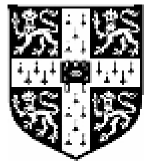


# GONNA PARTY LIKE IT'S 1899: PARTY SYSTEMS AND THE ORIGINS OF VARIETIES OF COORDINATION



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| Abstract: | This paper explores the origins of peak employers' associations around the dawn of the Twentieth-Century to understand why countries produce highly-centralized macro-corporatist groups, weaker national associations but strong sectoral groups, or highly-fragmented pluralist associations. By most accounts, levels of organization reflect the degree of labor militancy, levels of skills associated with preindustrial guilds and/or industrial structures that facilitate or discourage coordination. Yet while economic structure and labor characteristics certainly contributed to the evolution of associational forms, these varied explanations fit the empirical data uneasily. For example, both high levels of labor militancy and strong norms of social cooperation are said to spur coordination, but these suggest quite different relations between the social classes. Guilds had a dual legacy for industrial life: their economic impact was to create highly-skilled labor and non-market competition, but their political legacy was one of fractious infighting among employers divided along craft lines. While models of association are quite distinctive today, the initial organizational efforts exhibited strong similarities.<br>We supplement these theories with a political motivation for the formation of peak employers' associations, and propose that the structure of partisan competition played a vital causal role in the development and evolution of these peak associations. First, from the 1890s through World War I, employers across the western world sought national industrial development policies and highly-organized peak employers' associations; yet, these parallel |

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| | experiments produced different organizational forms. Second, the leadership for peak employers' association development came from business-oriented party activists and bureaucrats, who aimed both to advance industrial development policy and to solve specific problems of political control. Third, because leadership for association-building came from the state, the political rules of the game – structure of party competition and state centralization – were crucial to outcomes. Dedicated business parties were more likely to develop in countries with multiparty systems and limited federal power-sharing than in countries with two-party systems and federalism. In a multiparty context where no single party was likely to gain power, each party had an incentive to cooperate with other social groups. Moreover, business-oriented party leaders and bureaucrats in multiparty systems were motivated to delegate policy-making authority to coordinated societal channels for industrial relations, because they anticipated that employers would win more in these channels than in parliamentary settings where the center and left could form a coalition against the right. |
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## INTRODUCTION

At the beginning of the Twenty-First Century, varieties of business representation across the capitalist democracies seem worlds apart. Despite pressures associated with post-industrialization, the "macrocorporatist" Scandinavian countries maintain highly-centralized, national employers' peak associations that engage in wage and policy-making negotiations with highly-centralized labor unions and government bureaucrats. In Germany and other continental European countries, national employers' associations have lost power in both political representation and collective bargaining. But employers' industry-level groups continue to coordinate collective firm activities and to negotiate sectoral (often private) cooperative agreements with their workers, or what we might call "sector coordination." Finally, an aversion to cooperation appears bred in the bone in the Anglo-liberal lands of Britain and the United States: highly-fragmented or "pluralist" associations organize employers and workers, and the representation of business interests remains a highly individualistic affair (Martin and Swank 2004; Martin and Thelen, 2007; Hicks and Kenworthy, 1997; Hoepner 2007).

This paper explores the origins of peak employers' associations around the dawn of the Twentieth-Century to understand why countries produce highly-centralized macro-corporatist groups, weaker national associations but stronger industry-level groups, or highly-fragmented pluralist associations. We argue that government actors led in the creation of peak employers' organizations; therefore, party competition had a significant impact on the evolution of the associations into their mature institutional forms. The terms of political engagement (set by party system characteristics and state structure) influenced the political incentives of both public and private sector leaders, and shaped the evolution of employers' organizational capacities.

First, the incentives for cooperation were much different in two party systems than in

multiparty systems. In the former, large umbrella parties tended to include employers as well as other social actors, employers were often dispersed across parties, and right parties could reasonably hope to win electoral majorities and had little reason to compromise with the other parties. In these cases, a fragmented, pluralist system of business representation emerged. Countries with multi-party systems, however, were likely to have partisan organizations dedicated to the interests of specific social groups (such as labor, business, and farmers), and each party had a political incentive to cooperate with the others in order to participate in the governing coalitions. Moreover, these business-oriented parties recognized their limited chance to win an electoral majority and sought to delegate policy-making power to social actors in private institutions; thus, they had a strategic reason for nurturing labor-market coordination.

The level of coordination was influenced by a second political feature: the degree of state centralization versus federalism. Countries with strong national governments were more likely to produce a *national* dedicated business party, which covered the interests of most companies, and served to develop the collective voice of business: these countries produced encompassing, macro-corporatist employers' associations. In federal countries, diverse business parties developed at the regional level and employer organizations remained fixed at the sectoral level.

We also acknowledge other causes for employer organization: the structure of the economy and features of labor (strength of labor militancy and levels of skills associated with preindustrial guilds) (Hall and Soskice, 2001, Thelen, 2004). Yet we argue that these explanations are bounded: they suffer from some inconsistencies, fit uneasily with the empirical data, and do not capture the full story. For example, *both* high levels of labor militancy and strong norms of social cooperation are said to spur cooperation in coordinated countries (Due, Galenson), but these motivations for coordination suggest quite different relations between the

social classes: while guilds motivate cooperation to secure collective goods, labor activism inspires defensive action to contain militancy.

Recognizing the causal salience of the structure of political competition supplements and improves upon other theories of associational development in several ways. First, association-building at the industry- and national, multi-sector levels relies on *substantially different processes*. Economic structures, labor activism and pre-industrial cooperation are highly salient to the evolution of *sectoral* or *regional* employers' organizations. But national, multi-sectoral, peak employers' associations require a moment of disconnect in social life, in order to overcome the high transaction costs of group formation beyond the industry level. Timing is also important in that national patterns are solidified at the point in which regional economies and political communities become incorporated into national and even global structures. As we demonstrate in our case histories, the leadership for peak employers' association development came from business-oriented party activists and bureaucrats, who sought both to advance industrial development policy and to solve specific problems of political control. Business-oriented party leaders and bureaucrats in both pre-democratic and democratic regimes feared the rising tide of democracy and labor activism, and viewed employer organization as a useful tool for political control, to secure parliamentary advantage, and to serve as a societal counterweight to working class activism. Political leadership was vital to the emergence of these peak associations, and the structure of political competition played a decisive role in the structure of these groups.

Second, political agency becomes more important at critical junctures, when both the range of possible actions and impacts of outcomes are expanded (Capoccia and Ziblatt), and the structure of political competition *shapes the strategic choices of political actors*. The dawn of the Twentieth-Century constituted a moment of enhanced opportunity for building institutions for

labor market coordination. An ideology of cooperation gripped employers across the western world during this period; national industrial development policies, highly-organized peak employers' associations, and labor-market coordination were viewed as solutions to the rise of national economies, the globalization of trade and the need to transfer regulatory privilege from agriculture to industry. While experiments in building peak employers' associations articulated very similar ambitions for high levels of nonmarket coordination, these parallel experiments ultimately produced different organizational forms; and party competition played a major role in producing these diverse outcomes.

Finally, as we have argued elsewhere, there is a "dynamic and mutually-reinforcing relationship between the spheres of industrial relations and political party competition" (Martin and Swank, 2008, 14; see also Iversen and Soskice, 2009). Our intensive investigation of the historical circumstances surrounding the emergence of national patterns of business organization helps to unravel the *reciprocal influences* of movement in the two spheres, and highlights the element of historical contingency that may be overlooked in less historically grounded studies.

## THE COLLECTIVE ORGANIZATION OF BUSINESS

This paper questions why countries differ in their development of encompassing and centralized national peak associations and in their broader levels of employer coordination. First, some nations produce multi-sector and centralized national associations that minimize sectoral disputes (what we call *macrocorporatism*); second, some create predominately sectoral level and privately driven cooperative associations (*sectoral coordination*); and, third, some develop fragmented groups with considerable intra-business competition (*pluralism*). While we focus in this paper on the structure of encompassing and centralized national peak organizations, we conceptualize coordination more broadly as including two other related dimensions: the degree to

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which peak associations are integrated into governmental policy-making processes, and the predominate mode of economic coordination in the economy.

This paper investigates the historical origins of the creation of the national peak associations, yet the three dimensions are closely related (and we elsewhere investigate all aspects of employers' coordination with quantitative methods). Where encompassing and centralized national associations develop and are integrated into state policy making forums, coordination is national in scope and state involvement in cooperative institutions is extensive. When peak associational organization is moderate, cooperative institutions are driven by predominately private endeavors and occur at the subnational (primarily economic sectoral) level. Finally, low formal peak organization and policy-making representation correspond to market-based coordination of the economy.

While peak employers' associations and coordination were everywhere relatively weak at the end of the Nineteenth Century, divergence among nations along the paths of macro-corporatism, sectoral coordination, and pluralism were already pronounced by the 1920s and more so in the 1930s, even though full-blown macrocorporatist coordination did not develop until after the second world war (Crouch 1993).[1] Table 1 documents this divergence in employer organization in the early decades of the Twentieth Century for 16 (now advanced industrialized) nations. Table 1 reports the level of employer coordination on two core dimensions. First, a macro-corporatist dimension captures the scope and centralization of national peak employers' associations, their policy-making authority, the corresponding density of labor organization, and collective bargaining centralization. Second, a sector coordination dimension captures typically-

[1] While in some post-WW II macro-corporatist nations, foundational institutions were not created until the 1930s or later (Katzenstein 1985), in others, proto-corporatist institutions were established by 1910 (Crouch 1993).

sectoral cooperation on things such as training, research and development, export marketing, the strength of long-term finance and producer relations. (See Appendix).

**Table 1 about here**

The Scandinavian polities of Denmark, Norway, and Sweden and the Benelux nations displayed increasingly strong macro-corporatist organization of employers (with moderate sectoral cooperation) during the early decades of the Twentieth Century. The Germanic nations and Italy exhibited moderate macro-corporatist employers' organizations and strong sectoral cooperation during this period. The Anglo-liberal polities (and Finland and France) were characterized by pronounced pluralist employers' organization: the development of encompassing, centralized and integrated national peak associations and sectoral coordination remained low in these systems from the turn of the century until World War II.

## PARTY COMPETITION AND THE ORIGINS OF EMPLOYERS' ASSOCIATIONS

Our central question is to understand why countries produced peak multi-sector employers' associations in the mold of macrocorporatism, sectoral coordination, or pluralism. We argue that the structure of political competition shaped the strategic choices of employers and sympathetic politicians and significantly influenced the development of the various forms of peak employers' associations. Both employers and party leaders or bureaucrats on the right had incentives for forming encompassing employers' associations. Yet structural features of party politics – multiple versus two-party systems and federal versus centralized governments – significantly determined the outcomes of these struggles for collective institutional creation.

Employers had incentives to develop national business organizations and other non-market methods of coordination at the turn of the last century to shift policy privilege from agriculture to industry and to contain labor activism. Inspired by ideas of developmental

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capitalism, they sought national rather than regional policy solutions to the challenges of industrialization, state supports for competing in world markets and for protecting home turf from invasive imports, arrangements to restrict the cut-throat competition of laissez-faire capitalism, and investments in skills (Hayes; Bensel, 2000).

Politicians on the right in both democratic and pre-democratic regimes also had incentives for nurturing encompassing, national business associations during this period, as these groups served several types of political purposes. Party leaders had electoral incentives to nurture groups to solidify their constituent base and to reach out to potential business constituents who belonged to other parties but who shared the goal of advancing capitalist development. Bureaucrats were motivated to organize employers to gain political support for legislation or help implementing public policies (Martin, 1994; Torcal and Mainwaring 2003). Finally political leaders sympathetic to employers had incentives to delegate power to private forums, when they believed that their policy ambitions and social class constituency's interests would be met more readily in non-legislative arenas (Maier, 1975). Although the political authority was not transferred through democratic elections, pre-modern political parties were important in parliaments.[2] The incentives of political leaders on the right to build up party power and to cultivate employers' associations to bolster their own political power may have been stronger in pre-democratic regimes than in democratic ones. While conservative elites worried about the working class threat across systems, elites in pre-democratic regimes feared revolution.

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[2] All political elites on the right feared greater democratization and cultivated constituencies to thwart the working class challenge: the Danish Right party created conservative clubs and worker electoral groups in the 1880s (Dybdahl) and, in Germany, Stresseman sought the expansion of the National Liberal Party. The Danish head of state was not allowed to take action if both bodies of parliament stood against a proposal, and the lower body held budgetary responsibility and was democratically elected by proportional representation. In Germany, the Prussian Parliament wielded considerable authority: Bismarck worked with the National Liberal Party to pursue his goals of nation-building and with the small Free Conservative party to pass tariff legislation (Lambi, p. 68-9; Klug 244).

While party leaders and employers everywhere shared interests in business organization, the specific forms of peak employers' associations were deeply influenced by the structure of party competition. Two political features, in particular, had a critical impact on the strategic choices of party leaders in their institution-building efforts: the structure of parties (two versus multiple parties) and the degree of federalism versus centralization (Martin and Swank, 2008).

First, the number of parties mattered, in that multiparty systems are more likely than two-party systems to produce dedicated business parties, to inspire cooperation among social actors, and to delegate policy- making power to private channels. Multiparty systems have higher coverage of specific groups; therefore, employers are more likely to belong to a single party (Cusack et. al.; Kitschelt). But as discussed below, in federal systems of government, these dedicated business parties are likely to remain at the *regional* level. Dedicated *national* business parties inspire coordination, by focusing attention on common goals among constituents and making credible promises to members; consequently, their platforms do not fluctuate to appeal to the median voter as in two-party systems (Cusack et. al. 2007). Coalition governments – usual in multiparty systems – further encourage cooperation among competing interests (who must form governments) and stable policy outcomes. Leaders of business parties under these conditions have incentives to delegate policymaking authority to private channels, because they are unlikely to win electoral majorities: Their constituents are more likely to secure favorable policy outcomes in direct negotiations with workers than in parliamentary processes.

In comparison, two-party systems tend to consist of catch-all parties that bring varied constituency groups under the partisan umbrella. Employers may be dispersed among parties, and parties may seek to cultivate competing business associations. When employers belong to competing parties, they may feel that no single group speaks for them and may be more resistant

to government regulation than in countries where a dedicated business party represents their interests. Employers in catch-all parties are less likely to believe the policy promises of party leaders, because parties' positions fluctuate to attract the median voter; in addition, even if a party follows through on its promises to employers, it may be voted out of office in the next election and all will be lost (Downs, 1957). Party leaders in this system may be less willing to delegate policymaking authority to private actors, because they are less identified with these actors and because they have hopes of winning outright electoral victories. Thus two-party systems tend to experience policy fluctuations and less stable regulatory climates for business; the promises of politicians are less believable, government figures are less willing to delegate authority, and employers have greater difficulty creating organizations for coordination.

A second feature of political engagement matters enormously to the formation of peak employers' associations – the level at which political competition is organized. Centralized governments produce national, centrally-organized and regionally-homogenous parties, because the political action largely takes place at the national level, and these countries tend to engender well-organized corporatist associations as well (Coleman 1987). In stark contrast, parties and public policies tend to vary materially and ideologically across regions in federal systems of government with decentralized political authority. This geographical variation engenders regionally fragmented associations, because region is where much of the policy-making action takes place (Hawley 1966; Amorin and Cox 1997). While centralized party systems are more likely to produce class-based political cleavages, federal party systems often divide the electorate along class, regional, religious, and/or ethnic lines and are more likely to include employers and workers together in the same party (Manow and van Keesbergen 2007). Once these party institutions are created, predominantly, at either the national or local levels, these have a

feedback impact on social structures (Chhibber and Kollman 2004).

To sum up, the characteristics of partisan representation – the number of parties and their degree of centralization – lead us to a rather simple way of parsing out the worlds of business politics. First, centralized, multiparty systems tend to produce encompassing and highly-coordinated corporatist associations with a high level of state involvement ("macrocorporatism"). These party systems delegate significant policy-making authority to the peak associations, but industrial relations systems retain a strong role for government, because employers trust that their dedicated business parties will represent their interests in political channels.

Second, countries with two-party systems (either centralized or decentralized) tend to produce pluralist employer representation, in which no unitary peak group can claim to speak for collective business interests. These party systems do not delegate much policymaking authority to organized business and labor; because even when one party becomes significantly linked to business (e.g. the US Republican Party in 1896), the business-oriented party can hope to win an outright majority. In countries with centralized, two-party systems, the central government may periodically seek to impose high levels of coordination on business and labor (as in Britain), but these gains are likely to be reversed when the opposing party gains power: these countries may exhibit greater levels of coordination than countries with federal two-party systems, but experiments in coordination are time-limited.

Third, federalist, decentralized multi-party systems are likely to produce high levels of employer coordination at the industry level (sector coordination), but have weaker peak associations and less state involvement. Federal multi-party systems have difficultly producing dedicated national business parties, because sectional cleavages remain salient; moreover, while business-oriented politicians have incentives to delegate political authority to social partners, the

absence of a single business party makes employers more resistant to state oversight.

We present these theoretical predictions in Table 2 and denote four model groups of countries that fit the type of party system and state structure for each combination of the two factors. We highlight a prototypical nation for each group of modal cases and present historical, qualitative case study material on each of these prototypical countries in the case study section, that substantiates our causal claims about the linkages between the structure of political competition and the mode of employer organization. But we note here that the simple "cross-tabulation" of political institutional dimensions in Table 2 produces some suggestive information on our theoretical predictions.[3] Computing group means for the 1900-to-1938 country decades (displayed in each cell), one finds significant differences in average macro-corporatism and sector coordination across multi-party and two-party systems (using a t-test for difference of means). Patterns in the data are consistent with our predictions about federal and centralized systems: multi-party systems and centralized polities have relatively high macro-corporatism with moderate sector coordination while multi-party, federal systems have strong sector coordination and moderate macro-corporatism. While both centralized and fragmented polities have low sector coordination, centralized, two-party systems display modestly higher macro-corporatist employer organization than federal, two-party systems.

**– Table 2 about here –**

## LINKAGES BETWEEN PARTY AND INDUSTRIAL RELATION SYSTEMS

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[3] The number of cases is too small for statistical assessment and page constraints do not permit our full quantitative analysis of cross-national and temporal variations in modes of coordination (but see Martin-Swank 2010). For classifying party systems, we rely on Laakso and Taagepera's (1979) method for computing the number of effective parties ($1/\sum p_i^2$, where p is the proportion of seats for i party in which is the proportion of seats of the i-th party) and classify systems as multiple party if more than three effective parties exist. Electoral data are from Mackie and Rose (1974). We use Jaggers and Gurr's (1996) coding of centralized and dispersed power systems (supplemented by country specific sources) for our classification of centralized (unitary) versus federal systems. We exclude as modal cases nations in intermediate positions on one dimension (e.g., Austria and Italy on state structure).

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Certainly the structure of political competition was not the only determinant of variations in employers' multi-sector peak associations. In the following pages we consider other factors appearing in the scholarly literature, recognize their strengths and discuss their limitations in capturing the entire story of business organization. In particular, we explore two broad sets of variables – the structure of industry and the features of the working class. Finally, we reflect on the interaction between these various theoretical arguments, paying particular attention to the evolving complementarities between the structure of party and industrial relation systems.

At the outset, we must reject the proposition that national variations in employer organization simply conformed to deep ideological and cultural norms. From the standpoint of the present, nothing may seem surprising about macro-corporatism in Denmark, sectoral coordination in Germany, and pluralism in Britain. Each country has its own foundation myth of exceptional circumstance that accounts for its trajectory in the pantheon of national permutations: think of British regard for individual agency versus German affection for the state. Yet these patterns of coordination – seemingly indelibly imprinted on national psyches – were much less distinctive a century ago. The ideological underpinnings of nationalist industrial development and peak employer organization were essentially the same across advanced nations and differed fundamentally from countries' earlier conceptions of collectivism (Wehler, 1970, 140; Bruun). Moreover, ideological determinacy fails to capture the peculiar ironies of national trajectories. The ancien regime persisted in Burkean ideals of old Tory England as well as struck a respondent cord with German conceptions of organic society (Blackbourn and Eley; Mayer). Despite its attachment to the authoritarian state, Germany produced sectorial coordination with little state involvement and the British conception of a National Industrial Council after World War I was an inspiration for coordination across advanced societies (Lowe).

One set of explanations attributes the variations in employer coordination to industrial structure differences reflecting the stage and type of capitalist development. Yet while industrialization broadly accounts for the general timing of coordination, scholars hold somewhat diverse views about national propensities to organize. In some accounts, early industrializers organize in "search for order" by forming sector trade associations or multi-sector umbrella organizations to manage competition, to assist in rapid industrial growth, and to protect against risk (Hawley; Bradley, 1965; Lynn and McKeown 1988, 2-3; Baldwin 1990). In other accounts, late developers organized in order to catch up with their competitors (Gershenkron 1962; Gourevitch 1986). In like manner, some view those firms seeking to compete in international arenas as having a greater need for associations than domestic producers, because these associations offer collective support in battling the common enemy of foreign firms (Davenport-Hines 1988; Gourevitch 1986; Katzenstein 1985).[3] Yet other scholars view countries with fewer exports firms as having fewer wage pressures, and greater willingness to grant higher wages to and to cooperate with labor (Galenson 1952).

High levels of regional or sectional diversity also inhibit the development of encompassing, centralized employers' associations; for example, divisions over tariff reform constrained the national, multi-sector organization of employers in Britain and manufacturing and financial interests diverged dramatically over fiscal policy after World War I (Tolliday and Zeitlin 1991; Burgess, 1975, p. 305; Turner, 1984, 6-7). Yet employers overcame diversity more readily in some countries than in others. Thus Maier (1975, 41) argues that British elites were more unified than German ones, due to the commercial needs of the landed gentry and British

[3] According to this view, Britain industrialized quite early, and many British firms experienced significant trade pressures and supported protective tariffs by the end of the Nineteenth Century; therefore, one might have anticipated greater support for national organization (Trentmann, 1996; Klug, 2001, 219, 236).

public education; however, German employers managed to reconcile differences between heavy and light industrial sectors after World War I in the face of democratic revolution when they created the Reich Association of German Industry, while British employers failed to produce a single encompassing employers' association at this point in time.

Another set of explanations for cross-national differences in levels of employer organization points to (again contradictory) features of labor: employers organize either to *resist labor activism* or to *achieve collective provision of skills* for their highly-productive workers. Some suggest that firms organize to stunt union militancy and that levels of business organization reflect the strength of worker mobilization (Korpi and Shalev; Crouch 1993; Stephens 1979). Industrial unions reinforce solidarity among workers of all skills levels and heighten capacities for cooperation with employers over training and wages; craft unions pursue self-interested strategies benefitting upper strata workers and motivate workers to control skills (Clegg; Sissens; Thelen, 2004). Strong ethnic and religious cleavages diminish both worker organization and employers' incentives to organize as well (Stephens 1979; Manow and Van Kersbergen, 2007). Other scholars argue that firms historically using highly-skilled workers were more likely to organize in order to train collectively and to secure labor peace. These skills levels were tied to pre-industrial guild traditions, as guilds facilitated vocational training systems, allowed firms to develop specific assets, and enabled the development of a skills-based export sector (Galenson; Unwin, 1966; Thelen, 2004; Cusack, Iversen, and Soskice, 2007; and Swenson, 2002).

These theories seem instinctively true, but rely on different underlying processes for arriving at cooperative industrial relations and each suffers from inconsistencies. Scholars attribute high levels of business organization in Denmark both to a highly-mobilized labor

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movement and to a collectivist culture, yet it is hard to reconcile pitched warfare on the one hand with cosy coordination on the other. Moreover, both economic and labor differences between the liberal and coordinated countries at the beginning of the 1900s have been overstated; for example, large companies in prewar Germany began developing firm-based strategies for building skills and controlling labor that was similar to the efforts of their American counterparts (Dunleavy and Welskopp 2007; Spencer 1979, 62; Sweeney 2001).

Attributing a high level of employer organization to the presence or absence of pre-industrial guilds is also somewhat problematic, in that guilds have a dual impact on associational life. They have an *economic* impact in producing high skills and non-wage competition by employers, both of which foster cooperation; consequently, the decline of British guilds led to a drop in both skills and solidarity (Unwin, 1966).[4] Guilds also have a *political* impact of fragmenting political identities and inhibiting organization above the sectoral level; for example, the fractious Danish guilds failed to organize until a Højre party leader induced them to join the manufacturers' new multi-sectoral organization (Agerholm and Vigen). In addition, craft unions elicited different business responses: when strong Danish craft unions sought to wrest away control over skills from employers, firms organized at the national level to reclaim managerial prerogative and to stabilize patterns of industrial engagement (*Det faglig arbejdsbevaegles*). Yet strong craft unions in Britain worked against multi-sector action, because employers shed skilled labor instead (Sissens). Weak craft unions in the United States allowed business to remain fragmented (Davis). While Sweden and Denmark have similar, highly-corporatist peak employer associations, Sweden has industrial unions while Denmark has craft unions (Galenson 1952).

While we view industrial structure and labor arguments as having certain limitations in

capturing the full variation of employer organization, we certainly do not wish to dismiss these explanations. Therefore, we offer four insights about the linkages between these industrial structure, labor-oriented and party system explanations.

First, the formation of business sectoral groups and national peak associations, in fact, rely on substantially different processes. Sectoral and regional cooperative groups are motivated by specific labor-management conflicts or enabled by craft traditions of collective skills provision.[5] But national group formation presupposes political will, as an enormous gulf divides a pluralist network of industry associations from a highly-centralized, capacious peak organization with substantial power over its constituent groups. With the emergence of national industrial economies, local traditions for cooperation needed to be reworked on a grand scale and the context of political competition had a powerful impact on these great transformations.

Second, one might be concerned that the structure of party systems, itself, was closely linked to economic cleavages, which also shaped business organization, and in this way party systems are endogenous. For example, Cusack et. al (2007) suggest that the variation in workplace skills was an important determinant of the national adoption of proportional representation electoral systems in the 1920s. We acknowledge that European political parties, in many cases, emerged from economic interest groups; for instance, social democratic parties were created by organized labor, conservative parties had deep connections to the land-owning gentry, and many economic cleavages were mirrored in partisan divides (Rokkan). At the same time, the relationship between economic and party structures is complicated, because religious

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[4] But Zeitlin (1990) suggests that skills, especially in engineering, were high through the first world war.

[5] See recent work by Kuo and Paster on the various motivations for employer organization and the conditions under which associations take a positive or negative approach toward labor relations.

and ethnic cleavages – in addition to class cleavages – were significant sources of political parties (Van Keesbergen and Manow). Thus, potential cleavages needed to be expressed politically and interpreted in order to form the bases for parties. Moreover, while many parties were created from the bottom up from economic interest groups, others were created from the top-down by factions in the legislature; this alternative route to party development diminished the importance of economic structure, by introducing new factors and agency into the calculus of party development (Duverger, Dalton, Eldersveld). Thus, the process of party formation, itself, is a process of social construction and may reflect the idiosyncracies of agency at historical junctures that then leave lasting legacies for future political engagement.

Third, in the caldron of late Nineteenth-Century politics – with its attendant movements toward national and even international industrial economies and expanded democratization – partisan forms and institutions for labor relations were both evolving. We have elsewhere referred to this as a "dynamic and mutually-reinforcing relationship between the spheres of industrial relations and political party competition" (Martin & Swank, 2008, 14), and Iversen and Soskice (2009) refer to the linkage between the two spheres as co-evolution. This relationship may well be an example of what Capoccia and Ziblatt (2010) refer to as "reciprocal causality," a matter for which an investigation of historical circumstance can best shed light on the directionality of causal findings.

Finally, the period between 1890 to the first world war was a critical juncture, which presented an opening for coordination, and the political responses at this moment lay the groundwork for the evolution of the future political economy.[6] Just as liberalism swept through

[6] According to a punctuated equilibria model of institutional change, decisions made at critical junctures establish enduring path dependencies (Orren and Skowronek 2004). Capoccia and Ziblatt (2010) define a critical juncture as a moment in which the range of alternative courses of action are expanded and the ultimate choices have enhanced

Europe in the late Eighteenth and early Nineteenth Centuries, replacing mercantilism as the hegemonic ideology, an impulse for cooperation seemed ubiquitous from the late Nineteenth-Century until shortly after the first World War. The organizing philosophy of nationalist industrial development inspired the images and structures of industrialization, and national peak associations were a key component. While the success of this new public philosophy depended, in part, on its congruence with older philosophical traditions, political structure and agency had an indelible impact on national responses at this critical moment (Wehler, 1970, 140; Bruun).

A weak version of our argument is that the preindustrial skills tradition sets the basic cleavage between coordinated and uncoordinated business communities, but that the political features of nation states (party structure and federalism) explain the differences in levels of coordination, as is found between countries with macrocorporatism and sectoral coordination. A stronger version of the argument suggests that political structures had a feedback impact on economic development: two-party systems with little incentives to nurture strong national employers' associations rewarded employers who engaged in low-skills competition and hampered future collective skills-building institutions.

To assess the effects of the structure of political competition on employers' organization, we offer synopses of comparative case studies of Denmark, Great Britain, Germany, and the United States. These cases allow us to demonstrate that the causal argument had its intended effect using process tracing, or the careful temporal reconstruction of the cases. We identify intermediate steps between cause and effect (Mahoney) and use our qualitative data to construct analytic narratives to reveal the underlying incentives that produce action (Bates et. al.) We supplement this comparative historical methodology with much longer archive-based case

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salience in establishing future paths.

histories and with historical quantitative data (Martin and Swank, work-in-progress).

For each nation, we suggest that the political rules of the game will have foundational impacts on association-building a century past. The structure of party competition will influence whether a dedicated business party developed and business-oriented party leaders and bureaucrats should be directly involved in the creation of the groups. The groups should all initially seek high levels of coordination, and the incentives for government actors to delegate policymaking authority should be shaped by party competition.

**The Case of Denmark**

The dynamics of partisan competition demonstrate how Denmark came to create a macrocorporatist peak employers' association that organized industrial relations with government and labor at a very high level. First, the character of party organization – the centralization of political competition within a multiparty system – led to the creation of a dedicated business party. The Danish system of partisan representation included three main parties (Højre on the right, Venstre for rich farmers, Social Democrats on the left) and a small faction, Moderate Venstre. Højre was something of a cross-class party through the 1880s, with most of the countries' employers and government bureaucrats, but also with a large number of the urban working class (ranging from 16 to 40 percent of the party constituents.) But a huge number of Højre working class voters migrated to the Social Democratic party during the 1890s, after legislation enabled the national party to be established in the late 1880s. Thus, Højre largely included employers and bureaucrats by the end of the 1890s, and struggled to represent all employers, regardless of sectoral splits on economic questions of the day (Dybdahl, 6-12).[7]

[7] As a member of Parliament put it in 1895, members "might very well be protectionists or free traders, sympathizers of co-operative societies as well as opponents of cooperative societies" (Dybdahl, 17)

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Second, leaders of the cooperation-oriented faction of Højre helped to create the peak employers' association for their own political purposes – to unify its core industrial constituency (Dybdahl). The Employers' Federation of 1896 (that became Dansk Arbejdsgiversforening, DA) was founded by Niels Andersen (a Højre member and later party leader of parliament, and construction industry employer) and Vilhelm Køhler (brick factory director) to show that Højre could produce a middle-way politics between the older conservative legacy and the new social democratic challenge (Agerholm and Vigen, 1921; Nielsen).

Third, the employers' federation sought to develop as a highly-coordinated association, in order to influence public policy, to obtain the right to self-regulation, and to gain industrial peace. While many stress the group's interest in labor peace, policy influence was equally important; for example, in a commemoration of DA's first twenty-five years, the authors claimed that "the most important evidence of the organization's energy and vision was its contribution to the solution of the question about insurance against workers' accidents" (Agerholm and Vigen, 1921, 5, translation by CJ Martin). The left had proposed a major workers' accident insurance reform along the lines of the German model, with benefits tied to the wage earner and controlled by a worker fund. The employers favored a citizen-based and tax financed alternative and Niels Andersen proposed that it be administered by a Labor Insurance Council, rather than as either a direct state program or a private program (Andersen). The employers' federation sought to unify all employers around its position, and waged a campaign to bring the handicraft sectors into the employers' federation (DA – Korrespondance, General udgånde 1896 6 30 til 1899 9 21, Erhvervsarkivet, Aarhus, DK).

The other central goal of the employers' association was to achieve industrial peace, and the federation issued a regulation stating, "No inequality between employers and workers

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concerning the work relationship (including, for example, wages and performance) should give rise to work stoppages from either side. This inequality should, instead, be settled with a compromise or an arbitration" ("Vedtægter for Arbejdsgiverforeningen af 1896"). Niels Andersen had to work to convince employers to believe in this vision of industrial peace, and the biggest resistance came from the iron industry, led by S.C. Hauberg, who initially favored a politics of confrontation with labor (Due et. al. 77; Agerholm and Vigen, 6-47). The Employers Federation intervened in a labor dispute within the metal industry in 1897 and suggested a Labor Court (Arbejdsdomstol) to avoid future strikes. (DA to iron industry. Letter. 1897_46-48, 23/6/1897). Niels Andersen also sought to organize labor during this episode, to get their side of the progress in the iron industry conflict and to urge the early labor organization (DsF) to play the same leadership role in negotiations that DA was attempting to do on the employers side (DA to DsF. Letter. 1897_52 12/7/1897; 1898_138 22/3/1898). Scholars credit these actions for being largely responsible for the centralized form of the Danish LO: indeed, employers actually organized at a national level before Danish workers and the Employers' Association ultimately succeeded in getting its industrial court with its establishment of the Joint Committee of 1898 (Fællesudvalget af 1898). (Due et. al., 78-9).

Fourth, both employers and their government allies feared that the employer voice would be diluted after the parliamentary reform due, in part, to the structure of multiparty competition; consequently, there was an incentive for business interests to seek the delegation of policymaking to private channels of representation. Coming parliamentary reform threatened the power of the Right Party (Højre), and a faction of the party determined that coordination with other parties and social actors was essential to maintaining influence (*Arbejdsgiver Foreningen I Danmark Gennum 50 Aar.*). Højre's initial defense against the rising social democratic challenge was to

form a center-right alliance with the farmers' party, Venstre; however, this experiment resulted in a loss of a quarter of its members of parliament in the 1892 and 1895 elections (Nørgaard Petersen, 218). Højre had already begun forming voting committees among the electorate, and the employers' association was akin to this earlier effort. The desire for industrial self-regulation was also responsible for the very moderate line taken by employers after winning the "Great Lockout" of 1899. The September compromise established employers' control over the organization of work, transferred power over labor policy to the social partners, yet retained a supervisory role for government (Due and Madsen, 26; Due et. al. 1994, p. 80-81).

Finally, the resolution of the conflicts surrounding the origins of the employers' associations created important policy legacies: the dedicated business party Højre would remain closely connected to the employers' association, and the social partners would collaborate in collective bargaining and policy negotiations with the state at a highly centralized level. The impact of business unity within the party on the evolution of a collective voice of business within the employers' association is made clear by the sequence of events that happened after full proportional representation was introduced in 1915. With the advent of PR, Højre was reorganized into the Conservative People's Party and at this point, the party became an even purer business party than it had become by the 1890s (Dybdahl 12). This political consolidation of the nation's employers reduced regional differences among industrialists and enabled a stronger centralization of authority within DA in the 1919, when all vestiges of regional distinctions were removed and the organization was reorganized along functional lines (Galenson; Beretningen om Dansk Arbejdsgiversforenings Virksomhed, 1927-1928).

**The Case of Britain**

The dynamics of partisan competition also demonstrate how Britain came to create

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fragmented, pluralist employers' associations, despite enormous efforts to the contrary. While employers, labor and the state periodically sought to develop capacities for coordination (explaining why Britain appears somewhat corporatist at various points in its history), these efforts were repressed by the dynamics of two-party competition.

First, in this largely two-party system, Britain lacked a dedicated business party and employers were dispersed across parties. Initially, more industrialists belonged to the Liberal party; but the party also included ideological proponents of liberalism and many workers. Employers began to migrate to the Conservative party or to the splinter Liberal Unionist faction when the Liberal Party was rent asunder by the Irish Question in 1886; yet, the Conservatives also badly met business needs. While the Liberal ideological commitment to liberalism made the party adverse to industrial development policies, the Conservatives, albeit more open ideologically to old Tory notions of organic coordination, had ties to the landed gentry and to financial interests that led them to block policies beneficial to industrialists (Guttsman, 1963; Ridings, 2001, 771). Before the war (in 1914), 94 manufacturers were members of the House of Commons and 64 of these were Liberals and 30 were Unionists; 81 members from commerce and finance were divided nearly equally among the parties. After the war, the Conservatives became the "bosses party" (Turner, 1984, 3-4; Garst, 1999, 800). The pre-war partisan divisions among employers did not merely play out along industrial sector lines as even firms within industry were divided on the tariff issue, and the issue of Home Rule Home Rule worked against easy reconciliation of employers' interests. By 1901, a majority of employers (apart from staples products and financial interests) came to support protection, and even many cotton industrialists wanted some tariffs (Burgess, 1975, p. 305; Turner, 1984, 9; Marrisons; Phillips, 1981, 167-8; Fraser, 1962, 60, 66-7; Dutton, 1981, 879). While the Labour Party was also beginning to

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emerge during this period, it largely voted with the Liberals, and supplanted the Liberal Party altogether after the Great War, thus preserving the structure of two-party competition.

Second, the role of two-party competition initially helps to explain the absence of British employer organization at a national level at the end of the Nineteenth-Century, when employers elsewhere were moving to form national organizations. Employers were distributed electorally between the Conservative and Liberal parties and lacked a forum in which to contemplate their broader collective political interest; moreover, neither party was motivated to organize a national business organization from the top-down to serve its electoral needs.

Yet a national peak association (the Federation of British Industries) finally organized during WWI, when partisan infighting and the lack of coordination became intolerable, and the long arm of the state had a role in its creation (Blank; Gollin). While the FBI was officially organized by industrialist Dudley Docker, there is considerable evidence that Conservative party activists, and especially Sir Arthur Steel-Maitland, were deeply involved (Blank; Davenport-Hines; Nettl, 1965; Grant and Marsh, 1977). Docker had been quite close to Steel-Maitland since the latter ran for office in 1906; for example, Docker offered to lend Steel Maitland one or two of his Daimler cars in his 1906 campaign (D Docker to Steel-Maitland, no date). Docker was the only “considerable subscriber”in Steel-Maitland’s reorganized East Birmingham Conservative Association in 1914 (Steel-Maitland to Docker 1/10/1916) and Steel-Maitland was on the verge of joining the board of Docker’s company when he was offered the job of Under Secretary of the Colonies in 1915 (Steel-Maitland to Docker 5/24/1915; Davenport-Hines, 55-6, 63). Steel-Maitland and Docker had a scheme for privately training Birmingham men as officers, which Docker would finance, but this ran into difficulty with the military command (See correspondence in ASM GD193/GD166/2). Finally, in November of 1915, a few months before

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the FBI organizing meeting, Docker and Steel-Maitland had a secret correspondence, hand-carried by a Mr. Malcolm "who is perfectly confidential"(D Docker to ASM 11/13/1915).

The Conservatives were motivated to form FBI, in part, to seek organizational help in their battles with the Liberal Party; for example, they asked the FBI to support the location of a department to control commercial intelligence in foreign countries within the Foreign office (Nugent to Peter Rylands, 1/18/1917). The FBI was also asked to weigh in on a plan for reconstruction, and in particular, to support the Conservative desires to sustaining economic stimulus over the Liberal Party's priority (in keeping with its close ties to financial interests) for protecting the pound in foreign monetary exchange (Nugent. "Exerpt from letter to Mr. Docker of 27th Marh, 1917. Reconstruction Scheme; Cline 1970, 168). Steel-Maitland was deeply interested in social and economic coordination (Arthur Steel-Maitland to Lord Milner, 2/19/1910), and wanted desperately to unify British employers and labor in the common cause of creating a domestic production machine that would match the needs of the war effort, sustaining the party's imperial ambitions, and supporting its highly articulated vision of industrial development policies. Finally, the creation of the FBI was a constituency-building exercise, which Steel-Maitland developed when chairman of the party, in expanding the network of local conservative groups; thus he described himself as "a party manager with an intelligence service through the country!" (ASM letter to McKenna 8/16/1915). In this vein, he wrote to Bonar Law:

> "The war has obliterated many old Party distinctions....Classes have joined in the prosecution of the war and the true national view for the future must be that new questions, new differences of opinion, new groupings of men may arise, while those who have often combated one another over the old questions may find themselves largely in sympathy over the new." (Steel-Maitland to Bonar Law 11/16/1917).

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The Foreign Office was so determined to make the FBI work, that it lent Roland Nugent and Guy Locock to FBI to help the association mobilize its constituency. At the first annual meeting, Dudley Docker emphatically recognized the enormous contribution of government bureaucrats, stating "Perhaps I may be allowed to say here how greatly we were indebted in the early days to Mr. Tait for the assistance he gave in the formation of this association....Next, we come to Mr. Nugent, whom, you will remember, the Foreign Office were kind enough to allow to come to us and who has filled the post of director and secretary...in an extremely able manner" ("Company Meeting. Federation Of British Industries," 3/12/1917, 12.)

Third, the organizers of the employers' association initially had ambitions for a high degree of coordination among business, labor and the state, wanted considerable industrial policymaking to be delegated to the private sector, and sought to model itself after the Swedish peak employers federation. At the first annual meeting, the FBI's founder, Dudley Docker, explained, "One of the principal objects with which the Federation has been formed is to command the attention of the Government of this country when framing industrial legislation. In regard to which we shall hope to be of some service, not merely to manufacturers, but to the community as a whole" (Company Meeting. Federation Of British Industries," 3/12/1917, 12.) As in Denmark, Docker wanted substantial industrial policymaking authority to be delegated to the private sector, sought to create a "Business Parliament" for making industrial policy, sorely regretted Britain's lack of a dedicated political party for manufacturers (feeling that the Liberals, in particular, failed to respect industrialists), and wanted "to transform Britain into a model corporatist state" (Turner, 33-39). As the Globe (owned by Docker) expressed in an editorial entitled "The Party or the State?": "The party system has been carried on to unnecessary lengths" such as it has "become deliberative only in name...It is the reason why so much of our legislation

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is inefficient, even when not injurious, to our commercial interests (Davenport-Hines, 1984, 83).

Fourth, the FBI's corporatist ambitions were diminished by party politics. Neither party could speak definitively for business and both parties (and warring governmental departments) cultivated their own set of employers. Just as the Conservatives cultivated the Federation of British Industries, Prime Minister Lloyd George and the Board of Labour nurtured a group called the National Conference of Employers' Organisations (drawn from the former free-trade contingent), and the two groups competed for power (Turner, 34-5; Macara, 1921; Lowe, 1978, 668). The FBI's corporatist ambitions were also thwarted by limited party incentives to cede policy-making privilege to organized business and labor – each party hoped to win majorities through legislative channels. Business and labor initially supported cooperation through the National Industrial Conference, yet parliament refused to delegate authority to an industrial council. At this point, the employers' and labor organizations ceased to believe that cooperation was possible: neither side wished to cede control over industrial relations unless it felt that it would have some input into the process (Lowe, 1978). Thus unlike in Denmark, where a system of self-regulation was created with the development of the corporatist business and labor organizations, the British state retained firm control over industrial relations.

Finally, the failure of these early efforts to significantly develop labor market coordination gave way to a heightened state of class conflict and deep skepticism about government solutions ("Concern about Indemnities," 5/15, 1919, 14). Party politics so disgusted employers that "coalitionists" from both of the major parties (dominated by employers) contemplated forming a Centre Party ("A Centre Party Coalition," 5/14/1919, 13; Close). The electoral rules and path dependencies of the party structure prevented the emergence of a new party, but the experiment reflects the depth of disappointment with the current system ("Concern

about Indemnities," 5/15, 1919, 14). Viewing German coordination with great admiration, Winston Churchhill, famously remarked, "We are organised for nothing except party politics" (Geoffrey Alderman, p. 144.) Britain later tried to achieve coordination (Zeitlin, 1996); yet, liberalism was renegotiated at each developmental juncture due both to legacies of earlier failures in cooperative experiments and to the type of partisan conflict inherent in two-party systems.

**The Case of Germany**

It is puzzling that Germany, with its strong state tradition, came to create a system of sectoral coordination, in which the social partners largely develop and implement labor market policy without much input from the state. We suggest that the dynamics of federal, multi-party competition contributed to the emergence of a medium level of industrial coordination in Germany: the weak and regionally-diverse nature of party competition produced business parties at the regional but not national level. Immediately before the German revolution in 1918, business-oriented bureaucrats were motivated to unify employers into a peak association and to delegate power to labor-market partners, in order to stave off more radical parliamentary reforms, and this effort produced the Reichverband. Yet with the continuing absence of strong parties during the Weimar regime, employers remained skeptical of their political representation by the party system and struggled to retain private control over industrial relations. In addition, without a unifying dedicated business party (similar to the Danish Conservative People's Party), the German national peak association never managed to unify diverse constituencies (as happened with the Danish peak association after 1919). With the rise of the National Socialist Party, the state essentially took over industrial life; but after the war, employers lobbied to return industrial relations to a private system of sector coordination that resembled the Weimar system.

First, the federal multiparty system in Germany gave rise to business-oriented parties but

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did *not* produce a single, *national* dedicated business party; rather, parties drew uneven support across regions and employers remain dispersed across parties. The Law of Association forbade centralized political parties in Prussia until 1899 and local parties were only loosely connected to parliamentary parties (Ritter, 1990, 27, 44; Schonhardt-Bailey). Strong regional economic differences also worked against both dedicated business parties and unitary peak employers' associations: heavy industry and agricultural estates favored protection while lighter, export industries favored free trade (Herrigel) and these conflicts played out in bureaucratic struggles (Forbes 1979, 331-9). Yet even when trade divisions began to diminish and even though some parties (such as the National Liberals) counted both heavy and light industrialists among their member, the federal nature of the German political system constrained the emergence of parties with broad national representation (Klug 2001, 232-3; Schonhardt-Bailey 1998, 328). After World War I and the revolution, politicians tried to develop more organized, clearly-defined parties, yet employers remained dispersed among the very diverse right parties. The Weimar parties splintered so much that by 1929 there were 29 parties in the Reichstag, although only 9 had legislative influence (Pollock, 1929, 861-78; Kocka, 1999, 42).

Second, as happened elsewhere business-oriented bureaucrats were heavily involved in the creation of the peak employers' associations and were motivated by their own political purposes. The story is a bit different in Germany than in Denmark, for example, because bureaucrats rather than party leaders took the lead after World War I and were motivated by the very weakness of parties to seek other sources of political support (Eley 1978, 327-351). An initial effort at association-building happened in 1876, when Wilhelm von Kardorff, a close friend of Bismarck's and member of parliament from the small manufacturers' Free Conservative Party, formed the Central Association of German Industrialists (Centralverbund Deutscher

Industrieller or CVI) to advance tariff reform and to build support for tariff candidates in the upcoming election (Dawson, 1904, 15-16; Böhme, p. 230-11). Kardorff's widely-publicized pamphlet, "Against the Current," was influenced by American Henry Carey, who also inspired Lincoln's national development policies, and Kardorff described the political links of the association in correspondence with Carey (Kardorff to Carey, Philadelphia; Lambi, 67; Craig, 87). In October 1878, the coalition of industrialist and agrarian protectionists won a majority in the Richstag, and in December, aided by the Centralverbund, Protectionist voters turned out in heavy numbers in the 1878 election (Klug, 244.) The Centralverbund was very much an association for large industry; consequently, Liberal politicians, who were closer to the free-trade, consumer-product wing of business, sought to create a source of countervailing power in the Bund der Industriellen in the 1890s. Liberal politician Gustav Stresemann spear-headed the effort to expand the Bund into a national association (Tipton, 1977, 850-1). With this dual structure, employers were dispersed across parties, industrial sectors, regions, and associations.

German bureaucrats periodically tried to unify employers, and assisted in creating the Reich Association of German Industry (RDI) in 1919 by joining together the two existing groups. Motivated to sustain wartime economic coordination and to stave off threats of revolution, corporatism was viewed as an alternative to socialism (Bunn, 1958, 284). But without much party leadership, bureaucrats rather than party politicians guided association-building. There was considerable infighting between the Centralverbund and BdK sides (represented by Stinnes and Stresemann) and Stresemann was vetoed from the directorate by Hugenberg and Stinnes (Wolff-Rohe; Brady, 1942, 72; Gatzke, 1954, 51). One of the new managers of the Reich Association, Hermann Bucher, came directly from the German Foreign Office and Joseph Koeth (a successor of Walter Rathenau in the Raw Materials Division of the Prussian War Ministry) came from the

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Demobilization Office (Gatzke, 1954, 51; Mierzejewski, 2002, 202). Koeth wanted to delegate policymaking privilege to business and labor and believed that industrial committees should be allowed to regulate themselves (Feldman, 1975; Maier, 1975, 62).

Third, a desire for coordination motivated the development of the RDI. The intensive needs of the German war machine motivated the formation of institutions for coordination during World War I and quasi-public corporations (Kriegswirtschaftsgesellschaften) were formed to organize production in each industrial sector. The architect of the German war economy, Walter Rathenau, had a vision for peacetime reconstruction along the same lines. Every industry was to integrate firms into an association and all associations would belong to a national group that would (sometimes with labor) engage in self-government (Redlich, 1944, 321). Although Rathenau was forced out of power and later assassinated, his ideas inspired the creation of cooperative cartels, and negotiations for cooperative peacetime policies between business and labor (the Stinnes-Legien Accord) began in 1917, even before the German revolution (Lauterbach, 1944, 29-30; Bowen, 159; Rogers and Dittmar, 1935, 483-4).

Fourth, fearful of the German revolution, business-oriented bureaucrats and employers sought the delegation of public policymaking to private organizations, because employers feared major losses in legislative struggles: economic democracy was seen as an alternative to socialism (Bunn, 1958, 284). German industrialists were on the defensive after the war and viewed corporatism as the means of regaining some power. Jakob Reichert (Union of German Iron and Steel Industrialists) explained his disdain for Junkers and the middle class, and remarked, "Allies for industry could be found only among the workers" (Maier, 15, 40-59, 59). But the German peak association never managed to achieve the strength of the parallel Danish organization. In Denmark, the reorganized Conservative People's Party included most employers and helped to

unify the political voice of business; subsequently, the employers' federation reorganized along functional lines. In Germany, the absence of a single dedicated business party constrained the emergence of full-blown macro-corporatism. Employers continued to be distributed across parties (such as the Democratic Party, the Catholic Center Party, the German People's Party and the German National People's Party) (Turner, 1969, 58). Party politics hampered the business-labor effort to plan for postwar contingencies, made employers distrust the party system, and facilitated the considerable infighting within the RDI over leadership and policy (Wolff-Rohe; Gatzke, 1954, 51). The high hopes for the Reich Association of German Industry failed to pan out, as the organization remained a rather loosely-knit peak association and real decision-making power was retained at the lower, sector level (Rogers and Dittmar, 1935, 483-4). Thus a leader in the organization, Paul Silverberg, stated in 1922 that the Reich Association was "nothing other than a really loose peak association, which can impose very few rules on its members, branch associations and individual firms, can commit them to nothing, and in which there is a lot of talking" (cited in Mierzejewski, 2002, 202).

**The Case of the United States**

We have fully reported the American story elsewhere (Martin 2006) and, therefore, will will only briefly note that the structure of two-party competition in the United States also dashed hopes for high levels of coordination among employers. First, the United States failed to develop a dedicated business party, although the Republican Party at the end of the Nineteenth-Century often seemed to speak for employers. While American manufacturers in the Northeast and Midwest were Republicans, industrialists in the south and west voted Democratic, as they did not wish to participate in a party with African Americans and were bitter about the war.

Second, Republican party activists were deeply involved with the development of the first

national umbrella association in the United States, the National Association of Manufacturers (NAM) (NAM, 1926; Gable, 1959; Martin 2006). The McKinley campaign sought to mobilize employers through the NAM in order to reach across partisan lines to promote McKinley in the 1896 election and to augment support for the party's industrial policy agenda. NAM's creators viewed the business organization as an agent for political nationalization and a vehicle for organizing manufacturers across sectional divides. ***The New York Times*** recorded the most significant event at NAM's second annual meeting as "the applause which greeted a mention of the name of Major McKinley. This applause told as plainly as could a preamble and resolution the real purpose of the delegates" ("Manufacturers Cheer for McKinley," 1.)

Third, NAM's initial policy positions reflected a vision of industrial cooperation that resembled positions taken by European employers: the association lobbied for a department of commerce and – in true corporatist fashion – wanted to be licensed as the legitimate spokesman for employers in business-government cooperative arrangements (Search, 1900, 12-13).

But, fourth, party politics – dynamics of sectionally and locally dominated two-party competition – worked against the realization of NAM's corporatist aspirations. Congressional representatives from the South and West voted against NAM's legislative proposals (such as the formation of a department of commerce and the granting of a national charter to the association) because they viewed these policies as advantaging Eastern and Midwestern manufacturers. Left without its anticipated central role in managing the transition to industrial capitalism, NAM started to wither away at the end of the century and only gained new life when it reconstituted itself as an organization devoted to fighting organized labor in 1903. Finally, this critical juncture signaled a setback for coordination in the American political economy and strengthened the liberal impulse among US employers.

## CONCLUSION

The seeds of capitalist organization were sewn at the end of the Nineteenth-Century, when employers and their government collaborators struggled to transform the regulatory environment to privilege industry over agriculture. To this end, organizers in both the state and the private sector sought to develop high levels of coordination among the social partners and the resultant associations of the social partners were important actors in the break with the pre-industrial structures of the ancien regime. Yet some countries produced macro-corporatism, in which the economic and political activities of business and labor were highly coordinated, nationally focused, and endowed with significant state support. Others delivered a system of sector coordination, in which coordinated industrial relations were largely left under the control of private channels of self-governance by the social partners. Finally, in some countries employers had great difficulty finding common ground, had fewer political reasons to negotiate with labor, and formed fragmented "pluralist" groups.

We have argued that because leadership for association-building came from the state, the political rules of the game were crucial to outcomes. The structure of party competition and state centralization shaped incentives for strategic coordination for both political actors and employers. Dedicated business parties were likely to develop in countries with multiparty systems and strong centralized governments, and regional business parties developed under conditions of multi-party competition and federal governmental structures. In these countries, where no single party was likely to gain power, parties had an incentive to nurture private associational channels for policy making, and these produced macrocorporatist groups and systems of sectoral coordination respectively. Two-party systems had electoral incentives to cultivate business constituencies, but lacking a dedicated business party and incentives to

delegate power, these business groups remained pluralist and highly fragmented.

These insights into the origins of peak employers' organization also have implications for the origins of corporatism and pluralism. While employers of varied industrial nations all sought institutions for coordination at the dawn of industrial capitalism, they had profoundly different success rates that reflected the political climate in which they struggled to project their industrial goals. We suggest that the resolution of the political conflicts at the birth of associations had a lasting impact on industrial relations, national systems of regulation, and the future potential for coordinated competitive strategies: cross-national variations in employers' association led to fundamentally different patterns of business engagement with the state for a century to come.

This work has significance for our understanding of institutional innovation. We ascribe to a punctuated-equilibria model of institutional change, in which the resolution of political conflicts at critical junctures create lasting institutional legacies (Orren and Skowronek). Yet while we appreciate the important role for agency in these transitional moments, we move beyond agency to theorize the political structural constraints on strategic action. In this way, we endorse other recent work that accords a primary place to political parties (Capoccia and Ziblatt, 2010), but we focus rather more on the *structure* of party competition that shapes agency.

Our research also has important theoretical implications for the under-studied construction of business preferences for economic and social policies. Comparative scholars often assume fundamental differences in firms' preferences within coordinated and liberal market economies, and trace these preferences back to preindustrial guilds (Hall and Soskice 2001, Estevez-Abe et.al 2001). While we accept that images of industrialization are influenced by older estate and guild traditions, we also view interests as socially-constructed and receptive to politics (Dobbin, Gourevitch 1986, Katzenstein 1985). Thus, while the scant research on the

origins of employer organizations usually attributes causality to industrial development or working class mobilization, we add political structural determinants. Moreover, scholars commonly root political party development in the structure of societal cleavages (Duverger, Lipset and Rokkan 1967, Bartolini 2000); we emphasize the inverse, by looking at how parties influence the construction of class cleavages.

Thus, the work also has bearing on the evolution of diverse forms of industrial capitalism, as it addresses an important pillar in the institutional underpinnings in the varieties of capitalism. With our hitherto untold story about the political origins of national associations, we reveal that stylized facts and an absence of dialogue between business historians and students of party politics have made us rather blind to the enormous importance of political structures in the evolution of corporate cooperation. Patterns of political engagement (even in pre-democratic regimes) matter as well as proto-corporatist structures, and incentives for both state and labor market actors contribute to cross-national variations in peak business groups. Politics as well as economics have a role in the origins of models of capitalism.

Finally, the analysis has important real-world implications for social solidarity and equality. Americans often take as a given the current spirit of atomistic individualism; yet if one believes in the reconstructive powers of associations and electoral politics, hope may yet remain for those who seek cooperative collective action to address the challenges of post-industrialization. Like Nixon opening China, employers – if given a forum to articulate their collective interests – could help build support for public policies to enhance human capital. An essential concern is whether the institutions for coordination developed during the golden age of manufacturing can survive in the post-industrial age. States must respond to changing economic conditions and cure earlier welfare traps; yet their ultimate success in continuing to provide

collective social goods may depend on their ability to build new coalitions of broad majorities. Thus it is important to understand the historical context of the construction of coalitions and institutions that support both economic efficiency and social solidarity.

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**APPENDIX**

Table 1 reports the level of employer organization in two ways. First, on the macro-corporatist dimension, we report a continuous index of formal organization and representational articulation. Our measure is an additive index of three component measures: (1) scope of employers organization (i.e., the share of employers organized in national peak associations; (2) the centralization of power (e.g., control over strike/lockout funds, bargaining strategies) in national peak associations; and (3) the integration of national associations into national policy-making forums. Each country decade is scored 1, 2 or 3 (where 1 is minimal, and 3 is high) on each component dimension. While one could infer with confidence that high levels of organization correspond with macro-corporatist coordination, and intermediate levels equate with sectoral coordination, we actually compute broader indices for macro-corporatist coordination and sectoral coordination.

For macro-corporatism, we combine our index of employer organization with a directly comparable measure of labor organization and collective bargaining centralization. As the correlation between this measure and our focal measure of employers displayed in Table 1 is very high (r=.95), we utilize only the employers measure for the present illustration of macro-corporatist organization.

Second, we report an additive index of sector coordination, which is composed of similar 1-to-3 scaled measures of the extent of sector coordination to provide (commonly within economic sectors) collective business goods (i.e., training, research and development, export marketing and industrial development strategies) and the strength of long-term finance and producer relations (i.e., reliance on bank finance and institutional bank-producer linkages). Both macro-corporatism and sector cooperation indices are expressed as standard (z) scores to facilitate comparison.[8]

[8] Further details and data sources for these measures are available in an electronic appendix at: http://www.marquette.edu/polisci/faculty_swank.shtml.http://www.marquette.edu/polisci/Swank.htmlwww.marquette.edu/polisci/faculty_swank.shtml.

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**Table 1. Patterns of Employers' Organization: Macro-Corporatism and Sector Coordination, 1900-1938.**

| | **Macro-Corporatist Organization** | | | **Sector Coordination** | | |
|---|---|---|---|---|---|---|
| NATIONS | 1900 | 1925 | 1938 | 1900 | 1925 | 1938 |
| Relatively *Low Employer Organization, 1920s-30s* | | | | | | |
| Australia | -.93 | -.93 | -.93 | -1.09 | -.91 | -.91 |
| Canada | -.93 | -.93 | -.93 | -1.09 | -.91 | -.91 |
| Finland | -.93 | -.16 | -.16 | -.75 | -.16 | .10 |
| France | -.93 | -.93 | -.93 | -.74 | -.57 | -.57 |
| New Zealand | -.67 | -.42 | -.42 | -1.09 | -.57 | -.57 |
| United Kingdom | -.67 | -.67 | -.42 | -1.09 | -.91 | -.91 |
| United States | -.93 | -.93 | -.93 | -1.09 | -.91 | -.57 |
| Mean | -.86 | -.71 | -.67 | -.99 | -.70 | -.62 |
| *Relatively High Sector Coordination*, 1920s-30s | | | | | | |
| Austria | -.41 | .87 | Na | .50 | 1.00 | Na |
| Germany | -.16 | 1.13 | Na | 1.34 | 1.68 | Na |
| Italy | -.93 | -.41 [a] | Na | -.03 | .78 [a] | Na |
| Switzerland | -.16 | .61 | 1.39 | .27 | .97 | .97 |
| Mean | -.41 | .55 | Na | .52 | 1.11 | Na |
| *Relatively High Macro-corporatism, 1920s-30s* | | | | | | |
| Belgium | -.93 | -.41 | 1.39 | -.38 | -.03 | .63 |
| Denmark | .36 | 1.13 | 2.16 | .64 | 1.11 | 1.11 |
| Netherlands | -.93 | .10 | .66 | -.43 | .10 | .10 |
| Norway | -.16 | .62 | 2.16 | -.77 | .10 | .77 |
| Sweden | -.16 | .62 | 2.16 | -.06 | 1.12 | 1.45 |
| Mean | -.36 | .41 | 1.71 | -.20 | .48 | .81 |

See text and Appendix for details on measures of macro-corporatism and sector coordination. Detailed information and data sources for all component of these measures are available at www.marquette.edu/polisci/fculty_swank.shtml.

[a] Employers organization measured circa 1921-22.

**Table 2. Political Institutions and Employer Organization at the Dawn of the Twentieth Century: Theoretical Predictions, Nations, and Modes of Organization.**

| Number of Parties | Level of State Centralization | |
|---|---|---|
| | **Centralized system**<br>national parties, unity<br>high coverage of specific interests | **Federal system**<br>regional parties, variation<br>low coverage of specific interests |
| **Multi-party system**<br>dedicated parties, high coverage of specific interests | **Prediction:** full-blown macro-corporatism<br><br>**Nations: Denmark** (Netherlands, Norway, Sweden)<br><br>Macro-corporatism: .72<br>Sector coordination: .58 | **Prediction**: sector coordination, coordination without much state involvement<br><br>**Nations: Germany** (Switzerland)<br><br>Macro-corporatism: .50<br>Sector coordination: 1.06 |
| **Two-party system**<br>catch-all parties, low coverage of specific interests | **Prediction:** pluralism with periodic state-led, top-down coordination<br><br>**Nations: Britain**<br><br>Macro-corporatism: -.14<br>Sector coordination: -1.09 | **Prediction**: pluralism with market competition, segmentalism<br><br>**Nations: United States** (Australia, Canada)<br><br>Macro-corporatism: -.93<br>Sector coordination: -.93 |