers' genuine preference was for a labor market free of any form of social protection. This assumption rests on the decommodifying effects of social protection. Following Esping-Andersen, *decommodification* is a policy outcome characterized by the fact that "a person can maintain a livelihood without reliance on the market" (Esping-Andersen 1990: 22). Social protection decommodifies the worker – that is, it reduces his dependence on gainful employment. Decommodification also raises the reservation wage and thereby undermines work incentives. Following a power resource perspective, we can expect employers to oppose decommodification because it reduces the control of the employer over his workforce. As Esping-Andersen has pointed out: "Decommodification strengthens the worker and weakens the absolute authority of the employer. It is for exactly this reason that employers have always opposed decommodification" (Esping-

Andersen 1990: 22). In short, if this perspective is correct, we can assume that employers have an interest in preventing social protection for the unemployed.

Building on this assumption, the *political accommodation thesis* predicts that employers endorsed the introduction of unemployment insurance for strategic reasons, not because they thought it would benefit production. When changes in the political context narrow the policy options available, employers may come to endorse some policies as an alternative to others that would be even worse. The narrowing of policy options is the result of changes in the political balance of power that occurred in the past as well as in the present. Past power structures are reflected in policy legacies. Present power structures are reflected in parliamentary majorities for or against a specific policy. Together they can severely limit the options for change available to actors who seek it. As the literature on policy feedbacks argues (Skocpol 1992: 57–60; Pierson 1993: 595–628; Mettler 2002: 352–353), “new policies create a new politics” (Schattschneider 1974: 288).

On a conceptual level, the political accommodation thesis distinguishes between actors’ policy positions and their preferences. Hacker and Pierson, for instance, point out that “a group’s actions often will not reveal its preferences but rather its strategic calculations of what is the best that can be accomplished given existing circumstances” (Hacker/Pierson 2002: 283). In a similar way, Korpi argues that employer-centered explanations of welfare state reform have “mistaken employers’ consent to expansion as evidence for their first-order preferences” for reform (Korpi 2006: 171). While policy positions are empirically observable, preferences are not. This does not mean we cannot know anything about preferences. Rather, we need to *infer* preferences, relying on the behavior we observe and our knowledge of the alternative options that would have been available at that historical moment. Like the skills interest thesis, the political accommodation thesis rests on a rationalist model of political action: that is, it assumes consistency between means and ends. Assuming rationality, we can thus test different hypotheses about preferences (ends) based on what they imply for observable positions (means). The following subsection elaborates how the skills interest thesis and the political accommodation thesis have different empirical implications.

Main differences between the two explanations

The two explanations – the skills interest thesis and the political accommodation thesis – differ in the assumed rationales that motivated employers to back unemployment insurance. The skills interest thesis explains employer consent to unemployment insurance with an *economic* rationale, the political accommodation thesis with a *political* rationale. The economic rationale consists of the goal of promoting a better skilled and more productive workforce. This rationale exists independently of the specific historical political context. The political rationale consists of the goal of maintaining political influence in a context where policy options are constrained. By examining the relative

importance of economic and political rationales, this paper tries to contribute to a better understanding of how political actors come to define their policy positions in a given historical situation.

The two explanations have observable implications. *First*, the skills interest thesis predicts that employers will justify their support for unemployment insurance by reference to arguments about skills and labor productivity. The political accommodation thesis predicts that employers will justify their backing by reference to strategic considerations. *Second*, the skills interest thesis predicts that employer support for unemployment insurance will be relatively stable over time or change only gradually, as the size of sectors that rely on specific skills grows. The political accommodation thesis, in contrast, predicts erratic changes in employer positions as they adjust strategically to what appears politically feasible. *Third*, the two explanations have implications for the expected heterogeneity of employer positions. The skills interest thesis predicts a structural cleavage between sectors relying on specific skills and sectors relying on general skills or no skills. The political accommodation thesis predicts that there will be a high degree of uniformity between business positions across different sectors, as the negative effects of decommodification affect all sectors. Political constraints also affect all sectors in the same way. The political accommodation thesis therefore predicts uniform positions. Hence, if the skills interest thesis holds true, we are likely to find employers articulating their views primarily through their sectoral associations. If the political accommodation thesis holds true, we are likely to find employers articulating their views primarily through their peak-level federations. In sum, therefore, the two competing explanations have operationalizable empirical implications, which the following sections will test.

The testing of the two alternative propositions has wider implications for theories of welfare state development. While the skills interest thesis intends to provide an alternative to the established power resource approach, the political accommodation thesis is complementary to the latter approach. If business support for social policy had been the result of genuine (first-order) preferences, then any explanation of the historical evolution of the modern welfare state has to take into account the economic interests of firms as one source of social protection. If, in contrast, business support had been motivated by strategic considerations, then the political circumstances that motivated this accommodation will turn out to be the crucial factor shaping the formation of the modern welfare state, rather than the economic interests of firms. The two propositions thus lead to different understandings of the actor motivations that shaped the development of modern political economies.

The following sections will test these two alternative propositions through a detailed historical analysis of the introduction of unemployment insurance in Germany in the Weimar Republic. I contend that Germany attains the status of a *crucial case* for solving the controversy over employer interests in welfare state development. Labor market and welfare state institutions in this country are often seen as archetypical for a type of regulated economy that benefits a high-skill/high-quality production strategy. Given the in-

stitutional advantages of unemployment insurance to high-skill/high-quality production in Germany, we are most likely to find employer support for the introduction of this policy here. If, however, we find that this is not the case, it is likely that the thesis also does not hold in other countries, where institutional advantages are less pronounced. The following section elaborates why employers opposed unemployment insurance in the Wilhelmine Empire (1871–1918); subsequent sections address the question of how and why they changed their stances in the Weimar Republic.

3 The Wilhelmine Empire: Employers against unemployment insurance²

During the period of the Wilhelmine Empire (1871–1918), employers were strongly opposed to any form of support for the unemployed (CDI 1913: 2). After World War I, they gradually changed their position and, after a period of wavering and internal indecision, decided in 1926 to cooperate with the government in drafting an unemployment insurance bill. In 1892, Henry Axel Bueck, the influential executive director of the Central Association of German Industrialists (CDI) had called unemployment insurance a “monstrous project” (quoted in Faust 1986: 170). Three years later (1895), he declared that unemployment insurance was “decisively rejected” by the CDI (quoted in Faust 1986: 171). This section first presents the positions of the major actors in the political debates about unemployment insurance in the Wilhelmine Empire (1871–1918), before turning to the reasons for employers’ opposition to unemployment insurance during that period.

The political debate

The issue of unemployment insurance first appeared on the political agenda during the 1890s. At that time, state material support for the unemployed was very limited, and laid-off workers often had to rely on union-run funds (Ghent schemes) instead. From around the turn of the century, some municipalities started to provide subsidies to union-run unemployment insurance schemes to alleviate the financial burden on municipal relief programs (Hennock 2007: 308–314). A few towns also started to organize their own municipal unemployment insurance schemes (Hennock 2007: 315). Most municipalities, however, were reluctant to establish such schemes and favored nationwide unemployment insurance instead (Führer 1990: 116–118).

2 For the reconstruction of the policymaking process in the following two sections, I rely on the following studies by German historians: Faust (1986, 1987), Führer (1990), Lewek (1992), and Wermel and Urban (1949). For the analysis of the positions of employers’ associations, I rely on documents published by the associations (including policy reports, speeches, memoranda, newspapers, periodicals, conference proceedings) as well as statements by individual business representatives.

The first proposals for a nationwide unemployment insurance program came from academic social reformers. In 1894, the economist Georg Adler produced the first proposal for a public unemployment insurance scheme, organized on a mandatory basis and financed jointly by the state, employers and workers (Faust 1986: 151). However, this proposal, as well as similar proposals by other reform-minded academics, did not receive much political endorsement. Support for these proposals came chiefly from the municipalities, which hoped for a mitigation of the cost burden on municipal relief works (Führer 1990: 114–116). However, no other major political actors supported unemployment insurance.

The Conservative Party, representing the interests of the landed aristocracy and agriculture, opposed unemployment insurance. Due to the massive migration of workers into the cities, agriculture suffered from a labor shortage. The Conservatives suspected that unemployment insurance would eliminate the incentives for unemployed urban workers to return to agriculture and, for this reason, sided with the employers. The National Liberal Party, the party with the closest ties to industry, also rejected proposals for a public unemployment insurance scheme, arguing that such plans would undermine the sense of personal responsibility among workers. The Catholic Center Party, which had a very heterogeneous social base, was internally divided and remained inactive on this issue. Two small left-wing liberal parties, the *Freisinnige Partei* and the *Deutsche Volkspartei*, considered supporting public unemployment insurance but remained, on the whole, inert (cf. Führer 1990: 95–106 for the positions of the bourgeois parties and the government).

Not only the bourgeois parties, but also the Social Democrats and the labor unions opposed public unemployment insurance. They thought that the conservative government might use such a program to discipline workers and feared the crowding out of the unions' own Ghent schemes. At SPD party congresses in 1893 and 1894, a majority of delegates voted against public unemployment insurance (Führer 1990: 52). Beginning around the 1890s, the social democratic labor unions had started to build up Ghent schemes, the main aim of which was to provide incentives for union membership and to bolster the financial strength of unions during strikes. In 1891, 12.9 percent of all union members were insured against unemployment by Ghent schemes; by 1905 the share had increased to 65.6 percent and by 1913 to 81.3 percent (Führer 1990: 55).

Employers strongly opposed the Ghent schemes and campaigned against municipal subsidies for them. They argued that Ghent schemes would serve as a tool to strengthen social democratic unions, bolster the unions' strike funds, and push up wages by controlling labor supply (Zahnbrecher 1914: 20–26). The employers' association of Nuremberg-Fürth, for instance, argued that “unemployment benefits are a tool of combat. ... The Ghent system ... aims to strengthen the social democratic unions in their fight against German entrepreneurs” (Zahnbrecher 1914: 22–23). Despite their opposition to the Ghent system, employers at that time did not promote public unemployment insurance as a lesser evil. On the contrary, they argued against it.

The positions of employers

Two types of considerations motivated employer opposition to unemployment insurance in the Wilhelmine Empire: labor costs and work incentives (Zahnbrecher 1914: 34–35). With regard to the first concern, employers considered the impact on labor costs to be too great. Industry pointed out that it had already accepted the introduction of several social programs in the 1880s and would now be unable to cope with any further increases in labor costs (Faust 1986: 170; Zahnbrecher 1914: 34–35). Bismarck's social insurance reforms in the 1880s included programs for the protection of workers against work injury, sickness, occupational disability and old age. Industry supported these reforms as tools to pacify the working class (Bueck 1905: 791–795; Oechelhaeuser 1889: 109). The reforms failed to have the expected pacifying effect, however, as unions continued to gain strength during the 1890s and 1900s. The Central Association of Industrialists (CDI) noted this fact with considerable dissatisfaction (Bueck 1905: 792). Soon after Bismarck's social reforms had been enacted, industry began to turn against the further expansion of social insurance intended by the government. Industry leaders argued that the financial limits of social policy expansion had now been reached. Higher labor costs would harm industry's international competitiveness and lead to job losses (Büren 1934: 60–86).

With regard to the second concern, employers believed that benefits for the unemployed weakened work incentives and thus reduced labor supply. The employers' association of Nuremberg, for instance, argued that unemployment insurance would “degrade the productivity of our people ... The necessity to look for work would more or less cease” (Zahnbrecher 1914: 34). Unlike programs that protect against other social risks, such as old age or sickness, unemployment insurance protects workers who are capable of working. For this reason, employers' opposition to unemployment insurance was much stronger than their opposition to other social programs.

Employers at that time suspected that the decline of workers' dependence on work – their decommodification, in other words – would promote the formation of an “army of layabouts.” Consistent with this view, employers also blamed the occurrence of unemployment on deficiencies of the individual, such as laziness, rather than on macroeconomic conditions. Employers argued that unemployment was generally low and, where it did occur, was usually the fault of the individual. Employer periodicals presented unemployment insurance as being merely a “premium on laziness,” financed by the employer (VDA 1914: 18; also *Deutsche Arbeitgeber-Zeitung* 1919: 1; cf. also Faust 1986: 170–172). In short, employers at that time opposed unemployment insurance because of its alleged negative effects on work incentives, in line with what the political accommodation thesis predicts.

Employers used various arguments to make their case against unemployment insurance. The following paragraphs present statements found in the publications and peti-

tions of employers' associations. These statements show that concerns about labor costs and work incentives were behind employers' opposition to unemployment insurance.

No structural unemployment. Industrialists denied the existence of widespread unemployment. According to a memorandum by the CDI, there was no need for unemployment insurance, because there would be a sufficient supply of jobs and everybody willing to work could find it (CDI 1913: 3, 15).

Regional imbalances. The same report suggested that unemployment primarily reflects regional imbalances in labor supply, in particular due to the widespread rural exodus, which led to labor shortages in agriculture and an oversupply in the cities (CDI 1913: 4). The introduction of public unemployment insurance would encourage the rural exodus even further, as the problems arising from not being able to find a job in the cities would be alleviated by unemployment benefits.

Rewarding idleness. The argument that unemployment insurance would benefit only the "undeserving" was a recurring theme in the statements of business representatives at that time. Unemployment would affect only those workers who were lazy, inept, incompetent or rebellious. In 1913, Fritz Tänzler, the executive director of the VDA, pointed out that unemployment insurance would mean that the diligent workers (*Tüchtigen*) would end up subsidizing the indolent (*Mindertüchtigen*) (Führer 1990: 84; for similar statements cf. Zahnbrecher 1914: 25; Lewek 1992: 156–157).

Weakening the sense of personal responsibility. Congruent with this view, industrialists also repeatedly voiced the concern that unemployment insurance would undermine the sense of personal responsibility among workers. The following statement from a conference of employer-run labor exchanges (1903) reflects this view:

First of all, unemployment is not an evil, to the contrary, most people see work as an evil and unemployment as the desirable state, and if one is reasonably protected from the material setbacks that tend to come along with unemployment, the larger part of the population will seek to enjoy the blessings of the new insurance. (Reiswitz 1904: 54–55)

The petition by the employers' association of Nuremberg-Fürth, mentioned above, struck the same chord:

Insurance against the consequences of unemployment would have ... the most disadvantageous effects on workers' sense of responsibility. It would destroy ... the worker's sense that he has a duty of self-care. (Zahnbrecher 1914: 19)

These arguments about individual responsibility point to employers' suspicions that social benefits would make workers lazy.

Erosion of employers' authority. Closely related to the fears, already mentioned, that benefits would make workers lazy were fears that benefits would erode employers' author-

ity. If unemployment ceases to constitute a threat to the worker, the employer loses an important disciplining device: dismissal. The worker will be less willing to make a serious work effort if the prospect of unemployment becomes less frightening (cf. Faust 1986: 172 and Tille 1908: 26). The following statement made at the abovementioned employers' conference in 1903 illustrates this concern:

The means of maintaining [work] discipline, which the employer has at his discretion ... are reduced to a minimum, or are removed completely. The only right that remains to the employer, although with qualifications and conditions, is that he may dismiss the worker, and that the worker then is exposed ... to the danger of unemployment. To avoid this danger, the workforce will, after all, still make some effort. (Reiswitz 1904: 55)

Raising the reservation wage. Employers suspected that unemployment insurance would raise the reservation wage. Alexander Tille, a representative of heavy industry, declared in 1908 that unemployment insurance would prevent unemployment from pushing down wages during times of economic crisis, thereby annulling the market mechanisms of demand and supply (Tille 1908: 24). With the introduction of unemployment insurance, workers would no longer face a massive loss of income as a result of economic crisis and therefore would be more reluctant to accept wage reductions during such periods.

In sum, these views show the central importance of work incentives to the employers' assessment: they feared the decommodifying effects of unemployment insurance. At the same time, the sources do not provide evidence that employers wanted to protect skill investments. On the contrary, employers argued that a skilled unemployed worker should be obliged to accept jobs for which he was not trained, instead of being granted a benefit. The petition by the Nuremberg-Fürth employers' association asked rhetorically: "Should a skilled worker be considered unemployed and thus entitled to benefits if he is unable to find work in his vocation, even though he could easily find work in a related vocation?" (Zahnbrecher 1914: 29).

In short, the evidence for the pre-World War I period does not confirm the skills interest thesis, but it does provide evidence for the validity of the political accommodation thesis. The protection of specific skills appears not to have played a significant role in employers' assessment of unemployment insurance at that time. Moreover, business opposition to it appears to have been unanimous. Not only low-skill sectors (heavy industry, agriculture), but also high-skill manufacturing opposed unemployment insurance (Faust 1986: 175–177; Ullmann 1976: 153–154). The arguments employers used against unemployment insurance show that their main concerns were to protect work incentives and to keep labor costs low. They believed that unemployment insurance would reduce labor supply in general rather than increase the supply of skilled labor.

4 The introduction of unemployment insurance in the Weimar Republic

Compared to the Wilhelmine Empire, the Weimar Republic provided a more favorable context for the introduction of unemployment insurance. The range of policy options available became more restricted for two reasons. First, the political balance of power shifted in favor of public unemployment insurance. The unions began to support a public scheme because their own Ghent schemes had run into financial problems as unemployment rose. At the same time, the Social Democrats gained political influence with the democratization of the political system. Moreover, the government bureaucracy changed its stance: while it remained passive on unemployment insurance before World War I, it became an agenda-setter for reform in the Weimar Republic. Second, the introduction of a means-tested program of unemployment assistance in 1918 had changed the policy status quo, against which actors had to evaluate alternative options.

These two changes – the change in the balance of power and the new policy legacy – constrained the policy options available: a return to the pre-war state of no benefits for the unemployed lacked a political majority and was thus not feasible. The main options on the agenda were a continuation of (means-tested) unemployment assistance or a shift to (earnings-related) unemployment insurance. Employers remained skeptical about protecting the unemployed, but decided to adjust in order to avoid being sidelined in the debate. In contrast to before the war, they decided to accept the shift to the insurance model, on the condition that means-testing remained. This section analyzes the political debates in the Weimar Republic that led to the introduction of unemployment insurance and the positions of the employers.

The conditions for welfare state expansion in the Weimar Republic were favorable in political terms, but unfavorable in economic ones. The democratization of the political system after World War I gave the Social Democrats a chance to participate in national government for the first time. At the same time, economic development was characterized by high volatility and recurring economic slumps. Throughout the period of the Weimar Republic (1918–1933), real GDP per capita hardly ever returned to pre-war levels (Schmidt 1998: 40). Unlike before the war, high levels of unemployment became a permanent phenomenon. The economic disruptions of the demobilization period were followed by a short inflationary boom during 1920–22, driven by a weak currency and the resulting boost to exports (Feldman 1984: 55–66). This temporarily mitigated the problem of unemployment. With the onset of hyperinflation in 1923, along with currency reform, unemployment began to rise again (Faust 1987: 264).

The introduction of a program of unemployment *assistance* in November 1918 shaped the terms of the political debate about the pros and cons of unemployment *insurance* in subsequent years. Unemployment insurance was now debated as an alternative to unemployment assistance, rather than as an alternative to no social protection at all. Unemployment assistance (*Erwerbslosenfürsorge*) was a program of means-tested benefits for all non-employed persons above the age of 14. The government initially introduced

this program in 1914 as a temporary measure, intended to avoid a domestic political conflict at a time when all efforts had to be focused on the war (Lewek 1992: 34). After the war, when a Soviet-style revolutionary workers' movement had emerged, the new democratic government issued an emergency decree to make the program permanent in order to pacify workers (Büren 1934: 198; Lewek 1992: 9, 49–55, 404). The program provided means-tested, flat-rate benefits to all non-employed adults who declared themselves available for work. The program was financed mainly by the municipalities. The municipalities also had to administer the program and had substantial discretion in applying the rules of benefit eligibility (Wermel/Urban 1949: 21–23).

The program of unemployment assistance became a crucial catalyst in making employers change their position on unemployment insurance. In subsequent debates, unemployment assistance changed the policy status quo in terms of which employers had to evaluate unemployment insurance. Employers were highly dissatisfied with unemployment assistance and the way it was administered. In their view, the municipalities did not sufficiently check need and willingness to work and handed out benefits indiscriminately. Since the municipalities were also in charge of social assistance, they had little incentive to restrict the granting of unemployment assistance benefits, as doing so would have shifted costs to the former.

The introduction of unemployment assistance had created a new reality for employers, one that they perceived as even worse than unemployment insurance. Before the war, the alternatives on the political agenda had been either unemployment insurance or no compensation to the unemployed at all. Now, the alternatives on the agenda were either unemployment *insurance* or unemployment *assistance*. Employers thought that unemployment insurance was less hazardous to work incentives because it links benefits to previous earnings. In the policymaking process, the employers' priority was to limit benefit generosity. The following subsection deals with the political debates on unemployment assistance and unemployment insurance between 1918 and 1927; in Section 4, we will turn to the question of why employers viewed unemployment as less problematic than unemployment assistance.

The political debate

The initiative for the introduction of unemployment insurance after World War I came from the government and the ministerial bureaucracy, driven largely by a strategy of shifting costs. The Social Democrat-led government saw the introduction of unemployment assistance in November 1918 as a temporary solution, to be replaced by a program of unemployment insurance in due course. The government's main motivation for promoting unemployment insurance was to alleviate the cost burden on the state by shifting some of the expense to capital and labor. Unemployment insurance would need

to be financed by workers and employers through payroll taxes, while unemployment assistance was initially financed by tax revenues.

As early as August 1919, the Minister of Finance, Matthias Erzberger (Center Party), noted the “dismal experiences” the government had had with unemployment assistance and demanded the introduction of unemployment insurance “as soon as possible” to alleviate the burden on public finances (Führer 1990: 171). Four years later, in September 1923, Rudolf Hilferding, the Social Democrat Minister of Finance, called the introduction of unemployment insurance an “essential requirement” to deal with the “catastrophic financial situation of the state” (Führer 1990: 181). By shifting the compensation of the unemployed from the assistance to the insurance principle, the government intended to shift the financial burden to employers and employees.

The period during which the debate took place was characterized by extraordinary political uncertainty, which delayed the policymaking process. The Ministry of Labor had produced a first internal draft for an unemployment insurance bill in November 1919. All in all, it took three government bills and several revisions before parliament passed unemployment insurance in 1927. Two things facilitated the adoption of the program: First, the Minister of Labor’s commitment to the reform provided continuity to the reform process. Despite the frequent changes in government composition, Heinrich Brauns from the Center Party was Minister of Labor during the entire reform period and followed up the reform process. Second, in spite of the frequent changes in government, there was a stable parliamentary majority in favor of unemployment insurance. Before the war, most parliamentary parties had either opposed unemployment insurance (National Liberals

Table 1 Distribution of parliamentary seats 1920–1928 (%)

Election (month/year)	06/ 1920	05/ 1924	12/ 1924	05/ 1928
Legislative period	I.	II.	III.	IV.
NSDAP	–	7 ^a	3 ^b	2
DNVP	15	20	21	15
DVP	14	10	10	9
Center	14	14	14	12
DDP	8	6	6	5
SPD	22	22	27	31
USPD	18	–	–	–
KPD	1	13	9	11
Others	8	9	10	15

Parties in bold voted in favor of the unemployment insurance law. NSDAP: National Socialist German Workers’ Party; DNVP: German National Peoples Party; DVP: German Peoples Party; DDP: German Democratic Party; Center: *Zentrum*; SPD: Social Democratic Party; USPD: Independent Social Democrats; KPD: Communist Party. Smaller parties are aggregated. Numbers do not always add up to 100 due to rounding errors.

a Including seats of the nationalist “*Völkische*” Party.

b Joint list together with Bavarian People’s Party.

Source: Adapted from Preller (1949: 180). Data checked with Gonschior (2005) for errors.

Table 2 Business representatives in the Reichstag (1928)

Parties	Deputies affiliated with industry	Deputies affiliated with sectors other than industry	Total number of pro-business deputies
German National People's Party (DNVP)	9	9	18
German People's Party (DVP)	15	8	23
Center Party (Catholic)	3	6	9
Democratic Party (DDP)	8	3	11
Bavarian People's Party	1	1	2
Economic Party	1	12	13
Total	37 (out of 491)	39 (out of 491)	76 (out of 491)

The total number of seats in the Reichstag was 491; pro-business deputies thus made up about 16 percent (or 76 deputies) of the parliament.

Source: Adapted from Lewinsohn (1931: 93–94).

and conservative parties) or had been internally divided (Social Democrats and Center). In the Weimar Republic, in contrast, a majority of parties came to support unemployment insurance. The Center Party had overcome its pre-war disagreement and had become an advocate of unemployment insurance. The non-socialist parties were generally discontented with unemployment assistance, and saw unemployment insurance as an effective way of improving control over benefit recipients (Führer 1990: 171).

Importantly, the Social Democrats also changed their position. The majority of the Social Democratic labor unions abandoned their pre-war demands for a state-subsidized Ghent system and now supported a public insurance solution instead. The occurrence of mass unemployment during the first months of the war and during the demobilization period had confronted the unions' Ghent schemes with massive financial problems, which made them turn away from these schemes (Wermel/Urban 1949: 24–25). At the same time, the democratization of the state had allayed labor's suspicions about the use of unemployment insurance as a tool to repress the labor movement.

Both aspects facilitated labor's shift in favor of public unemployment insurance (Lewek 1992: 172–173). In December 1921, the majority of the unions organized in the Federation of Social Democratic Labor Unions (ADGB) voted in favor of a shift from assistance to insurance (ADGB 1921: 19). A majority of social democratic unions had thus supported the introduction of mandatory public unemployment insurance, financed by payroll taxes and administered together with employers on a parity basis.

A coalition between the Social Democrats, the Center Party and other smaller centrist parties in favor of unemployment insurance thus emerged and resulted in a stable parliamentary majority (see Table 1). The right-wing nationalist German National Peoples' Party (DNVP), which represented, among other groups, agricultural employers, as well as the Nazis (NSDAP) and the Communists, remained opposed to unemployment insurance.

5 Changing employer positions in the Weimar Republic

During the Weimar Republic, the two national employer federations (VDA and RDI) abandoned their pre-war opposition to unemployment insurance (VDA 1923: 35–36), and cooperated with government in the drafting of the final bill (Lewek 1992: 231). Why did the employers change their minds?

A combination of two factors explains the change: (i) the introduction of the program of unemployment assistance in 1914/18, disliked by employers, and (ii) the emergence of a clear political majority in favor of unemployment insurance. As the following subsection shows, employers disliked unemployment assistance because they had little control over who received benefits. However, unemployment assistance turned out to be difficult to dismantle, because a political majority in favor of unemployment insurance had emerged after the Social Democrats and the Center Party had made up their minds. Both parties had been undecided or internally divided about unemployment insurance before the war. With the democratization of the political system after the war and the changes in the positions of the Social Democrats and the Centre Party, employers now confronted a stable majority in favor of unemployment insurance.

Because of the changed political majorities, a return to the pre-war state – no social protection for the unemployed – was no longer politically viable. Once employers realized that the outright dismantling of unemployment assistance was not politically feasible, they decided to back the adoption of unemployment insurance as their “lesser evil.” By endorsing unemployment insurance and cooperating in its adoption, they hoped to be able to influence details of a reform that would help them to get rid of the disliked assistance scheme. The following subsections analyze why employers considered unemployment insurance less problematic than unemployment assistance and how they tried to influence the reform process.

Unemployment insurance vs. unemployment assistance

Industrialists preferred unemployment insurance to unemployment assistance because of the differential effects of these two programs on work incentives. The kind of arguments employers used against unemployment assistance after 1918 were the same as those used against unemployment insurance before the war. Unemployment assistance would benefit only “layabouts” and erode workers’ willingness to work. They suspected that unemployment assistance would promote idleness and destroy the sense of self-reliance among workers. They suddenly began to see unemployment insurance as a lesser evil: while unemployment assistance was granted to everyone claiming to be seeking work, unemployment insurance was linked to workers’ employment record. This meant that the work requirement (“willingness to work”) was easier to control in an insurance scheme than in an assistance scheme.

This suspicion was furthered by the municipalities' indiscriminate granting of benefits to all who declared themselves willing to work. No record of previous employment was required. Although recipients were obliged to accept work if offered, in a period of high unemployment a person's willingness to work was in practice difficult to prove. Employers resented the fact that they had no influence over the granting of benefits. Municipalities had little incentive to check benefit eligibility carefully, as they were also in charge of social assistance. Careful checking would merely have shifted costs from one program to another. In short, employers opposed unemployment assistance because it had a strong decommodifying effect on workers.

Inspired by social Darwinist thinking, employers thought that means-tested assistance programs would promote the "survival of the unfittest." If there were no assistance benefits, they reasoned, there would be fewer "unfit" persons in the first place. They suspected that assistance would damage individual workers' energy and capacity for self-reliance (*Eigenverantwortung*). The following statement by Ernst von Borsig, president of the VDA from 1924 to 1931, illustrates this argument:

It is possible that without the social assistance provided by the state perhaps 50,000 people will perish who manage to get by with the help of this assistance. But it is also possible that, if this assistance did not exist, four to five thousand other people would develop their capacities and energy in such a way that this would be – seen purely from an economic point of view – even more valuable. (Borsig quoted in Führer 1990: 206)

The arguments used by industry against unemployment *assistance* in the Weimar Republic were thus very similar to the arguments used before the war against unemployment *insurance* (see Section 2). While they accepted social benefits for those who were truly "willing and able to work," employers distinguished clearly between "deserving" and "undeserving" claimants.

Faced with unemployment assistance, employers abandoned their pre-war opposition to unemployment insurance and began to see the latter as the least bad option. The payment of unemployment insurance benefits required a record of previous employment and was thus less likely to erode work incentives. In a reversal of their pre-war position, employers now discovered the advantages of unemployment insurance. However, employers' support for unemployment insurance was half-hearted, as shown in detail in the following subsection: they liked the fact that benefits were to be tied to the employment record, but wanted to keep benefits means-tested, resulting in a hybrid of insurance and assistance.

In December 1920, the peak-level industry federation (RDI) declared that unemployment assistance was "necessarily seen as alms [by the recipient] and, in the long run, undermines the self-confidence and sense of personal responsibility of the workforce." For this reason, it should be replaced by "mandatory public insurance against unemployment as soon as possible" (decision by the RDI executive board on December 16, 1920,

printed in RDI 1921). Principled objections against unemployment insurance could no longer be accepted as being of paramount importance. In much the same way, the Chambers of Commerce in the Ruhr area declared in a joint memorandum in October 1920 that unemployment assistance would be “demoralizing, because it allows the state to take sole care, while insurance would encourage the wage-earner to practice self-help and would keep alive the idea of self-reliance in him” (inquiry by the Chambers of Commerce of Bochum, Dortmund, Duisburg-Wesel and Essen to RDI and DIHT, October 19, 1920; cf. DIHT 1920: 56).

Despite their preference for insurance over assistance, employers initially continued to oppose the introduction of a new insurance program. They suspected that the resulting increase in labor costs would be too high during what was then a period of high unemployment. The following subsection shows how strategic considerations motivated the VDA to finally abandon its opposition to unemployment insurance and to participate in the drafting of the government bill.

The role of strategic accommodation

As Table 3 shows, employers in the Weimar Republic turned from opponents to supporters of unemployment insurance. They initially tried to dismantle unemployment assistance, but failed. They decided to back the adoption of unemployment insurance as their second-best approach to eliminating unemployment assistance. While they publicly justified this shift with moral obligations to support those in need, internal deliberations show the importance of strategic considerations. In 1920, the social policy committee of the Federation of German Industry (RDI) discussed the issue of unemployment insurance. At a meeting of this committee, its speaker, the plant director Hubert Hoff, invoked two arguments in favor of unemployment insurance. First, there would be only two options available, unemployment insurance and unemployment assistance. The third option, a dismantling of unemployment assistance without any substitute, would not have “a reasonable chance of success.” Second, unemployment insurance would be “the lesser of the two evils,” because “if the system of unemployment assistance is continued, the employer has no influence on the use of the funds” (minutes of the RDI executive board meeting on December 16, 1920). With 16 votes in favor and five votes against, the RDI’s social policy committee decided to endorse the introduction of unemployment insurance. Subsequently, the RDI’s executive board ratified this decision, with only one vote against (RDI 1921). The internal deliberations of the RDI thus show clearly that strategic adjustment to political constraints motivated the endorsement of unemployment insurance.

Strategic motivations are rarely admitted in official statements and publications. However, statements by individual business representatives provide further evidence of the importance of strategic considerations. The executive director of the Associa-

Table 3 Changes in employers' position in the Weimar Republic

Date	Events	Unions' positions	Employers' positions
Up to 1914		Most unions were pro Ghent and contra public UI.	Employers were uniformly contra any UI (public or Ghent) (see text for sources).
Dec. 1914	UA adopted temporarily for duration of war (<i>Kriegswohlfahrtspflege</i>).		
March 1918			VDA opposes union demands for public UI as a "pension for the unemployed" (VDA 1918).
Nov. 1918	Validity of UA extended to post-war period under impression of revolutionary forces		
1918		Social Democrats and ADGB abandon Ghent model and call for a public UI instead.	
August 1919	MoF demands adoption of UI to ease financial pressure on municipalities.		
Nov. 1919	MoL presents 1st draft for UI bill.		
April 1920			VDA informs MoL that a majority of its members oppose the UI bill.
May 1920			RDI "hopes" that parliament will vote against the UI bill.
Dec. 1920			RDI proposes UI as substitute for UA (RDI 1921).
Sept. 1921	MoL presents 2nd draft for UI bill.		
Dec. 1921		Majority at ADGB congress votes in favor of public UI.	
Oct. 1923	Payroll tax to finance UA was introduced.		
1924			VDA demands reduction in social expenditures (VDA 1925a: 91). VDA calls on government to halt adoption of UI for reasons of cost (VDA 1924: 3-4).
Jan. 1925			VDA social policy committee discusses change in position because opposition "hopeless" (meeting on January 27, 1925).
Oct. 1925	MoL presents 3rd draft for UI bill.		
1926			VDA cooperates in the drafting of the final government bill.
July 1927	National parliament passes UI bill.		

Sources: Author's own compilation based on Führer (1990), Lewek (1992), Wermel/Urban (1949), Faust (1986, 1987) and sources mentioned in the table.

MoL: Ministry of Labor, MoF: Ministry of Finance, ADGB: Federation of German Labor Unions, VDA: Federation of German Employer Associations, RDI: Federation of German Industry, UI: unemployment insurance, UA: unemployment assistance scheme (*Erwerbslosenfürsorge*).

tion of the Berlin Metal Industry, Stefan Oppenheimer, said at a conference of policy experts in 1925:

The employers' side understands that, given the proposals put forward by all political parties, it would be completely useless to take the position that we do not want any unemployment insurance. Therefore, the position of the employers is to say merely: unemployment insurance has to remain within tolerable limits, and it is our duty to point out the dangers that it could pose to the economy. (Oppenheimer from the Association of Berlin Metal Industrialists, in Jastrow/Erdmann/Spliedt 1925: 113)

Similarly, the social policy committee of the VDA thought that a strategy of fundamental opposition would stand "no reasonable chance" of succeeding in the long run (meeting of the VDA social policy committee, January 27, 1925: VDA 1925b). The German Diet of Industry and Commerce (DIHT) declared in October 1920 that it had "substantial fundamental objections" to unemployment insurance, but would nonetheless be ready to participate in the drafting of the law. A list of demands intended to restrict benefit generosity and costs followed (DIHT 1920: 56).

Strategic arguments also played a role among those employer groups who decided to continue to oppose unemployment insurance. The position taken by Adolf Haeusser illustrates this point. Haeusser was the only member of the RDI's executive board who voted against unemployment insurance at the decisive meeting mentioned above. He represented the chemical industry and was chairman of IG Farben (Wolff-Rohé 2001: 442). Haeusser justified his support for unemployment assistance on the grounds that it would be "an imperfect regulation, and precisely for this reason it will soon be dismantled. Whereas unemployment insurance, once introduced, cannot be dismantled anymore" (minutes of the meeting of the RDI executive board on December 16, 1920). Unlike a majority of German industrialists at that time, he considered the shift in political power to be of a temporary nature and, for this reason, clung to industry's pre-war position of opposition to unemployment insurance.

The employers' role in policymaking: cost containment and strategic accommodation

The shift in the position of employers towards supporting unemployment insurance could have led to a cross-class alliance, as a majority among the unions also favored unemployment insurance. Indeed, in October 1921, unions and employers unanimously called upon the government to substitute insurance for assistance (meeting of the ZAG executive board October 13, 1921: VDA 1921). However, employers rejected a bill on unemployment insurance presented by the Ministry for Labor in April 1920 as too costly and too generous (Brandt 1920: 1395; cf. also VDA statement April 24, 1920, quoted in Lewek 1992). In other statements from 1923 and 1924, the VDA again called upon

government “to refrain, for the time being, from plans to introduce unemployment insurance for financial and organizational reasons” (VDA 1924: 4).

Changes in the unemployment assistance scheme, however, made this program even more problematic for employers and the shift to an insurance program less so. To alleviate the pressure on public finances, the government introduced a payroll tax to finance unemployment assistance in October 1923. Two-thirds of the costs of unemployment assistance were to be financed by workers and employers in equal shares, whereas the remaining third was to be financed by the municipalities and subsidies from the regional and federal state level (Preller 1949: 364). This decision did not require parliamentary approval. In effect, these changes turned unemployment assistance into a hybrid program, combining elements of insurance with elements of assistance. This change made the switch to unemployment insurance seem even more appealing to employers, since they now had to contribute to supporting the unemployed in any case.

In 1926, the VDA finally abandoned its opposition to the introduction of unemployment insurance, and offered to cooperate with the government in the drafting of the bill (VDA 1926). As mentioned earlier, a strong parliamentary majority in favor of unemployment insurance already existed at that time (see Table 1). As shown in the previous subsection, employers realized that they stood no chance of dismantling unemployment assistance. Trying to influence details of the insurance option was the best option available to them. By participating in the drafting of the bill, the VDA expected to have a greater chance of influencing policymaking, compared to outright opposition (meeting of the VDA social policy committee on January 27, 1925: VDA 1925b). Indeed, the VDA succeeded in changing some rules and in the end decided to endorse the bill the government presented to parliament in July 1927³ (Erdmann 1927: 347).

The VDA's demands focused on containing the cost impact of the new program. As already mentioned, the VDA suspected that the new program would increase labor costs substantially. VDA executive director Gerhard Erdmann emphasized that “legal provisions need to be created to prevent the costs of unemployment insurance getting out of

3 The law on unemployment insurance and employment services, passed in July 1927, consisted of two parts: the first part established the new unemployment insurance program, while the second reformed the organization of labor market policy by establishing a new public authority for this purpose, the new National Office for Employment Services and Unemployment Insurance. The placement of unemployed workers and the granting of unemployment insurance benefits were united in one organization. The new authority was governed by tripartite decision-making bodies, including workers, employers and the state, on a parity basis. Unemployment insurance benefits were granted only to those who were “involuntarily unemployed,” were “willing and able to work,” and had been employed for at least 26 weeks during the last 12 months. Benefit payment was limited to 26 weeks. Benefit levels were earnings-related and means-testing was abolished (Faust 1987: 276). Compared to unemployment assistance, the new law thus improved employers' control over the use of funds and the granting of benefits and at the same time reduced the decommodifying character of social policy by linking benefits to previous employment.

hand” (Erdmann in Jastrow/Erdmann/Spliedt 1925: 26–27). Employers urged policy-makers to keep benefit levels moderate and to define entitlement criteria restrictively.

Remarkably, the VDA wanted to keep benefits means-tested. The VDA endorsed the shift from assistance to insurance, because an insurance program tied benefits to employment and allowed for better control of benefit recipients. Nevertheless, the VDA insisted that insurance benefits should be means-tested in order to limit costs. Contribution payments should not establish benefit rights (VDA 1924: 3; Erdmann in Jastrow/Erdmann/Spliedt 1925: 32; cf. also Lewek 1992: 231). Employers’ support for the insurance principle was inconsistent: they wanted benefit entitlements to be restricted to those paying contributions, but did not want workers to derive any legal entitlements towards benefits from the contributions they paid. This observation confirms that the intention to get rid of assistance motivated employers to back unemployment insurance, rather than any genuine belief in the insurance principle – that is, the principle of equivalence of contributions and benefit rights.

Some of employers’ demands directly contradict the skills interest thesis. The controversy over “job suitability rules” provides the clearest evidence in this respect. Job suitability rules define what kind of job an unemployed person can reject without losing his benefits. The third government draft (1925) included a provision that required the labor market agencies to take into account a person’s vocational training and previous occupation when deciding what kind of job offers the person would need to accept (Lewek 1992: 269). Employers objected to this rule: “Concerning job suitability, previous vocational training should not be taken into consideration” (VDA 1926: 36). To contain program costs, the unemployed should be obliged to accept any job, including jobs in a different region or a different vocation (VDA 1926: 36R). The VDA also argued that labor market agencies could not be relied upon to implement job suitability rules consistently. In short, the employers’ federation was not interested in protecting skill investments. Rather, the federation feared that job suitability rules raised levels of unemployment and hence made the program more costly. Similarly, the German Diet of Industry and Commerce rejected restrictions on what qualifies as a “suitable job” (DIHT 1920: 56).

To sum up, employer support for unemployment insurance was strategic rather than a reflection of a genuine preference for protecting the unemployed.⁴ Remarkably, argu-

4 While the employer federation (VDA) had officially endorsed the bill, several parliamentary deputies representing business interests voted against the bill or abstained from voting. Most of them belonged to the right-wing nationalist DNVP. Most of these votes came from agricultural employers, who did not want to participate in the unemployment insurance scheme because most agricultural workers would not have qualified for benefits. Some of the votes against the law, however, also came from big industry, for example from the coal mine director Bernhard Leopold. Among those industry deputies abstaining from the vote was the executive director of the Association of German Iron and Steel Industrialists (VDESI), Jacob Reichert (Liesebach 1957: 116). Politically right-wing but from diverse sectoral backgrounds, these employers did

ments about the protection of skill investments did not play a prominent role in the debate. Instead, the arguments used by business representatives in favor of unemployment insurance focused on strategic considerations; most importantly, the desire to get rid of unemployment assistance. Given the clear parliamentary majority in favor of the bill, employers' support was not crucial for its passing.

Reform of the new unemployment insurance system

The political compromise in favor of unemployment insurance turned out to be very short-lived. Soon after the passing of the law, unemployment started to soar as a result of the onset of the Great Depression in 1929. The number of unemployed persons increased from about 1.2 million in June 1927 to about 6.1 million in March 1932 (Preller 1949: 166–167). The contribution rate (3 percent) had initially been set in such a way that the program would be able to support up to 800,000 unemployed persons (Faust 1987: 276). The number of unemployed persons soon started to exceed the maximum the program was designed for. Policymakers had thus grossly underestimated the level of future unemployment. The law obliged the federal state to cover revenue shortfalls by providing loans to the insurance administration. This meant an ever-growing burden on the federal budget.

The massive deterioration in the finances of unemployment insurance led to a heated controversy over how to reform the program. Employers revoked the 1927 compromise and demanded massive cutbacks to contain the increase in social expenditure. Positions among the political actors on how to reform unemployment insurance differed greatly and developed into what was perceived by the Social Democrats as a conflict over the principles of the German welfare state. Labor unions and the SPD insisted on increases in contribution rates, while employers and the DVP (German Peoples Party) demanded substantial cost cuts to solve the fiscal problems.

Employers focused on two demands. First, seasonal unemployment should be excluded from unemployment insurance benefits. Second, means-testing of unemployment insurance benefits should be reintroduced (Büren 1934: 211–212). Employers thus abandoned the insurance principle and demanded a return to the assistance principle instead. In 1930, the executive director of the RDI, Ludwig Kastl, complained that unemployment insurance would “eliminate the mechanisms of demand and supply on the labor market” and for this reason it would have become impossible to “adjust wages

not support the compromise endorsed by the VDA. Given the overwhelming majority in favor of the law, however, these business deputies refrained from fighting for their cause. As we will see in the following subsection, the passing of the law was not the end of the debate. Less than two years after the passing of the law, the onset of the economic depression led employers to revitalize their campaign against unemployment insurance.

in line with business-cycle developments” (quoted in Weisbrod 1978: 210). The short-lived nature of the employers’ endorsement of unemployment insurance underlines its strategic nature. Employers endorsed unemployment insurance because it was their fall-back option, not because they thought it would help them to create the kind of workforce they wanted.

6 What motivated industry to change its position on unemployment insurance?

Before World War I, employers had unanimously opposed unemployment insurance. In the Weimar Republic, they came to accept it. What motivated them to change their minds? This section summarizes why employers reversed their position and discusses the relevance of strategic and genuine preferences in motivating their political decisions.

The change in the employers’ position was a response to a set of profound changes in the political context that had happened after the war. The analysis in this chapter has highlighted two specific changes: first, the introduction of unemployment assistance in 1914/1918 and second, the emergence of a stable political majority in favor of unemployment insurance facilitated by the regime change of 1918. The introduction of unemployment assistance in 1918 had established a policy legacy that, in interaction with the political majority in favor of unemployment insurance, made a return to the pre-war situation – no social protection for the unemployed – politically unrealistic. The options on the agenda were now these: continuation of assistance or switch to insurance.

As this paper has shown, employers’ opposition to social protection derived from its de-commodifying effects. Unemployment benefits reduce people’s dependence on gainful employment. For this reason, employers were reluctant to accept social benefits for the unemployed. They suspected that social benefits would reward “work-shy shirkers” (*arbeitsscheue Drückeberger*). Once workers were able to get by without working, a good many of them would refuse to accept any work. Protecting workers against the risk of unemployment was acceptable to employers only on condition that a way would be found to pay benefits only to those workers that were truly “involuntarily unemployed” and truly “willing and able to work.” Employers considered that great care was necessary to make sure that those not fulfilling these criteria – the “shirkers” – would not receive benefits.

In this respect, unemployment insurance was the lesser evil for them compared to unemployment assistance. The reason for this is that the two programs differ in the extent to which they enable the unemployed to make a living without employment. The work obligation of benefit recipients can be enforced more effectively in an insurance scheme than in an assistance scheme. Unemployment assistance required no record of previous employment. For the low-skilled, the level of flat-rate benefits tended to approach wage

levels, which eliminated their work incentives (Preller 1949: 365). In contrast, insurance benefits were tied to employment record and earnings, making them less prone to reward idleness.

During periods of high unemployment, controlling the willingness of benefit recipients to accept work is difficult. The way the assistance program was administered exacerbated this problem. The municipalities were unilaterally in charge of the program. Employers criticized them for not carefully enforcing the work obligation rule. In practice, the municipalities had little incentive to enforce it, as denying benefits would merely have shifted the cost burden to the municipal poor relief programs. The administration of unemployment assistance thus denied employers any influence over the granting of benefit payments.

In short, an insurance scheme maintains a greater dependence on gainful employment than an assistance scheme. Framed in terms of a need to maintain the “sense of personal responsibility” and self-reliance among workers, employers wanted to protect work discipline and work incentives. Social protection was a threat to this aim. Before the war, when no social protection against unemployment had existed, employers’ objective had been to preserve the policy status quo. After the war, when the introduction of unemployment assistance decommodified the unemployed even more than unemployment insurance would have done, the employers’ objective was to dismantle the former.

The second component in the explanation of the change in employers’ attitudes towards unemployment insurance is the shift in the political center of gravity in the Weimar Republic compared to the Wilhelmine Empire. The authoritarian government of the Wilhelmine Empire had been reluctant to engage with the issue of unemployment insurance, while a majority of parliamentary parties had either opposed it (National Liberals, Conservatives) or had been split (Center, Social Democrats). After the war, the Social Democratic labor movement turned away from the Ghent system because these schemes ran into financial troubles due to high unemployment. Instead, the SPD and the majority of the unions now endorsed public unemployment insurance (Wermel/Urban 1949: 24–25). The German People’s Party and the Center Party, two predecessors of today’s Christian Democrats, now endorsed the introduction of unemployment insurance. The balance of power had thus shifted against the preferences of employers and blocked a return to the status quo ante.

Employer opposition to unemployment assistance alone was not sufficient to convince them to back the insurance option. Additionally, the insight that a strategy of radical opposition would mean fighting a losing battle was important in persuading employers to cooperate in the drafting of the new program. The resulting political compromise remained short-lived. The economic depression that started in 1929 precipitated a massive financial crisis in the new insurance program. These reversals would have been unlikely if employers’ support for unemployment insurance had been motivated by a genuine preference for unemployment insurance (Büren 1934: 208–209).

Evaluation: Skills interests or strategic accommodation?

In short, the historical evidence shows that strategic accommodation is a better explanation of employers' acceptance of unemployment insurance than an interest in skill investments. There appears to be little evidence for the hypothesis that an interest in the protection of skill investments motivated employers to endorse unemployment insurance. On the contrary, as the evidence presented shows, employers rejected limitations on job suitability, which would have prevented unemployed workers from having to switch occupations. In addition, arguments about the protection of skill investments appear not to have played a central role in the debates leading to the introduction of unemployment insurance. Employers were aware that prolonged unemployment can lead to an erosion of past skill investments (VDA 1927: 136). However, they did not consider social benefits as a means of solving this problem. Instead, they thought that better job placement services and public works projects would help to retain skills.

Although direct archival evidence for the skills interest thesis is weak, underlying structural changes in the composition of industry during the Weimar Republic may possibly have facilitated employers' policy reversal, as suggested by Mares (Mares 1996b: 30). The newer manufacturing industries were more skill-intensive compared to older heavy industry, and for this reason may have been more open to social protection. We therefore need to look at the relative importance of skill-intensive industries during the Weimar Republic. Here, I use the same definition of skill-intensive sectors as Mares (1996b: 30): chemicals, machine tools and electrical engineering. At the time unemployment insurance was introduced, only about 16 percent of total industrial output came from these sectors (see Table 4). Skill-intensive sectors seem not to have dominated industry at that

Table 4 Sectoral composition of the German Economy (1927/28)

Sector	%
Mining	10.0
Nonmetallic mineral processing	4.1
Iron and steel production	10.3
Mechanical engineering and car manufacturing	8.2
Electric engineering	4.1
Chemical engineering	3.8
Textiles	7.6
Clothing	5.8
Paper and pulp	5.8
Leather	1.7
Rubber	0.6
Timber industry	4.1
Food	14.7
Energy utilities	2.1
Construction	11.4
Others	5.7
Total	100.0

Share of sector as a percentage of total industrial output; sectors in bold are those relying on highly-skilled labor.

Source: Adapted from Weisbrod (1978: 34, Table 1).

time. Therefore, concerns about the protection of skill investments are unlikely to have been the main factor explaining why employers decided to change their minds in the Weimar Republic.

7 Conclusions

This paper has investigated the question of why employers came to accept the adoption of unemployment insurance in the Weimar Republic. The paper tested two alternative explanations: the skills interest thesis and the political accommodation thesis. I have argued that the political accommodation thesis is better able to explain why employers accepted the introduction of unemployment insurance than the skills interest thesis. While in public statements, employers sometimes emphasized the moral need to support the unemployed, internal protocols document the primacy of strategic considerations. Remarkably, employers also were the last of the major political actors to back to the introduction of unemployment insurance, as shown in Table 3. Employers adjusted their policy stances to the constraints and opportunities of the historical moment. By doing so, they temporarily came to back the adoption of unemployment insurance. However, their underlying preference remained unchanged: to protect work incentives by keeping social protection weak.

The historical findings show that changes in political challenges largely shaped the kind of policy options employers supported, rather than changes in their economic interests or normative orientation. During both periods analyzed in this paper – the Wilhelmine Empire and the Weimar Republic – employers' basic preference with respect to social policy appears to have been to protect work incentives. While this preference against de-commodification remained unchanged throughout the entire period, changes in political context made this basic preference translate into very different policy positions. In the Wilhelmine Empire, opposition to de-commodification translated into opposition to unemployment insurance; in the Weimar Republic, it translated into qualified support for unemployment insurance. Two developments had constrained the policy choices in the Weimar Republic: first, the policy legacy of unemployment assistance, established in 1914/18; and second, the emergence of a political majority in favor of unemployment insurance. Together, these two changes limited the options available to employers.

The empirical findings in this paper have broader implications for the study of the political origins of institutions that today are often portrayed as providing competitive advantages to firms in “coordinated market economies.” Today, specific social policies, like unemployment insurance, may provide advantages to industries using specific skills. However, the historical findings suggest that an intention to improve economic productivity cannot serve as a causal explanation for the scope or generosity of social protection. The development of comparative institutional advantages results not from

“intelligent design,” but is most likely the unplanned result of processes of adjustment by individual firms to institutional constraints that have their origins in past political conflicts. However, further research appears necessary to find out whether the adjustment of production strategies over time did, in the long run, lead to a genuine change in employer preferences.

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