



Choosing Lesser Evils:

The Role of Business in the Development of the German Welfare State from the 1880s to the 1990s

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PhD thesis defence on 12th June, 2009

Abstract

This thesis is an empirical study of the role of organized business in the formation of market-correcting industrial relations and welfare state institutions, relying on a historical-diachronic case study of welfare state development in Germany from the 1880s to the 1990s. How did the formation of the “German model” become possible in the face of employers’ structural power? The thesis confronts two alternative theoretical approaches for explaining employers’ acceptance of market-correcting institutions: an *economic-functionalist approach* (“cross-class coalition thesis”) and a *political-strategic approach* (“political accommodation thesis”). The first one focuses on economic benefits derived by specific types of firms from welfare state and industrial relations institutions, the second on political constraints and changes in the political power structure, and employers’ strategic responses to them. The thesis finds that the political accommodation thesis has greater explanatory power and challenges business interest-based explanations of welfare state development.

The empirical analysis in the thesis traces the preferences (interest perceptions), strategic considerations, and resulting policy positions of the national employer federations in Germany during three different political regimes: the Wilhelmine Empire (1871-1918), the inter-war Weimar Republic (1918-1933), and the post-war Federal Republic (1949-1990s). The analysis focuses on those historical reform events that, in retrospect, came to shape welfare state and industrial relations institutions in Germany. Process analysis based on historical sources and diachronic comparison are used as methods to reconstruct (i) the motivations of employers for supporting or opposing specific policy options, and (ii) the socio-political and institutional environment within which employers formed their preferences and strategies. The thesis studies Germany as a *crucial case study* because of the paradigmatic character of this country as a type of non-liberal capitalism that is often understood to benefit certain types of firms today.

Empirically, the thesis finds that socio-political and institutional constraints motivated employers to accept specific policies and institutions, rather than hard-wired economic interests. The thesis identifies two dominant employer strategies in welfare state politics: (a) *pacification* of radicalized elements within labor, and (b) *containment* of expansionary reform projects. Moreover, the thesis finds that employers consistently preferred conservative types of social policies to universalist (social democratic) alternatives, and explains this as a result of differential impacts on work incentives. The deliberate formation of cross-class coalitions is found to have been rare and to have happened only under conditions of extraordinary political and economic uncertainty. Issues of skill formation are found to have played a marginal role



Thomas Paster is a political scientist specialising in comparative political economy and comparative welfare state analysis. Thomas holds a Masters degree in political science from the University of Vienna. Prior to joining the EUI as a doctoral student in 2004, he completed a two-year postgraduate training program in European Integration Studies at the *Institute for Advanced Studies* (IHS) in Vienna (2002-2004), where he worked on the Europeanization of labour market policies. The results of this research were published in the *Austrian Journal of Political Science* (ÖZP). In October 2009, Thomas will take up a postdoctoral fellowship at the Max-Planck-Institute for the Study of Societies, Cologne, where he will focus on disseminating and extending the research of his PhD thesis.