

Paster, Thomas

## **The role of business in the development of the welfare state and labor markets in Germany: Containing social reforms**

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Western European democracies and welfare systems are closely connected with each other and research escorts that liaison in manifold theoretical and empirical perspectives, i.e. institutional conditions and conditionality in welfare systems, their influence on success or failure of societies in general and on economic development in particular.

Thomas Paster in particular addresses the role of business for establishing and developing welfare elements. Driving forces for his analysis are the disproving of the *business interests thesis* and proofing the *political accommodation thesis* as profound explanation for the development of the German welfare-system. Due to the business interest thesis employers play an active role in introducing and developing a welfare-system as such instruments support business and management. However, employers' self-interest in supporting welfare and social politics like centralized wage bargaining and social protections varies across sectors. While employers in some sectors oppose to any welfare measures, other employers push for establishing those and therefore build up alliances with unions (so called cross-class alliances). As a result, conflicts within business and cross-class alliances shape the characteristics of the modern welfare state.

The *political accommodation thesis* –favored by Paster – stresses the role of challenges from the political sphere as driving forces for employers' support of welfare measures. A priori, employers have no genuine economic interest in social protection at the state level (note that this does not contradict social protection at company level). In a market-oriented democracy, however, employers are just one minority group out of several social groups competing for influence on decisions made by government and parliament. Hence, employers are forced to react to demands or actions by other social actors and political decision-makers. In a nutshell, they only support welfare-state politics and its expansion if political alternatives or "political challenges" will be more costly or damaging for them. Paster identifies two types of political challenges which induce different strategies by employers. First, the "revolutionary challenge aims to expropriate capital through collectivization of industry" (p. 13). Confronted with this, employers will try to pacify society and promote social state protection and bargaining rights. Second, the "reformist challenge" stands for expanding social and workers right far beyond the employers' acceptance. In reaction, employers will support moderate reforms or the least problematic ones and will search for alliances with centrist actors rather than with radical ones. As a result, employers' choice for the "lesser evil" (p. 13) will shape their positions toward welfare-state politics.

Paster's objective to confirm the political accommodation thesis bases on a historical-institutionalism approach and goes back to the origins of the German welfare state. The analysis starts with the foundation of employers' association in the Bismarck era and highlights the reactive character of that organizational building process.

In general, employers' association was established as an instrument to repress organized labor as the latter was growing to a critical force for business interests. Further examples for the development of the German welfare state are selected due to the concept of path dependency and the high relevance of critical juncture. Critical juncture refers to (short-term) moments in political systems with a high degree of uncertainty over the following development, and therefore (completely) new path developments are possible. In reality, critical junctures are often linked to revolutionary periods but also to situations in which a power vacuum can be attested. Based on this argument, Paster defines two critical junctures beyond the Bismarck era: the aftermaths of World War I and World War II.

In particular he analyzes the political context for employers during the Bismarck era and the circumstances of the first state social insurance system. Overall, employers' support of social protection and complete shift in their policy position originated from the fear of revolutionary tendency. Hence, employers choose politics of pacification (p. 180). After the World War I an atmosphere of revolution exists again and employers implement pacification once more by supporting the introduction of collective bargaining agreements and unemployment insurance, even though both elements of a welfare state are not their genuine interest. The political context after the World War II for the welfare state development differs: while in the late 1940's and early 1950's still a revolutionary challenge can be observed, mainly a reformist challenge can be attested afterwards. Concerning the expansion of social insurance, the pension reform and the introduction of codetermination, Paster argues that employers' associations are constantly forced to propose an expansion of welfare state in a moderate way against other social groups and political parties. He points out that the political context leaves no space for promoting genuine preferences but positions with less problematic elements of welfare state than other relevant political actors promote. In other words: the political context induces employers' support of the development of the German welfare state but not their genuine economic interests in social protection. Otherwise employers would have had no chance with their "radical" positions to have any impact on political-decision making process. Overall, Paster summarizes that employers choose either the containment strategies or opposition strategy (pp. 185). The dramatic change in economic and political contexts after the German reunification in the 1990's opens up completely new possibilities for employers' associations. Backed by serious economic problems in Germany, employers not only proactively promote reform and retrenchment of the German welfare state but also quit prolonged welfare state arrangements. For example, especially small firms and companies in East Germany cancel collective bargaining agreements. Due to Paster's interpretation employer associations turn away from political accommodation and turn to positions which are best reflection of their genuine preferences than ever before.

Readers who are interested not only in empirical evidence but also in theoretical argumentation and the link between the two will keep disappointed in some points. First and foremost, the used concept of preferences provokes criticism. For example, it lacks clear separation between theoretical assumptions and empirical means of checking. Additionally, typically tautological problems occur as empirical evidence of preferences is derived from observable behavior like policy positions or actions. Be-

yond that, the concept proposes that historical context can influence not only strategic but also genuine preferences (p. 17). However, as all preferences are inferred from the same data like political speeches of association representatives or policy position papers and no explanations are given about differences in measurement of various preferences, empirical results on types of preferences are only individual interpretation and lack validity as well as reliability. Looking at employers' associations in several historical contexts highlights important and valuable differences in policy positions, but it is logically problematic to infer changes in preferences without addressing, firstly, analysis refers not constantly to policy positions of the same collective actors rather to varying federal associations and accidentally to sectorial business groups. Secondly, as Paster mentions, members, objectives and organization itself have changed over time and therefore, employers' associations in the Bismarck era have less in common with those associations nowadays. Against this background, I wonder whether it is plausible to assume functional equivalence and propose *changes* in preferences and positions of one collective actor "employers".

Beyond that criticism, Paster's historical perspective on employers' positions on German welfare state contributes to the manifold research on the interplay between political institutions and economy; particularly for the empirical field of political economy – the most important common playing field for economics and political sciences. Despite some methodological problems in the design of the empirical analysis, the empirical evidence is convincing as long as employers' positions on welfare state are defined as a result of political constraints and perceived feasibility of own ideas of social protection in a specific political and social constellation. To sum up, Paster brings out the *strategic* policy-positioning of employers and what is seen by them as at least problematic in particular periods of time. So far, the political accommodation thesis can be confirmed as the support of the German welfare state is not the result of employers' interest in social protection per se but of their choice for the lesser evil.

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